REPORT BY SESSION ORGANIZER

Session title: Trade and Tax: Adapting to Digitalization
Organizer: World Economic Forum (WEF)
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The session discussed digitalization-related challenges in the tax sphere, highlighting interlinkages with trade and lessons for the WTO from the international corporate tax reform process. There is increasing public concern that multinationals are not paying their fair share of taxes and that digitalization exacerbates this. Several countries have imposed unilateral measures in response. In attempts to develop a harmonized approach, over 135 countries are in multilateral discussions through the OECD's Inclusive Framework. Talks are advancing under two pillars. Pillar One's objective is to update rules to tax digital businesses which don't have a physical presence in the taxing jurisdiction. Pillar Two seeks to institute a global minimum tax, allowing countries to "tax back" where another country has taxed income at a rate below the agreed minimum rate.

Eric Robert (OECD) explained the OECD's work and mandate to deliver consensus by 2020. Pillar Two addresses tax avoidance and tax competition to increase global government revenues. It aims to increase the size of the pie. Pillar One discussions are on the reallocation of taxing rights and whether a greater slice of the pie should go to market jurisdictions. The OECD Secretariat's unified proposal aspires to bridge the gaps between three alternative proposals under Pillar One and go beyond just digital companies to cover 'consumer-facing businesses'. The principle that profits should be taxed where value is created, and not in tax havens, guides the tax avoidance debate, but is less relevant to Pillar One.

Dmitri Jegorov (Government of Estonia) discussed Estonia's role in proposing "virtual permanent establishment" as a basis for corporate tax at the EU level. As a digital nation, Estonia considers current corporate income tax rules outdated since they heavily rely on physical assets and location. Re-allocation needs to be based on sales, although corporate taxation will continue to be on profits, since other taxes target revenue (like sales taxes). Estonia never supported a "GAFA tax" or unilateral measures and welcomes the movement towards a global solution.

Irma Mosquera Valderrama (Leiden University) highlighted developing country concerns, including fairness in reallocation, capacity to implement and attracting investment without tax incentives. The inclusion of non-OECD and non-G20 countries is a positive step, but questions remain on whether these countries will get a sufficient share. The UN is also considering this issue.

Nicholas Bramble (Google) recognized the importance of corporate income tax. Google's overall global tax rate is above 23%. It pays 83% of its taxes in the US, where its business originated, but US tech firms are not unique in this. Tax rules need to evolve but shouldn't ringfence the digital economy. International cooperation around other taxes, such as VAT and sales tax, has progressed. International trade depends on a consistent and predictable global tax system. If countries unilaterally decide on where value is created, this will heighten trade tensions.

A real-time audience poll indicated that most prioritized predictability, transparency and certainty from new rules and believed international tax reform would have positive trade consequences. The panel was moderated by Soumaya Keynes (The Economist).