

## EURASIA REGIONAL NETWORK MEETING ON BEPS PROJECT

ANKARA, TURKEY, 4-5 MARCH 2015

### CO-CHAIRS' SUMMARY OF DISCUSSIONS

*Mr. Ahmet Kurt<sup>1</sup> and Mr. Valerio Barbantini<sup>2</sup> co-chaired the Eurasia Regional Network Meeting on the BEPS Project, hosted by the OECD Multilateral Tax Center of Ankara. The Co-Chairs prepared this informal summary of the discussions of the meeting to be shared with all participants.*

*The objective of the meeting was to feed the views of developing countries into the BEPS work and support the development of toolkits to assist implementation of BEPS solutions. This Regional Network Meeting was part of a new structured dialogue process in the Eurasia Region which will enable the views of Partner economies, and particularly of developing countries expressed at this meeting, to be taken into account in the on-going discussions in the Global Fora, Task Force on Tax and Development and Working Party meetings relating to the OECD/G20 BEPS Project and to the implementation of solutions to counter BEPS.*

#### **The Meeting**

This Regional Network Meeting was held in Ankara, Turkey, on 4-5 March 2015 and focused on the evolution of the BEPS Project, with particular regard to specific issues and to the implementation of BEPS solutions as well as capacity building. This is the first meeting of this kind in the Eurasia region.

The event brought together 25 participants from 6 economies in the Eurasia Region: Afghanistan, Azerbaijan, Georgia, Slovak Republic, Tunisia and Turkey. Representatives of civil society organisations (Oxfam and Tax Justice Network) and business (Deloitte and Anadolu Group on behalf of BIAC) were invited to present their views and share their perspectives with tax officials in two plenary sessions.

5 out of the 6 economies in the Region attending the meeting participate directly in the BEPS project: 2 as OECD Members (Turkey and Slovakia), and three as invitees to the BEPS Project (Azerbaijan, Georgia and Tunisia).

The meeting discussed:

- The BEPS issues identified as key priorities in the G-20 Development Working Group report (Part 1 and Part 2), and in particular: a) 2014 deliverables, b) ongoing 2015 deliverables with a focus on recently published BEPS discussion drafts, and c) toolkits and implementation strategies;
- How Partner economies can effectively provide their views into the BEPS Project and other related work;
- How Partner economies can ensure that the development of Toolkits can assist them to implement solutions to counter BEPS.

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<sup>2</sup> OECD, Coordinator for BEPS and Developing Countries' engagement.

### **A. Key Messages**

1. Participants welcomed the new OECD/G20 strategy to strengthen the involvement of developing countries into the BEPS project, under the G20 mandate, making the entire process more inclusive and providing a unique opportunity to enhance the dialogue in the Region.
2. The dialogue on BEPS presents a challenge for most of the countries in the region, due to relevant constraints in terms of human resources with the necessary language and technical skills and to financial and administrative burdens, including travelling to international meetings
3. There is a need to raise awareness on BEPS at political, as well as at technical level.
4. Participants stressed the critical importance of developing capacity in Partner countries in order to implement BEPS, particularly through the toolkits process and targeted training.
5. Country delegates welcomed the presence of other stakeholders, including business and civil society, and their dialogue on the challenges and proposed solutions to address BEPS.

### **B. Discussion on relevant BEPS Actions**

1. Interest Deductibility (Action 4): there was agreement that it is necessary to address situations of related party debt leading to BEPS, particularly in relation to third party leverage of the MNE group as a whole.
2. Artificial avoidance of PE status (Action 7): delegates emphasised the need to address inconsistencies in existing Permanent Establishment rules to facilitate the taxation of economic activities where value is actually created.
3. Transfer pricing substantive issues (Actions 8-10) and transfer pricing documentation and country-by-country reporting (Action 13): Participants agreed that transfer pricing rules, particularly those pertaining to intangibles, will benefit from the clarifications coming out of the BEPS Project and focused on the challenges of implementing transfer pricing regimes in their economies: the cost of commercial databases, the difficulties of hiring and retaining specialised auditors as well as the lack of comparable data. Participants welcomed the increased transparency provided by the country-by-country reporting and expressed concerns about the balance between availability of this risk-assessment tool and the protection of taxpayer confidentiality.
4. Tax Incentives: There was a lively debate over the use of tax incentives as a policy tool and the need for a coordinated approach to prevent a race to the bottom. Participants welcomed progress on the development of a toolkit to promote transparency and help policymakers make informed decisions when granting incentives.
5. Business and NGO perspectives: Representatives from Oxfam and Tax Justice Network expressed concern for the practical difficulties implied in getting effective feedback from developing countries and for the timescale of the Project. In terms of substance, they endorsed the view that MNEs should be taxed 'where economic activities take place', in terms of treating MNE on a unitary basis

and apportioning profits, rather than just costs and expenses as suggested by the current work on interest allocation.

Civil society representatives expressed their views that transfer pricing rules should be easy to administer and noted the challenges involved in developing the necessary capacity. In particular, transfer pricing analysis should not put emphasis on existing contracts, but rather on fact patterns.

Civil society representatives also expressed the views that profit split methods should be used more often in the transfer pricing analysis, although on the basis of clear allocation keys, due to the impossibility to find appropriate comparables, given that benefits in an MNE come from synergies in the group. This also bears an effect on risk allocation among group members.

Business representatives welcomed the BEPS project as a means to update the international standards to the economic realities of globalisations, but expressed concerns mostly about implementation and transitional costs (the new standard on automatic exchange of information was given as an example) and the need for a coordinated approach to prevent double taxation.

### **C. Next Steps: Strengthening the engagement of Partner Economies in the BEPS Project and related work**

The meeting considered that the Partner Economies in the region should strengthen their engagement in the BEPS Project and related work through various channels:

- Raise awareness among countries in the region on the critical importance of BEPS in order to increase the number of participating countries in the next meeting of the network.
- The host country noted that the G-20 International Tax Symposium that will be organized by Turkish Ministry of Finance on 6-8 May in Istanbul provides a unique opportunity to continue to discuss developments in international taxation and to ensure that developing and low-income countries benefit from the G20's work on tax and other related matters.
- To invite the OECD to continue to facilitate regional policy dialogue on tax through the OECD Multilateral Tax Center in Ankara which in its 22 years of existence has hosted 4.750 tax officials from countries in the region. Participants stressed the need for a targeted training programme to help countries implement BEPS solutions.
- To directly participate in the Committee on Fiscal Affairs and its subsidiary bodies as Members or Invitees, and in the Global Forum on Tax Treaties and on Transfer Pricing, and the Task Force on Tax and Development.
- To invite regional organisations such as IOTA to consider engaging with OECD to facilitate the dialogue on the toolkits and capacity building processes.

The next steps in delivering the perspectives of this region into the technical process will take place: 1) at the Global Forum on Transfer Pricing and the Task Force on Tax and Development to be held in Paris on 16-18 March 2015; 2) through direct participation of economies in the region in the Committee on Fiscal Affairs (CFA) and its subsidiary bodies, and 3) Through the G20 International Tax Symposium in Istanbul on 6-8 May 2015.

The input of this Regional Network Meeting will also be fed into the development of toolkits as part of the implementation phase of solutions to counter BEPS. The next Regional Network Meeting will

take place in October-November 2015 to discuss the outputs of the BEPS Project and the further development of the toolkits and other issues related to the implementation of the measures to counter BEPS.