BRUSSELS I **JULY 2020**

1. International Digital Tax Progress Update

The OECD held a Tax Talks Webcast on 22 July to discuss progress on the Inclusive Framework project on taxation of the digitalising economy, the OECD Model Rules for Reporting by Platform Operators, the recently released Corporate Tax Statistics report and other recent tax developments.

The OECD G20 Report sets out that progress has been made on developing technical and policy solutions to the working blocks for agreeing tax allocations rights under Pillar 1, notwithstanding the political uncertainty surrounding agreeing a solution for taxation of the digital economy.

Additionally, the report details that some countries are of the view that an agreement on global minimum effective taxation under Pillar 2 could already be reached and implemented independently of Pillar 1. The report indicates that efforts will be focused on resolving the divergent views in the coming months, and that *"the technical development should be advanced enough to allow key political decisions to be taken on both pillars in October 2020".*

However, Pascal Saint-Amans, Director of the OECD Centre for Tax Policy and Administration, in his presentation during the Tax Talks Webcast stated that although blueprints will be presented to the Inclusive Framework at its Plenary Meeting in October 2020, interested parties needed to be "realistic", saying that *"As much as we welcome the G20 telling us that they hope to have an agreement by year-end, and they aim to have an agreement by year-end, we have to recognize there are a number of pending issues, including how broadly Pillar One will apply."*

Once the blueprints are published in October, a consultation inviting stakeholders to comment on the blueprints will take place.

2. EU Leaders Agree COVID Recovery Package

At the Special European Council meeting which took place from 17 – 21 July, EU leaders reached an historic agreement after marathon negotiations on the EU COVID-19 recovery package proposal.

Leaders agreed to a new recovery instrument, the "Next Generation EU", a one-off recovery measure to be embedded within the EU budget for 2021 – 2027. 750 Billion Euros will be raised by the Next Generation EU recovery instrument, by lifting the ceiling on own borrowing on the open market, with 390 billion to be raised in grants and 360 billion in loans, which will be anchored in "*solid governance*". The Recovery fund is intended to support Member State investments and reforms, incentivise private investment and strengthen EU healthy security and prepare for future crises. The fund will invest in programmes that align with EU policy priorities, in particular the European Green Deal, in circular economy and renewable energy projects, as well as in projects that strengthen the Single Market and the EU's digital and technological presence.

An amount of 1,074 billion euros was agreed by European leaders for the MFF 2021 – 2027 budget, with 30% of the Recovery Fund and the MFF to be invested in programmes fighting climbing change, although President Von der Leyen noted that "regrettable" adjustments had been made by leaders to the proposed MFF and Next Generation EU recovery instrument, *"for example in health, migration, external action and InvestEU; they have not taken up the Solvency Instrument".* Council President Charles Michel said of the adjustments "*Looking at the MFF and the Recovery Fund together and comparing them with the current situation, we can see that in each case additional funding will be mobilised in the various areas such as digital, Horizon Europe and Erasmus. And we also propose to establish a special Brexit reserve, because we are mindful that in any scenario, with or without a deal, we will need to support the countries and sectors most directly affected by the economic consequences of Brexit."*

The EU Parliament held an Extraordinary Plenary on 23 July and passed a resolution deploring the significant cuts made to the grants component of the Recovery Fund and the flagship EU programmes. Parliament also stated it *"strongly regrets that the European Council significantly weakened the efforts of the Commission and Parliament to uphold the rule of law, fundamental rights and democracy in the framework of the MFF and the recovery plan".*

The Parliament has a final say on the agreement, and has stated MEPs are "prepared to withhold their consent" unless an agreement can be reached between Council and Parliament. It is hoped an agreement can be reached by the end of October so as not to impact on EU programmes in 2021.

3. EU Commission Presents New External Tax Good Governance Strategy

In July, the EU Commission published its Tax Package for "fair and simple taxation", consisting of a 25 step Tax Action Plan, a proposal for a Council Directive to revise the Directive on Administrative Cooperation to extend EU exchange of information rules to information on income generated by sellers on digital platforms, as well as a Communication on Tax Good Governance in the EU & Beyond.

The Commission's Communication discusses means to improve the EU's role in promoting tax good governance and tax transparency, which it aims to achieve by reforming the Code of Conduct on Business Taxation and making improvements to strengthen the EU's List of Non-Cooperative Jurisdictions for Tax Purposes. The Communication also outlines the EU's plan to meet its 2030 Sustainable Development Goals by assisting developing countries in the area of taxation.

The Commission aims to update the scoreboard used to select the jurisdictions that are screened by the Code of Conduct Group, and to review the criteria that jurisdictions must comply with, to update these to take into account developments in tax evasion practices. Additionally, the Commission aims to expand the mandate of the Code of Conduct Group to examine conditions leading to unfair tax competition and aggressive tax planning within the European Union, such as tax residency rules allowing for double non-taxation, tax exemptions without appropriate safeguards and special citizenship schemes. It also plans to introduce the parameter of minimum effective taxation.

In the fall of 2020 the Commission will publish its plans for business taxation for the 21st century, which will aim to complement the work being undertaken by the OECD on addressing challenges of the digital economy and minimum taxation. In early 2021, it will also set out plans for revising EU rules on energy taxation and introducing a WTO-compatible carbon border adjustment mechanism.

4. Platform for Collaboration on Tax Invite Input on Draft Tax Treaty Negotiation Toolkit

The Platform for Collaboration on Tax, a joint initiative of the IMF, OECD, UN and World Bank Group, has issued a draft toolkit on tax treaty negotiations for developing countries in order to further capacity-building support. Input on the toolkit can be submitted until 10 September 2020.

The Toolkit builds on the UN's Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries and built specifically on the guidance on conducting tax treaty negotiations. The Toolkit seeks input in particular concerning whether all relevant technical and practical considerations and capacity building skills for developing countries in treaty negotiations have been covered by the draft Toolkit, and input on any resources and tools that should be included in the toolkit.

Input can be submitted until 10 September 2020 via e-mail at taxcollaborationplatform@worldbank.org.

5. European Tax Professionals Call for Better Tax Governance: Joint statement of CFE Tax Advisers Europe and Accountancy Europe

Accountancy Europe and CFE Tax Advisers Europe, leading European associations for tax professionals, have issued a statement highlighting three areas in which the current tax system could be improved whilst longer term reforms are being developed. Policymakers, taxpayers, and tax professionals need to work together to make tax systems more resilient and fit for purpose for the 21st century.

The Joint Statement sets out four key messages to the EU and other relevant stakeholders:

• Member States should co-operate with the help of the European Commission to develop effective co-operative compliance programmes suitable for all sizes and types of businesses and that facilitate cross-border trade and reduce the possibilities for double taxation. We call on the European Commission to encourage and enable exchanging best practices on co-operative compliance in Europe, and to issue recommendations for co-operative compliance fit for SMEs;

• Cooperative compliance programmes should be subject to transparency of tax administrations and respect of taxpayers' rights, as set out in national and international / EU law;

• Businesses should consider the advantages that voluntary public tax transparency – as an integral part of their sustainability policies – could bring to their business and its relationship with tax authorities and other stakeholders. The European Commission should monitor and assess the effectiveness of voluntary tax transparency initiatives;

• Businesses and tax authorities should invest in the latest IT solutions to improve the quality of data, communication, and remote access to services. We look forward to the European Commission's initiatives aiming to promote IT solutions in tax administrations and stand ready to help.

Full details concerning the joint statement can be found here.

6. OECD Publishes Model Rules for Reporting by Platform Operators

The OECD has published Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy.

The Rules were developed as part of a wider OECD strategy to address tax challenges surrounding the digital economy, with the objective of tax administrations worldwide adopting a uniform set of rules concerning the reporting requirements for transactions and income of platform sellers. The Model Rules were developed to increase transparency and minimise compliance burdens for tax administrations and taxpayers, in properly recording and taxing activities carried out on digital platforms which may have been previous carried out via the informal cash economy.

Pascal Saint-Amans, Director of the OECD Centre for Tax Policy and Administration, stated *"The approval of the MRDP by the G20/OECD Inclusive Framework on BEPS proves that multilateral solutions to address tax challenges in the digital economy are possible and that they are to the benefit of tax administrations, taxpayers and businesses alike".*

The OECD will now progress the international legal framework to facilitate the automatic exchange of the information collected under the Model Rules.

7. Report on Revenue Statistics in Asian and & Pacific Economies Published by OECD

The 2020 report on Revenue Statistics in Asian and Pacific Economies was published in July by the OECD. The report was prepared in co-operation with the Asian Development Bank, the Pacific Island Tax Administrators Association and the Pacific Community, with financial support from the governments of Ireland, Japan, Luxembourg, Norway, Sweden and the United Kingdom. This year the report also includes a special feature on the tax policy and administration responses to COVID-19 in Asian and Pacific Economies.

The report compares tax revenue statistics for Australia, Bhutan, People's Republic of China, Cook Islands, Fiji, Indonesia, Japan, Kazakhstan, Korea, Malaysia, Mongolia, Nauru, New Zealand, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Thailand, Tokelau and Vanuatu; and comparable non-tax revenue statistics for Bhutan, the Cook Islands, Fiji, Kazakhstan, Mongolia, Nauru, Philippines, Papua New Guinea, Samoa, Thailand, Tokelau and Vanuatu.

8. Platform for Collaboration on Tax Published Progress Report 2020

The Platform for Collaboration on Tax, a joint initiative of the IMF, OECD, UN and World Bank Group, has published its 2020 Progress Report, highlighting activities that the Platform has carried out since June 2019 under three work streams: cooperation and exchange of information in domestic revenue mobilisation capacity development activities, analytical activities, and outreach activities. Despite the challenges posed by COVID-19, the Platform quickly adapted to a virtual delivery environment to support developing countries in building capacity to mobilise tax revenues, the OECD has stated.

9. Annual Corporate Tax Statistics Report Published

The OECD's annual Corporate Tax Statistics, based on the Country-by-Country Reporting requirements for MNEs under the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project, indicate that corporate income tax remains a significant source of tax revenues for governments across the globe, accounting for 14.6% of total tax revenues on average across the 93 jurisdictions in 2017, compared to 12.1% in 2000. Corporate taxation is even more important in developing countries, comprising on average 18.6% of all tax revenues in Africa and 15.5% in Latin America and the Caribbean, compared to 9.3% in the OECD countries.

The full report is available to read here.

10. OECD Publishes Development & Tax Cooperation Report

The OECD has published its Tax Cooperation for Development Report, highlighting the OECD's work with developing countries since the 1990's. Commenting, the Director of the OECD Tax Administration and Policy Centre, Pascal Saint-Amans wrote: "*International support for capacity building in all areas of tax administration and tax policy therefore remains essential and must be stepped up. The current crisis also provides the opportunity for a deeper reflection on the current state of play. Crucially, it appears that many low-income and low-capacity* *countries are uncertain about the extent to which the direct benefits of the reforms in the international tax standards, particularly regarding the taxation of multinational enterprises, flow to them. Five years after the BEPS Project, and ten years after the establishment of the Global Forum, the time is right to assess the benefits for the developing world."*