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Intergovernmental Group of Experts on E-commerce and the Digital Economy

The role of international policymaking and cooperation in promoting a more inclusive digital economy

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The need for international collaboration in the area of taxation in the digital economy

Taxation plays an important role in designing a strategy to promote economic growth. While the design of the tax policy directly may aim to reduce inequality and poverty, revenue collection allows economies to finance growth-driven policies that contribute to mobilize resources in the achievement of Sustainable Development Goals (SDGs).

The increasing digitalization of the economy raises concerns among governments since Multinational Enterprises (MNEs) rely more and more in novel business models that don’t require physical presence to derive income from market jurisdictions and, therefore, those MNEs are not subject to taxes therein (and, in some cases, nowhere), depriving States of obtaining resources and achieving SDGs.

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In the Final Report on Action 1 of the BEPS Project, business models with high reliance on intangibles and providing digitalized services have been identified to exacerbate BEPS risks that may not necessarily be addressed by already developed measures. This remaining issue of the BEPS Action Plan requires further work to be undertaken. For that reason, there is a need for working on a global solution to address the tax challenges of digitalization.

The lack of success in providing a global consensus-based solution would give place to the proliferation of unilateral uncoordinated measures leading to inconsistency in the international tax system, uncertainty and presumably chaos, with its inevitably undesired impact on investment, trade and economic growth, that all jurisdiction would suffer from.

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MNEs conduct business in a global scale and in multiple markets. In a globalized world, the solution governments might agree upon should take into account this multilateral aspect and be implemented in a coordinated manner.

The more accurate a tax measures is, the more complex its implementation might become, increasing the risk of uncertainty. While designing the new nexus and profit allocation rules, an eye has to be kept on tax predictability to prevent disputes that might damage taxpayers and tax administration as well as the international tax system as a whole.

Since the solution requires a global implementation, needs and capacities of developing countries should be contemplated. The standards framing the consistency of the international tax system for the following decades should not leave anyone behind and allow all jurisdictions to increase collection to mobilize the resources needed to achieve SDGs.

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A consensus-based solution can not only play an important role to ensure fairness and equity in our tax systems and fortify the international tax framework in the face of new and changing business models, but also it can help strengthen governments' ability to raise tax revenues that might help put their finances back on a fair and sustainable footing.

A global solution can also ensure fairness and equity in our tax systems.

The public pressure on governments to provide a framework that ensures that large, internationally operating, and profitable businesses pay their fair share of taxes -and do so in the right place under new international tax rules- has increased as a result of the current COVID-19 pandemic. At the same time, a consensus-based solution could provide businesses with much needed tax certainty in order to aid economic recovery.

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THANK YOU

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