Public Consultation

BEPS ACTION 4: INTEREST DEDUCTIONS AND OTHER FINANCIAL PAYMENTS

AGENDA

17 February 2015
OECD Conference Centre
## Agenda for Public Consultation on Action Item 4: Interest Deductions and Other Financial Payments

**OECD Conference Centre, Paris**  
Starting at 10:00 and continuing until 18:00 on 17 February 2015

### Tuesday 17 February

#### Morning Session: 10:00 – 13:00

**Public Consultation Meeting**

1. Introduction by Co-Chair, Focus Group on Interest Deductions and other Financial Payments.
2. Initial remarks by Mr William Morris, Chair, BIAC Tax Committee.
3. Presentation by Mr Tom Neubig, Deputy Head, OECD Tax Policy & Statistics on the current gearing of multinational groups, followed by response from BIAC.
4. Discussion on questions provided prior to meeting.
   - What is interest and what are payments economically to interest?
   - Who should a rule apply to?
   - Whether interest deductions should be limited with reference to the position of an entity’s group.

**Coffee Break**

11:30 – 12:00

**Public Consultation Meeting (continued)**

12:00 – 13:00

4. Discussion on questions provided prior to meeting.
   - Whether interest deductions should be limited with reference to the position of an entity’s group (continued).

**Lunch**

13:00 – 14:30

**Public Consultation Meeting (continued)**

14:30 – 16:00

4. Discussion on questions provided prior to meeting.
   - Whether interest deductions should be limited with reference to a fixed ratio.
   - Whether a combined approach could be applied.
   - The role of targeted rules.

**Coffee Break**

16:00 – 16:30

**Public Consultation Meeting (continued)**

16:30 – 18:00

4. Discussion on questions provided prior to meeting.
   - The treatment of non-deductible interest expense and double taxation.
   - Considerations for specific industries.
5. Closing words by Co-Chair.
Public Consultation on Action Item 4: 
Interest Deductions and other Financial Payments

Questions for Discussion

What is interest and what are payments economically equivalent to interest?

1. In order to tackle the base erosion and profit shifting risks faced by countries, best practice rules should apply to a broad range of payments that are economically equivalent to interest. What problems could be caused by the approach to defining interest and other financial payments economically equivalent to interest set out in Chapter IV of the discussion draft?

Who should a rule apply to?

2. The discussion draft identifies entities in groups, those with connected parties and those making payments to related parties as posing the greatest BEPS risk. A best practice approach should address risks posed by each of these scenarios, although not necessarily by the same rule. Does BEPS risk arise in any other scenarios and would this be dealt with by the options in the discussion draft?

Whether interest deductions should be limited with reference to the position of an entity’s group

3. What are the respective strengths and weaknesses of -
   (a) an agreed approach applied consistently by all countries; or
   (b) a flexible approach where each country applies a rule reflecting domestic tax or accounting principles?

4. A group-wide test should rely on group numbers that are readily available and reliable. Do any difficulties arise from basing a group-wide rule on numbers contained in a group’s consolidated financial statements and how could these be addressed?
5. A group-wide test links an entity’s maximum net interest deductions to the total net third party interest expense of its group, based on economic activity. What are the respective strengths and weaknesses of measuring economic activity based on
   (a) earnings; or
   (b) asset values?

6. Could problems for groups be addressed if a group-wide test applied to more than 100% of a group’s net third party interest expense (say 105%-110%)?

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**Whether interest deductions should be limited with reference to a fixed ratio**

7. What are the strengths and weaknesses of fixed ratio tests for groups operating in different sectors and how could these weaknesses be addressed?

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**Whether a combined approach could be applied**

8. What are the advantages or disadvantages of including a combined approach in a best practice recommendation? In particular, what are the strengths and weaknesses of combined approaches 1 and 2, as set out in the discussion draft?

9. What other combined approaches could be considered for inclusion within a best practice recommendation?
The role of targeted rules

10. Group-wide rules and fixed ratio rules apply a general limit on the level of net interest deductions in an entity. Are there any BEPS risks involving interest expense which would not be addressed by these rules and where a targeted rule would be required?

The treatment of non-deductible interest expense and double taxation

11. Would a carry forward of disallowed interest expense and/or unused capacity to deduct interest address issues of volatility in the application of a rule or mismatches where interest expense and earnings/assets arise in different periods?

12. Are there any other ways in which these issues could be addressed?

Considerations for groups in specific sectors

13. How could an interest limitation rule be designed that would address BEPS risks posed by banks and insurance companies without having an undue impact on a group’s regulatory position?

14. Groups operating in certain sectors such as oil and gas are often subject to special tax regimes. How will this impact the operation of interest limitation rules and how could account be taken of this in the design of a best practice approach?

15. What other sectors have characteristics which mean special consideration should be given in the design and application of rules to limit interest deductions?