

BEPS implementation

10th IMF-Japan High-Level Tax Conference For Asian Countries in Tokyo

April 26, 2019

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Overview of the BEPS Project

➤ Background

- ✓ Public anger against unfair tax burden for financing necessary fiscal spending to cope with the Global Financial Crisis

➤ Historical Value

- ✓ Inclusive participation
 - OECD member countries and non-OECD G20 countries on an equal footing
- ✓ From “competition” to “cooperation” for the levelling the playing field
 - “Minimum standards” : agreed by participating countries to implement including through changing their domestic legislation
- ✓ From “preventing double taxation” to “eliminating double non-taxation”
 - Better alignment of the location of taxable profits with the location of economic activities and value creation

Addressing the issues of international tax avoidance and evasion (BEPS and Tax Transparency)

In G7 Iseshima Summit, 26-27 May 2016, following the G7 Sendai Finance Minister meeting, G7 Leaders approved steady implementation of BEPS package and Exchange of Tax Information.

BEPS

In Kyoto, 30 June and 1 July 2016,
OECD Committee on Fiscal Affairs
(Chaired by Masatsugu ASAKAWA)

- **established** “the Inclusive Framework” to kick off BEPS implementation
- **enlarged its membership from 46** (G20/OECD members only) **to 129 Jurisdictions** (as of March 2019)

By 30 June 2018,
Started automatic exchange of Country by Country report

On 1 July, 2018,
Entered into force of MLI (Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS)

- Member jurisdictions are peer monitoring the status on BEPS implementation in “the Inclusive Framework”
- Considering how to addressing remaining BEPS issues (e.g. tax and digitalization)
- Enhancing assistance for developing countries

Addressing aggressive tax avoidance

Tax Transparency / Exchange of Information

In Chengdu, 23-24 July 2016
G20 Finance Ministers Meeting:
In Hangzhou, 4-5 September 2016
G20 Leaders Summit:

Approved “objective criteria to identify non-cooperative jurisdictions in respect of tax transparency”

In Hamburg, 7-8 July 2017
G20 Leaders Summit:
Announced on non-cooperative jurisdictions

By 30 June 2018,
Started automatic exchange of information of financial accounts between tax authorities (over 100 jurisdictions)

In Buenos Aires, 21-22 July 2018
G20 Finance Ministers Meeting:
Supported the strengthened criteria to identify jurisdictions that have not satisfactorily implemented the internationally agreed tax transparency standard

- Preparing a list of the jurisdictions that have not yet sufficiently progressed toward a satisfactory level of implementation of the strengthened criteria
- Considering defensive measures against listed jurisdictions

Tackling tax evasion using foreign accounts

15 BEPS Actions in Japan

Action 1	Digital Economy	FY2015 : Revision of Consumption Tax (VAT) system on cross-border supplies of services
Action 2	Hybrid Mismatch	FY2015 : Revision of foreign dividend exclusion system
Action 3	CFC Rules	FY2017 : Revision of CFC (Controlled foreign company) rules
Action 4	Interest Deductions	FY2019 : Revision of earning stripping rules
Action 5	Harmful Tax Practices	No IP (Intellectual Property) regimes exist.
Action 6	Treaty Abuse	Introducing recommendations, e.g. PPT (Principal Purpose Test), in MLI and bilateral treaties
Action 7	PE	FY2018 : Revision of PE
Actions 8-10	TP	FY2019 : Revision of TP (Transfer Pricing) rules
Action 11	Measuring and Monitoring	OECD is working on this issue.
Action 12	Mandatory Disclosure Rules	Discussion is ongoing.
Action 13	CbC Reporting	FY2016 : Introduction of a "CbC (Country-by-Country) report" system
Action 14	Dispute Resolution Mechanisms	Compliant with the Minimum Standard in most of the DTAs(Double Taxation Agreements) and has been updating the rest of DTAs through the MLI and bilateral negotiations.
Action 15	MLI	Signed the MLI in June 2017 and entered into force in January 2019.

BEPS Implementation in Japan ① (Minimum Standards)

- ◆ Action 5 (Harmful Tax Practices)
 - Has no IP regimes.

- ◆ Action 6 (Treaty Abuse)
 - Has introduced recommendations in recent bilateral treaties.
 - Signed the MLI in June 2017 and entered into force in January 2019.
(Action 15)

- ◆ Action 13 (TP Documentation and Country-by-Country Reporting)
 - FY2016: introduced a “CbC report” system concerning information on multinational companies. Information exchange started in 2018.

- ◆ Action 14 (Dispute Resolution Mechanisms)
 - Compliant with the Minimum Standard in most of the DTAs and has been updating the rest of DTAs through the MLI and bilateral negotiations.

BEPS Implementation in Japan ②

- ◆ Action 1 (Digital Economy)
 - FY2015: reformed the consumption tax system on cross-border digital service transactions.

- ◆ Action 2 (Hybrid Mismatch)
 - FY2015: neutralized the effects of hybrid mismatch arrangements on dividends from foreign subsidiaries.

- ◆ Action 3 (Controlled Foreign Company(CFC) rules)
 - FY2017: reformed the CFC regime. Recognizing tax avoidance risk no longer relies on a pro-forma basis, i.e. effective tax rates of foreign subsidiaries, but instead is assessed on the basis of the specific activities and types of income of the relevant subsidiaries.

BEPS Implementation in Japan ③

- ◆ Action 4 (Interest deductibility rules)
 - FY2019: included net interest payments to third parties and revised calculation of deductible amounts.

- ◆ Action 7 (PE)
 - FY2018: revised PE-related provisions.

- ◆ Action 8-10 (Transfer Pricing (TP) rules)
 - FY2019: introduced discounted cash flow valuation as a TP method and adjustment measures for hard-to-value intangibles.

- ◆ Action 15 (MLI)
 - Signed the MLI in June 2017 and entered into force in January 2019.
 - Has chosen to apply the MLI to 39 tax treaties in order to introduce the tax treaty related measures to prevent BEPS into those treaties.

Exchange of Tax Information in Japan

- ◆ Automatic Exchange of Information(AEOI) of financial accounts under the Common Reporting Standard (CRS) started in September 2018.
 - ⇒ Information of more than half million accounts from 64 countries was received and will be utilized to tackle tax evasion.

Key for success: high level commitment

- ◆ Domestic and international political commitment is key to addressing BEPS.

G20 Finance Ministers Meeting Communiqué (Buenos Aires, July 2018)

11. We support a globally fair, sustainable, and modern international tax system. We reaffirm the importance of the worldwide implementation of the Base Erosion and Profit Shifting package. . . .

Outline for Tax Reform (December 2018, released by Japan's ruling party)

6. Addressing globalization and digitalization of the economy and preventing tax avoidance and evasion effectively
 - . . . Globalization and digitalization of economic activities provide political questions as well as contribute economic growth. As to building international taxation system, we need continue to support sound overseas expansion of Japanese companies and address international tax avoidance and evasion more effectively