TAX CHALLENGES ARISING FROM THE DIGITALISATION OF THE ECONOMY

Digital Taxes and Trade in Services

GLOBTAXGOV workshop series on Globalisation & Digitalisation: Interconnections between taxation, trade and investment

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OECD
BETTER POLICIES FOR BETTER LIVES

The tax challenges arising from digitalisation

Background

- **Digitalisation and globalisation** challenge the existing international corporate tax rules, which are largely based on notions of physical presence
- **The BEPS project made significant progress, but some tax planning challenges remain**
- **These issues have led to increased dissatisfaction and unilateral actions** being taken or being considered by a growing number of countries:
  - New anti-avoidance measures in some countries
  - New taxes on digital services, based on turnover (more than 20 countries)

→ **Multinational enterprises report increasing perception of complexity, double taxation and tax uncertainty**, which may be weighing on business investment

The tax challenges arising from digitalisation

Recent developments and next steps

- **Discussions on a two-pillar solution at the Inclusive Framework** (139 jurisdictions)
  - **Pillar One:** reallocation of taxing rights
  - **Pillar Two**: minimum tax to address remaining BEPS issues
- **Release of Pillar One and Pillar Two “Blueprint reports” and the Economic Impact Assessment** (October 2020)
  - **Substantial progress on the technical work** on the reform proposals
  - **Agreement not yet reached**, but the Blueprint reports identify the remaining political and technical issues, and **provide a solid foundation for a future agreement**
- **G20 Finance Ministers remain committed** to further progress on both pillars and aim at **reaching a global and consensus-based solution by mid-2021**
- **G7 Finance Ministers agreement**
- **Next steps**

OECD Economic Impact Assessment

Overview of main findings

- **Pillar One and 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 (i.e. up to around 4% of global CIT)
- **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
- **In the absence of consensus, there would likely be a proliferation of unilateral tax measures (e.g. digital service taxes) and an increase in tax and trade disputes,** which could reduce global GDP more than 1% in the worst case scenario
- **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

Revenue effects of Pillar One & Pillar Two

By jurisdiction groups

Panel A: Revenue gains from Pillar One

Panel B: Revenue gains from Pillar Two

Note: These estimates are based on illustrative assumptions on the design and parameters of Pillar One and Pillar Two. The United States is excluded from the group of high income jurisdictions in the Pillar Two panel, reflecting the illustrative assumption that the US GILTI would co-exist with Pillar Two. Estimates for "investment hubs" are not included in these figures as they involve more uncertainty due notably to heterogeneity among investment hubs.

Investment effects

Main findings

- **Both pillars would lead to a relatively small increase in MNE investment costs**
  - The negative effect on global investment would be less than 0.1% of GDP, as the proposals would mostly affect highly profitable MNEs whose investment is less sensitive to taxes
  - The effect could be lower if MNE groups reallocate investment in response to cost increases
- **Pillar One and Pillar Two could support global investment and growth through indirect channels that are significant, although less quantifiable by:**
  - Increasing the relevance of non-tax factors and improving global capital allocation
  - Increasing tax certainty and reducing the need to raise revenues through other (potentially more distortive) tax measures
- **In the absence of consensus, there would likely be a proliferation of unilateral tax measures (e.g. digital service taxes) and an increase in tax and trade disputes,** which could reduce global GDP by more than 1% in the worst case scenario

Impact of the failure to reach consensus

Estimated effect on global GDP

Impact on global GDP (in %)

Proportional retaliation | Worst case retaliation

0

-0.5

-1

-1.5

Consensus scenario

No-consensus scenarios

Direct effect of the proposals on MNE investment costs*

Assuming narrow DST implementation

Assuming broad DST implementation

* 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.

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