

To: Taxation Working Group
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Date: 29-01-2019
Reference: ECO-TAX-19-005

Subject: OECD announces plans to finalise a long-term solution to digital taxation in 2020

Summary

Today, the Organisation for Economic Cooperation and Development (OECD) [announced](#) that the international community (127 countries which represent more than 90% of the global economy) agreed to continue working multilaterally towards achieving a new consensus-based long-term solution that would address the tax challenges arising from digitalisation of the economy in 2020. The agreement aims in principle to curtail the practice of booking revenues in low-tax countries to avoid higher tax rates in the countries where the income is generated.

The discussions that will take place at the level of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) will focus on two central pillars identified in a new [policy note](#) released by this body, namely:

- Determining how the existing rules that divide the right to tax the income of multinationals among jurisdictions, including traditional transfer-pricing rules and the arm's length principle, could be modified to take into account the changes that digitalisation has brought to the world economy. This will require a re-examination of the 'nexus' rules (how to determine the connection a business has with a given jurisdiction) and the rules that govern how profit allocation.
- Resolving remaining BEPS issues and exploring two sets of interlocking rules designed to give jurisdictions a remedy in cases where income is subject to no or only very low taxation.

The Inclusive Framework will soon issue a consultation document that describes the two pillars in more detail and a public consultation will be held on 13 and 14 March 2019 in Paris.

On 21 January, the Business and Industry Advisory Committee (BIAC) issued [a list](#) of eleven principles for designing digital tax measures, in preparation of the OECD's upcoming work. BIAC also said that rushed unilateral or regional measures on digital taxation could undercut the important efforts that are and will be made at international level.

At EU level, discussions on a Digital Services Tax (DST) continue after two separate proposals failed to garner unanimity in December. France is still spearheading these efforts and is aiming for an agreement by the end of March. The Romanian Council presidency plans to "*work on the proposals on the taxation of the digital economy, while considering the possibility of finding an internationally-agreed solution*". However, several Member States remain opposed to the principle of a DST or would prefer to wait for a solution at international level. Because of that, there are limited chances of success at EU level and some Member States (the UK, France, Italy, Spain, Austria) have decided to introduce their own version of a DST or are planning to do so soon.

Secretariat action: as agreed at the last meeting of the Taxation WG, the digital taxation file is potentially the most important one in the next two years. Insurance Europe is closely monitoring developments, will keep members informed and will seek to get involved in discussions at BIAC level and respond to the upcoming OECD/G20 Inclusive Framework consultation as relevant.