



International Fiscal Association

Virtual Event
16 – 25 November 2020

IFA-OECD Seminar

24 November 2020



Stef van Weeghel

Chair - The Netherlands



Barbara Angus

Panel member- USA



Liz Chien

Panel member - USA



Martin Kreienbaum

Panel member - Germany



Grace Perez-Navarro

Panel member - OECD



Gaël Perraud

Panel member - France



Achim Pross

Panel member - OECD



Sh. Rasmi Ranjan Das

Panel member - India



Pascal Saint-Amans

Panel member - OECD



Mike Williams

Panel member - United Kingdom



Erisa Nuku

Secretary - The Netherlands



Interview: Overview of the OECD work with
Pascal Saint-Amans & Stef van Weeghel

Tax Challenges Arising from Digitalisation:

- Overview
- Pillar One
- Pillar Two



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INTERVIEW

Overview of the OECD work with
Pascal Saint-Amans & Stef van Weeghel

Beyond digital – the next five frontiers in tax (1)

1. Next steps in tax transparency

- **Design of a tax reporting framework for crypto**
 - ensure a level-playing field between traditional and new financial markets
 - building on the CRS, with technical proposals to be delivered in 2021
- **Getting information exchanged rapidly and securely – launch of CTS 2.0**
 - upgraded Common Transmission System ready for use in February 2021
 - allowing all on request and spontaneous exchanges to happen securely through the CTS

2. Follow the money – unlocking assistance in tax recovery

- next logical step after the CRS
- work to improve legal and operational procedures to recover tax debt under international treaties

Beyond digital – the next five frontiers in tax (2)

3. Shaping tax administration 3.0

- accelerating digital transformation of tax administrations

4. Taking tax certainty to the next level

- promote upfront tax certainty, including through ICAP and TREAT
- increase the efficiency and use of MAP
- strengthen the legal and operational framework for joint audits
- explore forms of binding dispute resolution, including in context of Pillar 1

5. Moving forward on the BEPS Agenda

- review of Action 5 on rulings, Action 13 and Action 14
- co-ordinated focus to assist developing countries to harvest benefits of BEPS project

Tax Policy Work (1)

- **Ongoing work on COVID-19 and tax policy:** Including the upcoming WP2 Roundtable discussion on “COVID-19 and Tax Policy: Towards Recovery and Beyond” -25 November 2020, 12h30-15h00 (CET)
- **Country-specific tax policy work:** Assisting Chile, Côte d’Ivoire, Colombia, Israel, Kazakhstan, Lithuania, Morocco, Slovenia, Tunisia.
- **Tax incentives and Investment:** Part of the Young Professionals Programme, jointly carrying out new work in this area with the Directorate for Financial and Enterprise Affairs (DAF).
- **Tax and Inheritance Tax Policy Study:** Providing a comparative assessment of inheritance taxation across OECD countries and identifying concrete recommendations for tax reform.
- **Taxation and Philanthropy Tax Policy Study:** Examination of the taxation of philanthropic entities in 38 countries with support by the Geneva Centre for Philanthropy.

Tax Policy Work (2)

- **Global Revenue Statistics:** Covering more than 100 countries. The next edition of “*Revenue Statistics in Africa*” launch will be held as a joint webinar with CTPA, the OECD Development Centre, the African Union and ATAF on 12 November, 2020 (TBC).
- **Taxing Energy Use:** Expanding country coverage beyond OECD & G20 countries to include: Costa Rica, Cote d’Ivoire, Dominican Republic, Ecuador, Egypt, Ghana, Guatemala, Jamaica, Kenya, Morocco, Nigeria, Philippines, Sri Lanka, Uganda, Uruguay
- **Regional Toolkits on VAT:** Assisting developing economies in Latin America, Asia-Pacific and Africa in implementing effective solutions based on OECD standards to address the VAT/GST challenges of the digital economy
- **VAT and the gig/sharing economy:** Delivering guidance to address the implications for VAT/GST policy and administration

Transfer Pricing

Launched project to develop guidance on the transfer pricing implications of COVID-19: Aiming to provide the guidance by the end of 2020. Key priority issues:

- 1) Government assistance programmes
- 2) Comparability analysis
- 3) Allocation of losses and COVID-19 related costs; and
- 4) The impact of COVID-19 on APAs.

Tax Treaties and Multilateral Instrument

1. OECD Model Convention and Commentary

- Work on challenging cross-border tax issues due to the increasing mobility of workers and teleworking
- Clarify Commentary on Article 9 and Article 25
- Work on issues from the catalogue of issues such as a new extractive provision and interaction between treaties and trade agreements

2. Moving forward on the BEPS Agenda

- Peer review on Action 6 – promoting the wide implementation of the minimum standard
- Review of the Action 6 peer review methodology

3. Capacity building contribution on tax treaty matters

- Prepare and deliver training, workshops on tax treaty and MLI
- Finalise the toolkit on tax treaty negotiation with other international organisations

Tax Treaties and Multilateral Instrument

4. Multilateral Instrument

- Update
 - 94 jurisdictions have signed the MLI
 - 55 jurisdictions have ratified
 - 613 tax treaties to be modified by the MLI on 1 January 2021
 - 1,685 tax treaties to be modified once the MLI is ratified by, and in force for, all signatories
- Continue the work on closing gaps in the coverage of the MLI (jurisdictions to expand their list of tax treaties covered under the MLI)
- Assist jurisdictions to sign or ratify the MLI
- Adoption by the Conference of the Parties to the MLI of its Rules of Procedure
- Discuss questions on the interpretation and application of the MLI

Tax and Development Work

- **Regional dialogues on tax morale:** Analysis and results vary significantly by region, regional dialogues can allow better focus.
- **Update on the tax treatment of aid:** Supporting countries on their tax reforms and introducing digital technologies for tax collection. In addition, assessing how the international tax rules can help developing countries in response to the crisis.
- **Virtual technical assistance in the COVID-19 era:** 22 Virtual workshop and seminars. Over 6 500 tax officials from more than 160 jurisdictions trained under Knowledge Sharing Platform.
- **Tax Inspectors Without Borders(TIWB):** 80 completed and ongoing programmes in 45 jurisdictions. Six pilot programme underway on capacity building on combatting tax crimes.
- **Tax and Health analysis:** Case studies on Morocco and Côte d'Ivoire working with the Global Fund to analyse opportunities to deliver better health outcomes through the tax system



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Tax Challenges arising from Digitalisation: Overview



Timeline





Impact Assessment - Overview of main findings

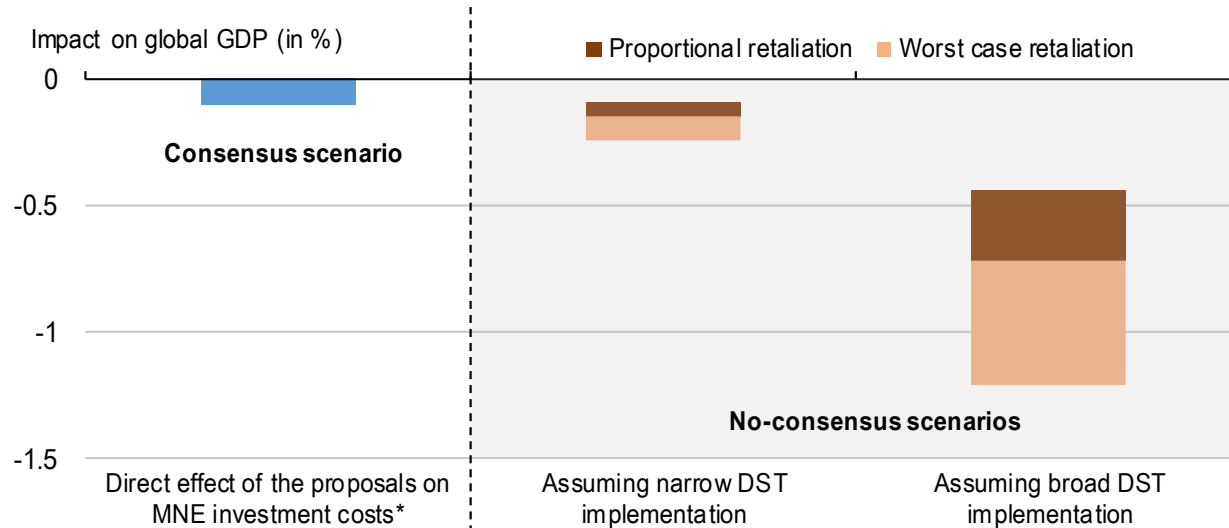
Pillar One & Pillar Two could increase global corporate income tax (CIT) revenues by about USD 50-80 billion per year.

The combined effect of the reforms and the US GILTI could represent USD 60-100 billion per year or up to around 4% of global CIT revenues.

- **The reforms would lead to a more favourable environment for investment and growth** than would likely be the case in the absence of a consensus-based solution.
- **The COVID-19 crisis is likely to accelerate the trend towards the digitalisation of the economy and exacerbate the tax challenges arising from digitalisation** in the absence of an agreement by the Inclusive Framework.



Estimated effect on global GDP *Stylised scenarios*



* The proposals would also have positive impacts on GDP through indirect channels (e.g. increased tax certainty, reduced need to increase other distortive taxes) which are not quantified in this figure.

Next Steps

Public consultation

Further work on specific technical issues

Resolving open issues where political decisions are needed

Final agreement



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Pillar One

P1 Blueprint in a nutshell

Brings together three previously competing proposals for consensus

Builds on the strong commonalities identified (key principles)

- New taxing right for market/user jurisdiction; net basis taxation; no double taxation; improved tax certainty processes; achieve least complexity...etc.

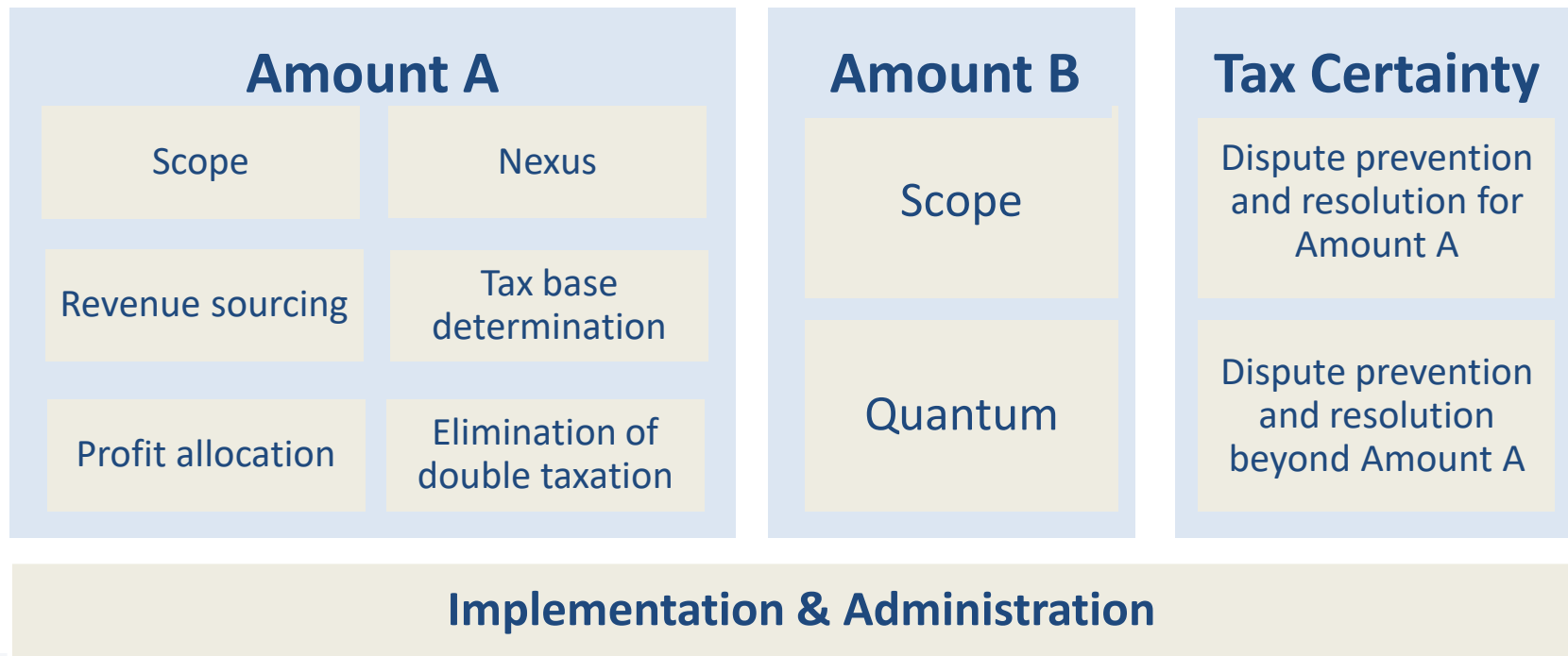
Recognises open policy issues on key features of the solution

- Scope, Quantum, Extent of tax certainty...etc.

Recognises areas where further technical work required



Background *Building blocks agreed in January 2020*





Status of Work – Amount A *Scope and Nexus*

Scope

Business activity test (ADS & CFB)

Revenue thresholds

Domestic business exception/ min foreign revenue test

Open issues

- US global safe harbour proposal
- Ongoing work on scope exclusions
- Designing and setting thresholds

Nexus

Market revenue threshold

Plus factor(s) for CFB

Open issues

- Setting threshold(s) level
- Question: separate thresholds for ADS/CFB?
- Question: lower threshold(s) for small/developing economies?
- Divergence on need for plus factors, and if used, which to apply



Status of Work – Amount A *Revenue sourcing and Tax base*

Revenue sourcing

General rules

Rules for ADS/CFB

Documentation

Open issues

- ADS: Cloud computing
- CFB: Third-party distributors and franchise and license agreements

Tax base

Financial accounts and PBT

Use of segmentation

Accounting for losses

Open issues

- Segmentation safe harbour/exemption
- Segmentation hallmarks
- Treatment of pre-regime losses and profit shortfalls



Status of Work – Amount A

Profit allocation and Elimination of double taxation

Profit allocation

Profitability threshold

Reallocation percentage

Allocation key

Open issues

- Setting the threshold level and percentage
- Differentiation mechanisms
- Double counting (e.g., M&D profits safe harbour)

Elimination of double taxation

Identifying paying entities

Method to relieve double taxation

Open issues

- Ongoing work on core principles and main framework

Status of Work – Amount B, Tax Certainty and Implementation

Amount B

Scope

Quantum

Implementation

Open issues

- Scope
- Pilot programme

Tax Certainty

Dispute prevention and resolution for Amount A

Dispute prevention and resolution beyond Amount A

Open issues

- Amount A: panel composition; binding nature of conclusions of 2nd panel
- Beyond Amount A: Work ongoing on features of new mandatory and binding dispute resolution mechanism

Implementation & Administration

Domestic law implementation

Public international law implementation

Guidance and accompanying instruments

Removal of unilateral measures

Open issues

- Ongoing work on multilateral convention
- Relevant unilateral measures



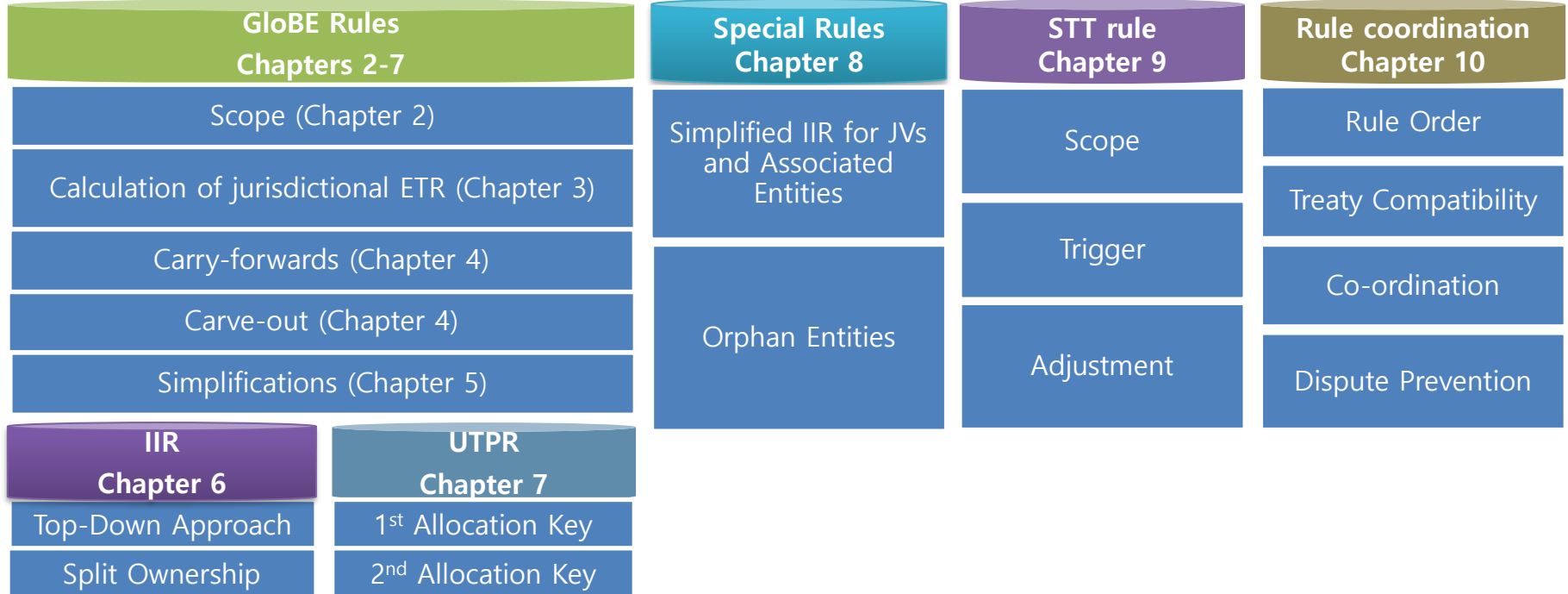
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Pillar Two



Pillar Two Blueprint *Overview*



Annex with examples



Existing design and compliance simplifications(1)

Scope

- Revenue threshold
- Consolidation test and Excluded Entities

Base

- Use of parent financial accounting standards with no book to book and limited book to tax adjustments
- Reliance on entity level financial information
- Simplifications in mechanism to address timing differences / volatility



Existing design and compliance simplifications (2)

Blending

- Leveraging Country-by-Country reporting (CbCR) for jurisdictional blending

Rule design

- Preference for bright-line mechanical tests
- Rule order and co-ordination, including top-down approach

Subject to tax rule

- Nominal rate test
- Limited to certain categories of largely intra-group payments that give rise to BEPS risks



Further work to be done in consultation with stakeholders (1)

Avoid distortions with common tax policy features

- Treatment of investment funds and tax transparent entities
- Treatment of dividends and gains from disposition of stock in a corporation
- Treatment of business re-organisations

Address timing differences

- Accelerated depreciation
- Pre-GloBE losses

Safe harbour ETR computation

- CbCR ETR safe harbour
- Exclusion of jurisdictions with de minimis profit
- Exclusion of jurisdictions with ETR above the threshold the previous years
- Tax administration guidance identifying tax rules that may affect the ETR



Further work to be done in consultation with stakeholders (2)

Subject to tax rule – Administration considerations

- Covered payments and low-return exclusion
- Materiality threshold
- Collection mechanism

Co-ordination across jurisdictions

- Model legislation, multilateral review, multilateral convention
- Standardised returns / certification mechanisms to deactivate UTPR and IIR further down the ownership chain