



IMPLEMENTATION CHALLENGES IN BEPS

ICRIER 7TH ANNUAL G20 CONFERENCE

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What is BEPS?

Stated simply, BEPS arises because under the existing rules it is possible to artificially separate the allocation of taxable profits from the jurisdictions in which these profits arise



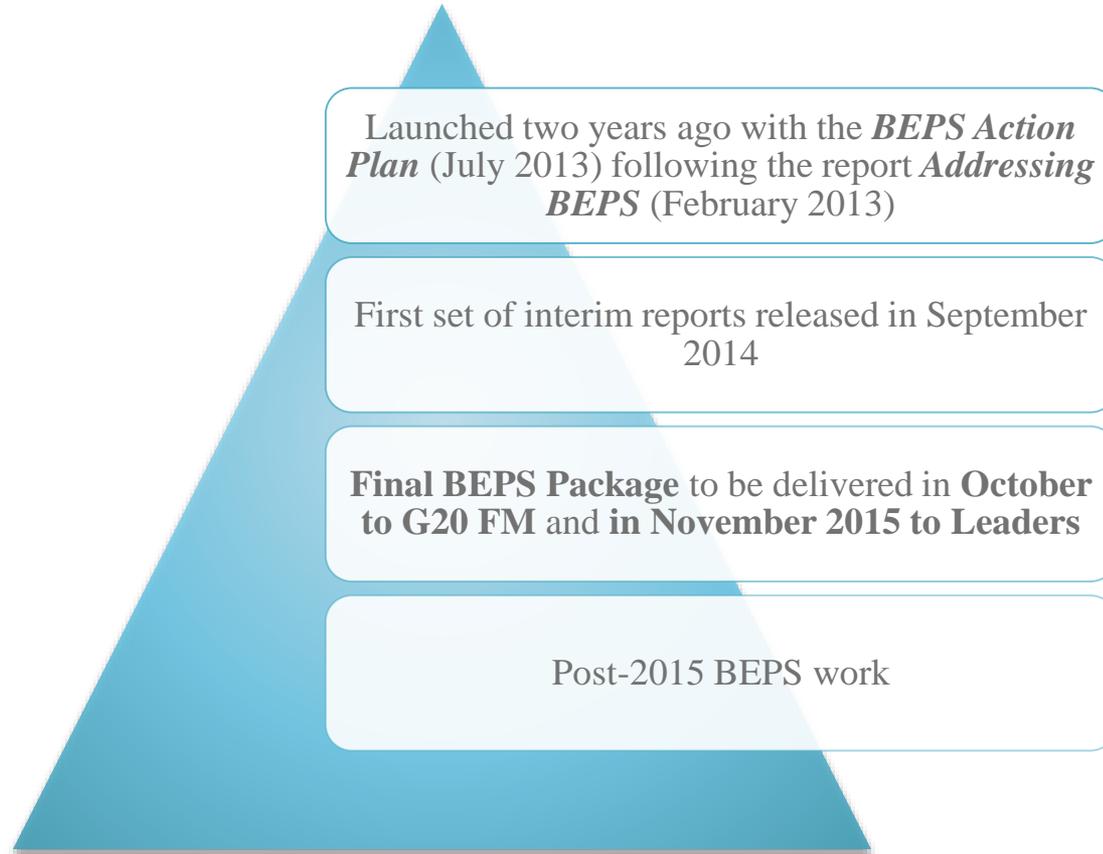
Why the BEPS Project?

- ✓ **Need to update the rules for the taxation of multinationals to**
 - Reflect changes in the underlying, digitalised, economy
 - Ensure that system ‘is’ and ‘is perceived to be’ fair
 - Maintain long-standing consensus-based framework

- ✓ **It is a matter of trust / integrity / economic efficiency / equality**



Where we are in the BEPS project





Features of the BEPS Project

Fast-pace

- **2-year time-bound**

Inclusive

- OECD and G20 countries working together on an **equal footing**
- **14 Developing Countries, ATAF, CREDAF and CIAT** participating directly
- Other **60** Developing Countries participating *via* **Regional Networks** in Asia, Africa, Latin America and Eurasia

Transparent

- **23 Discussion Draft published**
- **11,000** pages of comments received
- **14 public consultations** with stakeholders and regular **webcasts**

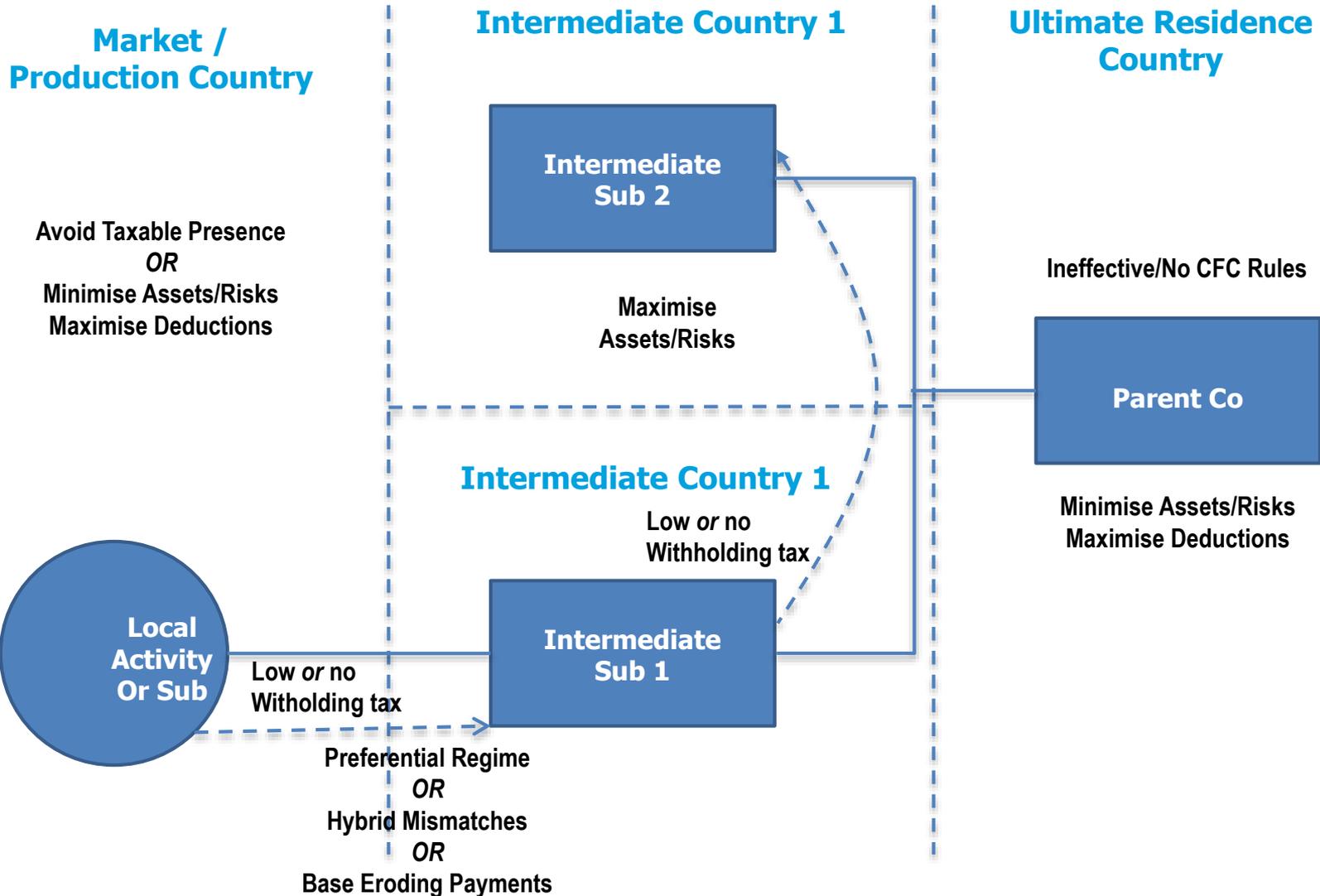


What's going to be in the BEPS package?

- a) Data and economic analyses (Action 11)
- b) Reinforced international standards on tax treaties and transfer pricing: Actions 6 (treaty abuse) 7 (permanent establishment) 8-10 (transfer pricing) 13 (tp documentation)
- c) Criteria and their application to ensure fair tax competition: Action 5 (harmful tax practices)
- d) Recommendations, best practices, common approaches to bridge gaps among domestic laws: Actions 2 (hybrid mismatches) 3 (CFC rules) 4 (interest deductibility) 12 (mandatory disclosure)
- e) Measure to provide more predictability (Action 14)
- f) Analytical reports on complex issues: Actions 1 (digital economy) 15 (multilateral instrument)



BEPS in a *nutshell*





POST-2015 BEPS WORK

In addition to some technical **follow-up work**

Focus is / will be on

- Supporting and **Monitoring Implementation**
- In an **Inclusive** manner



Implementation

Changes to TP Guidelines

1. **Chapter I:** recognising actual transactions; allocations of risk; group synergies, location savings and other local market features; assembled workforce
2. **Chapter II :** Commodities
3. **Chapter V** TP documentation and CbC report
4. **Chapter VI:** Intangibles
5. **Chapter VII:** Low value-adding services
6. **Chapter VIII:** Cost contribution arrangements

Maybe immediately applicable depending on the legal and tax system

Changes to MTC

1. Hybrid entities
2. LOB and/or PPT
3. Preamble
4. Other treaty anti-abuse measures (e.g. dividend washing, etc.)
5. Permanent Establishment definition
6. Minimum standard on Dispute Resolution (Arbitration)

Amend bilateral treaties
Multilateral instrument to be open for signature in 2016

Other recommendations

1. Country-by-Country Reporting and TP Documentation
2. Harmful tax practices
3. Hybrid mismatches
4. Interest deductibility
5. CFC rules
6. Mandatory disclosure rules

Changes to domestic laws or practices depending on the system



Monitoring

- The effectiveness of the project will be determined by its **widespread and consistent implementation**, thus importance of monitoring
- Monitoring implementation key also to ensure **level playing field**
- **G20 FM Ankara**: We will continue to work on an equal footing as we monitor the implementation of the BEPS project outcomes at the global level, in particular, ... **call on the OECD to prepare a framework by early 2016 with the involvement of interested non-G20 countries and jurisdictions, particularly developing economies, on an equal footing** [...]
- **Modular**: monitoring may take **different forms** depending on the item concerned
- **Capacity building** should also be a key element of the monitoring framework.
- **Interest of non-OECD non-G20 countries is clear**: 14 already happily participate in the work. In total about 90 countries are negotiating the multilateral instrument.
- Proposal for an inclusive framework and then set up in 2016. **Positive experiences** on which to draw: Global Forum on Transparency and Exchange of Information

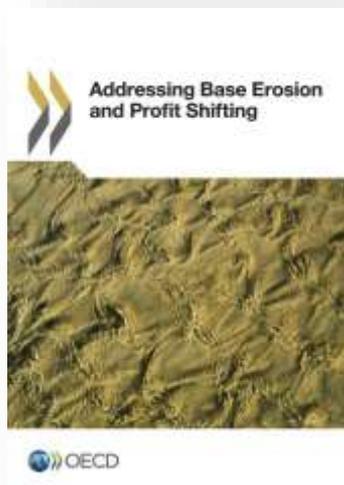


Concluding remarks

- *A system meant to eliminate double taxation cannot itself generate double non-taxation*
- The **implementation** of the BEPS measures are expected to put an end to the double non-taxation, stateless income and the like
- BEPS measures aimed at restoring and strengthening sovereign taxing rights by ensuring that **countries can protect their tax bases**
- The BEPS Project is a **won bet**: G20 and OECD demonstrated how governments can work together and achieve tangible results in short timeframes (top-down approach)
- Now time to go beyond OECD and G20 and ensure **total inclusiveness** so that standards are applied globally and adapted where needed



Questions and further information



Stay tuned: 5 October is approaching

Further information: www.oecd.org/tax/beps.htm