

ATA

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Taxing the Digital Economy – Recent Development

Yong Sing Yuan

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- ❑ Base erosion and profit shifting (BEPS) refers to tax planning strategies used by MNEs that exploit gaps and mismatches in tax rules to **artificially shift profits to low or no-tax locations** where there is little or no economic activity

- ❑ 2013: OECD and G20 adopted a 15-point Action Plan to address BEPS
 - To ensure that **profits are taxed where economic activities take place and value is created**
 - To restore confidence in the international tax system

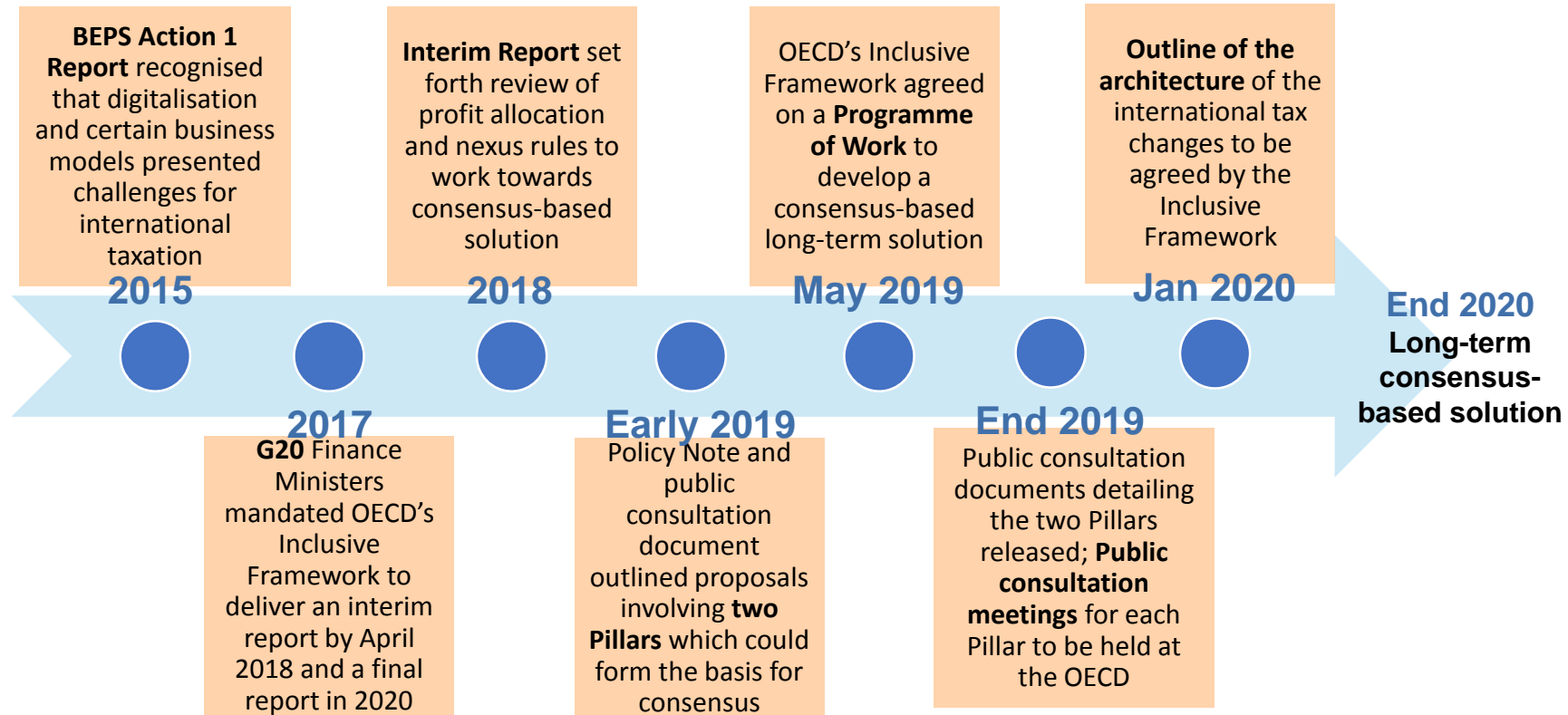
- ❑ 2015: A package of measures to address BEPS was delivered
 - An Inclusive Framework of 130+ countries and jurisdictions are collaborating on the implementation of the BEPS package.

- ❑ The tax challenges of the digitalisation of the economy was identified as one of the main areas of focus of the OECD/G20 BEPS Project

- ❑ The BEPS Action 1 – 2015 Final Report (the “Report”) found that the whole economy was digitalising and, as a result, it would be difficult, if not impossible, to ring-fence the digital economy

- ❑ Emergence of new and highly digitalised business models
- ❑ Companies deliver goods and services in novel manners
- ❑ Goods and services transacted online and supplied from offshore
 - Value created in a jurisdiction
 - But consumption takes place in another
- ❑ How should tax principles and rules be applied?

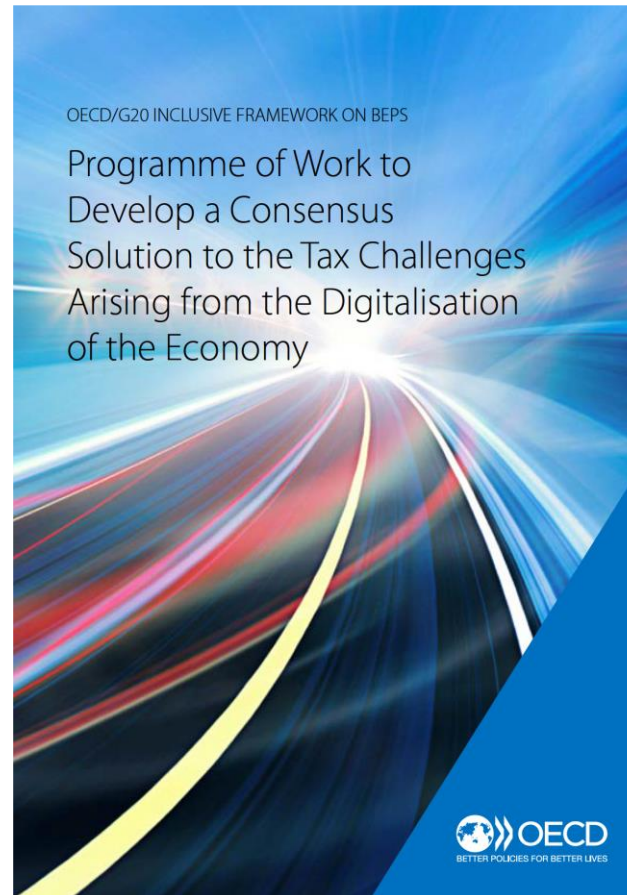
The genesis of events



- ❑ OECD TFDE interim Report on tax challenges of highly digitised business models
 - Scale without mass
 - Heavy reliance on intangibles
 - Data and user participation

- ❑ Two fundamental concepts in international income tax system examined
 - Profit allocation
 - Nexus rules

- ❑ The Programme of Work provides for two pillars to be explored.
Discussions are still ongoing



Pillar One

- Relooks the allocation of taxing rights
 - New profit allocation rules
 - New nexus rules

Allocates more profits (taxing rights) to market jurisdictions

Pillar Two

- Aims to address the remaining BEPS issues
 - Provide jurisdictions with a right to “tax back”, where other jurisdictions do not tax or subject an income to low tax

Sets a floor to tax competition by limiting tax rates

Scope

- Consumer-facing businesses with carve-outs

New Nexus

- Not dependent on physical presence
- Largely based on sales

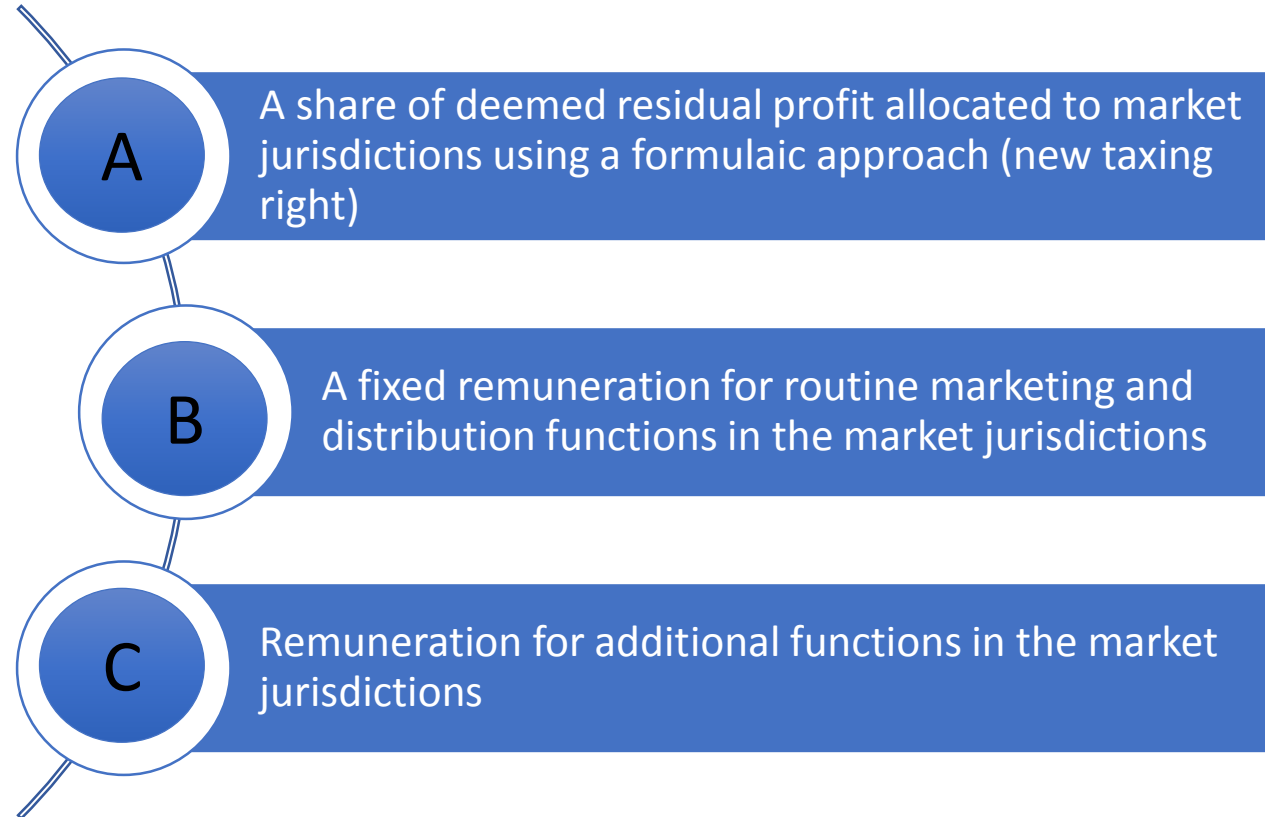
New Profit Allocation Rule going beyond the Arm's Length principle

- Largely retain current transfer pricing rules
- Complements with formula based solutions

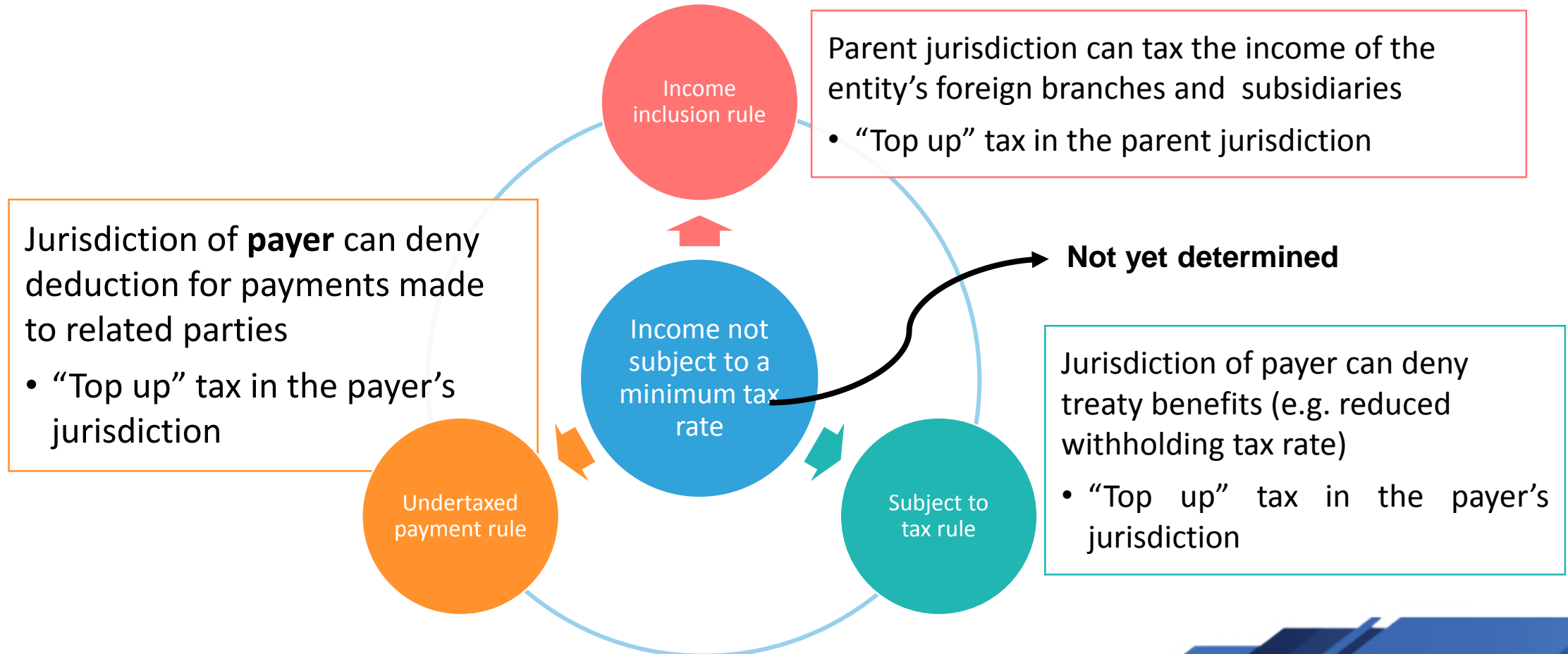
Increased Tax Certainty via Three Tier Mechanism

- Amounts A, B and C

To allocate more taxing rights to the market jurisdictions through a Three-tier mechanism



Global Anti-base Erosion Proposal (GloBE)



Rules will be ordered to avoid double taxation.

- Singapore participates in OECD's Inclusive Framework on BEPS, Task Force on the Digital Economy and the relevant Working Parties.
- Singapore is a member of the OECD's Inclusive Framework Steering Group.

- ❑ Singapore supports the work led by the OECD in developing a consensus-based solution
- ❑ Singapore is committed to work with members of the BEPS Inclusive framework towards a consensus-based solution on a without prejudice basis
- ❑ It is important that the solution is anchored on sound economic principles

□ Singapore advocates the following principles:

- Support global economic growth and innovation
- Maintain the level playing field for all economies, large or small, developed or developing
- Recognise the unique social and economic circumstances of jurisdictions

□ International consensus

- Singapore supports jurisdictions working together at international fora to achieve consensus
- Avoid unilateral actions, which may inadvertently lead to over-taxation
- Avoid hindering trade, creating uncertainties, adding costs to business
- Ultimately, consumers will bear the additional cost

THANK YOU