

Hyperion Focus 17

What's in the tax pipeline

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International tax initiatives

Who's behind them?



International tax initiatives

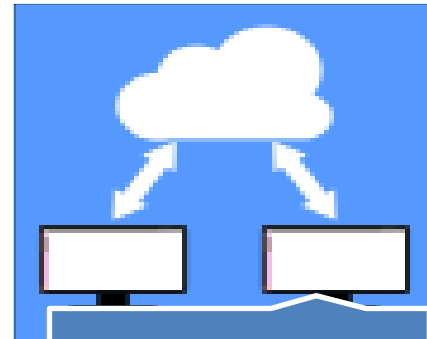
What are the drivers?



Public opinion

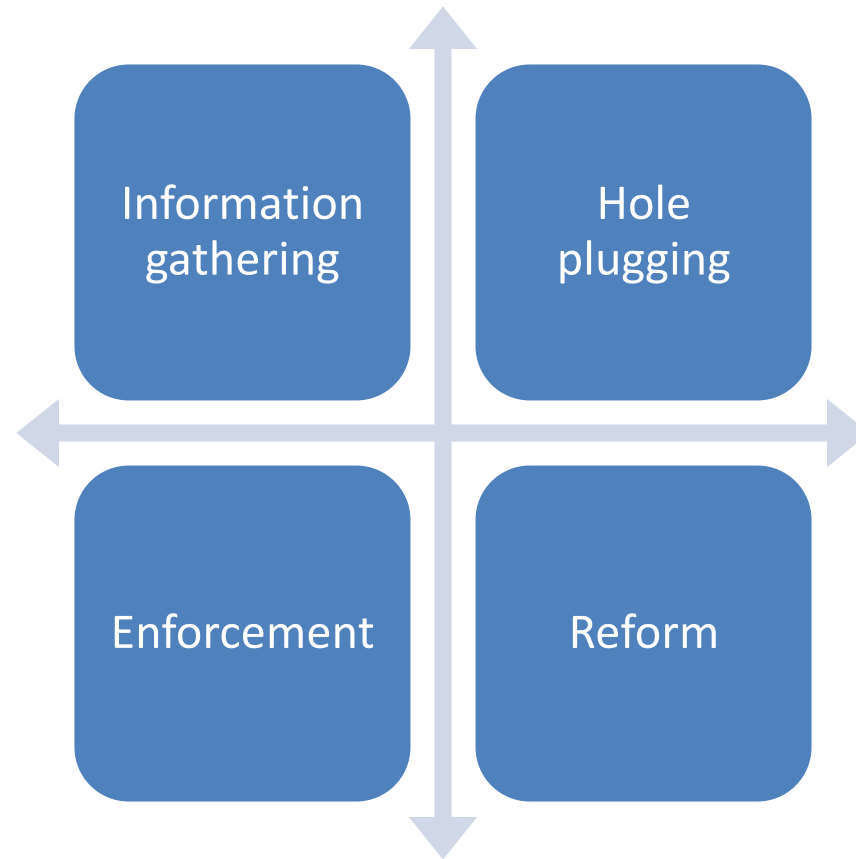


Government revenue



Globalization

International tax initiatives



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International tax initiatives: impact

More disputes

Double taxation

Higher effective tax rate

More compliance

New business models

More business analysis and benchmarking



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International tax initiatives: selected overview

Transparency

- Tax planning Disclosure
- Common Reporting Standard
- Exchange of Tax Rulings
- (Non-)Public CBCR
- UBO/Anti-Money Laundering

Hole plugging

- BEPS 1-15 (global)
- EU Anti-Tax Avoidance Directive 1-5
- Interest Royalty Directive
- EU Blacklist
- Multilateral (tax treaty) Instrument

Enforcement

- EU State Aid
- Dispute Resolution
- Digital compliance

Reform

- Financial Transaction Tax
- CCCTB
- Digital economy
- Diverted profits tax
- US Tax Reform?

Transparency initiatives

Public Country by country reporting
(CBCR)

Transparency initiatives

Public Country by country reporting
(CBCR): What is it?

Similar to CBCR to tax authorities but

- Similar data but less data points
- Country-by-country only for EU and 'tax haven' entities: rest of world aggregated
- Disclosure to national registries/public website

Transparency initiatives

Public Country by country reporting
(CBCR): impact?

Similar to CBCR to tax authorities

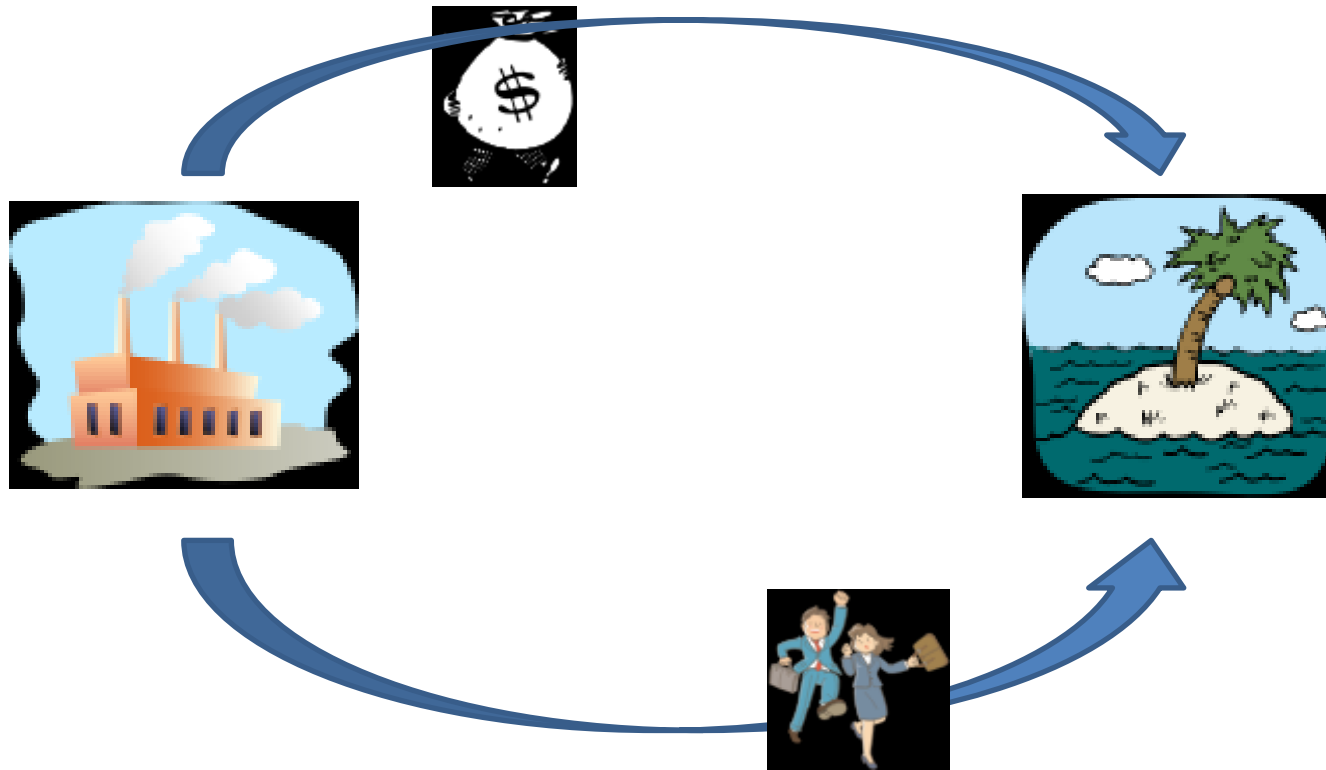
- EU rules for all sectors but 'draw in' non-EU groups
- Same threshold (EUR 750m)

Reputation/business secrets

Change business models (substance)

Transparency initiatives

Public Country by country reporting (CBCR):
impact?



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Transparency initiatives

Public Country by country reporting
(CBCR): How critical

- Politically controversial EU proposal
- But only 16 EU Countries have to agree
- Needs some adjustments to systems but limited impact due to overlaps

Hole plugging initiatives

Multilateral Instrument

Hole plugging initiatives

Multilateral Instrument: what is it?

- Agreement between 70+ nations to stop tax treaty abuse
- Amends existing bilateral tax treaties in one go
- Voluntary sign up but peer pressure/
international consensus

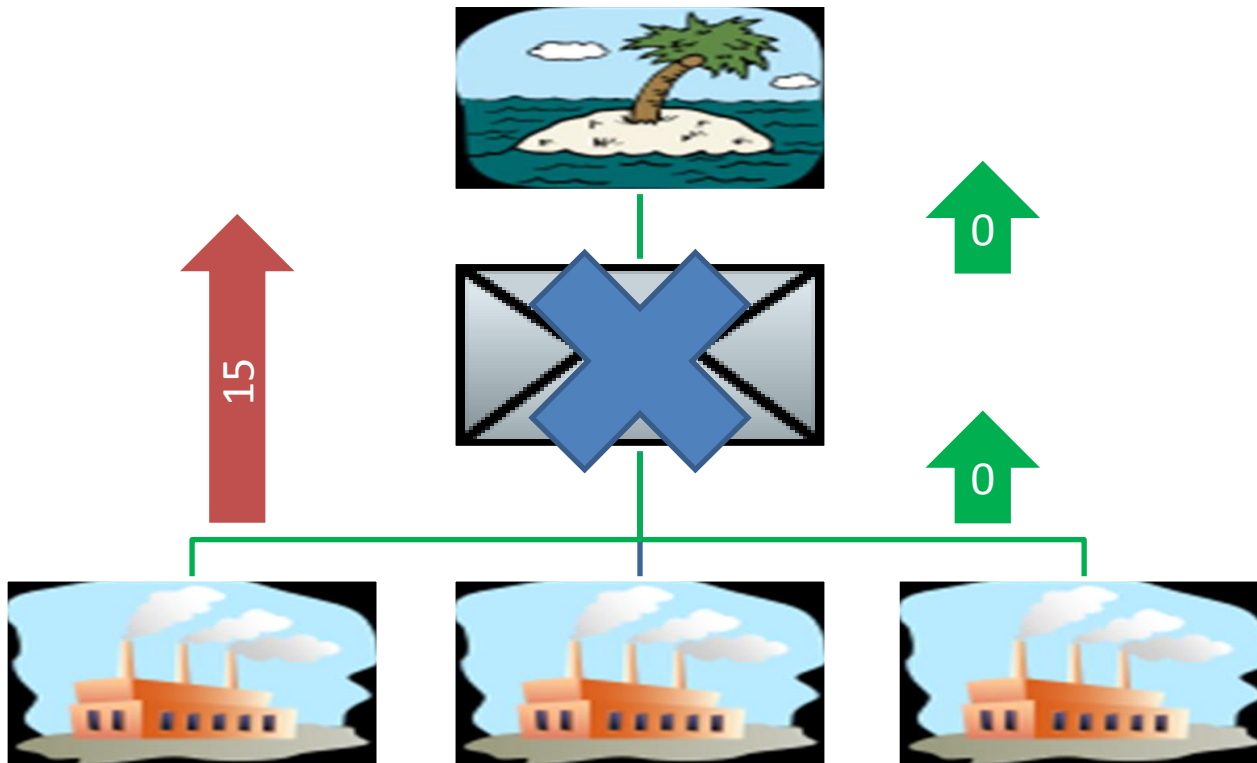
Hole plugging initiatives

Multilateral Instrument: impact?

- Closes loopholes in existing tax treaties
- Double taxation -> double non-taxation/tax reductions
- Principal purpose test
- Change business models (substance; LRD)
- Disputes/Double taxation

Hole plugging initiatives

Multilateral Instrument: impact?



Hole plugging initiatives

Multilateral Instrument: How critical?

- Creates legal obligation on countries to combat treaty abuse
- >1,000 bilateral relationships already covered
- However, many optional provisions and low take up
- Rules likely to start changing from 1.1.19
- But will they be applied consistently? At all?

Enforcement initiatives

EU State Aid

Enforcement initiatives

EU State Aid: What is it?

EU law to prevent competitive distortions
by EU countries



Could this be state aid?



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Enforcement initiatives

EU State aid example 1:



25% Spanish tax instead
of normal 30%

= no 'level playing field'

Must repay up to EUR 5m

Enforcement initiatives

EU State aid example 2:



Ireland allowed 'wrong' transfer pricing

Profits booked 'in the cloud'

Must repay EUR 13bn



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Enforcement initiatives

EU State aid: impact?

- Ability to 'do deals' with tax authorities/tax planning
- Financial statement disclosures/uncertain tax positions
- Disputes
- Reputation

Enforcement initiatives

EU State aid: How critical?

- Ongoing investigation into 600 tax rulings
- Check tax rulings, settlements, and even regimes
- Typically US multinationals but focus may change

Reform initiatives

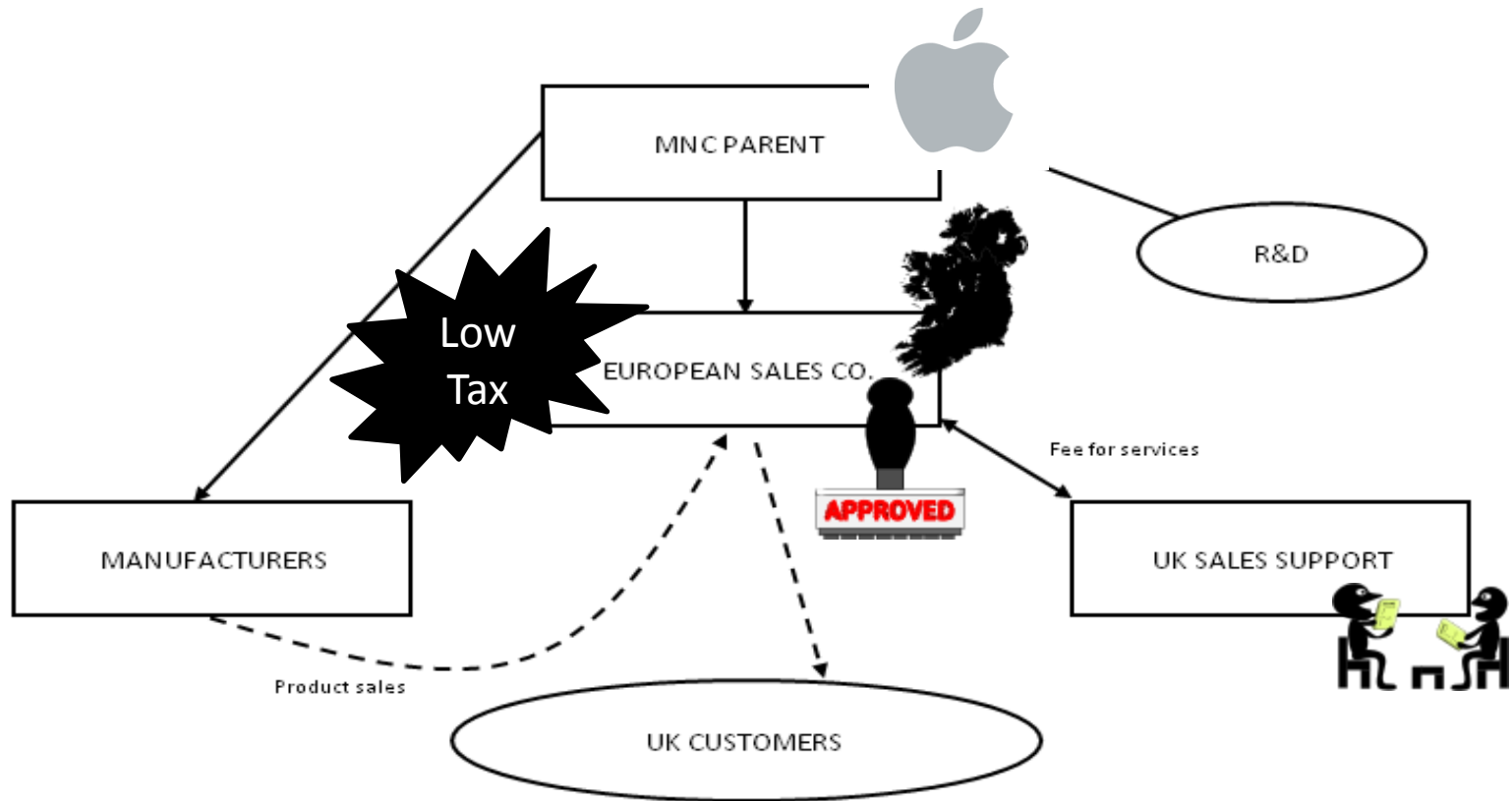
Digital economy tax

Reform initiatives

Digital economy tax: what is it?

- Tax on cross-border digital business
- Outside normal international rules
- To level the playing field with traditional/domestic business
- To get more tax from foreign digital service providers

Reform initiatives: the problem



Source: adapted from HMRC

Reform initiatives

Digital economy tax: impact?

- Various models:
 - 1) Withholding tax on payments to foreign digital business
 - 2) Equalisation tax
 - 3) Tax on advertising revenue
 - 4) Tax on profits where customers are
- Disputes/double taxation
- Change business models (substance)

Reform initiatives

Digital economy tax: how critical?

- Some countries already introduced
 - UK diverted profits tax
 - Italy Google/Web tax
 - India equalisation tax
- OECD October 2015: no global initiative needed
- EU September 2017:
 - short term solutions needed
 - Longer term solve with CCCTB
- OECD Spring 2018: interim report



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International tax initiatives



What to expect

CCCTB and FTT

Digital tax – withholding taxes

Black lists – no deductions; withholding taxes

EU majority voting on taxes?

Tax rates race to the bottom

Expect the unexpected

W... this space

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Thank you

