Taxing Multinational Enterprises
BASE EROSION AND PROFIT SHIFTING (BEPS)

What’s the issue?
Globalisation has opened up opportunities for multinational enterprises (MNEs) to greatly reduce the taxes they pay. The use of legal arrangements that make profits disappear for tax purposes or allow profits to be artificially shifted to low or no-tax locations is referred to as Base Erosion and Profit Shifting (BEPS).

International tax rules have not always kept up with developments in the world economy, and globalisation has increased the need for countries to cooperate to protect their sovereignty on tax matters. The OECD/G20 BEPS Project began when OECD and G20 countries agreed on the need for multilateral efforts to improve tax rules, with the aim of ensuring that MNEs report profits where economic activities are carried out and value is created.

OECD tax work has always sought to eliminate double taxation. An international tax system that aims to prevent double taxation is not sustainable if the same system generates double non-taxation. This is the driving principle that led OECD and G20 countries to embark on the ambitious BEPS Project.

Why is this important?
Revenue losses from BEPS are conservatively estimated at between USD 100 billion and 240 billion annually. This is equivalent to between 4% and 10% of global revenues from corporate income tax. Given developing countries’ greater reliance on such revenues, estimates of the impact on these countries, as a percentage of GDP, is even higher.

BEPS affects everyone. It harms governments because it reduces their tax revenues and raises the cost of ensuring compliance. It harms people because, when some MNEs pay low or no tax, individual taxpayers must shoulder a greater share of the tax burden. And finally it harms businesses themselves: MNEs face significant reputational risk from the public focus on their tax affairs while domestic companies face an uneven playing field when competing with multinationals.

BEPS undermines the tax system’s integrity and the trust of citizens. The goal of the BEPS Project is therefore to restore trust and ensure fair competition among all actors, while maintaining the ability to eliminate double taxation.

What is the impact?
Even before implementation gets fully underway, the BEPS measures are having an impact. Some large MNEs have announced important changes to their tax structuring, indicating that taxpayers are already changing their behaviour. Once implemented, the measures will improve the coherence of tax rules across borders, tighten substance requirements and ensure increased transparency and certainty.

Improving coherence: Model rules have been developed and best practices identified to ensure that the design of domestic
Minimum standards have been agreed to level the playing field in four areas, namely treaty shopping, country-by-country reporting, dispute resolution and harmful tax practices. These are areas where countries have committed to consistent implementation to tackle cases where no action by some countries would have created negative spillovers (including adverse impacts of competitiveness) on other countries.

What’s next?
The BEPS implementation phase will be characterised by a structured and inclusive framework that places all interested countries and jurisdictions on an equal footing. The framework will support and monitor implementation of the different measures and examine their impact over time.

The package of BEPS measures aims to improve the coherence of international tax rules, reinforce their focus on economic substance and ensure a more transparent tax environment. Policymakers should swiftly implement these measures to provide a more certain and sustainable international tax environment.

While a number of measures may be directly applicable, like the revised guidance on transfer pricing, a number of measures designed by governments require implementation by national lawmakers. The work to develop a multilateral instrument to implement the treaty-related BEPS measures into the existing network of bilateral tax treaties has already started, with around 90 jurisdictions participating. The instrument will be open for signature in 2016.

Toolkits are also being developed to provide practical solutions and address specific issues faced by developing countries. Follow-up technical work will cover profit attribution rules and provide more detailed guidance on the application of profit-split methods and the application of the group-wide ratio for purposes of interest deductibility rules.

Find out more at www.oecd.org/tax/beps.htm

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Source:
Final reports on the 15 action areas of the OECD/G20 BEPS Project, published in October 2015 and accessible at the OECD eLibrary at http://dx.doi.org/10.1787/23132612