Tax and Digital

The OECD Overhaul of the International Corporate Tax

Key Takeaways

1. **The OECD reform is a structural change to the current corporate international tax system.**
2. **It has the potential to affect most sectors of the economy.**
3. **The changes will come in very quickly, with an agreement likely within the next 12 months.**

What is the OECD work on Tax and Digital?

The digitalisation of the economy has brought significant benefits to all of us. Nonetheless, the latest two Organisation for Economic Co-operation and Development (OECD) reports on the taxation of the digital economy (2015, 2018) highlight how digitalisation has also posed challenges to the international corporate tax system. In particular, by allowing companies to have a substantial economic presence in a jurisdiction without being taxable there.

Consequently, the OECD are reviewing the rules of the international corporate income tax system.

If the OECD does not reach consensus on a multilateral solution, a number of countries will move unilaterally with measures outside of the reach of double tax treaties and further distortions, uncertainty and complexity could be created.

What are the legislation changes?

The OECD legislation changes will focus around two main pillars:

- **Pillar I**: More income will be taxed in the markets, i.e., where the customers are.
- **Pillar II**: A Multinational group will be subject to a minimum effective tax rate.
  Pillar II comprises two rules:
  - Income Inclusion Rule
  - Denial of Deduction

Unilateral actions: Under the unilateral DSTs, highly digitalised companies are taxed on their turnover at a rate of between 2% (UK) and 7% (Czech Republic), and not on their profit.

What is the impact for businesses?

Commercial

- The Global effects on the Effective Tax Rate (ETR)
- The group structure
- The compliance burden
- Deals: The changes may have an effect on the cost of capital

Tax policy, communications and stakeholder management

- Given the innovative solutions being studied at the OECD, the C-suite will need to be briefed, possibly together with investors.
- In addition, with the current attention of the general public to tax matters, as soon as the OECD announces a technical plan and/or an agreement, there will be a large media coverage. At this point, the tax department may be asked to brief the rest of the group management.
- We can help clients in briefing their internal stakeholders in advance of any media coverage and flag potential risks and steps that need to be taken.

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Myth busters

Myth: *The OECD work on the digital economy will only impact tech companies*

Truth: The changes proposed by the OECD are likely to affect most companies, including those with a more traditional business model.

Myth: *The project is difficult and therefore it will proceed slowly*

Truth: The project will probably be agreed by mid/end 2020 with implementation starting the following year.

Myth: *The project is difficult and therefore there will be no agreement in the end*

Truth: The environment remains very volatile but the project has good chances of success.

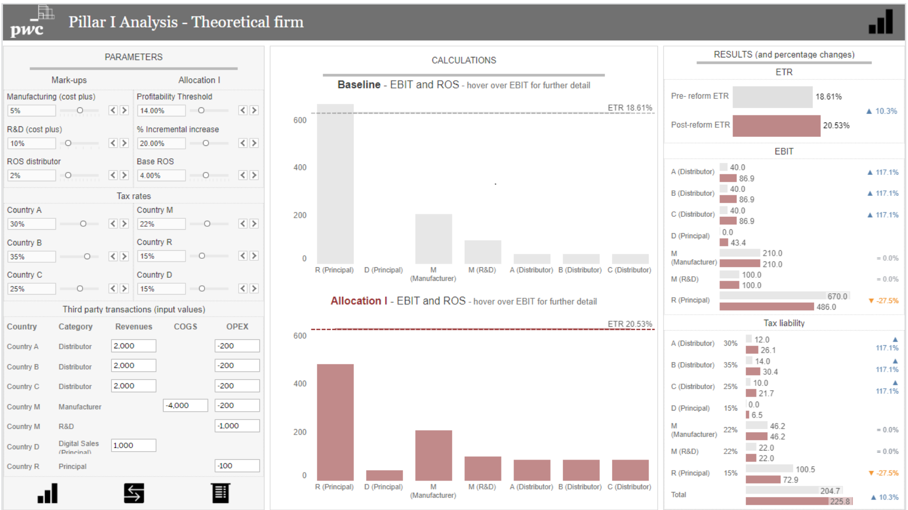
How can PwC help?

The changes implemented by the OECD on tax and digital will impact many large international businesses.

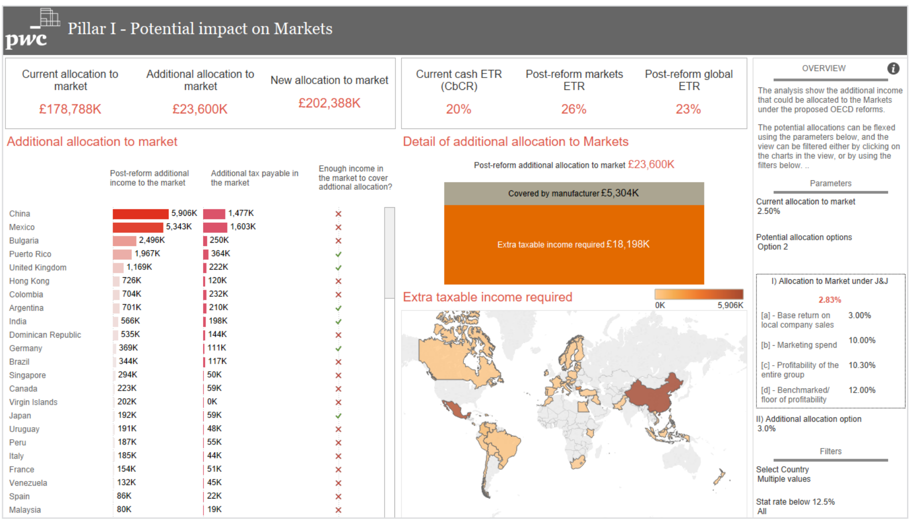
We can:

- Use professional insight to explain exactly what the OECD changes mean.
- Assist with interaction with internal stakeholders (e.g. the C-suite).
- Deliver an impact assessment.

Tool 1: Theoretical Firm



Tool 2: CbCR-based modelling



Timeline

Various OECD officials have repeated that we may see

December 2019/January 2020: Possible announcement of an agreement on a general technical framework.

Mid 2020/End 2020: Possible announcement of a political agreement.

2021/2022: Implementation.

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