Taxation and Digitalization

~ Tax Policy Options ~

23 March 2017

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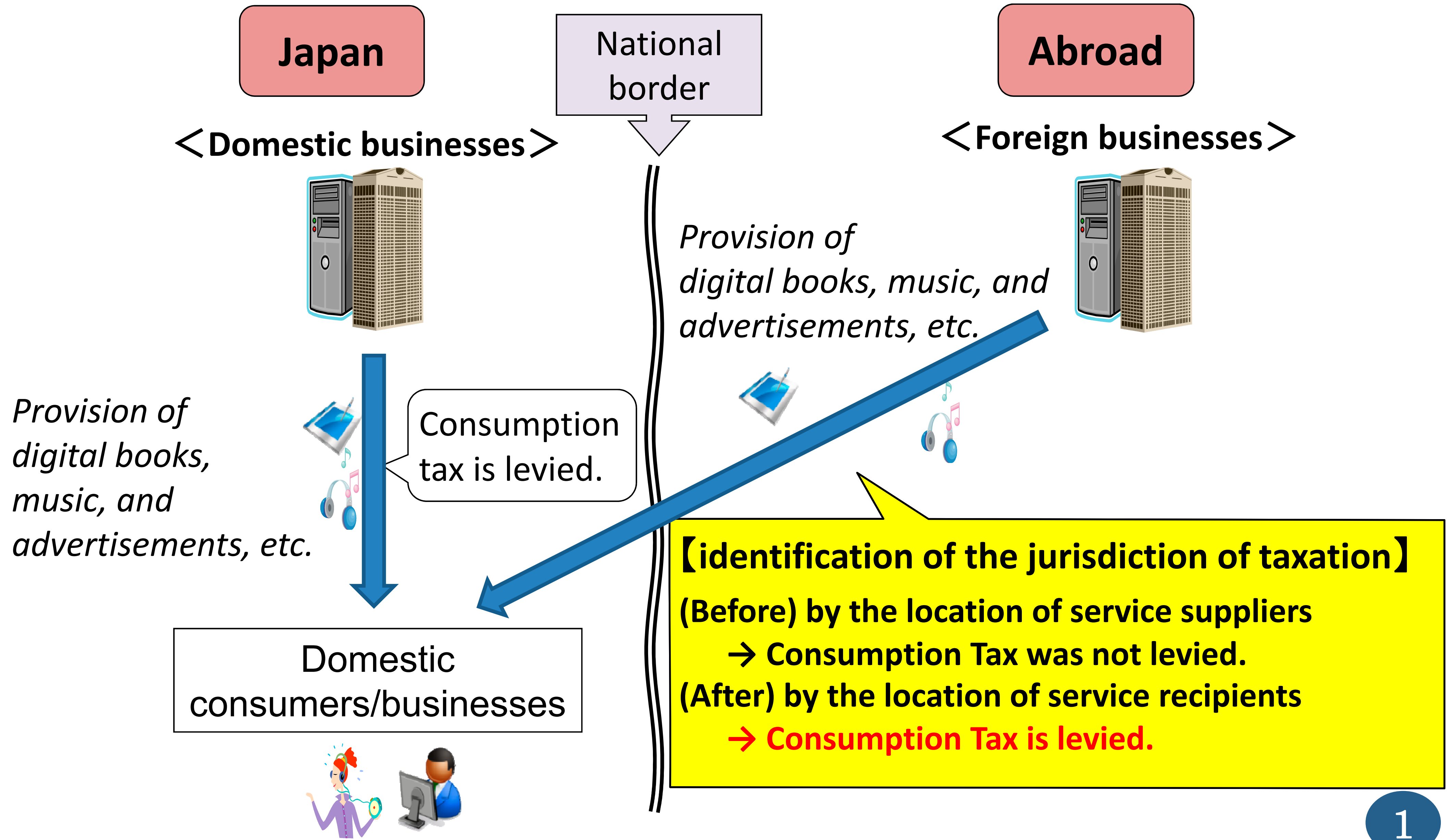
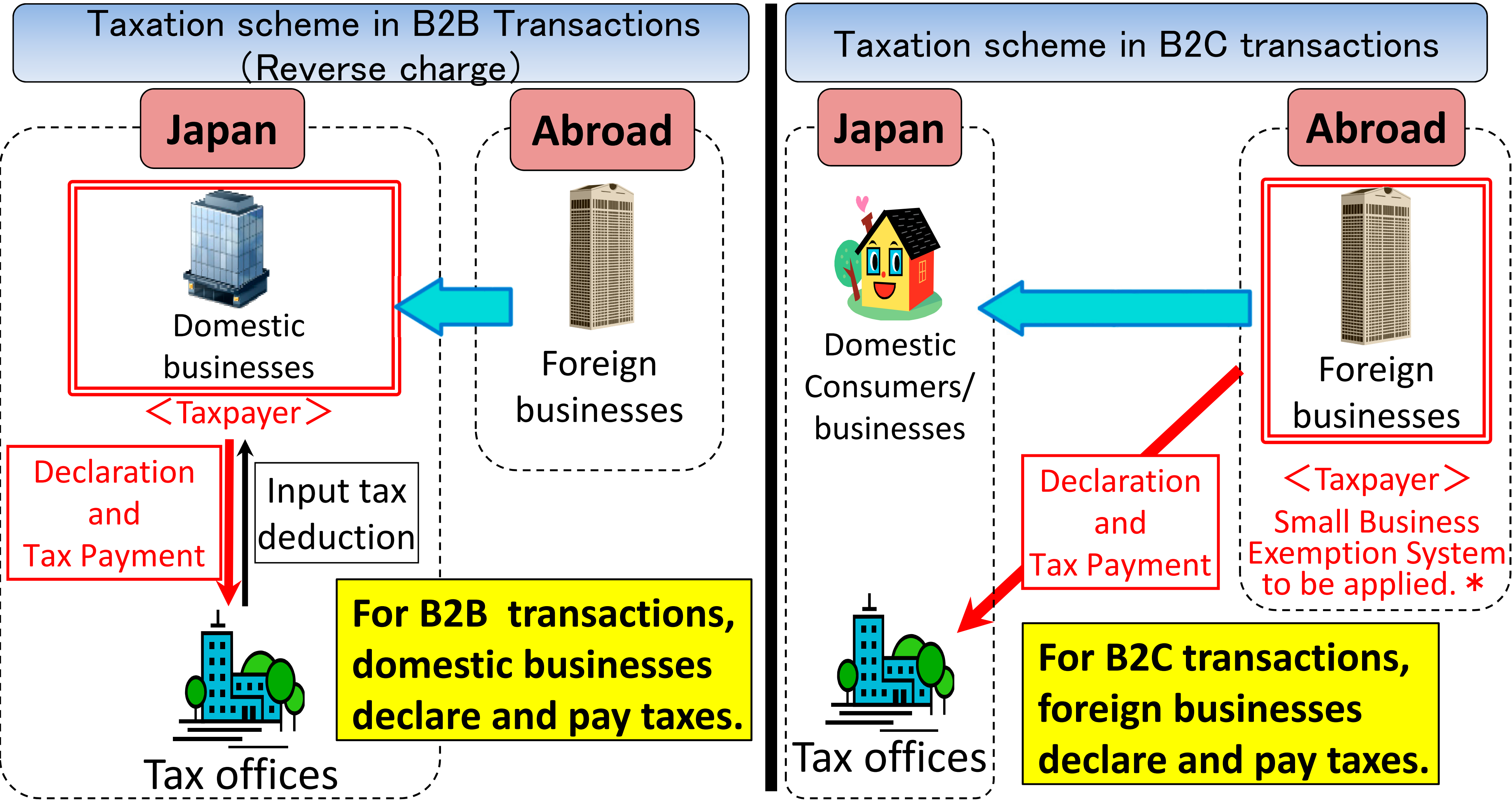
Revision of consumption taxation on cross-border supplies of services （FY2015 Tax Reform）



Revision of consumption taxation on cross-border supplies of services (Taxation scheme)



＊ A business whose taxable turnover in Japan (2013FY) is equal or less than 10 million JPY is exempt from tax filing on Japanese Consumption Tax (2015FY).

Revision of consumption taxation on cross-border supplies of services （FY2015 Tax Reform）

➢ ***Key considerations set out by the OECD International VAT/GST Guidelines***

- ✓ International neutrality is maintained
- ✓ Compliance by businesses involved in these supplies is kept as simple as possible
- ✓ Clarity and certainty are provided for both business and tax administrations
- ✓ The costs involved in complying with the tax and administering it are minimal, and
- ✓ Barriers to evasion and avoidance are sufficiently robust.

Overview of the BEPS Action 1 Report

➢ ***Starting points***

- ✓ The digital economy is the result of a transformative process brought by information and communication technology (ICT), which has made technologies cheaper, more powerful, and widely standardised, improving business process and bolstering innovation across all sectors of the economy.

- ✓ Because the digital economy is increasingly becoming the economy itself, it would be difficult, if not impossible to ring-fence the digital economy from the rest of the economy for tax purposes.

- ✓ While the digital economy and its business models do not generate unique BEPS issues, some of its key features exacerbate BEPS risks.

Overview of the BEPS Action 1 Report

- ***Mandate of the Action 1***

  - ✓ ***Identify the main difficulties that the digital economy poses for the application of existing international tax rules and develop detailed options to address these difficulties, taking a holistic approach and considering both direct and indirect taxation. Issues to be examined include,*** *but are not limited to, the ability of a company to have a significant digital presence in the economy of another country without being liable to taxation due to the lack of nexus under current international rules, the attribution of value created from the generation of marketable location relevant data through the use of digital products and services, the characterisation of income derived from new business models, the application of related source rules, and how to ensure the effective collection of VAT/GST with respect to the cross-border supply of digital goods and services. Such work will require a thorough analysis of the various business models in this sector.*

Overview of the BEPS Action 1 Report

- ***<u>Ottawa Taxation Framework Conditions – Principles (1998)</u>***

  - ✓ ***Neutrality:*** *Taxation should seek to be neutral and equitable between forms of electronic commerce and between conventional and electronic forms of commerce. Taxpayers in similar situations carrying out similar transactions should be subject to similar levels of taxation.*
  - ✓ ***Efficiency:*** *Compliance costs for taxpayers and administrative costs for the tax authorities should be minimised as far as possible.*
  - ✓ ***Certainty and Simplicity****: The tax rules should be clear and simple to understand so that taxpayers can anticipate the tax consequences in advance of a transition, including knowing when, where and how the tax is to be accounted.*
  - ✓ ***Effectiveness and Fairness****: Taxation should produce the right amount of tax at the right time. The potential for tax evasion and avoidance should be minimised while keeping counteracting measures proportionate to the risks involved.*
  - ✓ ***Flexibility****: The systems for taxation should be flexible and dynamic to ensure that they keep pace with technological and commercial developments.*

Overview of the BEPS Action 1 Report

➢ ***Key summary***

✓ BEPS issues in the digital economy

- It is expected that **the implementation of the measures developed in the relevant BEPS Actions** (e.g. Action 7 on preventing the artificial avoidance of permanent establishment status), as well as the other measures developed in the BEPS Project (e.g. minimum standard to address treaty shopping arrangements), **will substantially address the BEPS issues exacerbated by the digital economy** at the level of both the market jurisdiction and the jurisdiction of the ultimate company.

➢ ***Key summary (continued)***

✓ Collection of VAT/GST on cross-border transactions

- The collection of VAT/GST on cross-border transactions, particularly those between businesses and consumers, is an important issue. Countries are thus recommended to apply the principles of the International VAT/GST Guidelines and consider the introduction of the collection mechanisms included therein.

- For consumption tax purposes, internationally traded services and intangibles should be taxed according to the rules of the jurisdictions of consumption. (OECD International VAT/GST Guidelines)

Overview of the BEPS Action 1 Report

- ***Key summary (continued)***

  ✓ Broader direct challenges

  - **None of the other three options** (i.e. (i) a new nexus in the form of a significant economic presence, (ii) a withholding tax on certain types of digital transactions, and (iii) an equalisation levy) **were recommended at this stage**.

  - Countries could, however, introduce any of the options in their domestic laws as additional safeguards against BEPS, provided they respect existing treaty obligations. The implementation of the options by countries will be closely monitored.

Overview of the BEPS Action 1 Report

➢ ***Next steps***

- Given that these conclusions may evolve as the digital economy continues to develop, **it is important to continue working on these issues and to monitor developments over time.**

- This future work will be done in consultation with a broad range of stakeholders, and on the basis of a detailed mandate to be developed during 2016 in the context of designing an inclusive post-BEPS monitoring process. **A report reflecting the outcome of the continued work in relation to the digital economy should be produced by 2020.**