Fundamental changes in international tax for all large businesses

Nearly 140 Countries Unite to Overhaul the International Corporate Tax System

Key takeaways

- Political pressure to raise revenues from large multinational groups will grow after the pandemic; unilateral measures are being introduced and/or contemplated if no international agreement is reached
- Any multilateral agreement will impact all businesses, not just digital platforms
- The impact could include increased tax costs and tax compliance costs
- Businesses should act now to understand the potential impact and prepare for changes

What is the G20/OECD work on tax and digitalisation?

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

The G20/OECD Inclusive Framework of nearly 140 countries is committed to delivering change in 2020.

Increasingly, countries are taking unilateral action to introduce new taxes where users/consumers are located. These taxes increase the urgency for agreement of fundamental changes to the entire international corporate tax system; allocating profit to markets and ensuring minimum levels of tax are paid.

What are the proposed changes?

The OECD proposed changes focus around two main pillars:

- **Pillar I**: More income will be taxed in the markets, i.e., where consumers/users are:
  - Formulaic approaches to reallocate some of high margin groups' profits to markets, regardless of physical presence
  - Standardised returns for routine functions physically performed within markets
- **Pillar II**: A multinational group will be subject to a global minimum effective tax rate
  - Pillar II comprises an Income Inclusion Rule complemented by an Under tax Payment Rule

Examples of unilateral actions:

- **Digital Services Taxes (DSTs)** seek to tax gross revenues where users are located, including revenues from (for example) online advertising, intermediation, and sales/streams of digital content at rates of 2% – 7.5%
- **Offshore receipts** rules seek to tax IP royalties where end consumers are located
- **Diverted Profits Tax/Multinational Anti-Avoidance Laws** seek to tax offshore profits where onshore activities are minimised

These changes in the corporate tax field must also be placed into the broader context that includes significant political pressures around the world, in particular within the European Union to raise additional revenues through new taxes (e.g., a digital tax and/or a minimum tax), major (and ongoing) reform of international indirect tax rules (e.g. VAT) and broader trade policy concerns such as disputes at the World Trade Organisation.

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What are businesses doing to prepare?

Monitoring developments

- PwC's global and national experts are closely monitoring the technical and political developments and working together to provide best in class insights and updates.
- The PwC Digital Tax Study Group brings together businesses from around the world across all industries to exchange information and participate in topical research.

Engagement

- For some businesses, significant policy choices that are still undecided could have a significant impact. Such groups should consider how best they can engage in and contribute to the project.

Commercial implications: Modelling and impact assessment

- The proposals will have significant impact across the tax function. PwC can help model the impacts, which include:
  - The worldwide effects on the effective tax rate (ETR).
  - The group structure – a review of the location of various functions, assets and services could produce a more effective approach.
  - The compliance burden – MNEs may need help to perform complex calculations to reallocate profits to markets or to deal with unilateral measures.
  - Deals – an assessment of the effect on the cost of capital may determine viability.

Communications and stakeholder management

- Tax teams should be ready to discuss the impact on their businesses and ongoing projects to senior stakeholders in the business. Given the innovative solutions being considered by the OECD, the C-suite will need to be briefed, possibly together with investors. With the current attention of the general public and media on tax matters, this may need to be repeated at each stage of the project.
- PwC can help with briefing stakeholders in advance of any media coverage and flag potential risks and steps that need to be taken.

Timeline

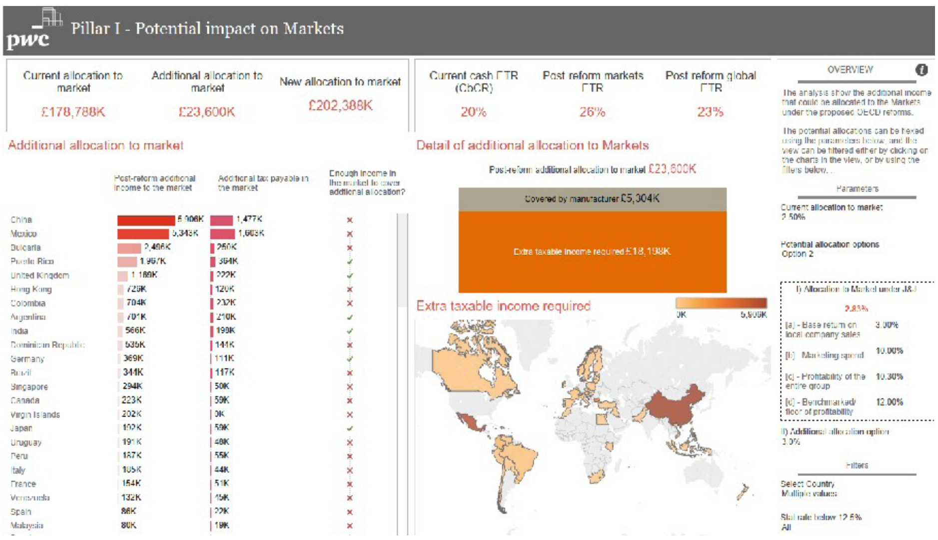
Announced or likely developments:

January 2020: Announcement of the broad architecture underlying Pillar I and Pillar II.

Through 2020: Further consultation, and possible announcement of a political agreement in October/end of 2020 but negotiations could drag into 2021.

2021 onwards: Finalisation of the political negotiation and technical details, implementation.

Modelling the impact – using your data



Key contacts

Giorgia Maffini
M: +44 (0)7483 378124
E: giorgia.maffini@pwc.com

Aamer Rafiq, London
M: +44 (0)7771 527309
E: aamer.rafiq@pwc.com

Phil Greenfield, London
M: +44 (0)7973 414521
E: philip.greenfield@pwc.com

Charlotte Richardson
M: +44 (0)7775 606317
E: charlotte.d.richardson@pwc.com

200120-112543-GS-OS