TAXING THE DIGITAL ECONOMY:

WHAT THE OECD INCLUSIVE FRAMEWORK CONSENSUS SOLUTION WOULD MEAN FOR G-24 COUNTRIES

Friday 18 October 2019 – 8.30-10.00am

IMF HQ2, Room 280 A&B

The race towards a global consensus

Negotiations are moving ahead on a fast decision-making track within the OECD BEPS Inclusive Framework (IF) process to find a consensus solution on tax challenges arising from the digitalization of the economy. The Programme of Work being pursued contemplates a pillar on how to allocate taxing rights over profits of Multinational Enterprises (MNEs) among countries, and a pillar to introduce a global anti-base erosion tax.

A first step towards a "consensus solution" will be presented by the OECD at the G-20 Finance Ministers Meeting on the 17th of October in Washington, while the final agreement should be reached by 2020. The current rules were devised nearly a century ago: the considerable efforts to overhaul them should aim to make them fit for the 21st century.

A fair and comprehensive reform should result in an international tax system that is simpler, easier to administer, more efficient and more equitable.

However, the pressure to reach an agreement by 2020 means that the chances of a meaningful overhaul of the system are limited, and both developed and developing countries are struggling to cope with the pace of the negotiations.

In this context, it is unclear whether any negotiated solution is likely to reflect the unique needs and circumstances of G-24 countries.

The ongoing work on the tax challenges of the digital economy and the G-24 proposal

For the first time, solutions to move *beyond the arm's length principle* are being considered, and the G-24 has put forward an alternative proposal (the "Significant Economic Presence" proposal), as part of the potential alternatives around on profit allocation and nexus (Pillar I of the OECD Inclusive Framework on BEPS Programme of Work released in June 2019[1]). The G-24 believes this proposal offers a comprehensive solution which reflects a balanced allocation of income using both supply and demand factors.

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[1] http://www.oecd.org/tax/beps/programme-of-work-to-develop-a-consensus-solution-to-the-tax-challenges-arising-from-the-digitalisation-of-the-economy.pdf

The acceptance that it is global profits of MNEs which should be apportioned shows real progress, together with the ambition to stem the race to the bottom in tax competition by providing a floor with a global minimum tax.

However, real concerns remain as to the extent of the current reform process and whether it will be watered down by pressures from MNEs and some governments.

There is a high risk that the final agreement does not adequately reflect the interest of developing countries. Inclusive Framework members can sign up to the reform or push back, so it is critical that they fully understand the potential implications of either option so they can defend their interests.

Despite the creation of the Inclusive Framework, much still needs to be done to ensure effective participation and representation of developing countries in international forums in charge of tax norm setting.

Dialogue objectives
The aim of this dialogue is to engage G-24 representatives in a discussion on the ongoing negotiations at the OECD Inclusive Framework, an analysis of the proposed consensus solution and consideration on whether this would benefit G-24 and other developing countries. The agenda's objectives are:

- Discuss concerns around the proposed consensus solution to be agreed at IF by 2020 and alternatives

- Discuss what the consensus solution may mean for G-24 and other developing countries

- Discuss concerns around the economic and political aspects of the negotiation process

Agenda, 18 October 2019 8.30-10am

8.30-8.40am	**Welcome and opening address by Luise Rürup, Executive Director, FES New York**
8.40-9.10am	**Moderator: Ms. Marilou Uy, Director, G-24 Secretariat** **Presentations by ICRICT Commissioners Jose Antonio Ocampo, Wayne Swan and Irene Ovonji-Odida**
9.10-10.00am	**Discussion and conclusion**