PARIS CONFERENCE 2019:

OECD outlines direction of travel for tax reform in digital age

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European Commission also welcomes "a new paradigm in tax"

New digital business taxes should not be retroactive, the 500 delegates attending Taxand's annual conference heard from a senior official from the Organisation for Economic Cooperation & Development (OECD).

In discussing work currently under way at the OECD on potential approaches to taxation in the digital economy during a roundtable discussion on the future of international tax at the conference held in Paris by Taxand, the global tax advisory firm, **Grace Perez-Navarro, Deputy Director of the OECD's Centre for Tax Policy and Administration**, stated that "we don't want to see these rules applied retroactively."

The comments from (Ms) Perez-Navarro come as the OECD is set to provide an update next month on its work on digital taxation, which is in many ways an extension of its work with the tax authorities of 129 countries in respect of the so-called "base erosion and profit shifting" or BEPS project, relating to the taxation of multinational enterprises.

Central to the debate around digital taxation has been the exploration of which indicators, other than revenue, should serve as a threshold to trigger taxation in a particular country, including the volume of digital content, the maintenance of local language websites and sustained marketing activity. Its final recommendations are scheduled to be presented to the G20 countries at their summit in November 2020, she said.

Digital commerce has rapidly become a necessary and central component of almost all business models, across all sectors, increasing the ability for companies to have an economic impact in a country without a physical presence, raising questions over what degree of 'economic presence' should be considered necessary before prompting taxation in that country. Policy-makers have been responding to public concerns that corporations, including technology companies, avoid paying taxes by exploiting gaps and mismatches in tax rules by shifting revenue and profits to low or no-tax jurisdictions. They have seen it not only as a response to political pressure but as an opportunity to raise additional revenue.

Tim Wach, Managing Director of Taxand, commented: "It has been clear for some time now that there are shortcomings in the current global tax system, particularly with respect to taxation of the digital economy. As ever, the ask from multinationals is for certainty and consistency, particularly across different countries. The risk with current proposals is the inconsistency in approach between different countries, as well as the contradictions with the current system of international taxation. This could potentially lead to significantly increased levels of tax, including on loss-making or marginally profitable companies, and a heightened cost of compliance."

While most countries are awaiting a tax framework recommendation resulting from the work of the OECD, some countries have introduced temporary initiatives. The UK will levy a 2% tax on digital revenue, effective next year, while France's Senate will debate on May 21-22 a bill proposing to introduce a 3% digital tax for companies with revenues in excess of €750 million.

Taxand's Wach continued: "The interim measures implemented by certain countries have clearly not reached the right answer. Policymakers will, however, need to ensure there are clear mechanisms with which all countries, at all levels of development, can implement the rules."

The OECD's Perez-Navarro acknowledged these challenges during the roundtable session of the event attended by delegates from Taxand's member firms from 50 countries as well as their multinational clients.

"There are multiple tax challenges arising from the increasing digitisation of the economy," she said. "Linked to this is a general sense that there is a need for fair taxation, not just for different taxpayers, but also internationally, across different jurisdictions."

Where countries have introduced temporary unilateral measures pending agreement on a global solution "some companies will get stuck," she acknowledged during the roundtable. She added that the OECD's work aims to "restore stability to the international tax system" with "simple and administrable" rules that will aim to prevent disputes, aid resolution and create greater certainty for corporate taxpayers.

In a second plenary session of Taxand's conference on how the norms of taxation are changing, **Valère Moutarlier, Director for Direct Taxation at the European Commission's Directorate-General for Taxation and Customs Union**, said "We need a new paradigm in tax.

"The current perception is that unfairness is embedded in the tax system, and we must find a way to address this and ensure it is utilised to support wider EU goals, associated with job growth, in a climate-compatible manner."

He said the European Commission is seeking a conversation with member states to address the issue of tax competition.

"This is a difficult discussion, as many feel they can be more attractive to businesses individually, however, a joined-up system, designed to attract the single market would be a more effective solution. Converging our tax systems would create a healthy business environment that encourages growth and the US has proved that this can be achieved across multiple states. A clear path must be laid to reach these objectives, and we need to move on from a principle-based discussion and move onto practicalities."