

The IMF says it's time for tax reform

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This [blog post](#) was written by [Christine Lagarde](#) of the IMF. It's rare that I will repost from such a source. I do though for good reason: if she can say such things it is clear that tax justice is winning. Not all it wants, of course. But winning, nonetheless. We should celebrate successes, and hold out for delivery of viable alternatives

The public perception that some large multinational companies pay little tax has led to political demands for urgent action.

It is not difficult to see why.

Let me highlight three reasons why [a new approach](#) to international corporate taxation is urgent.

First, the ease with which multinationals seem able to avoid tax, and the three-decade long decline in corporate tax rates, undermines faith in the fairness of the overall tax system.

Second, the current situation is especially harmful to low-income countries, depriving them of much-needed revenue to help them achieve higher economic growth, reduce poverty, and meet the 2030 Sustainable Development Goals.

Advanced economies have long shaped international corporate tax rules, without considering how they would affect low-income countries.

IMF [analysis](#) shows, for example, that non-OECD countries lose about \$200 billion in revenue per year, or about 1.3 percent of GDP, due to companies shifting profits to low-tax locations.

These countries need a seat at the table. The Platform for Collaboration on Tax, a joint effort by the IMF, World Bank, OECD and the UN is helping on this front.

Third, an impetus for rethinking international corporate taxation stems from the rise of highly profitable, technology-driven, digital-heavy business models.

These business models rely heavily on intangible assets, such as patents or software that are hard to value.

They also demonstrate that assuming a link between income and profits and physical presence has become outdated.

This in turn has sparked fairness concerns. Countries with many users or consumers of digital services find themselves with little or no tax revenue from these companies. Why? Because they have no physical presence there.

So, we clearly need a fundamental rethink of international taxation.

Yet this means countries must work together. Making progress requires coordination among all, and in the right direction.

New [IMF research](#) analyzes various options in the context of three key criteria: better addressing profit-shifting and tax competition; overcoming the legal and administrative obstacles to reform; and ensuring full recognition of the interests of emerging and developing countries.

The current international corporate tax architecture is fundamentally out of date. By rethinking the existing system and addressing the root causes of its weakness, all countries can benefit, including low-income nations.