OECD Blueprints for Pillars One and Two to address the challenges of digitalisation of the economy: CIOT response

International Tax

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The CIOT responded to the reports published by the OECD on the Blueprints for Pillar One and Pillar Two, the proposals by the Inclusive Framework to address the challenges of the digitalisation of the economy. Whilst recognising the need for a global consensus, we explored the significant hurdles that remain in the path to political agreement.

The OECD published Reports on the Pillar One and Pillar Two Blueprints in October 2020, together with a public consultation document setting out questions for public consultation. These reports set out the progress made by the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework), which is seeking to develop a solution to the tax challenges of the digitalisation of the economy which can result in a consensus-based, long term reform of the international tax system. The CIOT welcomed these reports and the progress that had been made. However, we also said that it is clear that significant hurdles remain and that there will be many challenges on the path to political agreement around the outstanding issues.

Our response emphasised that we remain supportive of this initiative and believe that reaching global consensus is important. We are increasingly facing an international tax landscape of unilateral measures (and retaliatory actions) being taken independently by countries, which lead to less alignment of tax bases globally, resulting in double taxation and a significant compliance burden for businesses and, consequently, stifling economic growth and innovation. Against the alternative, the CIOT support the work towards a multilateral solution which is based around a reallocation of taxing rights based on profits (Pillar One) and completion of the work

addressing the issues identified by the G20/OECD BEPS project (Pillar Two). While the CIOT continue to believe that clearer policy principles need to be articulated, we recognise the need for a global consensus and support the work towards a multilateral solution.

Our response noted that it is also clear that the new rules will be immensely complicated. They will result in a very significant additional administration burden for tax administrations and a very substantial for all (and unprecedented for many) additional compliance burden for large multinational enterprises. With that in mind, we said that every opportunity should be taken to simplify the rules, and take out of scope those businesses which will not be significantly affected (that is to say the amount of additional tax payable will be zero or minimal) or directly targeted. It also remains as important as ever that the solutions address issues around double (or multiple levels of) taxation and contain robust and effective dispute resolution mechanisms.

Our response suggested that the further work required to reach an agreement of the rules for Pillar One and Pillar Two should focus on the practicalities of any agreed solution and ensure that the solutions result in a set of new rules which is proportionate to the intended objectives. We recognised that an objective of the new rules is to build an increased trust in the international tax system itself.

In addition, we explained in our response the significant demands that the proposals will place on the financial reporting and accounting systems of multinational enterprises. We said that the cost and complexity of adapting reporting and accounting systems to generate different figures from those produced for the purposes of the business should not be underestimated.

The intention is to reach agreement by mid-2021. We commented that the revised timeline still seems ambitious. We suggest that a phased approach is considered, whilst recognising that the time taken for implementation must be balanced against the large number of individual and jurisdiction-specific rules aimed at the digitalised economy which are increasingly being introduced and becoming effective in a number of countries.

Our full response can be found here: www.tax.org.uk/ref731.