

International community renews commitment to multilateral efforts to address tax challenges from digitalisation of the economy

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31/01/2020 - The international community reaffirmed its commitment to reach a consensus-based long-term solution to the tax challenges arising from the digitalisation of the economy, and will continue working toward an agreement by the end of 2020, according to the Statement by the Inclusive Framework on BEPS released by the OECD today.

The Inclusive Framework on BEPS, which groups 137 countries and jurisdictions on an equal footing for multilateral negotiation of international tax rules, decided during its Jan. 29-30 meeting to move ahead with a two-pillar negotiation to address the tax challenges of digitalisation.

Participants agreed to pursue the negotiation of new rules on where tax should be paid ("nexus" rules) and on what portion of profits they should be taxed ("profit allocation" rules), on the basis of a "Unified Approach" on Pillar One, to ensure that MNEs conducting sustained and significant business in places where they may not have a physical presence can be taxed in such jurisdictions. The Unified Approach agreed by the Inclusive Framework draws heavily on the Unified Approach released by the OECD Secretariat in October 2019.

Endorsement of the Unified Approach is a significant step, as until now Inclusive Framework members have been considering three competing proposals to address the tax challenges of digitalisation. A Programme of Work agreed in May 2019 has been replaced with a revised Programme of Work under Pillar One, which outlines the remaining technical work and political challenges to deliver a consensus-based solution by the end of 2020, as mandated by the G20. Inclusive Framework members will next meet in July in Berlin, at which time political agreement will be sought on the detailed architecture of this proposal.

The Statement by the Inclusive Framework on BEPS takes note of a proposal to implement Pillar One on a "safe harbour" basis, as proposed in a December 3, 2019 letter from US Treasury Secretary Steven Mnuchin to OECD Secretary-General Angel Gurría. It recognises that many Inclusive Framework members have expressed concerns about the proposed "safe harbour" approach. The Statement also highlights other critical policy issues that must be agreed under Pillar One before a decision can be taken. The "safe harbour" issue is included in the list of remaining work, but a final decision on this issue will be deferred until the architecture of Pillar One has been agreed upon.

The Inclusive Framework also welcomed the significant progress made on the technical design of Pillar Two, which aims to address remaining BEPS issues and ensure that international businesses pay a minimum level of tax. They noted the further work that needs to be done on Pillar Two.

"It is more urgent than ever that countries address the tax challenges arising from digitalisation of the economy, and the only effective way to do that is to continue advancing toward a consensus-based multilateral solution to overhaul the international tax system," said OECD Secretary-General Angel Gurría. "We welcome the Inclusive Framework's decision to move forward in this arduous undertaking, but we also recognise that there are technical challenges to developing a workable solution as well as critical policy differences that need to be resolved in the coming months."

"The OECD will do everything it can to facilitate consensus, because we are convinced that failure to reach agreement would greatly increase the risk that countries will act unilaterally, with negative consequences on an already fragile global economy," Mr Gurría said.

The Inclusive Framework's tax work on the digitalisation of the economy is part of wider efforts to restore stability and increase certainty in the international tax system, address possible overlaps with existing rules and mitigate the risks of double taxation.

The ongoing work will be presented in a new OECD Secretary-General Tax Report during the next meeting of G20 finance ministers and central bank governors in Riyadh, Saudi Arabia, on 22-23 February.

For more information on the OECD/G20 BEPS Project, see: www.oecd.org/tax/beps/.

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