# Global Tax Reforms

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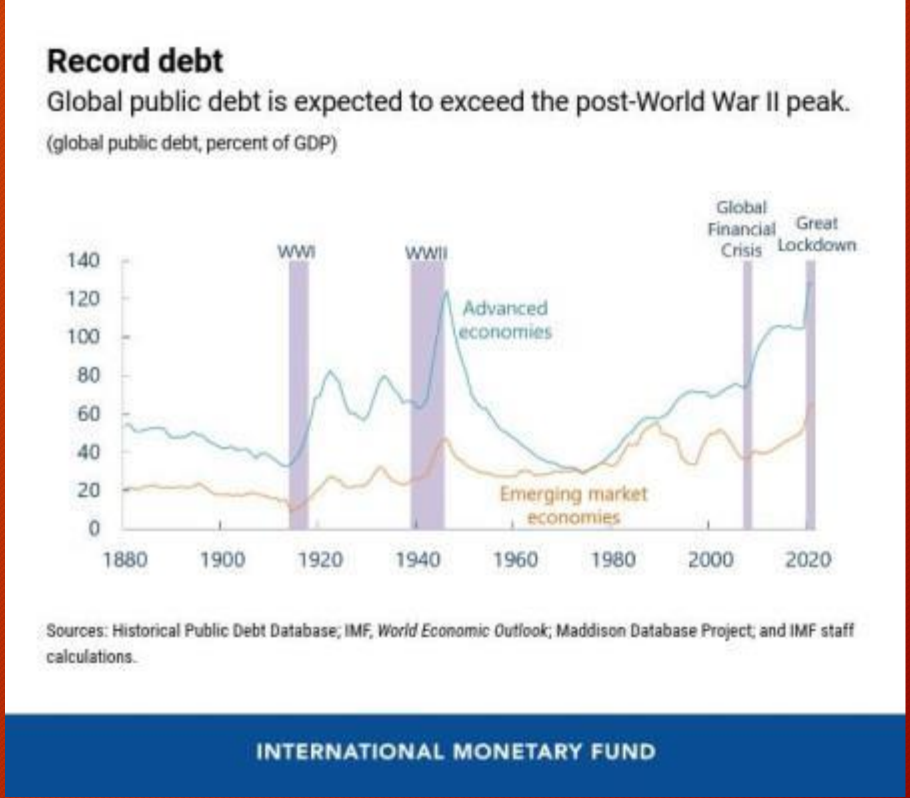
# Why was it needed

- The writing was on the wall after global financial crises

- Genesis of BEPS was the precursor the reform- “aggressive tax planning undermines the fairness and integrity of tax systems because businesses that operate across borders can use BEPS to gain a competitive advantage over enterprises that operate at a domestic level. Moreover, when taxpayers see multinational corporations legally avoiding income tax, it undermines voluntary compliance by all taxpayers. Aggressive tax planning has led to a tense situation in which citizens have become more sensitive to tax fairness issues”

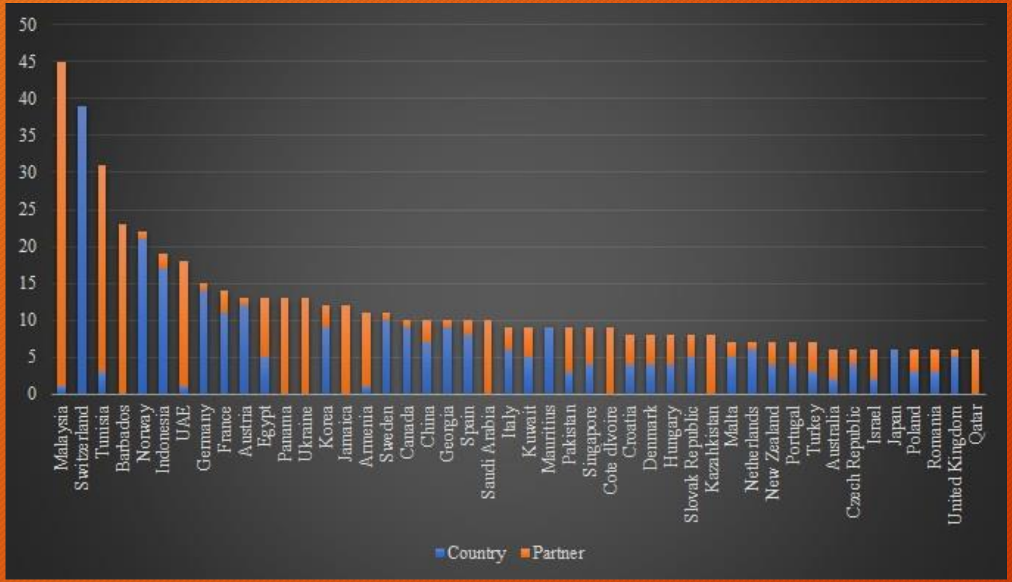


# The many strides to eradicate BEPS

- MLI: opt outs made it acceptable only treaty abuse and dispute resolution related articles remained widely acceptable and PE articles were a mixed bag
- CbCR: As of 2016 companies were still carrying on with locating activities in low tax juridiction
- Harmful Tax Competition: Only one jurisdiction qualifies a harmful. Long history of defining what is harmful and tax competition was a no go
- Treaty abuse: Success with the wider adoption of PPT and LoB

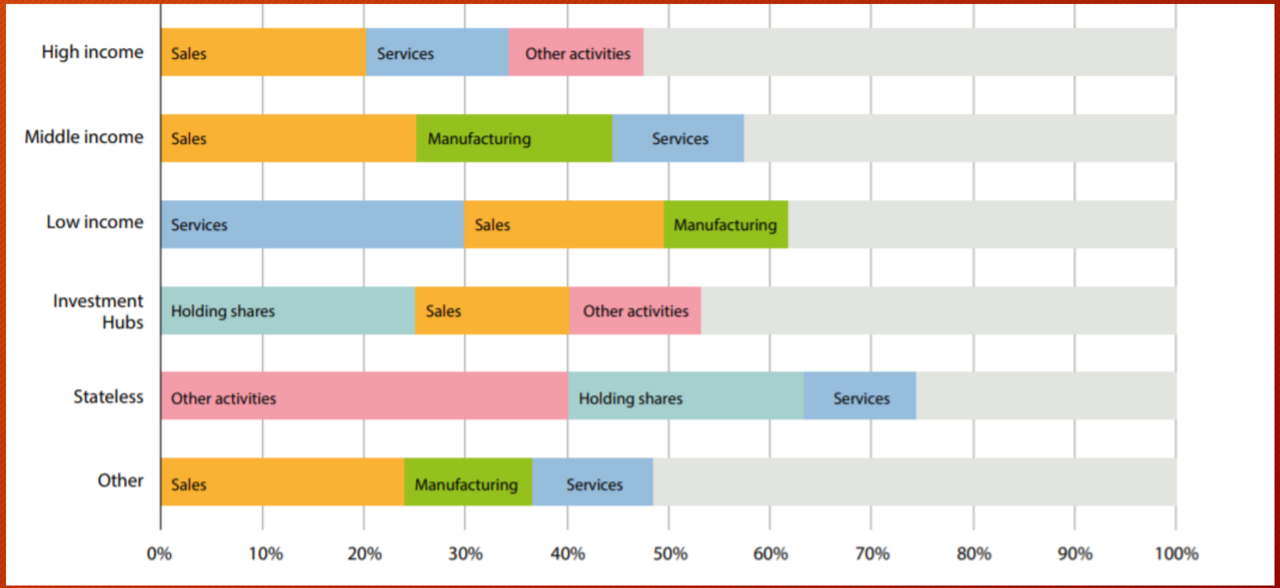
# The many strides to eradicate BEPS: Snapshots of evidence

## Treaties not covered by MLI




Source:Challenges to Multilateralism in International Tax: A tale of two measures, British Tax Review, 2019

## Top three activities by jurisdiction type in 2016




Source: OECD

# Why is consensus difficult?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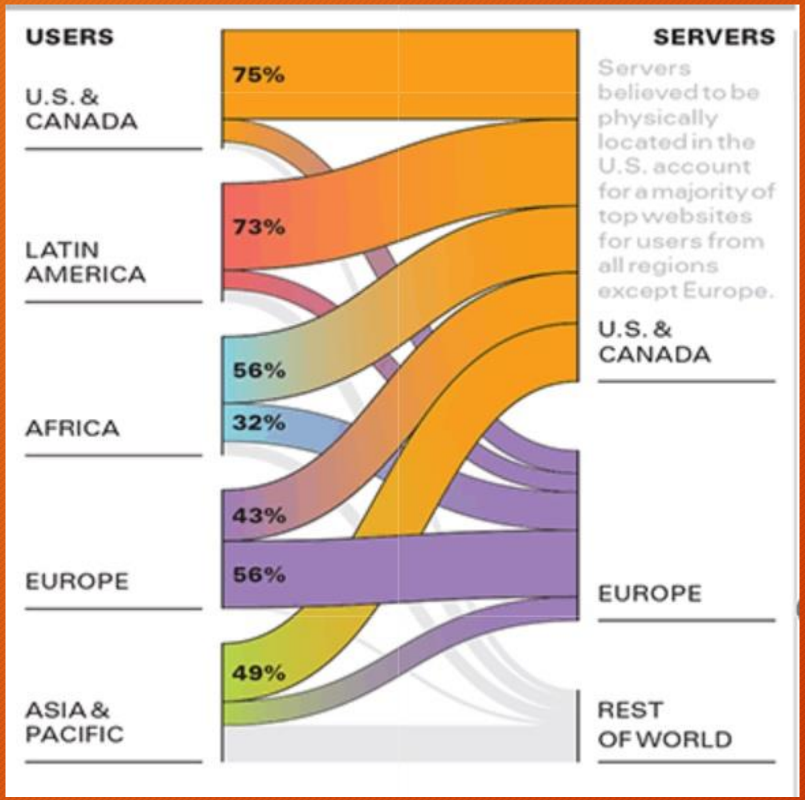


# Why is consensus difficult?

| Country | e-commerce | Digital advertising | Digital payments | Users in December 2017 | Digital buyers |
|---|---|---|---|---|---|
| India | 1.4 | 1.0 | 1.6 | 11.3 | 12.5 |
| China | 34.1 | 26.9 | 31.9 | 18.1 | 36.3 |
| USA | 27.7 | 37.7 | 28.4 | 7.0 | 12.3 |
| Germany | 4.1 | 2.7 | 3.7 | 1.8 | |
| Japan | 6.1 | 4.0 | 4.9 | 2.9 | 4.5 |
| UK | 6.0 | 6.8 | 6.1 | 1.5 | 2.4 |
| Australia | 0.7 | 1.3 | 0.8 | | |
| Brazil | 1.2 | 1.5 | 1.5 | 3.4 | 4.1 |
| Russia | 1.1 | 1.3 | 1.2 | 2.7 | 2.8 |
| South Africa | 0.2 | 0.4 | 0.3 | | |
| Canada | 1.3 | 2.1 | 1.5 | | 1.1 |
| France | 2.9 | 2.0 | 2.7 | 1.4 | 2.8 |
| Italy | 0.9 | 1.0 | 1.1 | 1.3 | |
| Spain | 1.1 | 0.7 | 1.2 | | |
| Netherlands | 0.8 | 0.7 | 0.8 | | |
| Switzerland | 0.5 | 0.5 | 0.6 | | |
| Ireland | 0.2 | 0.2 | 0.2 | | |

Source: Tax challenges arising from digitalisation, IBFD 2018

# Pillar one and two: The culmination of BEPS?

# Pillar one

- Revenue of more than $20 billion: Tax challenges from digitalisation? How many companies will qualify?
- 25 % of Profits in excess of 10 per cent to market jurisdictions: Will there be enough profits?
- Revenue sourcing principles: GDPR and privacy
- Dispute resolution: Tax sovereignty
- DST revenue vs. pillar one proposal : Developing countries like India may not gain ; simplicity and administrability are not longer primary principles
- Gains of $120 billion is less than 1 per cent of total tax revenue and alternative estimates do not corroborate the number

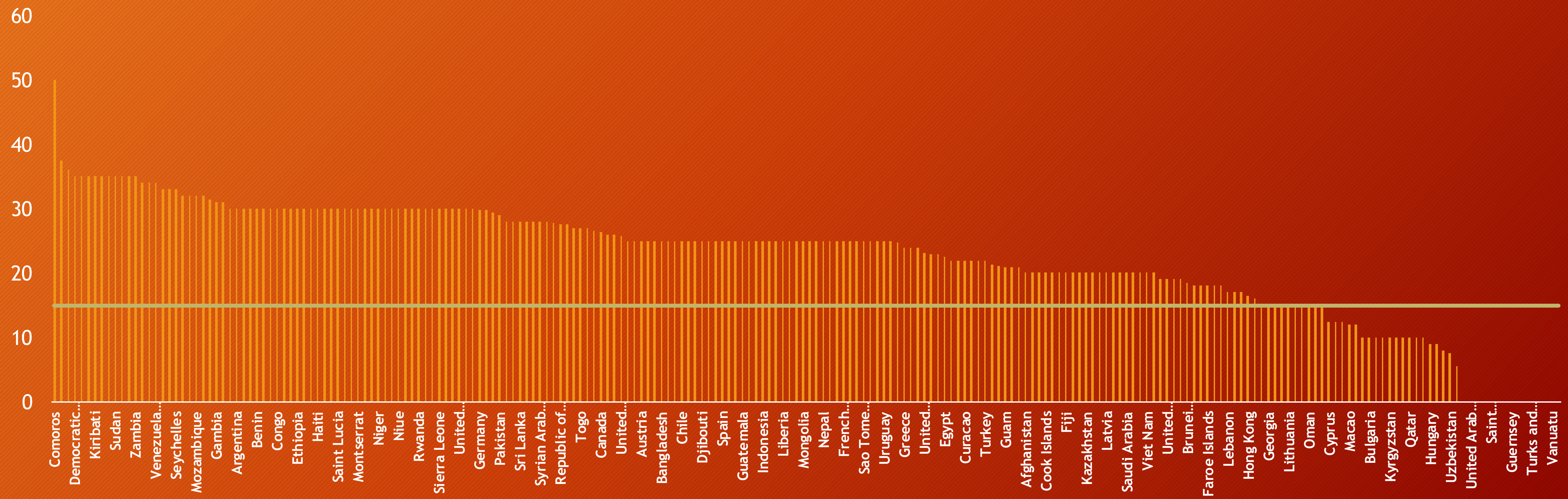
*Reference: Evaluating Pillar one and pillar two reform, Tax Notes*

# Pillar two

- Tax competition: A redux
- The minimum 15 per cent does not require consensus among countries since the IIR works like a CFC
- Minimum tax applies to 35 countries

*Forthcoming paper on minimum corporate tax*

# Pillar two: Countried with CTR less than 15 %

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# Pillar two: **treaty changes**

- STTR will apply to specified incomes- what about capital gains
- The treaty minimum rate is 9 per cent

Treaties with withholding rates below 9 per cent

| Countries | Dividend | Interest | Royalty | FTS |
|---|---|---|---|---|
| Developed-developed | 17 | 42 | 55 | 3 |
| Developing-developed | 117 | 240 | 302 | 47 |
| Developing-developing | 140 | 113 | 130 | 25 |

Source: constructed from tax treaty database, ICTD

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# Way forward

- Simplification of tax proposals to ensure minimum cost of implementation
- Pending reform from 2008 crisis: Financial sector needs to be taxed better
- Digitalisation needs to be addressed
- Revenue gains from pillar one is less than 1 per cent of global tax revenue, must be weighed against costs
- Minimum tax accompanied by climate risks may not be sustainable for small economies