



MAP: The Wins of Change Thriving in a World of In-Betweens

GLOBAL TAX REFORMS: National Implications of Long-Term Structural Challenges, Trends and Policy Directions”

Disclaimer

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Caveat: The business models and law is constantly evolving and varies from country to country.

Thank you.



3 Mega-Trends

#1 From North-South Divide to Digital Divide

North-South Divide



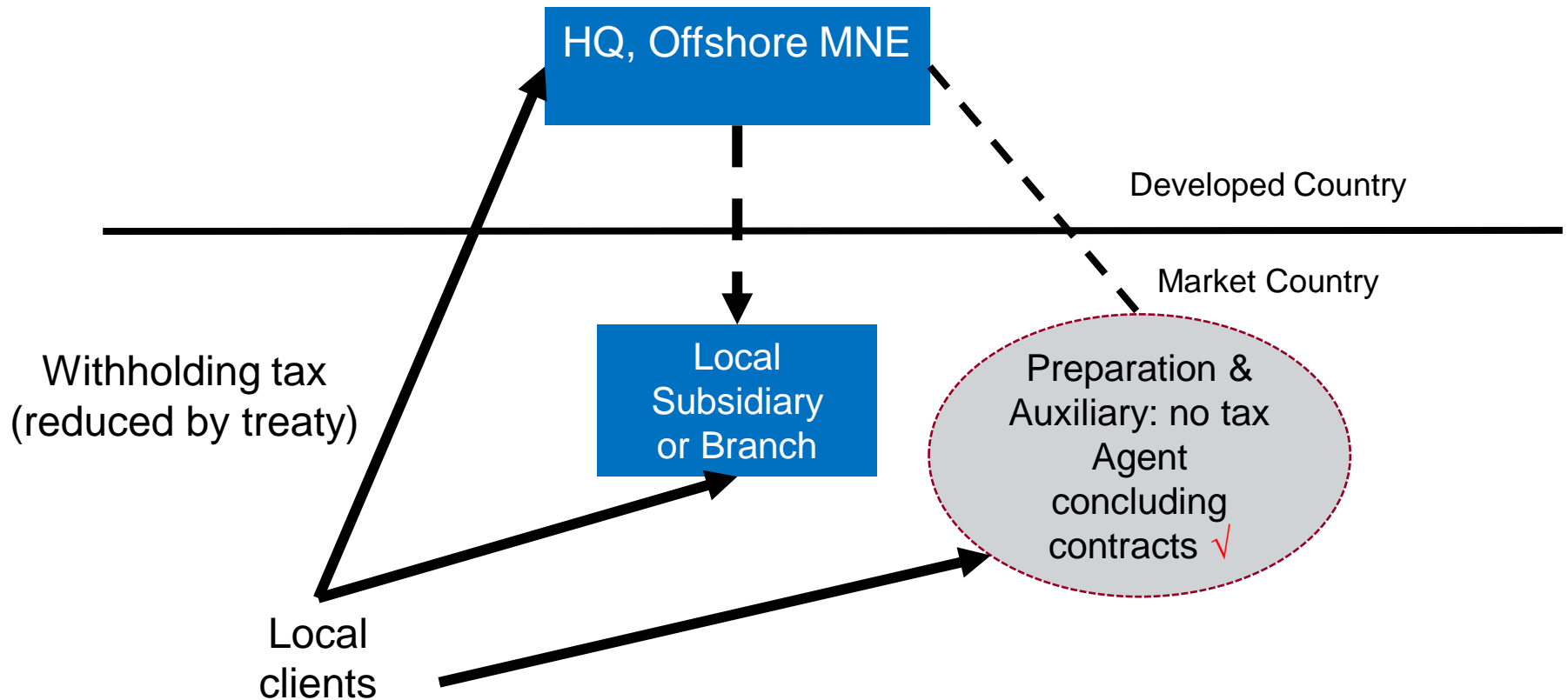
Capital Exporters



GDP per capita World Bank 2020

International Tax Norms Favoured Capital Exporters

No physical presence = No Tax

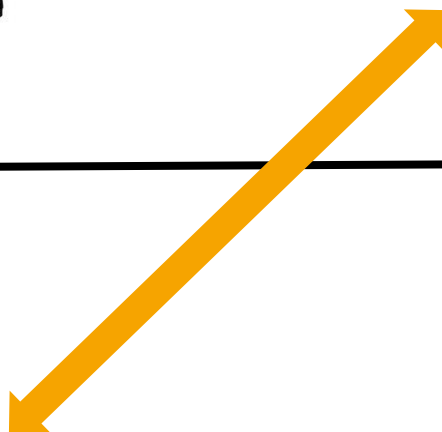


Digital Divide: China & US vs the Rest

20 largest internet companies June 2022 by market cap
Alphabet
Amazon
Meta
Tencent
Bytedance
Alibaba
Netflix
PayPal
Meituan
Pinduoduo
Sea Limited (Singapore)
JD.com
Booking
Snap
Uber
NetEase
Baidu
Twitter
Naver (Korea)
Shein

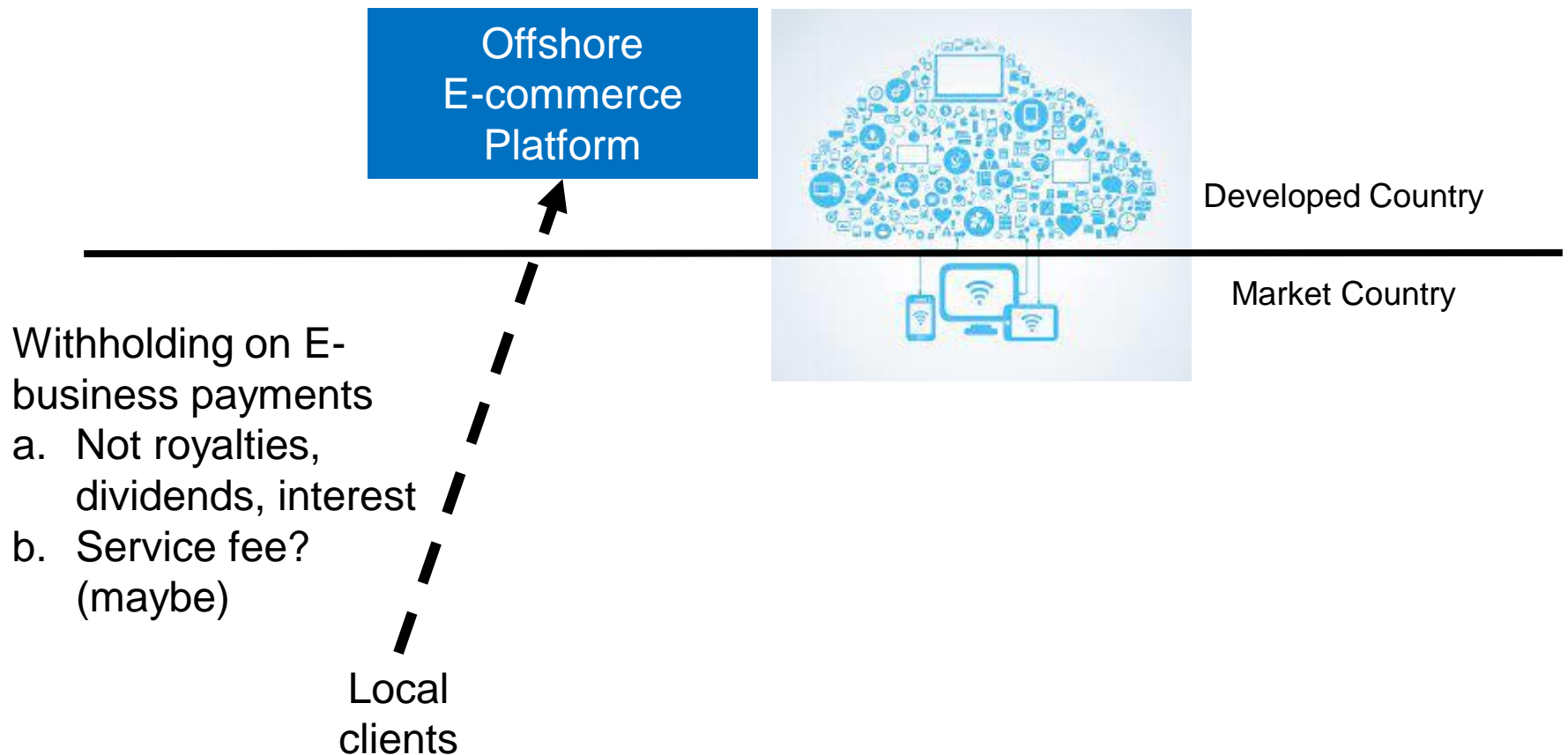


Digital Leaders



International Tax Norms Favoured Capital Exporters

No physical presence = No Tax



Mining the “New Oil”? – Taxing Data

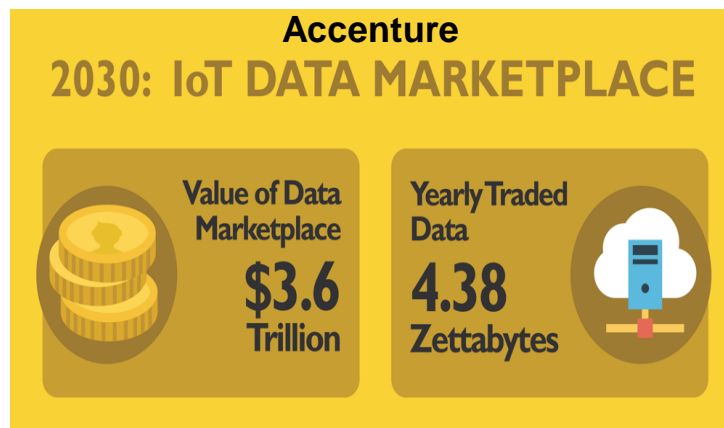
*World Economic Forum: Global data economy is pegged at \$3 trillion. The **fundamental issue** “**Who owns the data and has intellectual property rights on it**”?*

*Forbes Technology Council: Over **4% of all jobs in the U.S.**, along with over **5% of national output**, come from the contribution that data makes to the economy.*

*Europe: every **new data center** built drives between £397 million and £436 million a year in new value for a country.*

Value of Personal Data

Wordstream, in 2017, the **average cost per Google AdWords click was \$2.32.**

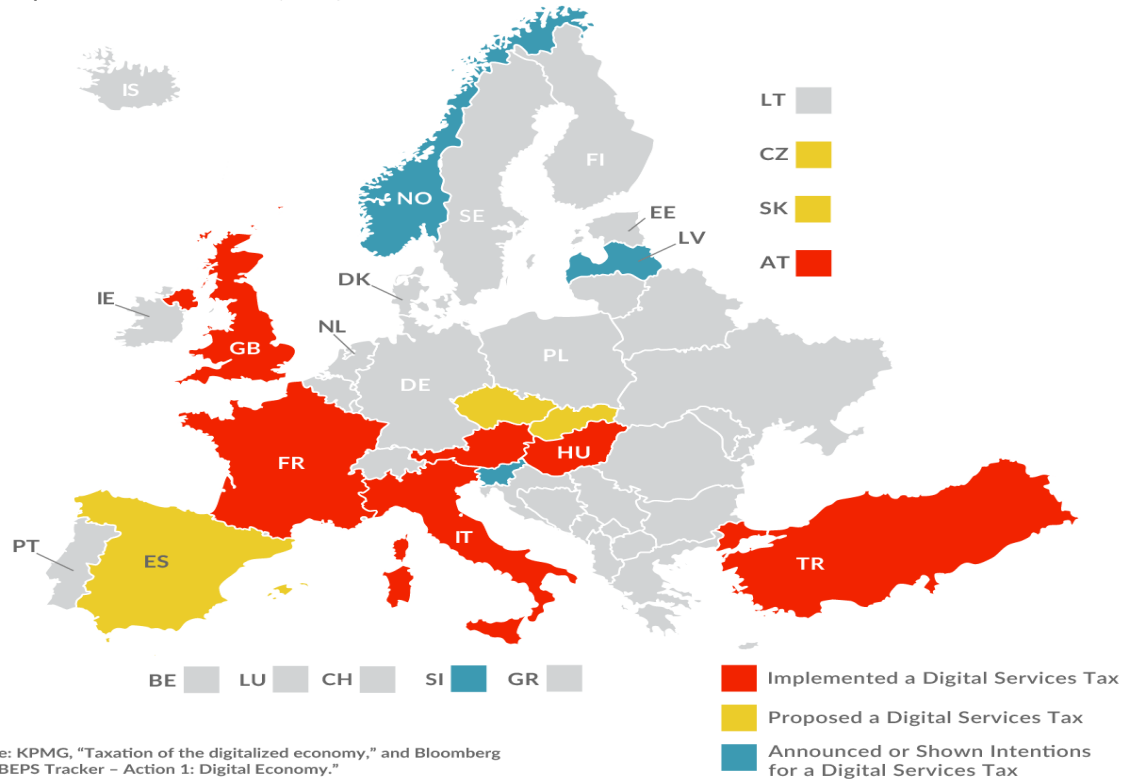


Source: <https://www.weforum.org/agenda/2017/09/the-value-of-data/>
<https://www.forbes.com/sites/forbestechcouncil/2018/10/03/how-to-realize-the-value-of-your-data/>
<https://hbr.org/2016/09/had-data-costs-the-u-s-3-trillion-per-year>
<https://medium.com/permissionio/how-much-is-your-data-worth-c28488a5812e>
<https://datamakespossible.westerndigital.com/value-of-data-2018/dawn-of-data-marketplace/>

Proliferation of Digital Services Taxes

Digital Services Taxes in Europe

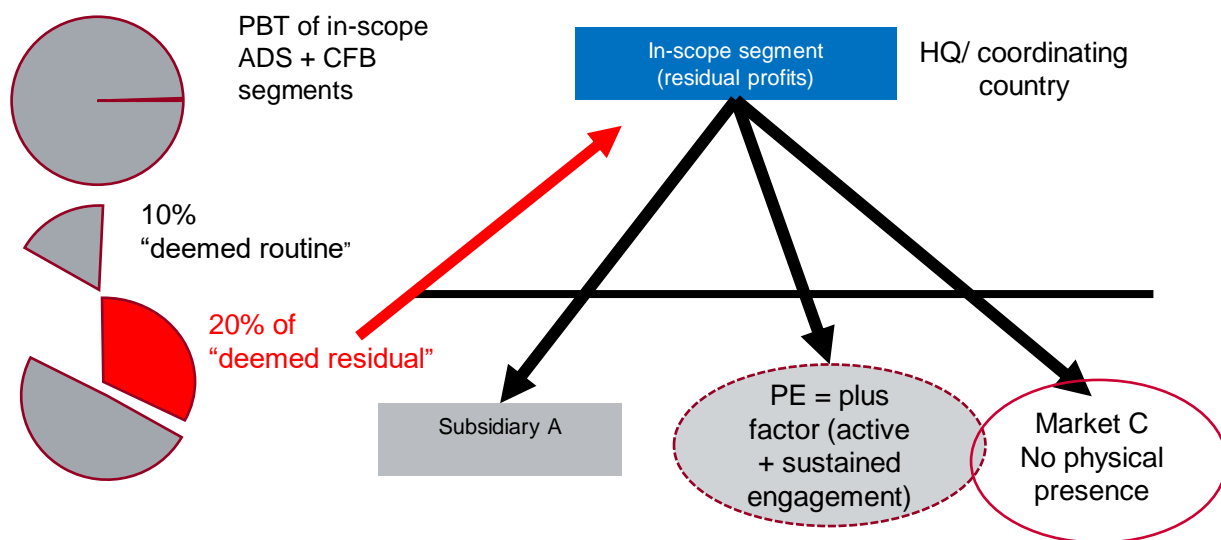
Announced, Proposed, and Implemented Digital Services Taxes in European OECD Countries, as of March 2020



Digital Taxes Across Asia- Pacific (2021)

- » South Korea (July 1, 2015) – 10% VAT on electronically supplied services
- » Japan (in October 1, 2015) - foreign digital service providers subject to Japanese consumption tax of 10%. 2021 – Int Tax Study Group on Pillars 1 & 2 and possible DST
- » India (July 1, 2016) – 6% equalization levy on digital advertisement, 2% on e-commerce starting April 1, 2020
- » Australia (July 1, 2016) – 10% GST on the sale of electronic/digital services by non-resident providers
- » New Zealand (Oct 1, 2016) – 15% GST on non-resident providers of e-services; overseas vendor registration wef Dec 1, 2019
- » Taiwan (May 1, 2017) – 5% VAT, registration requirement
- » Malaysia (Jan 1, 2020) - 6% DST on registered foreign service providers who provide any digital services to a consumer in Malaysia
- » Singapore (Jan 1, 2020) – GST - Overseas Vendor Registration and Reverse Charge at 7%
- » Indonesia (April 1, 2020) – 10% VAT (30 companies appointed as withholding agents), PE and Electronic Transactions Tax (pending)
- » Philippines – VAT 12% (5% to government), House Bill 7245
- » Thailand – VAT 7% enacted via Royal Gazette on 10 Feb 2021. Effective from 1 Sept 2021. Registration for overseas e-commerce operators or platform to pay VAT on behalf. No input tax.
- » Vietnam – Foreign Contractor Tax on outbound digital payments to “non-resident e-commerce businesses” deferred to 1 Jan 2021 (from 1 Jul 2020). FCT = VAT + corporate income tax (mechanism likely withholding via banks)

G20-OECD BEPS 2.0 (Pillar 1) 2021: 138 jurisdictions



Total Group (in-scope & out of scope)
= XXX,000 millions

In-scope segment	millions
Revenue	25,000
Profit before Tax	6,500
PBT margin	26%

Sub A	2,000	In-scope
PE B	18,000	CFB plus
Market C	5,000	ADS
Total	25,000	

Step 1: Profitability Threshold (10%)

Group residual profit = $6,500 - (25,000 \times 10\%) = 4,000$

Step 2: Reallocation Percentage (20%)

Amount A = $20\% \times 4,000 = 800$

Step 3: Allocation

	Revenue	Amount A Allocated
Sub A	2,000	$(2/25) \times 800 = 64$
PE B	18,000	$(18/25) \times 800 = 576$
Market C	5,000	$(5/25) \times 800 = 160$

Note: This is a stylized illustration as of end of 2021, actual rules still evolving

For the Policy-maker: Before Taxing Digital

» Threshold Question

Can you measure what you would like to tax? What is value of data?

» Consider Both Sides including Distortive, Unintended Impact

- Broaden the tax net
- Level playing field: digital (esp offshore) vis-à-vis local merchants

BUT

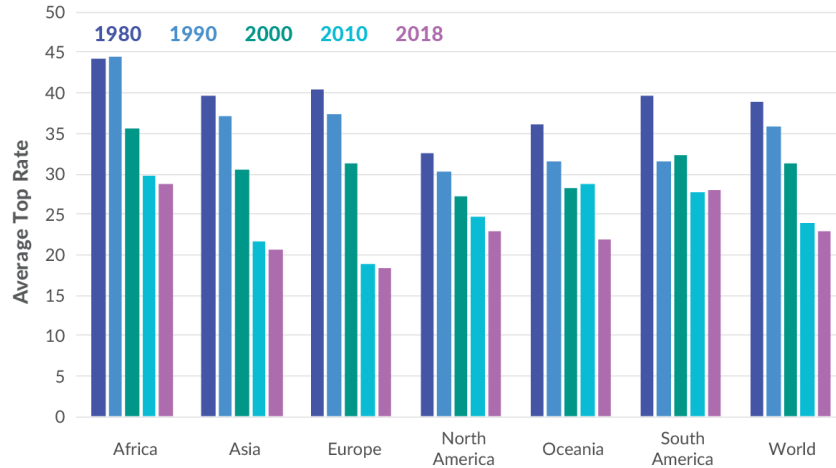
- Tax increase runs counter-cyclical to COVID19 recovery (OECD position)
- Distortive Impact of Taxes
- Incidence of Taxation transferred to consumers by MNEs
- Administrability and cost of compliance
 - Business model, type of income evolving – Fintec/blockchain, Consulting Services, SaaS, Sale of Data/Analytics
 - Segmentation or Ring Fencing to be more targeted?
- Impact on FDI: Each Cloud Data Centre built drives between £397-436 million a year in new value for a country
 - Comparative advantage of one's country e.g. digital graphic design

#2 Tectonic Shift in Taxation

G20-OECD Base Erosion Profit Shifting
a *Red-Herring* before the real change?

Era of Globalisation, the “Great Moderation” Over? What about the “Great Slide” in Tax Rates?

Average Top Corporate Income Tax Rate by Region and Decade



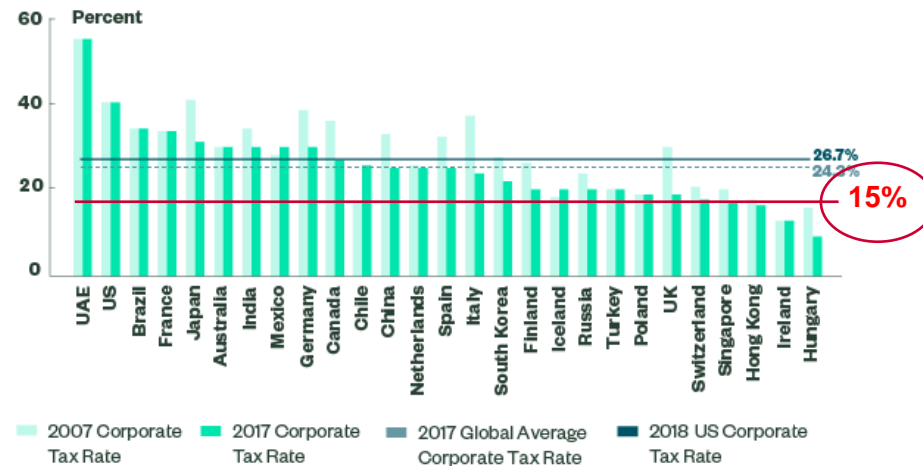
Source: Tax Foundation. Data compiled from numerous sources including: PwC, KPMG, Deloitte, and the U.S. Department of Agriculture.

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Figure 1: Corporate Tax Rates Around the World

Post-reform, the US corporate tax rate still exceeds the global average rate.



Source: KPMG, as of March 2018.

Impact of G20-OECD BEPS 2.0: World collects USD100bn more

Table 1. Overview of global tax revenue effects from the proposals

Estimates based on illustrative assumptions on the design and parameters of Pillar One and Pillar Two

Estimated global tax revenue gains		In % of global CIT revenues	In USD billion
Pillar One		0.2%-0.5%	5-12
Pillar Two	Direct revenue gains	0.9%-1.7%	23-42
	Additional gains from reduced profit shifting	0.8%-1.1%	19-28
	Total Pillar Two	1.7%-2.8%	42-70
Total Pillar One and Pillar Two		1.9%-3.2%	47-81
US GILTI regime		0.4%-0.8%	9-21
Total, including GILTI		2.3%-4.0%	56-102

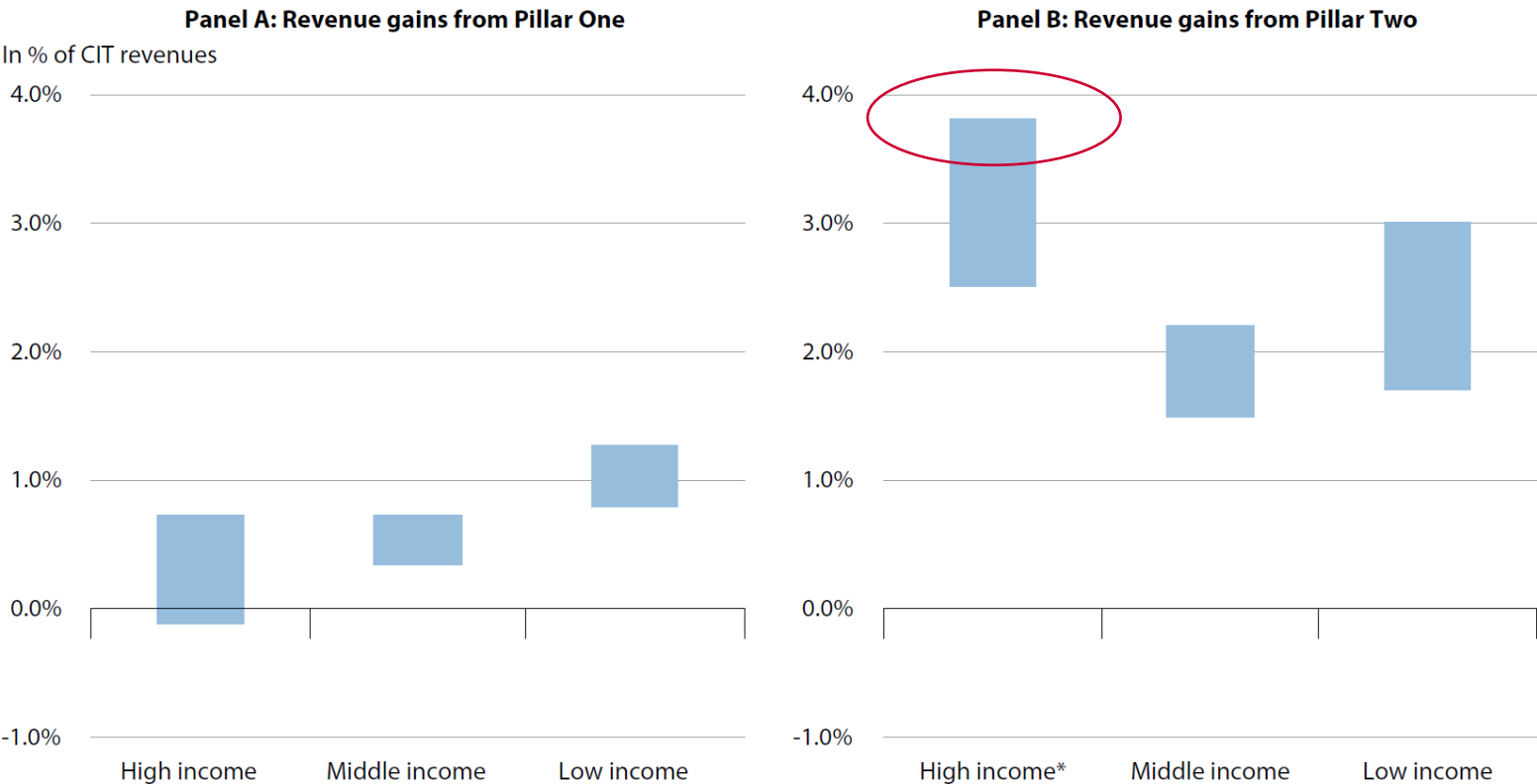
Note: The estimates in this table are based on the following illustrative assumptions. Pillar One, for which only Amount A is modelled, is assumed to focus on Automated Digital Services (ADS) and Consumer Facing Businesses (CFB), with a global revenue threshold of EUR 750 million, a profitability threshold percentage of 10% (based on the ratio of profit before tax to turnover), a reallocation percentage of 20% and a nexus revenue threshold of EUR 1 million for ADS and EUR 3 million for CFB. Pillar Two is assumed to involve a 12.5% minimum tax rate with jurisdictional blending and a 10% combined carve-out on payroll and depreciation expenses. The US GILTI regime is illustratively assumed to 'co-exist' with Pillar Two. Therefore, US MNEs (which are subject to the GILTI regime) are excluded from the Pillar Two gains in this table. Revenues from GILTI are included in this table based on estimates from the US Joint Committee on Taxation. MNEs are assumed to reduce their profit shifting intensity in reaction to Pillar Two introduction, resulting in additional tax revenue gains. The interaction between Pillar One and Pillar Two is taken into account in this table. Estimates are presented as ranges to reflect uncertainty around the underlying data and modelling. See Chapters 2 and 3 of the Economic Impact Assessment for more details.

Source: OECD Secretariat calculations, and estimates from the US Joint Committee on Taxation for GILTI.

Economic Impact: Global Corp Income Tax Rates Up 4%

Figure 2. **Estimated effect of the proposals on tax revenues, by jurisdiction groups**

Estimates based on illustrative assumptions on the design and parameters of Pillar One and Pillar Two



Note: The estimates in this figure are based on the following illustrative assumptions. Pillar One is assumed to focus on Automated Digital Services (ADS) and Consumer Facing Businesses (CFB), with a global revenue threshold of EUR 750 million, a profitability threshold percentage of 10% (based on the ratio of profit before tax to turnover), a reallocation percentage of 20% and a nexus revenue threshold of EUR 1 million for ADS and EUR 3 million for CFB. Pillar Two is assumed to involve a 12.5% minimum tax rate with jurisdictional blending and a 10% combined carve-out on payroll and depreciation expenses. The US GILTI regime is assumed to 'co-exist' with Pillar Two. As a result, the United States is not included in Panel B to ensure greater comparability of results (but it is included in Panel A). Pillar Two estimates take into account the interaction with Pillar One and include gains from a reduction in the profit shifting intensity of MNEs resulting from Pillar Two introduction. Estimates are presented as ranges to reflect uncertainty around the underlying data and modelling. Groups of jurisdictions (high, middle and low income) are based on the World Bank classification. Investment hubs (defined as jurisdictions with a total inward FDI position above 150% of GDP) are not included in this figure. See Chapters 2 and 3 of the Economic Impact Assessment for more details.

Source: OECD Secretariat calculations.

Drop in the Bucket...

THE 2020 BUDGET DEFICIT IS CURRENTLY PROJECTED TO REACH \$4.2 TRILLION

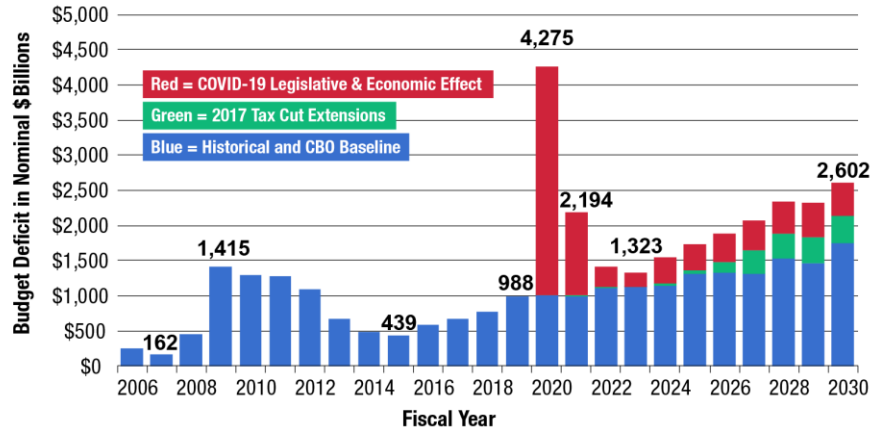


Chart: Manhattan Institute / Source: Estimated using Jan. 2020 CBO baseline and historical data, CBO bill scores, and author estimates of economic costs as of April 2020.
By Brian Riedl, Manhattan Institute (@Brian_Riedl)

THE CORONAVIRUS PANDEMIC WILL PUSH THE NATIONAL DEBT PAST THE PREVIOUS WORLD WAR II PEAK

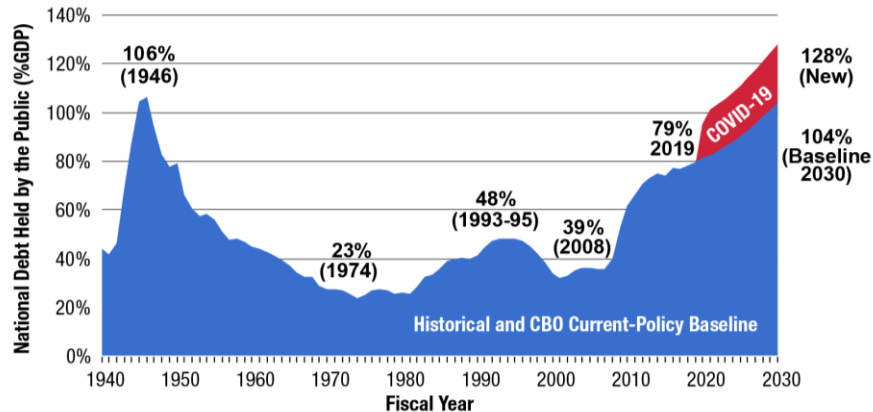
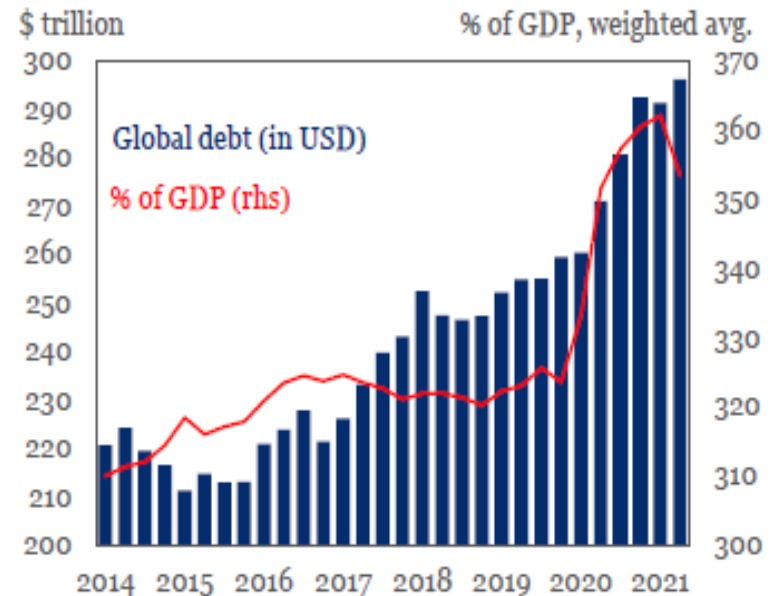


Chart: Manhattan Institute / Source: Estimated using Jan. 2020 CBO baseline and historical data, CBO bill scores, and author estimates of economic costs as of April 2020.
By Brian Riedl, Manhattan Institute (@Brian_Riedl)

Chart 1: Global debt is fast approaching \$300 trillion

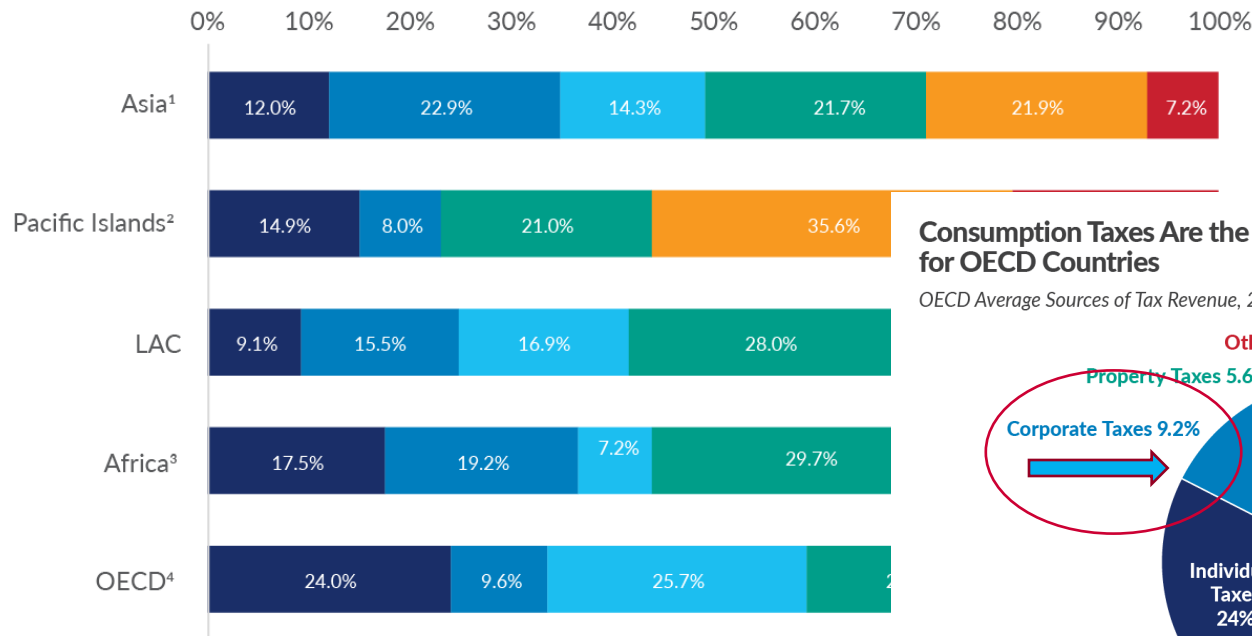


Source: IIF, BIS, IMF, National sources

Inevitable Tax Increases Beyond Corporate Income Tax

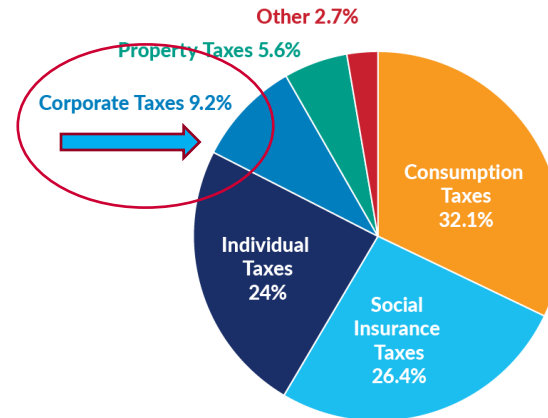
Sources of Tax Revenue, 2019

Individual Income Taxes Corporate Income Taxes Social Security Contributions
Value-Added Taxes Other taxes Other Taxes on Goods and Services



Consumption Taxes Are the Most Important Tax Revenue Source for OECD Countries

OECD Average Sources of Tax Revenue, 2020



Notes: The figures do not include sub-national tax revenue for the Cook Islands, Fiji, Lao PDR, Malaysia, the Solomon Islands and Viet Nam.

1. Asia includes: Bhutan, China, Indonesia, Japan, Kazakhstan, Korea, Lao PDR, Malaysia, Maldives, Mongolia, Viet Nam.

2. Pacific Islands include: Cook Islands, Fiji, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tokelau.

3. Data for Africa average, Australia, Japan and Korea is from 2018 because 2019 data was not yet available.

4. Australia, Japan, Korea and New Zealand are part of the OECD (37) group.

Source: OECD, "Revenue Statistics in Asia and the Pacific 2021."

Source: OECD, "Revenue Statistics - OECD Countries Comparative Tables."

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Boiling the Frog? Depending on Your Horizon

Quarterly



Restrained increase till 2023? COVID, inflation, war



2024 onwards - 15% global min tax; +4% from BEPS



Long-term sustainable rate ?

1990s global average – 35%



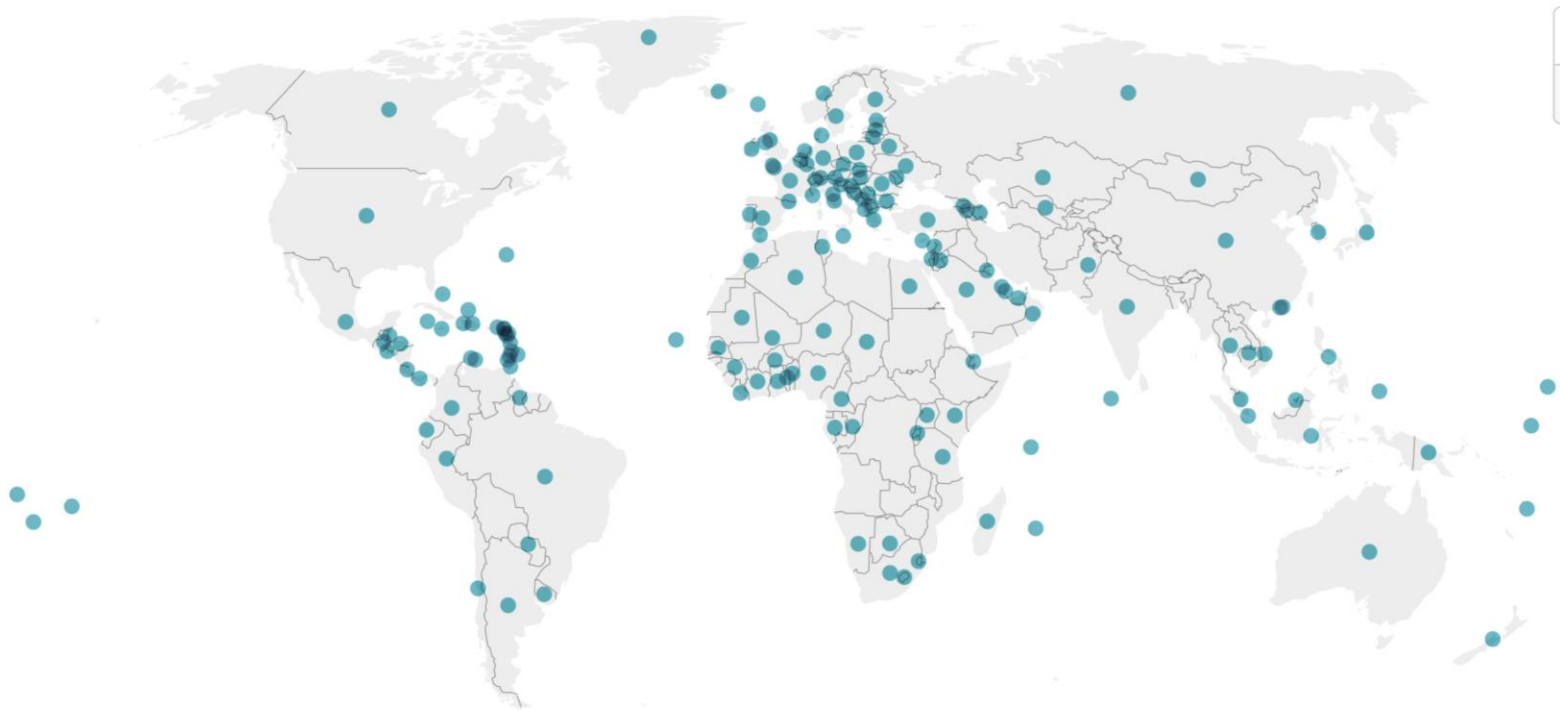
#3 Hyper-Transparency

**Authorities know more about
the Company than the Taxpayer**

Hyper Transparency: Data the “New Oil”

The 165 members of the Global Forum

Last update: June 2022

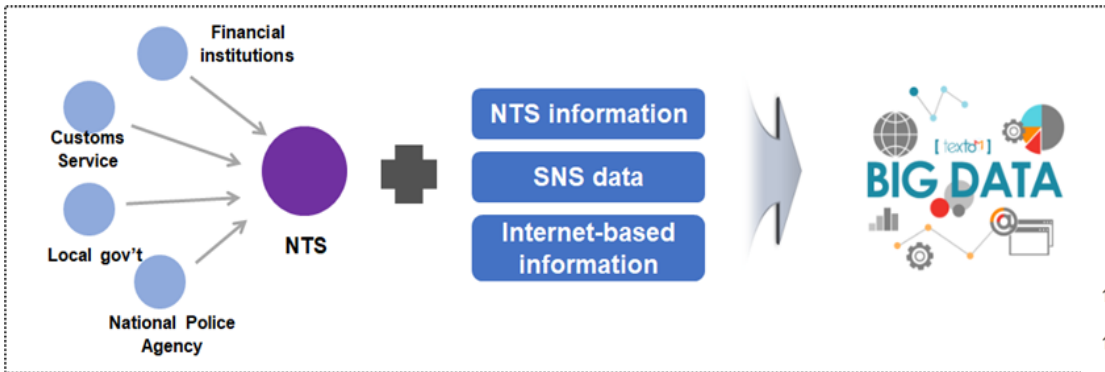
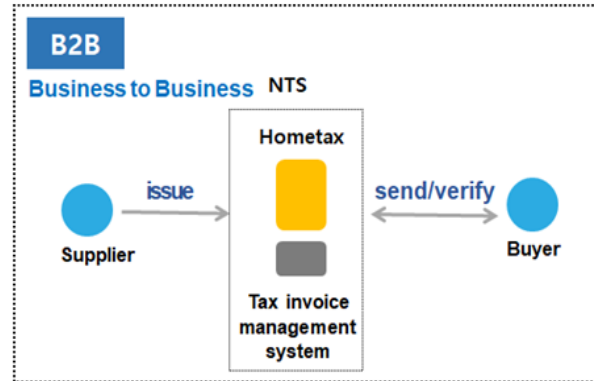
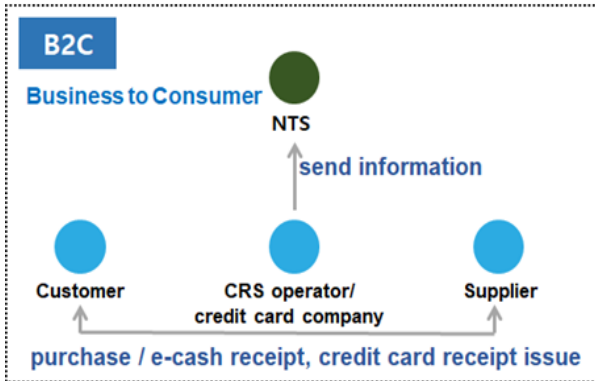


- ✓ Information on 111 million financial accounts, covering total assets of EUR 11 trillion, was **automatically** exchanged in 2021
- ✓ 370 000 requests for information since 2009
- ✓ Mar 22: > 3000 bilateral exchange relationships re Country by country (CbC) reports
- ✓ Move towards public disclosure of CbCR info e.g. EU

Source: OECD

Mining the “New Oil”: Harnessing Big Data & Analytics

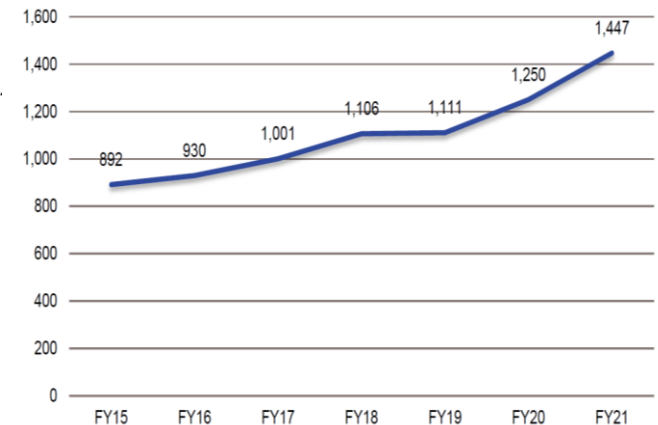
Data Collection & Analyses



Russia – Moscow knows when you buy a coffee in Vladivostok

China – Request for meta-data at transactional level

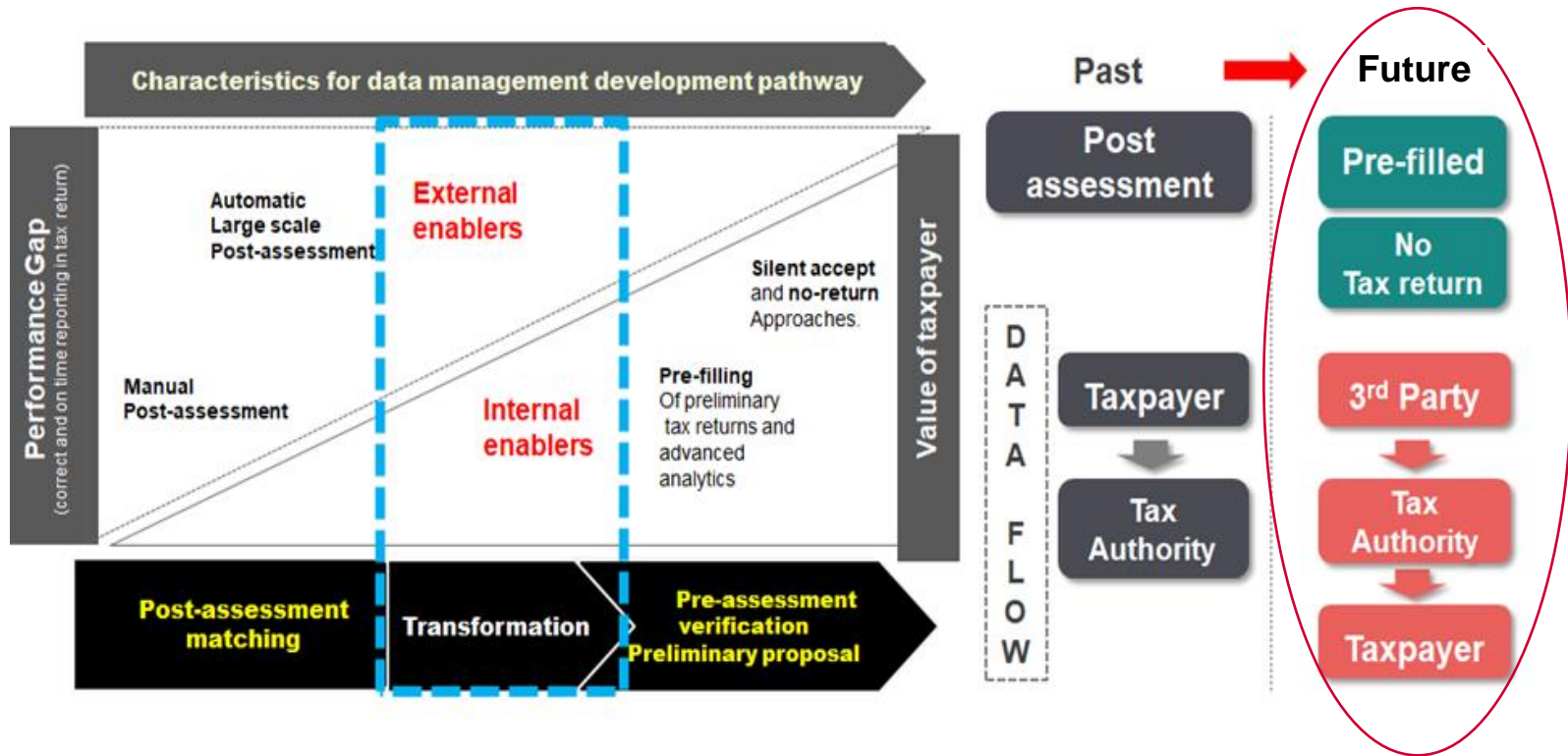
Australia tax office - adding 100 Data/AI FTEs every year



Source: Clayton Utz

Interaction with the Tax Authorities in the Future

Evolution of Tax authority –Taxpayer Process Flow: From post-assessment crosschecking to pre-filling and no return approaches



Key Take-aways

- » Taxes are Going Up
- » Data the “new oil” is also mined by tax authorities
- » Digital Divide of the Future: Hyper-transparency, authorities may know more than you about your company

Q: Is your Audit Committee, CFO aware & tax function prepared?

Thank you