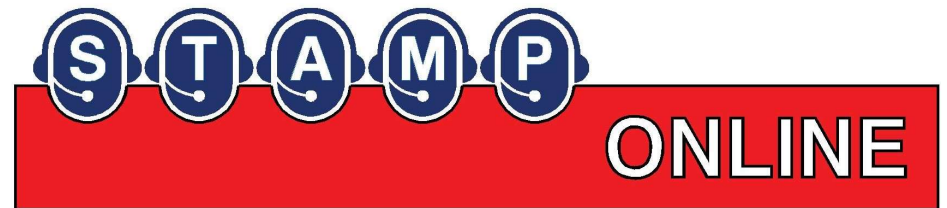


Case 3

Taxation in the Digital Era



Erasmus+

Schedule	Students' tasks
Wednesday	
14.00-14.30	Introduction to the Taxation in Digital Era Case – <i>Plenary session</i>
14.30-15.30	Working on Case 3 – Task Part 1 – <i>international groups</i>
15.30-16.00	Coffee break
16.00-17.00	Working on Case 3 – Task Part 1 - <i>international groups</i>
17.00-17.30	Students' presentations – meeting rooms
Thursday	
9.30-11.00	Working on Case 3 – Task Part 2 - <i>international groups</i>
11.00-11.30	Coffee break
11.30-12.30	Working on Case 3 – Task Part 2 - <i>international groups</i>
12.30-13.00	Students' presentations – <i>Plenary session</i>

What is it?

Enabling or improving processes, products and services with the help of new technologies

Using data in new ways that improve business and risk decision making

How works it?

Disintermediating functions

Reducing steps in value chains

Local presence not required as connectivity is given

Growth of platforms, digital goods and services, Cloud, AI

Tokenisation of real-world assets to facilitate value transfer



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- Performance is no longer
the key determinant of
the value creation



The new DIGITAL ECOSYSTEM & Key players



Impact on business models

- facilitating market access by reduced frictions
- lower costs
- greater tailoring of goods and services / individual service provider (plug and play)
- platform operators: ecosystems orchestrators

BIG QUESTION:
How the tax
practitioners
are challenging
these changes?

Digitalization

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Digital FINTECH
platforms tax
paradigm



BIG QUESTION:

**Based on this fact pattern,
which could be the tax
considerations that may
be included?**

Example –

A digital platform developed by a FINTECH and later deployed

Key activities:

- Development activities: take place in group / regional hubs (e.g. UK, France)
- Contract R&D: technology service centres in other jurisdictions (e.g. Lithuania, Luxembourg)
- Local business units: local customs (e.g. Hungary, Italy).

Tax Challenges of Digitization



- Availability of various **tax and other government** incentives in the hub, contract R&D or local countries
- **Withholding tax and transactional taxes** on intercompany payments (e.g. VAT, other indirect taxes)
- Availability of **tax deductions** for costs associated with platform development
- **Transfer pricing model** to align recognition of value to where development has been performed
- **Permanent establishment and individual taxation** issues where regional deployment results in temporary relocation of people
- Potential emerging issues related to the **electronic supply of services, digital services taxes**

Tax Challenges of Digitization



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Digital Economy OECD Timelines



Have you seen the headlines?

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ONLINE



How these
companies are
taxed?



amazon
NO TAX 44 States
NO TAX



Have you seen the headlines?

S T A M P

ONLINE



G7 agrees at least 15%

G7 nations reach historic deal to tax multinational corporations

A group of the world's richest nations agree on a minimum global corporate tax rate to close cross-border tax loopholes used by some corporations.



The G7 hopes to reach a final agreement at the July gathering of the expanded G20 Finance Ministers group (G20F).

3 Jun 2021 (Updated: 3 Jun 2021 02:03 PM GMT)

Finance ministers from the Group of Seven (G-7) rich nations reached a landmark accord on Saturday backing the creation of a global minimum corporate tax rate of at least 15 percent in an effort to close cross-border tax loopholes used by some corporations.

EXCLUSIVE G20 to endorse deal on global minimum corporate tax -draft





What will a global minimum tax mean for different countries?

- The challenge of how to tax the digital economy was developed in the OECD's BEPS initiative as Action 1: *Addressing the Tax Challenges of the Digital Economy*.
- The OECD/G20 Inclusive Framework on BEPS (140 countries) are trying to build a consensus around taxation of the digital economy.
- Some countries are taking unilateral actions to impose digital services taxes.

As the digitization tax debate continues, multinational companies will need to adopt both short- and long-term developments.

1) EU Communication on Business Taxation for the 21st Century, 18.05.2021

https://ec.europa.eu/taxation_customs/communication-business-taxation-21st-century_en

2) EU Council Directive 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.193.01.0001.01.ENG&toc=OJ:L:2016:193:TOC

3) OECD/G20 Base Erosion and Profit Shifting. Action.1 Tax Challenges Arising from Digitalisation

<https://www.oecd.org/tax/beps/beps-actions/action1/>

4) OECD Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, 8 October 2021

<https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm>

5) OECD Limiting Base Erosion Involving Interest Deductions and Other Financial Payments Action 4, 2017.

<https://www.oecd.org/tax/beps/limiting-base-erosion-involving-interest-deductions-and-other-financial-payments-action-4-2016-update-9789264268333-en.htm>

6) KPMG report. Taxation of the digitized economy. Developments Summary, 2021.

<https://tax.kpmg.us/content/dam/tax/en/pdfs/2021/digitalized-economy-taxation-developments-summary.pdf>

Preliminary learning materials

1) EU Communication on Business Taxation for the 21st Century, 18.05.2021

https://ec.europa.eu/taxation_customs/communication-business-taxation-21st-century_en



Tax Challenges of Digitization



OECD BEPS 2.0 Two Pillar approach - reforming the international tax system for the 21st century

Pillar 1

- No more physical presence in a country for taxation
- Focuses on the allocation of taxing rights between jurisdictions, new profit allocation and nexus rules
- Fitted to the new business models and expand taxing rights of market jurisdictions (e.g. location of users)

Pillar 2

- Has the Global Anti-Base Erosion (GLOBE) proposals addressing to the remaining BEPS issues
- Coordinate a set of rules to address profit shifting and tax competition
- Proposed as a "top-up" tax to a minimum effective tax rate (ETR)

Pillar 2 / 'GloBE' Rules

Main Features:

- Global minimum tax on corporate profits
- Applies to MNEs with a global consolidated annual revenue of 750mn Euros
- Global profits are taxed at least at a minimum Effective Tax Rate (ETR)
- ETR is total taxes on corporate profits paid to government / accounting profits

ETR = Covered Taxes (current year cash taxes paid)

Accounting Profits



Which is the effect of the business taxation on the firm-level decision arising from corporate tax harmonization?



Enjoy the Pilot Case studies on Taxation in the Digital Era!

What will you gain?

- development of tax management skills and competencies in internationally operating businesses.

HOW will you work?

- By applying of multidisciplinary approach to analyze the aims, practices and consequences of taxes which affect businesses, before and after regulatory changes.
- You will explore the effects of business taxation on firm-level decisions, arising from corporate tax harmonization, and taxing digital businesses.