

**International Taxation:**  
**Addressing the Tax Challenges Arising  
from the Digitalization of the Economy**

**Daiho Fujii**

Director, International Tax Policy Division, Tax Bureau, MOF Japan

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# What is this issue all about?

## Introduction

1

## Adapting to the digital age

In this digital age, numerous businesses are generating profits, with or without the benefit of local permanent establishment (PE)

2

## Addressing the remaining BEPS issues

Intangible assets are becoming more important as profit drivers, which make highly digitalized businesses motivated to place their intangible assets in low-tax jurisdictions with profit shifting planning structures

# 9 years since the initiation

Date	Event	Venue
June 2012	<b>BEPS project</b> initiated	OECD
Oct. 2015	<b>BEPS Final Reports:</b> "A report on the digital economy should be produced by 2020."	G20 FMCGM in Peru
June 2016	<b>Inclusive Framework on BEPS (IF)</b> initiated	Inaugural IF meeting in Japan (Kyoto)
June 2019	<b>Program of Work</b>	G20 FMCGM in Japan (Fukuoka)
Oct. 2020	<b>Blueprint</b>	G20 FMCGM (virtual: under Saudi Presidency)

G20 FMCGM: G20 Finance Ministers and Central Bank Governors Meeting

**Reaching consensus among 139 members involving non-OECD countries is the highest priority**



# High political momentum:

## Background

- Countries need additional financial resources to be “back to normal from the Pandemic”
- The Pandemic allowed “tech giants” to be winners, which has fueled a sense of inequality
- The US Biden Administration has been returning to Multilateralism

# G7 communiqué (London, June 5):

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16. We strongly support the efforts underway through the G20/OECD Inclusive Framework to address the tax challenges arising from globalisation and the digitalisation of the economy and to adopt a global minimum tax. We commit to reaching an equitable solution on the allocation of taxing rights, **with market countries awarded taxing rights on at least 20% of profit exceeding a 10% margin** for **the largest and most profitable multinational enterprises**. We will provide for **appropriate coordination between the application of the new international tax rules and the removal of all Digital Services Taxes, and other relevant similar measures, on all companies**. We also commit to **a global minimum tax of at least 15% on a country by country basis**. We agree on the importance of progressing agreement in parallel on both Pillars and look forward to reaching an agreement at the July meeting of G20 Finance Ministers and Central Bank Governors.

# Pillar One,

which is designed to deliver a sustainable taxation framework reflective of today's digitalizing economy, to achieve *a fairer and more efficient allocation of taxing rights*.

- 1 Scope
- 2 Quantum
- 3 Segmentation
- 4 Tax Certainty
- 5 Unilateral Measures

# What MNEs are **scoped**?

Pillar One No.1

*G7: "the largest and most profitable multinational enterprises"*

Blue Print

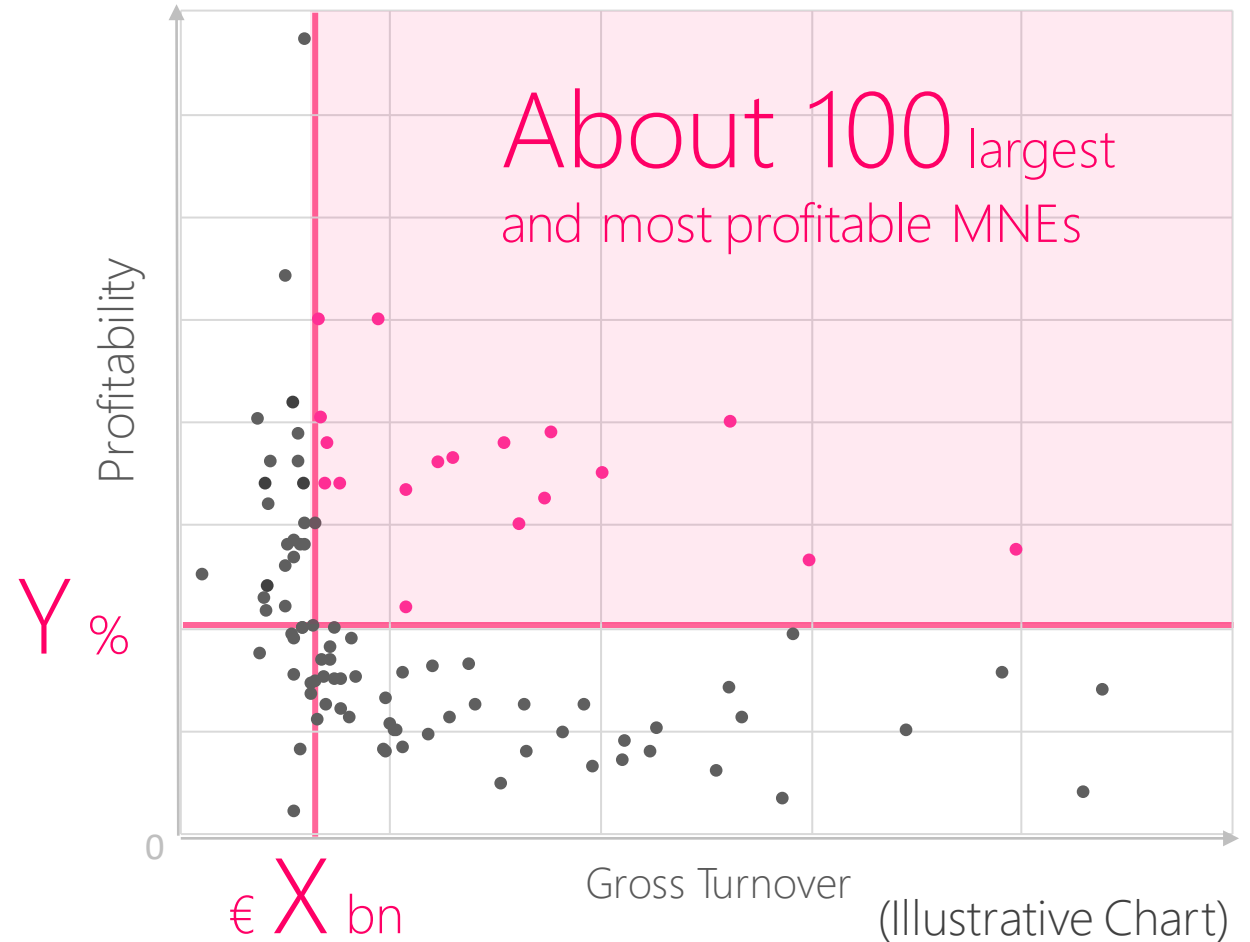
## Activity-based Testing

- ✓ Automated Digital Services (ADS)
- ✓ Consumer Facing Businesses (CFB)

US' Proposal, agreed by G7 Ministers

## Comprehensive Scoping

- ✓ Gross Turnover above € X bn
- ✓ Profitability above Y %



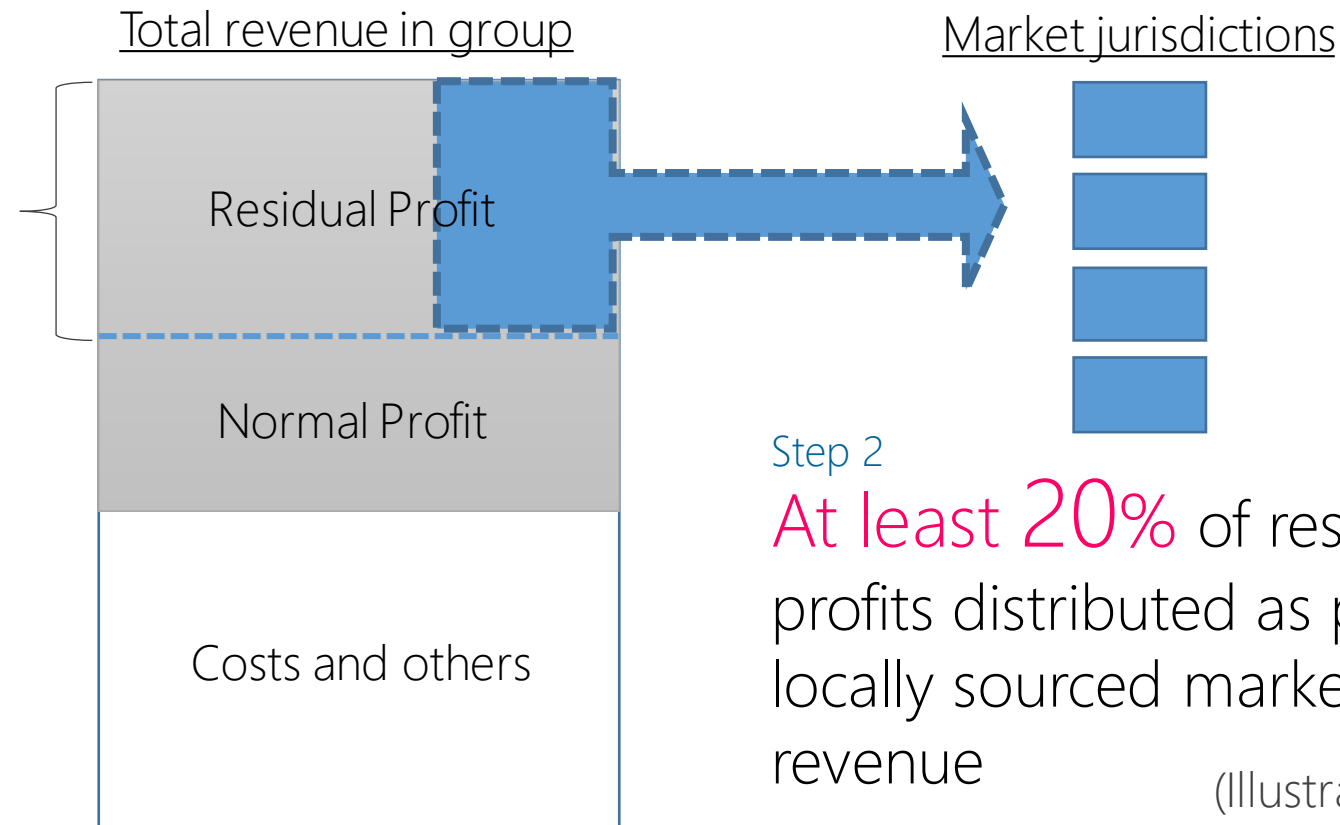


# Quantum: Allocation of residual profit to market jurisdictions

Pillar One No.2

*G7: "with market countries awarded taxing rights on at least 20% of profit exceeding a 10% margin"*

Step 1  
Profit exceeding a 10% of revenue is isolated as residual profit



Step 2  
At least 20% of residual profits distributed as per locally sourced market revenue

(Illustrative Chart)

# Segmentation

Pillar One No.3

- Some tech giants could fall out of the scope.
- Segmentation will be considered only in exceptional circumstances where, based on the segments disclosed in the financial accounts, a segment meets the scope rules.

# Tax Certainty

Pillar One No.4

*New international tax rule needs dispute prevention and resolution mechanism for tax certainty:*

- Mechanism would:
  - ✓ provide early certainty process to the businesses as dispute prevention
  - ✓ provide mandatory binding dispute resolution
- Mechanism needs to be feasible enough for every jurisdiction including developing countries

# Unilateral Measures

Pillar One No.5

## Unilateral Measures have been spreading

Area	Discussed	Announced	Adopted	Effective
Europe	EU			Austria, France, Italy, Spain, Turkey, UK
Asia			Indonesia	India
Americas		Canada		

As of February 2021

# A removal of UMs is an integral part of package agreement

Pillar One No.5

*G7: “appropriate coordination between the application of the new international tax rules and the removal of all Digital Services Taxes, and other relevant similar measures, on all companies”*

- The scope and definition of UMs
- The sequence of removal of UMs and application of Pillar One

# Pillar Two,

which provides a solid basis for a systemic solution that would *address remaining base erosion and profit shifting (BEPS) challenges*

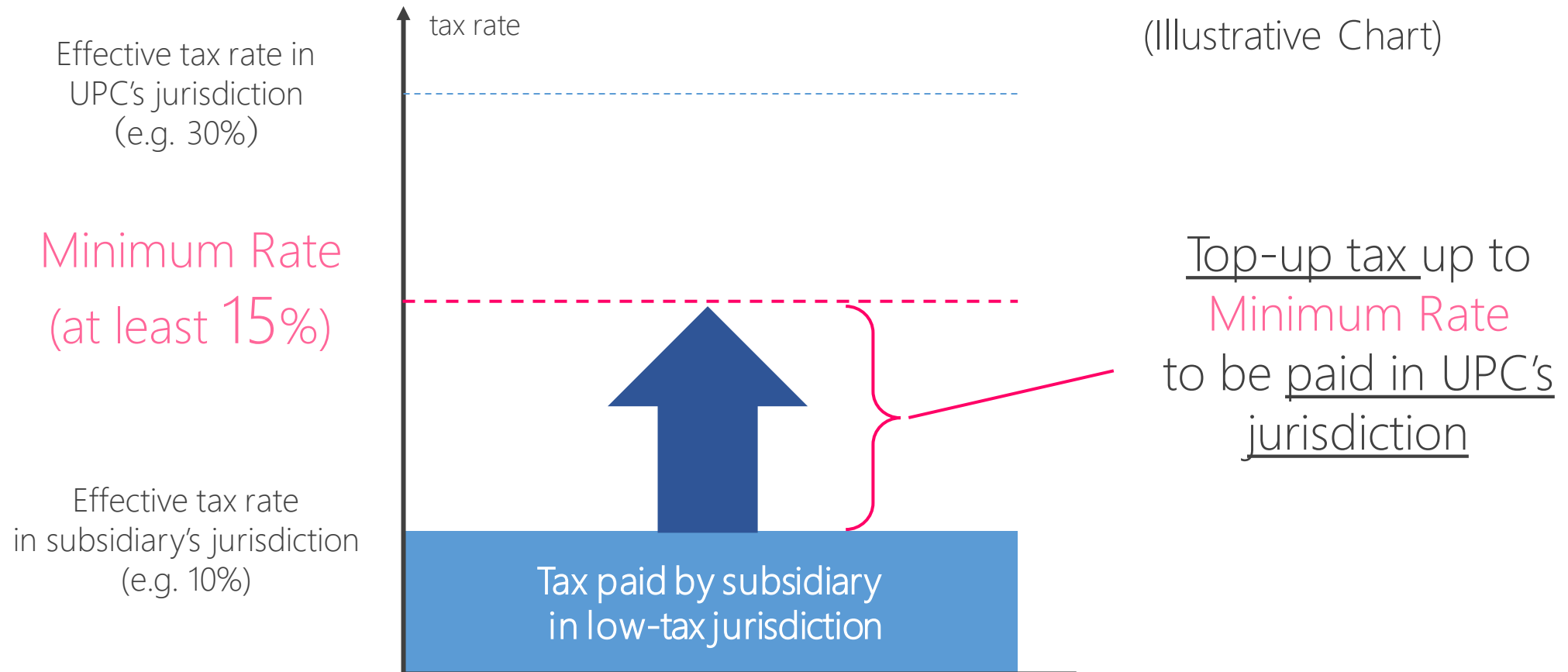
1 Global Minimum Tax

2 Other issues

# Pillar Two: Global Minimum Tax

Pillar Two No.1

*G7: "a global minimum tax of at least 15% on a country by country basis"*



# To be implemented, Pillar Two should include:

Pillar Two No.2

- **Income Inclusion Rule (IIR)**

which imposes top-up tax on a parent entity in respect of the low taxed income of a constituent entity

- **Under Taxed Payment Rule (UTPR)**

which denies deductions or requires an equivalent adjustment to the extent the low tax income of a constituent entity is not subject to tax under an IIR (a back-stop rule of IIR)

- **Subject to Tax Rule (STTR)**

that allows source jurisdictions to impose limited source taxation on certain related party payments subject to tax below a minimum rate (rule for developing countries)

- **Coexistence of the US GILTI regime**





...We agree on the importance of progressing agreement in parallel on both Pillars and look forward to reaching an agreement at the *July meeting of G20 Finance Ministers and Central Bank Governors.*

G7 communiqué (London June 5)