Global Tax Avoidance and the OECD

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BETTER POLICIES FOR BETTER LIVES

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Organisation for Economic Co-operation and Development

- Aim to stimulate economic progress and world trade
- Co-ordinate domestic and international policies of members
- Headquarters in Paris, France
- Secretary General – Angel Gurria, Mexico

34 OECD Member Countries

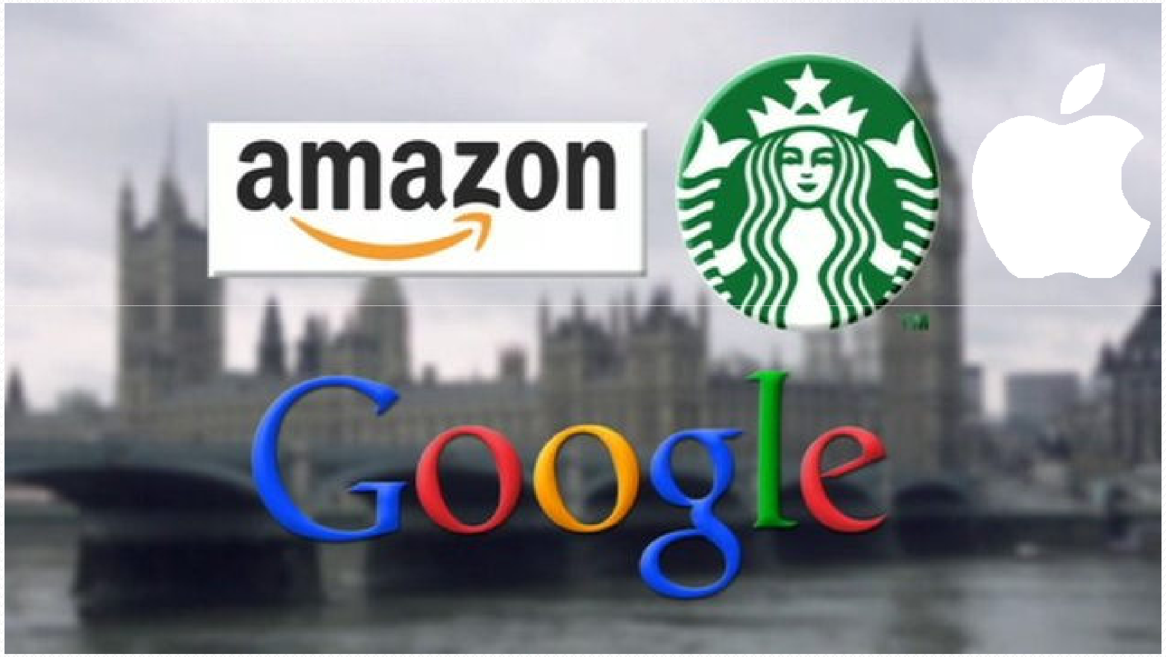
Australia	**France**	**Korea**	**Slovenia**
Austria	**Germany**	**Luxembourg**	**Spain**
Belgium	**Greece**	**Mexico**	**Sweden**
Canada	**Hungary**	**Netherlands**	**Switzerland**
Chile	**Iceland**	**New Zealand**	**Turkey**
Czech Republic	**Ireland**	**Norway**	**United Kingdom**
Denmark	**Israel**	**Poland**	**United States**
Estonia	**Italy**	**Portugal**	
Finland	**Japan**	**Slovak Republic**	

OECD Timeline

- **11th October 2011 –** Officials from tax bodies, the banking sector and OECD met in Rome
- **8th May 2012** – Senior tax officials from OECD countries met in Montreal
- **17th May 2013** – Forum on Tax Administration with Tax Commissioners from 45 countries, met in Moscow
- **19th July 2013** - Action Plan on Base Erosion and Profit Shifting ("BEPS") was produced and introduced at the G20 Finance Ministers' meeting in Moscow.
- **27th September 2013** – 300 senior tax officials from more than 100 jurisdictions met in Paris during the 18th Annual Tax Treaty Meeting
- **15th October 2013** – Switzerland becomes the 58th country to sign the multilateral convention on mutual administrative assistance in tax matters during a ceremony at the OECD.

Corporate tax avoidance by multinational firms

- Amazon
- Google
- Starbucks
- Apple



OECD's Current Position

- 15 point Action Plan

- Will roll out over the coming two years, marking a turning point in the history of international tax co-operation. It will allow countries to draw up the co-ordinated, comprehensive and transparent standards they need to prevent BEPS (base erosion and profit shifting).

- The action plan aims to tackle the selling arrangements that are widely used by multinationals, including digital companies such as Google and Amazon to limit their tax bills in countries where they make sales. But broader issues around the taxation of the digital economy will be examined by a dedicated task force.

Summary of 15 Actions

Action	Description
1. Address tax challenges of the digital economy	Identify main difficulties that the digital economy poses for the application of existing international tax rules.
2. Neutralise the effects of hybrid mismatch arrangements	Develop model treaty provisions and recommendations regarding the design of domestic rules to neutralise the effect of hybrid instruments and entities.
3. Strengthen CFC rules	Develop recommendations regarding the design of controlled foreign company rules.

Summary of 15 Actions continued

Action	Description
4. Limit base erosion via interest deductions and other financial payments	Develop recommendations regarding best practices in the design of rules to prevent base erosion through the use of excessive interest charges.
5. Counter harmful tax practices more effectively	Revamp the work on harmful tax practices with a priority on improving transparency and emphasis on substance.
6. Prevent treaty abuse	Develop model treaty provisions and recommendations regarding the design of domestic rules to prevent granting treaty benefits in appropriate circumstances.
7. Prevent artificial avoidance of PE status	Develop changes to definition of PE.

Summary of 15 Actions - continued

Action	Description
8. Assure transfer pricing outcomes are in line with value creation: intangibles	Identify main difficulties that the digital economy poses for the application of existing international tax rules.
9. Assure transfer pricing outcomes are in line with value creation: risks and capital	Develop rules to prevent BEPS by transferring risks among or allocating excessive capital to group members.
10. Assure transfer pricing outcomes are in line with value creation: other high-risk transactions	Develop rules to prevent BEPS by engaging which would not or rarely occur between third parties.
11. Re-examine transfer pricing documentation	Develop rules regarding transfer pricing documentation to enhance transparency for tax administration.

Summary of 15 Actions - continued

Action	Description
12. Require taxpayers to disclose their aggressive tax planning arrangements	Develop recommendations regarding the design of mandatory disclosure rules for aggressive transactions.
13. Establish methodologies to collect and analyse data on BEPS and actions to address it	Develop recommendations regarding indicators of the scale and economic impact of BEPS.
14. Make dispute resolution mechanisms more effective	Develop solutions to address obstacles that prevent countries from solving treaty-related disputes under the Mutual Agreement Programme ("MAP").
15. Develop a multilateral instrument	Facilitate the development of a multilateral instrument to enable jurisdictions to implement anti-BEPS measures.

OECD's Future

- Main reform - Tax should be paid where the economic activity takes place.
- Align tax with substance – ensuring taxable profits cannot be artificially shifted away from countries where the value is created through the transfer of risk, capital or intangibles such as patents or copyrights.
- Multinationals transferring high-value "intangible" assets, e.g. brands and intellectual property rights, to tax havens will be targeted.

Reducing tax avoidance

Avoidance
Bending the rules of the tax system in a way that the law had not intended to reduce the amount of money a company or individual pays in taxes.

Preventing avoidance before it happens

- Designing tax laws in a way that minimises tax avoidance
- Improving the quality of information available to help tax payers to realise the potential downsides and risks of avoidance

Making sure global companies pay their taxes

- Boosting HMRC's ability to scrutinise large and multinational businesses tax affairs
- Working with international partners to update the international rules on corporate taxation to prevent the shifting of profits overseas
- Increasing resources in HMRC to scrutinise businesses' transfer pricing arrangements

Tightening the rules against avoidance

- Introducing the first General Anti-Abuse Rule , deferring the use of avoidance schemes and improving HMRC's ability to tackle them
- Changing the law to prevent the use of new avoidance schemes
- Continually updating and creating legislation to close down emerging tax avoidance opportunities

Toughening enforcement of the rules

- Taking legal action against avoidance schemes whenever necessary
- Expanding HMRC's affluent unit to identify and deal with avoidance by the wealthiest individuals
- Introducing penalties for high risk promoters of tax avoidance schemes
- Introducing penalties for those who do not settle their affairs quickly once an avoidance scheme is proven not to work

Issues for us as Tax Advisors

- Pressure from tax authorities
- Client understanding of global disclosure
- Possible double taxation?
- How artificial – substance, economic reality?
- The future of holding companies?

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