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Beps averts collapse of global tax rules, conference told

OECD's head of tax policy says protectionist measures by national governments had to be avoided

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The risk of protectionist tax measures being taken by national governments has abated as a result of the OECD's Base Erosion and Profit Shifting (Beps) project, a key official has told a conference in Dublin.

If Beps had not happened, the international rules on global business taxation would have "collapsed", the head of the Paris-based OECD's centre for tax policy, Pascal Saint-Amans, told a conference organised by the Irish Exporters Association.

Referring to the so-called Google tax introduced by the UK last year, he said protectionist tax measures by national governments were "precisely what we wanted to avoid" when starting the Beps project in 2013. “Can you imagine the effect tax protectionist measures would have on an open economy like Ireland?”

He predicted that the effect of the Beps changes for Ireland would not just be an increase in corporation tax, but also to bring more real business activities to Ireland. One of the key objectives of the Beps measures is to align where profits are taxed with where real business substance occurs.

Open economy

Ireland is a open economy but not a tax haven and has a relatively low corporation tax rate, he said. While before Beps multinationals might have been able to locate substantial amounts of their profits in locations such as Bermuda, closing down such no-tax options leaves Ireland, with its 12.5 per cent corporation tax rate, in a very favourable position relative to the US, where the rate is 37 per cent, and France, where the rate is 40 per cent.

Beps meant “a very positive spillover for a competitive, real economy such as Ireland” and this was why the Dublin Government had supported the project. Ireland anticipated that “this game is over”.

He said the European Commission’s idea about a Common Consolidated Corporation Tax Base (CCCTB) was a matter for the EU and was “disconnected” from the Beps project. However the existence of the Beps measures meant that individual EU countries might be less likely to say the international tax system was broken and that the EU should introduce CCCTB.

He also observed that CCCTB was a project that has already been discussed for 20 years and probably will be discussed for a few years yet.

Ireland is not a supporter of the CCCTB project, which it believes is not in the interest of smaller economies.

Common sense

The overall objective of Beps was that the taxation of global business should go “back to basics” and that more common sense should be involved, Mr Saint-Amans said. Companies’ tax executives would be charged with making returns rather than being “profit centres”.

Asked whether some countries were showing signs of acting unilaterally, Mr Saint-Amans said there was real, broad political agreement behind the Beps project which limits the risk of countries not co-operating with it.

The United States was “always the elephant in the room” and needed corporation tax reform. It has “the most stupid corporation tax regime in the world” and knew it needed to be reformed, though it has not as yet managed to do so.

However, Mr Saint-Amans said, the US will be part of the Beps development because it needs other countries to agree to the new measures. The US will introduce country-by-country reporting by multinational businesses, he said.

Ireland has already introduced country-by-country reporting, which obliges multinationals above a certain size to file a confidential report that breaks down their activities in their different markets, with the revenue authority of the jurisdiction in which they are headquartered. Revenue authorities can share the confidential reports, which are designed to help them combat improper profit base shifting.

Tax inquiries

Mr Saint-Amans said the pre-Beps tax regime “looked broken” and business “did its job” of applying the law to reduce their tax bills. While this was mostly legal, “sometimes the aggressiveness has been too offensive”.

In his discussion about how companies had become “very used to being aggressive in their tax planning”, Mr Saint-Amans mentioned the tax advantages that arose when multinationals switched from having a distributor in a foreign market, to having a commissionaire arrangement in that market.

In the UK and elsewhere, where companies such as Google have been targeted for tax inquiries, their commissionaire arrangements with headquarter operations based in Ireland, have been put under the microscope.