Webinar on Equity in Global Tax Regimes and Implications for the SDGs

Redistributing taxing rights to the Global South through the digitalized economy

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Outline:

- The role of taxation towards resource mobilization
- Inefficiencies of the current international tax system
- Developments undertaken by the OECD/G20 Inclusive Framework on BEPS
- Developments undertaken at the UN Tax Committee

The Role of taxation in the achievement of SDGs

Fiscal tools and the role taxation plays in designing a strategy are key relevant to promote economic growth. Revenue collection has always been a key element allowing economies to finance growth-driven policies that contribute to mobilize resources in the achievement of Sustainable Development Goals (SDGs).

In contrast, Base Erosion and Profit Shifting (BEPS) prevent Governments from reaching equality and to reduce poverty, on the one hand, and to broader develop their strategic agenda towards sustainable growth.

Similarly, the increasing digitalization of the economy raises concerns among governments since Multinational Enterprises (MNEs) rely more and more in novel business models that don't require physical presence to derive income from market jurisdictions and, therefore, not subject to taxes therein (and, in some cases, nowhere), depriving States to obtain resources that contribute in achieving SDGs.

The tax challenges of the digitalized economy

New digitalized business models allow multinational enterprises to derive income from remote engagement in markets without any physical presence therein.

Domestic tax laws, relying on a paradigm that was developed at the end of the 19th Century, don't levy taxes to non-residents on income derived remotely. Such laws generally define as locally sourced income, the one derived from the carrying on of business activities within its jurisdiction.

Moreover, the tax treaty network prevent the taxation of business profits at source in the absence of a permanent establishment to which attribute those profits.

Developments undertaken by the G20/OECD Inclusive Framework

Since an Interim Report was presented to the G20 by the Inclusive Framework in March 2018, a two-pillar global solution is being developed, which should have been presented in 2020.

- Pillar One of the global solution aims to settle new nexus and profit allocation rules to tax the income derived by multinational enterprises from remote engagement in markets without any physical presence therein.
- Pillar Two of the global solution focuses at introducing a minimum level of corporate taxation through mechanisms that allow jurisdictions to tax the income derived by a multinational enterprise that has not been taxed at that minimum level in other jurisdictions.

Developments undertaken by the United Nations Tax Committee

Recognizing that the measures developed the Inclusive Framework's two-pillar approach are extremely complex and won't substantially increase collection in developing countries, the UN Tax Committee has committed to provide developing countries a tool enabling them to easily tackle the tax challenges of the digitalized of the economy.

The main purpose of its initiative is to develop a simple rule which is closely linked to the problem it intends to solve allowing taxpayers and tax administrations to easily assess the tax obligation in each jurisdiction.

Consequently, a bilateral tax-treaty provision has been developed allocating limited taxing rights to source States on income derived from automated digital services.

Reasons for a consensus-basis global solution

In the Final Report on Action 1 of the BEPS Project, business models with high reliance on intangibles and providing digitalized services have been identified to exacerbate BEPS risks that may not necessarily be addressed by already developed measures. This remaining issue of the BEPS Action Plan requires further work to be undertaken. For that reason, there is a need for working on a global solution to address the tax challenges of digitalization.

The lack of success in providing a global consensus-based solution would give place to the proliferation of unilateral uncoordinated measures leading to inconsistency in the international tax system, uncertainty and presumably chaos, with its inevitably undesired impact on investment, trade and economic growth, that all jurisdiction would suffer from.

Guiding principles for a sound consensus-basis global solution

Investment -being a booster of sustainable growth, and ultimately, to mobilize resources that may contribute in achieving the sustainable development goals- should not be negatively affected by the implementation of the new tax standards.

The more accurate a tax measure is, the more complex its implementation might become, increasing the risk of uncertainty.

While designing the new nexus and profit allocation rules, an eye has to be kept on tax predictability to prevent disputes that might damage taxpayers and tax administration as well as the international tax system as a whole.

Since the solution requires a global implementation, needs and capacities of developing countries should be contemplated.

The standards framing the consistency of the international tax system for the following decades should not leave anyone behind and allow all jurisdictions to increase collection to mobilize the resources needed to achieve SDGs.

Guiding principles for a sound consensus-basis global solution

A consensus-based solution can not only play an important role to ensure fairness and equity in our tax systems and fortify the international tax framework in the face of new and changing business models, but also it can help strengthen governments' ability to raise tax revenues that might help put their finances back on a fair and sustainable footing.

A global solution can also ensure fairness and equity in our tax systems.

The public pressure on governments to provide a framework that ensures that large, internationally operating, and profitable businesses pay their fair share of taxes -and do so in the right place under new international tax rules- has increased as a result of the current COVID-19 pandemic.

At the same time, a consensus-based solution could provide businesses with much needed tax certainty in order to aid economic recovery.

THANK YOU

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