Position Paper
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ADDRESSING THE TAX CHALLENGES OF THE DIGITALISING ECONOMY

Twenty years ago, the OECD developed the principles for the Ottawa Taxation Framework that ensured that growth-suppressing national taxes would not be imposed on the nascent digital (or "tech") sector. We believe that this has been one of the most significant achievements of the OECD in its half century of existence. Today – thanks to that framework – digitalisation is revolutionising economies, business models, and the lives (at work and at home) of billions of citizens.

This ongoing digitalisation continues to have a dramatic impact on every corner of every economy – including on tax bases and the ability of governments to raise revenues. The conversation of the past five years was focused on dealing with the issue of Base Erosion and Profit Shifting (including in relation to the tech sector). With the fifteen Final Reports approved, and now beginning to be implemented, it is right that we turn to the challenges of the future, and the need to make sure the changes being wrought by digitalisation across all sectors promote inclusive growth and employment, including through cross-border trade and investment.

We welcome the OECD Task Force on the Digital Economy's March 2018 Interim Report, and the opportunity that this project has provided Inclusive Framework (IF) countries, with input from all other relevant stakeholders, to contribute to addressing these challenges together. However, if the benefits of digitalisation are to be harnessed for growth, trade, investment, and jobs around the world then neither this report – nor any measures proposed by individual member states[1] – should be viewed as the end of the conversation. The OECD is right that "the digital economy" cannot be ring-fenced and attempts to do so will simply be distortive and harmful to the digitalisation of the whole economy. The economy is now the digital economy.

Although the changes over the past twenty years have been dramatic, we are standing on the threshold of changes of orders of magnitude larger than those we have seen so far. We are, for example, only beginning to see the impact of artificial intelligence. It is imperative that we do not have a divergence of standards internationally that results in double taxation (or corporate taxation of non-profit bases), harms growth, or inhibits the ability of companies to digitalise. The ground continues to move beneath us and we must look forward, rather than backward, if we wish to create a path that addresses governments' concerns.

Ideally, we believe that the best and most coherent solutions would be found if the conversation was broadened beyond the corporate taxation of perceived "digital" businesses to include more stakeholders with different experiences and ideas. For example, Working Parties 1 and 6 could provide valuable insight regarding the coherency of the international tax framework, and the value-creating potential of new business model factors, respectively. Indirect tax practitioners and policy makers have been grappling with many of the same issues in recent years (i.e., VAT collection from digital platforms), and the analysis, solutions and ideas they developed are relevant. The impact of any corporate tax changes on the operation or collection of other taxes should be carefully considered (e.g., the risk of double taxation through conflicting permanent establishment definitions). We do understand the urgency with which many governments wish to address their concerns and agree that a realistic balance must be struck between the required timeframe for action and comprehensive engagement.

However, businesses themselves have been at the forefront of driving digitalisation – and businesses across all sectors are increasingly seeing new ways in which digitalisation can add value for their stakeholders. At the heart of this conversation is the fundamental question of <u>where value is created</u>. Regardless of whether or not they are profitable, or where they are located, digitalised and digitalising businesses have seen how

[1] We strongly counsel against fragmentation in international taxation and encourage all countries to avoid action outside of an IF-led consensus, particularly within the already agreed international timeframe of reaching consensus by 2020.

digitalisation can be harnessed to create value first hand, and they have the best insight as to how, where and why this happens, how that changes over a business lifecycle, and how future developments could impact this analysis.

As a critical priority, therefore, *Business at OECD* stands ready for constructive and just aimed engagement to more fully review current and future business models in order to help determine the means and location of value creation – and, thus to address concerns in a forward-looking, coherent, global agreement. On the other hand, introducing punitive tax regimes for certain types of transactions will only result in retaliation and barriers to investment. Tax treaties must continue to provide relief for trading parties. And uniform model treaties that reflect transactions (in today's and tomorrow's world) are imperative.

We believe that the objectives should be met through development of a framework (looking to the Ottawa principles) that serves the evolution of the digitalising economy and provides taxpayers and governments with reliable, stable, and long term investment confidence. Looking at the OECD VAT/GST work, the OECD´s International VAT/GST Guidelines were built on the Ottawa Taxation Framework and developed by WP 9 with active and ongoing business input through the well-established Technical Advisory Group (TAG) process.

Business at OECD again stands ready to work constructively to help reach a true multilateral agreement that establishes a new, pro-growth tax framework that meets the needs of **all** stakeholders.