Digital tax deal in works but key questions 'outstanding': OECD

28 August 2019, by Valentin Bontemps

Pascal Saint-Amans is overseeing talks aimed at establishing a global framework for taxing the operations of technology multinationals

G7 leaders announced at their Biarritz summit meeting this week a pledge to update international tax rules, in particular with regards to technology giants whose operations span the globe, by next year.

For Pascal Saint-Amans, who is leading the negotiations as head of tax policy at the Organization for Economic Cooperation and Development (OECD), progress is being made but several key issues still need to be hammered out.

Question: The G7 summit put a spotlight on the international fiscal accord being discussed under the auspices of the OECD. Where do the negotiations stand?

Saint-Amans: The multilateral process is underway. We're going to make a proposal that will be made public before the next meeting of G20 finance ministers and central bankers, set for October 17 in Washington. We needed a political push, and I think this will relaunch the discussions.

There are two pillars: The first concerns how we tax companies that aren't taxed currently, and how to reallocate tax assessment rights. The other involves the creation of a minimum tax on profits.

The idea of the first pillar is to make a company taxable in a country even when it isn't physically present. The goal is also to allocate a bigger share of its global profits to the country where its market and clients are. That would allow France, for example, to better tax foreign digital firms.

Q: How would a minimum global tax on profits work?

A: The idea is if a company operates abroad, and this activity is taxed in a country with a rate below the minimum, the country where the firm is based could recover the difference.

That's what the United States did with their fiscal reform of 2017. But that framework is based on an average global rate, whereas we're working instead on a country-by-country basis.

Basically, if a French company earns half its profits in the US, taxed at 25 percent, and the other half in the Cayman Islands, with zero tax, that gives you an average of 12.5 percent. If you apply it country by country, you recover taxes on half the Cayman profits.

Q: Do countries risk losing their fiscal sovereignty?

A: Not at all! Each state would remain sovereign, and would watch what's going on abroad so they could recover the difference. There wouldn't be any international agency taking the place of national tax administrations.

Getting this in place won't be simple. It's going to require a multinational agreement. But this was already done in 2015 with the deal on domestic tax base erosion and profit shifting (BEPS).

And with the political support given at the G7, there's a good chance things will move forward.

There are still plenty of outstanding questions: What tax rate for companies, which activities to tax, how to distribute the proceeds fairly? It's a real negotiation.

When European officials say, 'We want to tax digital companies, even if they pay their taxes in the US,' it's more or less what Indian officials are telling French, German or other companies.

That's to say: 'These companies operate on our territory, but not enough of their profits are staying here, so we want the right to tax them.'

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