Companies artificially shift profits to low or no tax locations to lower their overall tax burden. This impacts developing countries in particular due to heavy reliance on corporate income tax, especially from MNCs. Revenue losses from BEPS are conservatively estimated at US$ 100 billion to US$ 240 billion annually, or any where from 4-10 % of global corporate income tax revenues.

Global businesses will need to rethink their value chain and where to locate business operations, people and resources. Meanwhile increased transparency standards such as common reporting standards and country by country reporting means that companies will need to provide more information about their global operations in a consistent & organized manner.

"Action 5 of the BEPS report (Countering harmful tax practices more effectively, taking into account transparency and substance), there is speculation as to whether Singapore can contribute to award tax incentives."

As a result of the BEPS Project, the last three years has been particularly challenging for professionals across the tax spectrum, from in house finance and tax functions, tax professionals and also tax administrations.

One major area of focus for BEPS is Transfer Pricing, which refers to the pricing of goods, services & intangibles between related parties. Transfer pricing is the major tool for tax avoidance when misused to lower profits in a division of a company that is located in a high tax country and raise profits in a country that is a tax haven.

STARBUCKS

- Domicile: UK
- UK turnover: £398m
- UK corporation tax paid: None
- Year: 2011

Google

- Domicile: Ireland
- UK turnover: £2.6bn
- UK corporation tax paid: £6million
- Year: 2011

amazon.com

- Domicile: Luxembourg
- UK turnover: £3.3bn
- UK corporation tax paid: None
- Year: 2010

Rise of Tax shaming

STARBUCKS

Starbucks UK pays others Starbucks companies for roasted coffee beans, loan interest and brand royalties. The other companies are in countries where tax rates are low.

Rise of Tax shaming....(cont.)

AMAZON

Amazon sells onto the UK from Luxembourg. Broadly, its UK operations are not selling goods, but simply supplying services to the Luxembourg company. This depresses taxable profits in the UK.

Luxembourg only levies 3% VAT on e-books, the UK charges 20%. EU has changed VAT law so that B2C digital Supplies will be subject to VAT where the consumer belongs rather than where the supplier is based. These changes with effect from 1st January 2015, will see that Amazon is charging 20% rather than 3% VAT on e-books sold into the UK

Rise of Tax shaming….(cont.)

GOOGLE

Google sells advertising to UK customers, but does this from Ireland despite having a large office in London. Using a double Irish tax structure, google also pays little tax in Ireland, even though corporation tax rate there is a mere 12.5%

Closing Tax avoidance loopholes

- The OECD/G 20 Base Erosion and Profit Shifting (BEPS) project is designed to provide solutions for government to close existing international rules that allow corporate profits to ‘disappear’ or be artificially shifted to low or no tax environments, where companies have little or no economic activity.

- The new forum will provide for all interested countries and jurisdictions to participate as BEPS Associates, who will then work with the OECD and G-20 members on the remaining standard-setting under the BEPS project, as well as the review and monitoring of its implementation.

- Four BEPS minimum standards, in the area of harmful tax practices, tax treaty abuse, Country-by-Country Reporting requirements for transfer pricing and improvements in Cross-border tax dispute resolution.

- The key principle underlying the BEPS Project, that profits should be taxed where the real economic activities generating the profits are performed and where value is created.

Organization of Economic Cooperation Development (OECD) and Base Erosion and Profit Shifting (BEPS)

MNCs with Group turnover of $ 1.125 billion shall report Country by Country Reporting to Income tax authorities of Singapore

Singapore will implement a new reporting rule for multi nationals whose parent entities are based here, as part of its commitment to deepen its involvement in the international campaign against corporate tax avoidance.

Country-by-Country Reporting (CBCR) will apply to Singapore based multinationals whose group turnover exceed $ 1.125 billion.

Organization of Economic Cooperation Development (OECD) and Base Erosion and Profit Shifting (BEPS)..cont.

The rule will take effect for the financial year beginning on or after January 1, 2017. Companies will have to file the report by filing out a template developed by the Organization of Economic Cooperation Development (OECD) with the Inland Revenue Authority of Singapore within 12 months after the fiscal year has ended, starting with the first FY starting after 1st January 2016

The template will require the company to disclose data such as its profits, revenues and taxes paid in each country it has operations in.

Organization of Economic Cooperation Development (OECD) and Base Erosion and Profit Shifting (BEPS)..cont.

Last year, the OECD set out a blue-print known as the BEPS Project to clamp down on the practice, and Singapore expressed its agreement with the plan.

By joining the inclusive framework, Singapore will become a "BEPS Associate", and will work with other participating jurisdictions to develop the implementation and monitoring phase of the BEPS project.

Organization of Economic Cooperation Development (OECD) and Base Erosion and Profit Shifting (BEPS)..cont.

The implementation of CBCR here comes as Singapore joins the inclusive framework for the global implementation of the Base Erosion and Profit Shifting (BEPS) Project spearheaded by the OECD and Group of 20 economies (G-20).

Base erosion and profit shifting refer to the practice of companies channeling their profits into a jurisdiction where they have little economic activity in order to benefit from that location's tax rates, which may be lower than the rates levied in the places where their operations actually take place.

Template for the Country by Country Report

Name of MNE group:
Fiscal Year Concerned:
Currency:

Tax Jurisdiction	Revenues			Profit (Loss) before Income Tax	Income tax paid (on cash basis)	Income tax Accrued- Current Year	Stated Capital	Accumulated earnings	No. of Employees	Tangible Assets other than cash and cash equivalents
	Unrelated Party	Related Party	Total							

The most significant potential consequences to be are:

- Restrictions on interest deductions (could affect purely UK based businesses).
- A more restrictive patent box regime for intellectual property
- A tighter definition of 'permanent establishment'
- Increased transparency about profits earned and tax paid in each country
- An increase in cross border tax disputes
- A tightening of the transfer pricing rules and in a separate EU development, the potential re opening of rulings given by EU member states.

Eight Action points are particularly important priorities for developing countries

- **Action 4**: Limit base erosion via interest deductions and other financial payments
- **Action 6**: Prevent the granting of treaty benefits in inappropriate circumstances
- **Action 8**: Assure that transfer pricing outcomes are in line with value creation, intangibles
- **Action 9**: Assure that transfer pricing outcomes are in line with value creations : risks and capital
- **Action 10**: Assure that transfer pricing outcomes are in line with value creation with reference to other high risk transactions, in particular, management fees.

Eight Action points are particularly important priorities for developing countries (cont….)

- **Action 11**: Establish methodologies to collect and analyze data on base erosion and profit shifting and the actions to address. Countries have also expressed enthusiasm for the work in Action 11 (data collection and analysis) as they view the long term future of resolving BEPS as being connected to significantly better sources of information

- **Action 12**: Require taxpayers to disclose their aggressive tax planning arrangements

- **Action 13**: Re examine transfer pricing documentation

Other Action plans of OECD are:

- **Action 1**: address the tax challenges of the digital economy. This produce the most long term systematic response to base erosion and profit shifting in developing countries.

- **Action 2:** The OECD's second action point in the BEPS Action Plan is to "neutralize the effects of hybrid mismatch arrangements."

- **Action 3:** Strengthens CFC rules. Develop recommendations regarding the design of controlled foreign company rules. This work will be coordinated with other work as necessary.

- **Action 5**: Countering harmful tax practices. There was a strong perception that management fees and head office services were overvalued. Tax deductions for payments in respect of these services were received as a common technique for shifting profits. Number of respondents raised the pricing of royalty payments for intellectual property as a BEPS problem. There is merit in concluding bilateral advance pricing agreements that leverage off the OECD's guidelines on arm's length pricing.

Other Action points for developing countries are (cont…………)

- **Action 7**: Avoidance of PE status. Develop changes to the definition of PE to prevent the artificial avoidance of PE status in relation to BEPS, including through the use of commissionaire arrangements and the specific activity exemptions. Work on these issues will also address related profit attribution issues.
- **Action 14:** Make dispute resolution mechanisms more effective. Develop solutions to address obstacles that prevent countries from solving treaty-related disputes under MAP, including the absence of arbitration provisions in most treaties and the fact that access to MAP and arbitration may be denied in certain cases.
- **Action 15: Multilateral instrument.** Analyze the tax and public international law issues related to the development of a multilateral instrument to enable jurisdictions that wish to do so to implement measures developed in the course of the work on BEPS and amend bilateral tax treaties