

Tax Challenges of Digital Economy

BEPS implementation
and recent tax policy
developments

BEPS Actions 3, 7, 8-10

- BEPS Action 3 (CFC) may provide a solution to double non-taxation
- BEPS Action 7 (PE) may provide a solution to source taxation in the presence of local Subsidiaries
- BEPS Actions 8-10 (TP) may provide:
 - i. a solution to double non-taxation and profit shifting by avoiding transfer of value created through R&D via CCA/CSA
 - ii. a solution to source (market) taxation through tailored TP allocation principles

Recent tax policy developments

- Virtual PE
 - Should not increase compliance burdens
 - Virtual PE compliance shifted to local Subsidiaries
 - Virtual PE compliance shifted to non-resident Head Office or Parent Company (at least within the EU)
- Flat Tax
 - Should provide option for net taxation
 - See certain tax treaties concluded by emerging economies

Local markets

- Reliance on “local market” to justify source taxation may apply equally to other businesses
- Desirability to properly identify the reasons and criteria for additional source taxation