



Taxing Multinational Enterprises in 2020s

Aalto University 5 May 2022

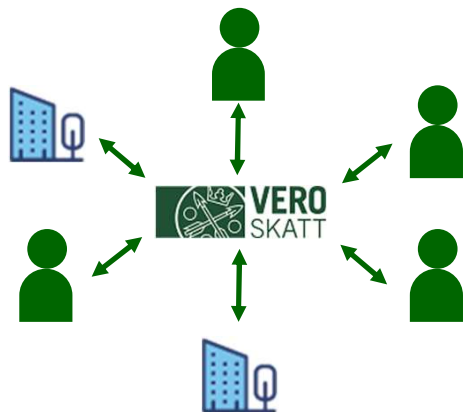
Sami Koskinen

Finnish Tax Administration

Journey towards tax administration 3.0



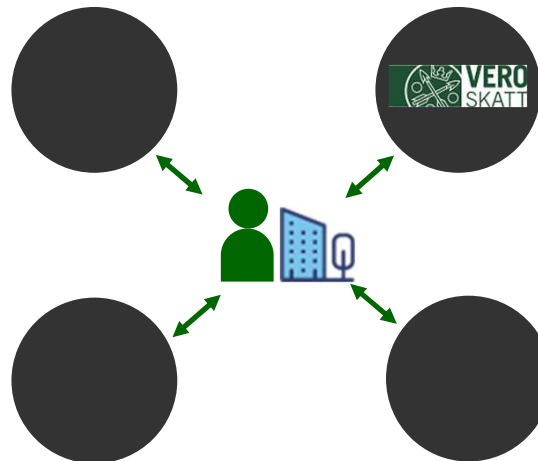
Tax administration 1.0



Paper filing
Separate processes
Governmental organizations work in their own bubbles
Past perspective
Guidance is given when guidance is asked for
Taxpayers



Tax administration 2.0



Digital filing
Joined-up processes
Governmental organizations exchange information
Real-time focus
Guidance is given pro-actively to customers according to situation
Customers



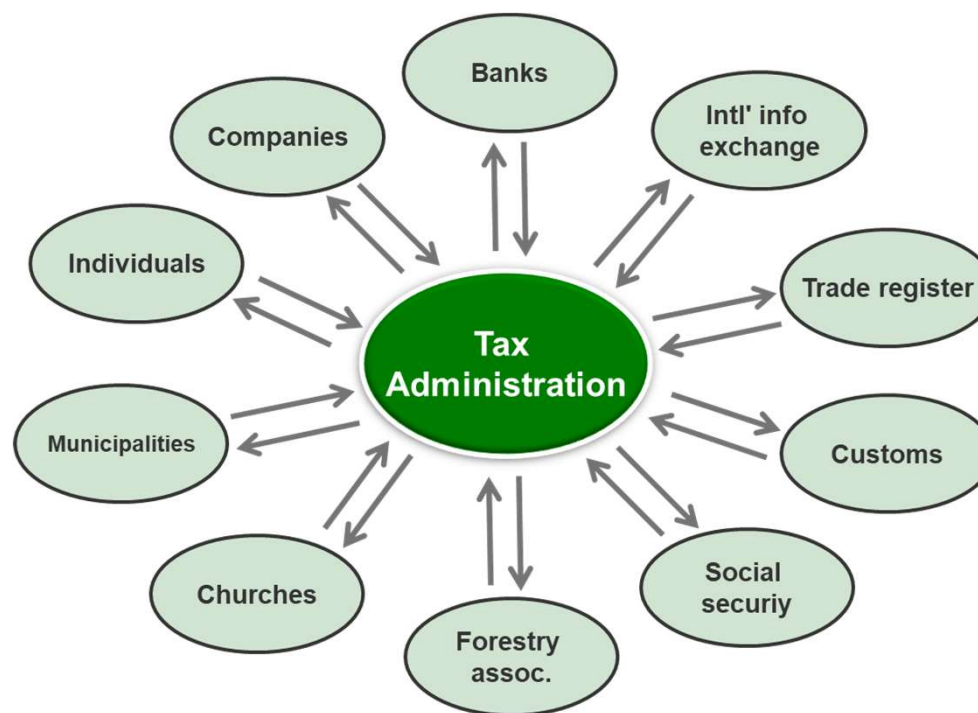
Tax administration 3.0



No separate filing
Processes are developed around customers' needs
"One stop shop"
Focus on the future
The need for guidance and service can be predicted
Partners

Taxation: management of information flows

- and based on (voluntary) compliance



VOLUNTARY COMPLIANCE

- Culture - Trust - Transparency - Equality - Reciprocity -

Digitalisation changing the landscape in business and in taxation



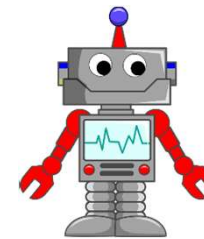
Internationalisation



Payment technologies



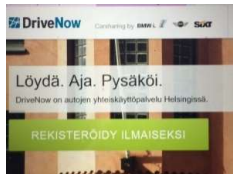
The role of AI



Block chain decentralising data



Platform economy changes ways to earn



Business models on the move



Forces driving the change



Reaching the limits of current service and enforcement instruments



The impact of compliance burdens



Changing societal expectations



Accessing and using information in changing business models



Privacy, security and transparency concerns

Taxation as a part of daily events of taxpayers - ecosystems



The data required by the services is created in the course of daily routines - sharing of the data in the ecosystems allows for limiting or even abolishing the need for separate tax reporting

The parties to the ecosystem utilise the standardised data - processes in different instances support one another



Toucpoints for clients

Daily events providing a natural interface towards service providers

For an individual, the touchpoint can be e.g. sale of real-estate/apartment

For companies, the touch point is first and foremost the financial system/software

Natural ecosystems

Public and private services connected with the same event or phenomenon form a natural whole

Required components

Digitalisation and automation

Digital capabilities

Standardisation and interoperability

OECD TA 3.0 vision of the ecosystem for MNEs



Business events and transactions	Service delivery cross border	Transfer pricing	Cross border logistics
Today's issues	<ul style="list-style-type: none"> Allocating VAT and excise taxes correctly among countries 	<ul style="list-style-type: none"> Burdensome to document compliance Controls years after transactions, tax uncertainty 	<ul style="list-style-type: none"> High cost of documentation to ensure compliance along the logistics chain Fast changing and complex rules specific for sectors and countries, tax risks
TA 3.0 strategies	<ul style="list-style-type: none"> Transportation infrastructure taxes based on tracking of use Taxation of E-services delivery based on tracking location of consumption Use of GPS and sensors in the vehicles Automatic tolling 	<ul style="list-style-type: none"> AI based algorithms and rules for transfer pricing made available from the government Governments compliance activities focused on system revision in the enterprise Semi automatic dialog between government and company on transactions only in exceptional cases 	<ul style="list-style-type: none"> Tax included in development of fully digital logistic chains, enhancing value of real time value chain management Supporting real time risk assessment and updates for logistics activities, including tariff changes and timing of customs requirements
Taxpayer experience	Company's business system is automatically reporting and paying taxes to the relevant tax administrations according to the rules in each country.	Correct pricing of intangibles has become a more prominent part of their discussions with tax authorities . Correct pricing is supported by AI based algorithms and rules made available from the government. They experience a predictable up-front dialogue with the tax authorities whenever ambiguities occur.	They experience an efficient cross-border taxation process. VAT, excise duties and customs fees are declared and settled automatically as goods cross borders . Physical interruption of transportation rarely occurs, and when it does inspections are swiftly handled by tax and customs authorities.
The ecosystem	The business system is connected to government platforms in each country , updated with rules and algorithms for indirect taxes and with digital interfaces for reporting and paying taxes.	The government's compliance activities are supported by a standard interface to the company's business systems . Rule-based filtering flags transactions and outcomes that the company should review and which may be subject to audit where the administration, supported by AI systems, is not satisfied.	With government authorities as part of the same ecosystem – and through the use of monitoring devices and AI - a more effective customs process is enabled. Physical inspection is targeted and efficient.

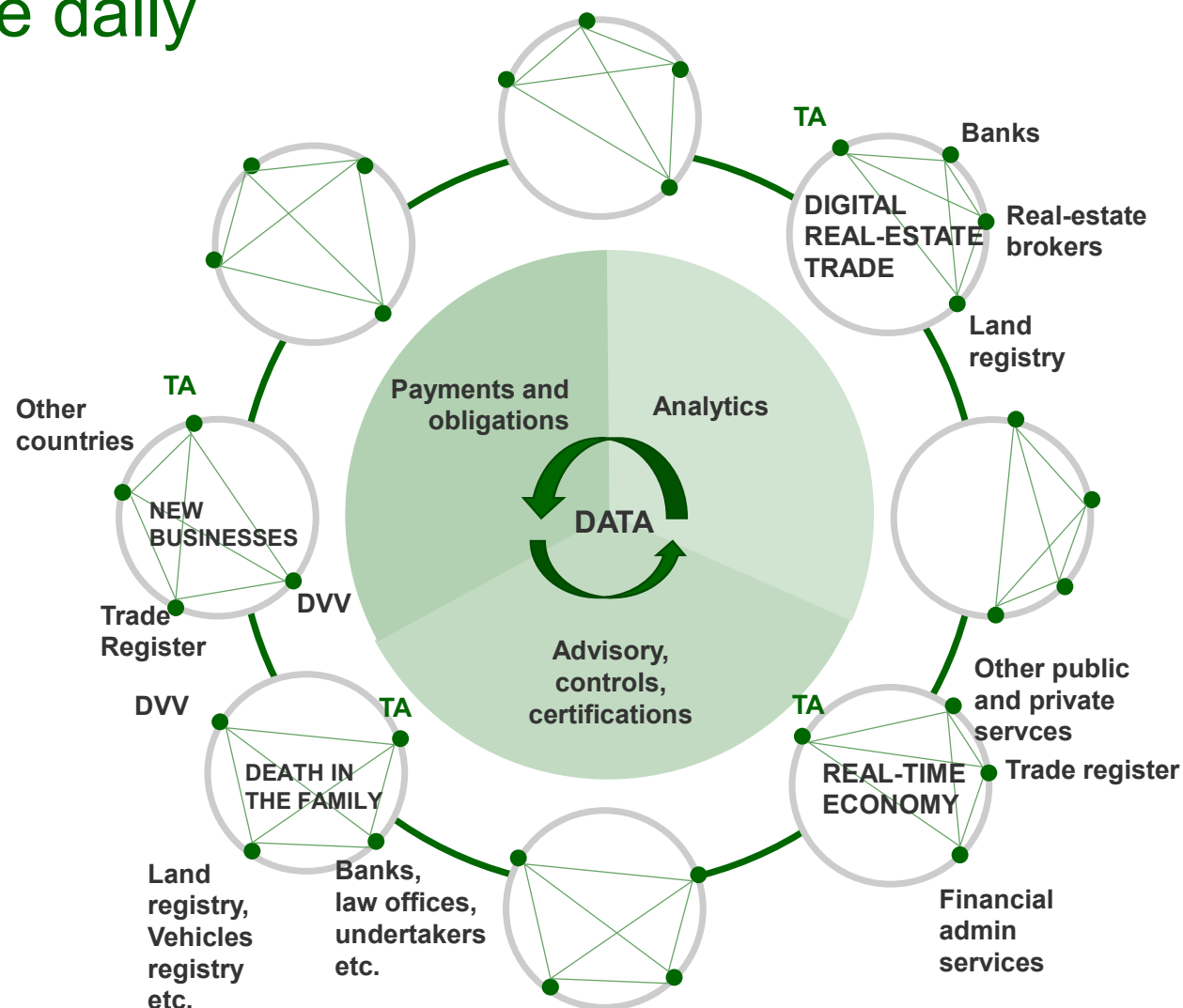
OECD TA 3.0 vision of the ecosystem for MNEs



Business events and transactions	Holistic international reporting	Acquisition of a company
Today's issues	<ul style="list-style-type: none"> • Country specific reporting requirements and standards • Obtaining adequate data and ensuring necessary quality 	<ul style="list-style-type: none"> • Complex reconciliations needed due to differing systems and different national standards. • Tax adds to the integration complexity.
TA 3.0 strategies	<ul style="list-style-type: none"> • International reporting standards and formats • Real time updates of national rules on how to apply the standard • Increasing ability for real time taxation 	<ul style="list-style-type: none"> • International standard for integrating systems from different vendors • International standard for transferring relevant data between systems
Taxpayer experience	The company has an updated overview of its tax status in each country and they feel they can predict tax risks reasonably well.	There is no urgent need to switch to buyer's business solution. Nevertheless, after a short period of time the new company is an integrated part of buyer's fully digital management system.
The ecosystem	The reporting still have differences, but the formats and the structure for the rules and algorithms are the same, based on a harmonized descriptions of these facts. The international standard formats covers both the transaction level (i.e. e-invoicing) and reporting to the government. The descriptions and delineations of these relevant facts are harmonized with financial reporting.	The buyer uses a management information system that integrates well with the different ERP systems and modules used in the enterprise even if they are from more than one vendor.

Taxation as a part of the daily events

- Taxation is a seamless part of selected ecosystems
- Processes are developed around customers' needs
- Partnering with different stakeholders
- Maintenance and continuity TBD



Vision 2030:

Finland is the most competitive operating environment



- Services will have moved to the web, and they will talk to each other.
- Companies will be able to move data efficiently and automatically.
- The economy will operate in real time
- Data will move automatically: key business information, including orders, delivery information and invoices, will be transmitted automatically between companies.
- Companies will no longer need to dedicate time for discharging their obligations towards the authorities: business data will also be transmitted automatically for purposes such as taxation or compilation of statistics.

In 2030

Key components of real-time economy for companies



Digital identity

Target state: the entire life cycle of companies is digitalised

The digital identity and the inherent unique identifier make it possible for contracting partners or, for example, authorities to identify the company reliably.

Based on digital identity, the digital financial administration documents can be linked to the correct trading partner and companies can share information about themselves (e.g. financial statements).



Digital business documents

Target state: orders, invoices and receipts are produced as structural procurement messages, e-invoices and electronic receipts

Structural receipts are automatically transferred between actors and linked to ERP and accounting systems.

The receipts and reports produced based on them are transferred reliably in a standardised format with the help of digital identity.



Sharing of digital financial data

Target state: Information is transferred via interfaces to different authorities and partners in a standardised format at one time.

The data provided to the authorities is of high quality, which reduces the need to revisit them afterwards.

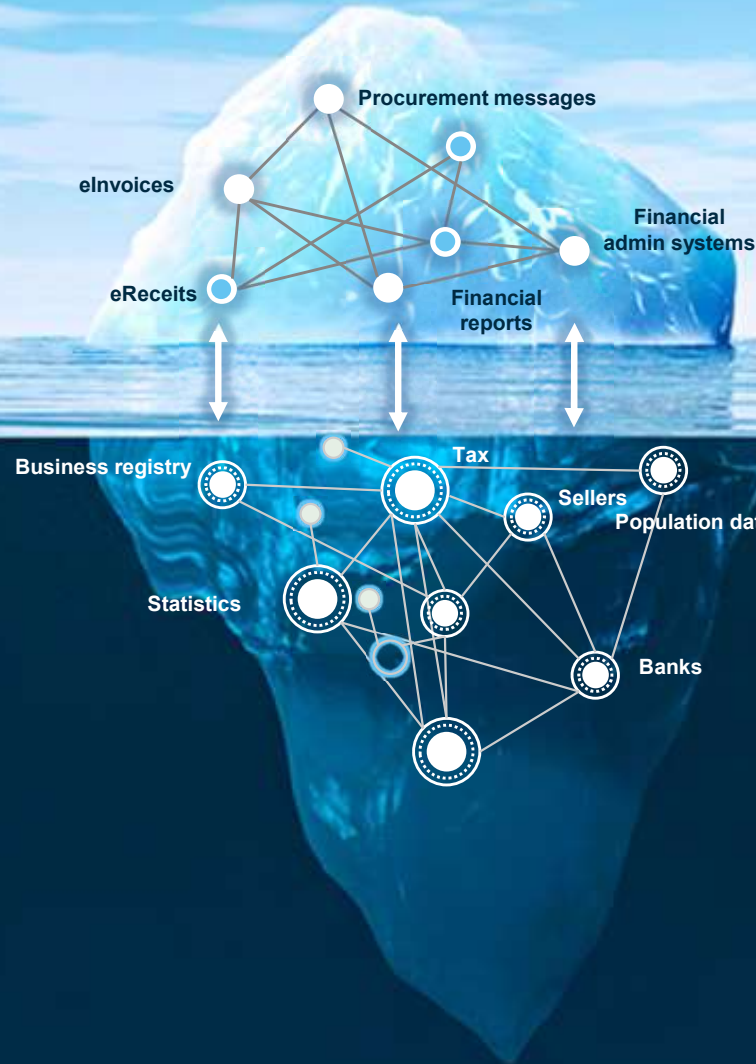
Stakeholders involved in the ecosystem can develop new services for their customers based on standardised data.

Yrityksen digitalous / Real Time Economy -project Ecosystem for financial administration



- The Real Time Economy -project is based on the vision of a national, Nordic country compatible ecosystem for businesses and service providers - in full operation in 2030
- The daily business documents (orders, invoices and receipts) and the financial reports move between parties of the ecosystem in securely, seamlessly, in real time and in machine readable format

- Standardised documents and APIs enable the so-called once only principle
- The digital identity for companies allows the identification of the business and the interoperability between systems without required human intervention
- The Real Time Economy will not be completed during the project, but the project will lay down the cornerstones for further development, including tax related solutions

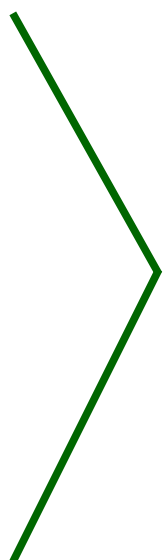


- RTE project was assigned in 2021 by ministry of Economic affairs, running until the end of 2024
- Key government agencies are the Patent and registration, Tax Administration, Population data, State treasury and Statistics
- Board of directors consist of wide business representation plus the relevant ministries

- All the development is based on true cooperation with all willing actors in the field of financial administration and the end customers
- Particular attention is paid to the digitalisation of the small enterprises, in many cases still based on paper processes
- www.yrityksendigitalous.fi/en

Operating model of the Finnish Tax Administration - strategy driven overhaul

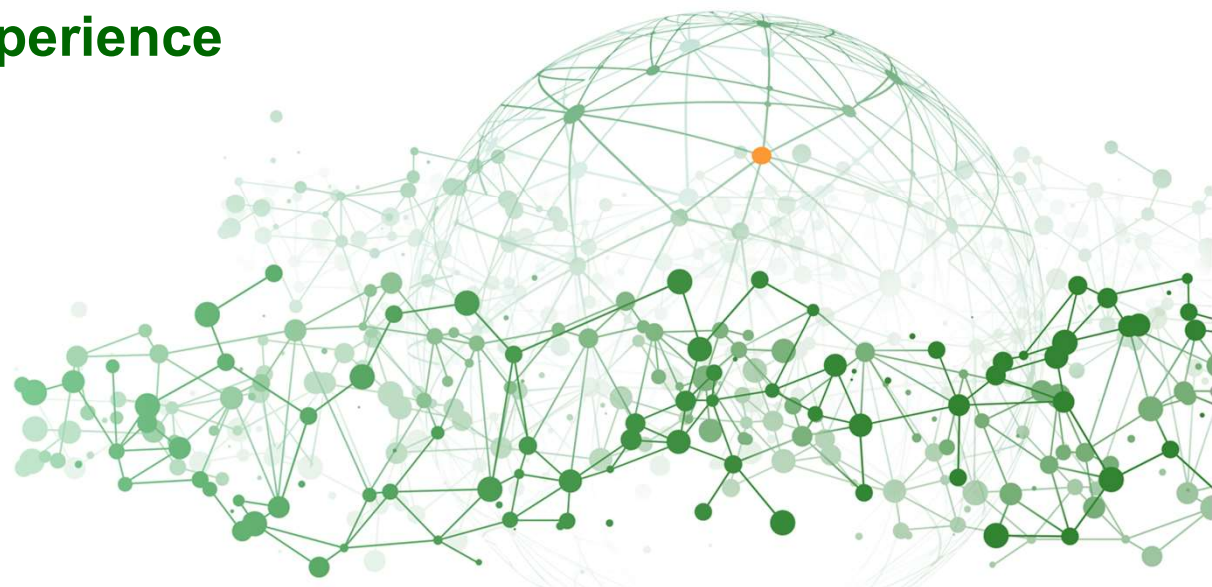
Strategic Goals



Ensuring Revenue Income

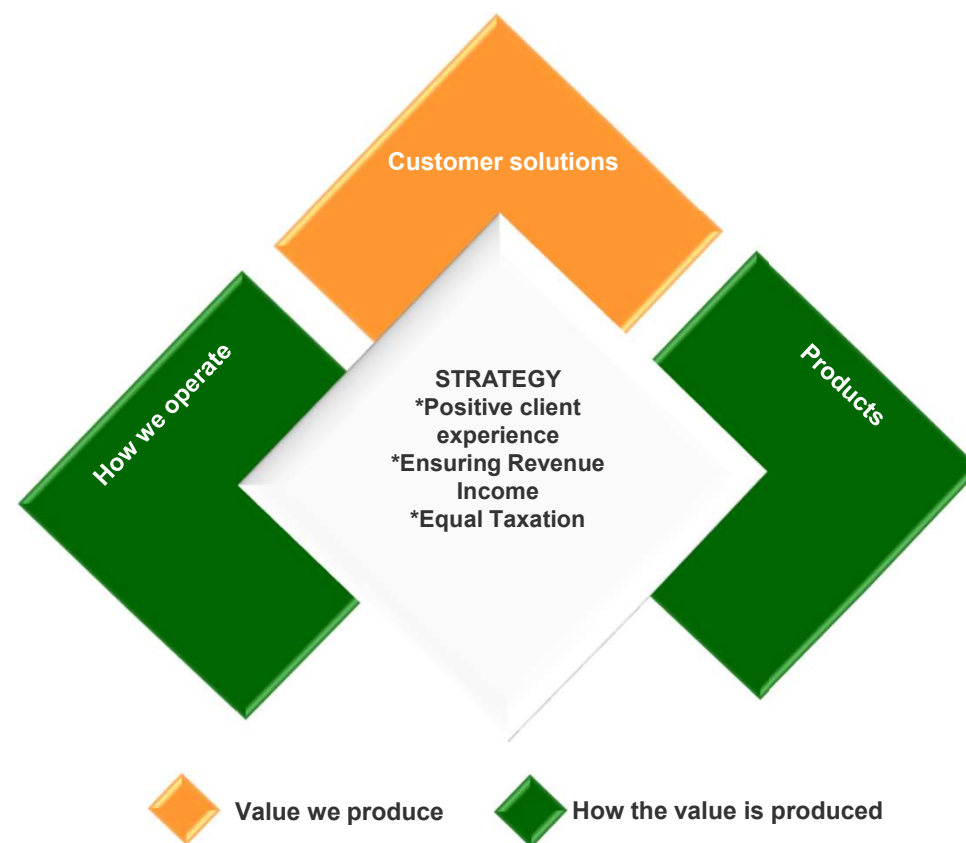
Equal Taxation

Positive Client Experience



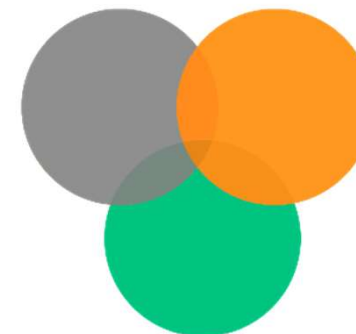
Why does the TA need to change?

- The world keeps changing and the ways our client operate change as well.
- To be able to secure the revenue income in the future, we need to understand how our clients operate.
- Based on that understanding, we need to provide tax services that fit into the needs of our customers.
- Services that fit into the realities of our customers facilitate and enhance tax compliance.

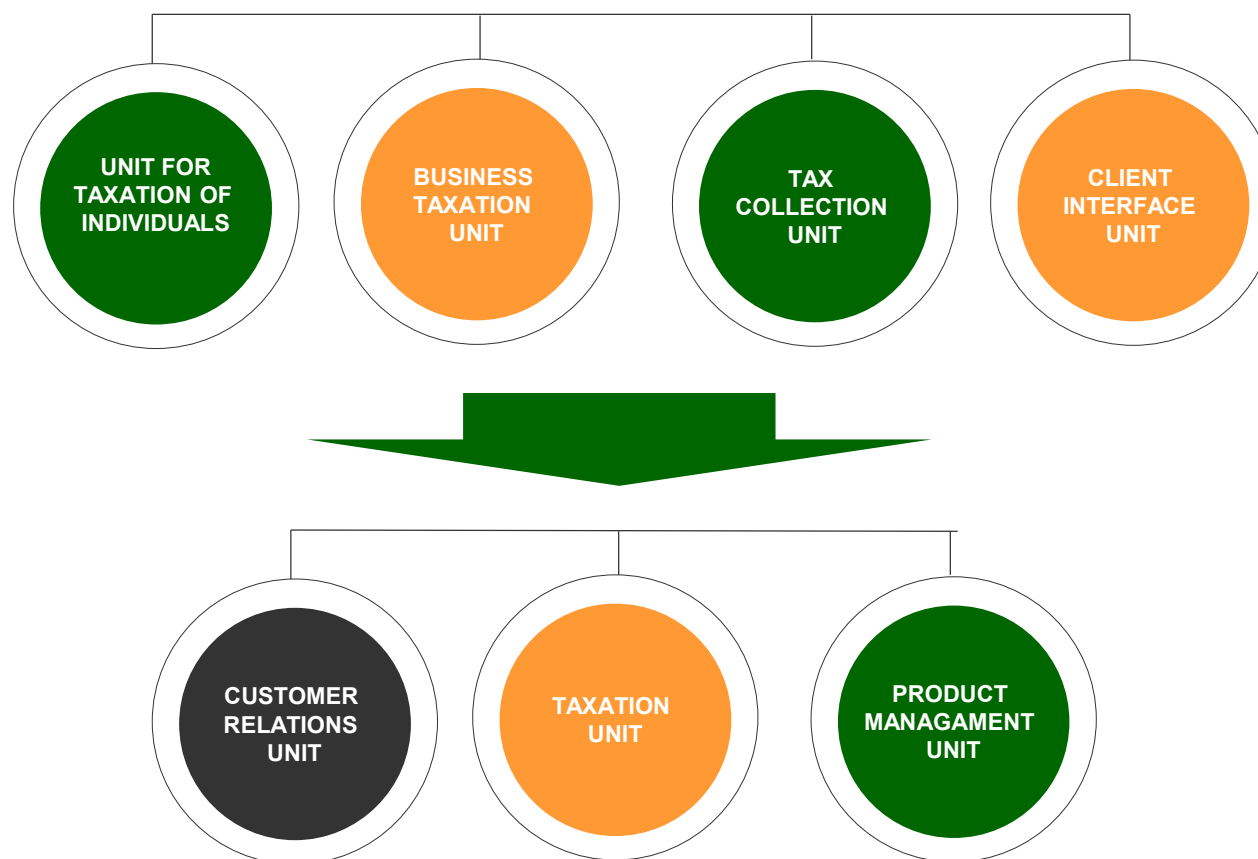


Focus points in our change

- **Client orientation**
 - In depth understanding of the clients and their needs as well as the utilisation of this knowledge in operations, guidance and development is the key factor in simplifying the process for clients and - in the end - ensuring the revenue income in accordance with the legislators will
- **Agility**
 - Knowledge based management
 - Reactivity, self guided professionals
- **Resource management**
 - Flexible, efficient and timely use of our resources
 - Mandatory activity coupled with impactfulness and current points of interest
- **Impactfulness**
 - TA guidance and control improved targeting by using quality, real time data



Organisational restructuring in 2021



Customer orientation in new units

CUSTOMER RELATIONS

Responsible for producing customer solutions for customer interface, guidance and controls - with the aim to create a positive customer experience, equal taxation and the secured revenue income.

TAXATION

Responsible for customer experience and for producing data from customer interfacing.

PRODUCT MANAGEMENT

Responsible for user knowledge, usability and user experience of and by the customers throughout the product life cycle.

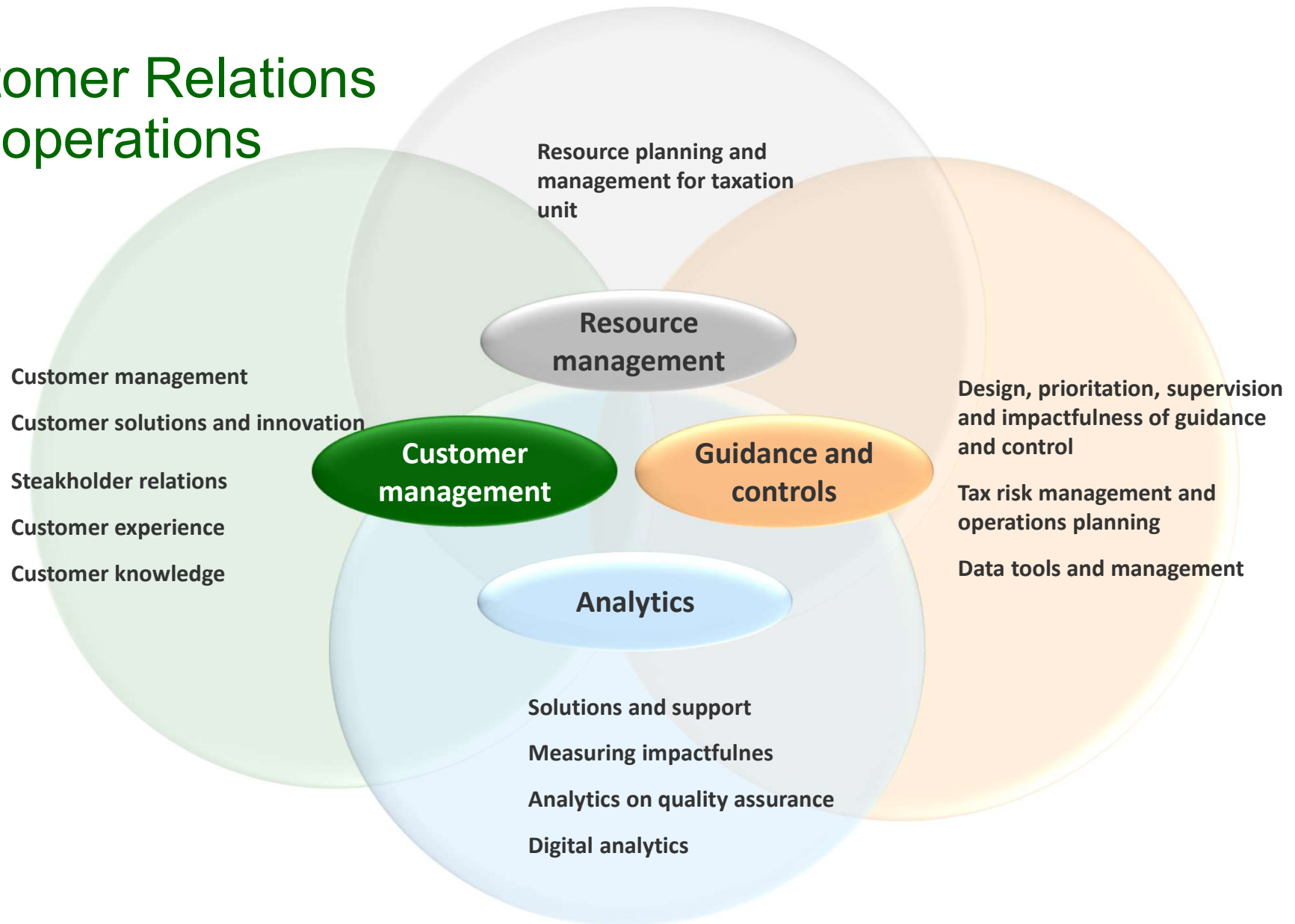
- tax compliance
- customer satisfaction

- customer orientated operations
- understanding the customer
- customer experience
- impactfulness

- workable processes
- efficiency
- product usability

- products built by customer needs and customer orientation

Customer Relations Unit operations

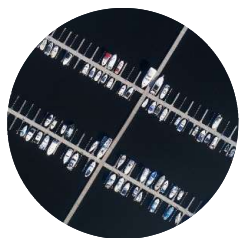


Customer management



Taxation of MNEs

Key customer segments



Salary earners
and earners
from multiple
sources



Sole
entrepreneurs



SMEs and
working
shareholders



Non-profits

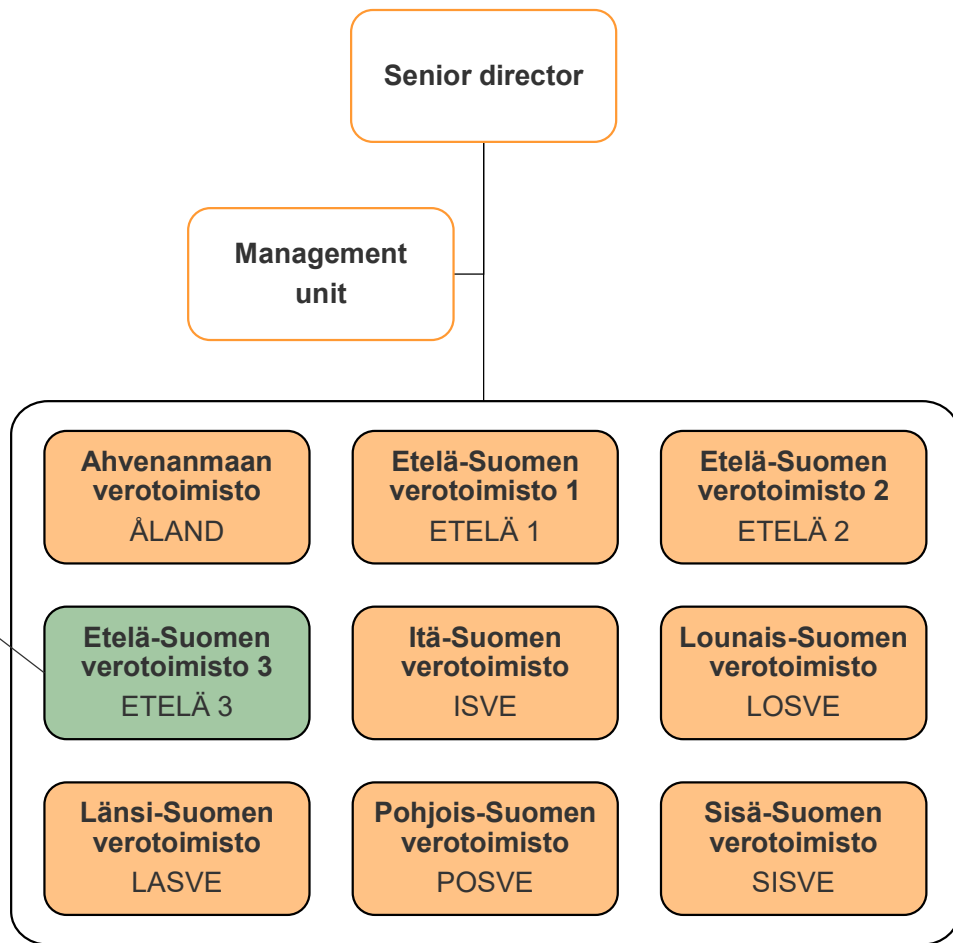


Large
businesses and
significant
business
segments,
approx. 16 000
companies

Large tax payer - in terms of customer management - refers to large companies that are major employers, sources of third party reporting, are subject to international reporting practices and are major sources of payroll/VAT.

Taxation unit split in to reagonal sub-units

Former Large Tax Payers' Unit, international taxation for the most part plus specifically named areas of taxation, approx. 5 000 companies



Operations in South 3



Large Tax Payers

- Support and controls of large taxpayers
- 100 MEUR turnover in Finland, international activity
- Quoted companies
- Banks and insurance
- REITs



International taxation

- Support, controls and registration of non-resident entities
- Dividend withholding taxation
- International taxation of individuals



Special operations

- Transfer pricing
- Excise taxation
- Large tax risk audits
- Information flows: CbC, Fatca/CRS/ DAC2, DAC6
- Tonnage regime




~ 400 experts and professionals

TA vision for large taxpayers



Service




TA services, products and skillsets match the needs of the large customers.

-  Customers interact with the TA on selected issues that are resolved effectively.
-  Customers are able to monitor the progress of the handling of their issues and the expected delivery from MyTax/OmaVero.
-  Service available in FI/SE/EN in all tax issues.



Automation




Taxation is integrated as a part of the customer business operation and there is no need for separate tax reporting.

-  No need for separate tax reporting, data flows in automation and in real time between systems through APIs.
-  Taxation is a part of the daily life of the businesses as the same data production serves both the business operations as well as the administrative procedures
-  TA has an active role in enhancing the international interoperability and in the use of the standardised reporting models.



Customer solutions



Based on trust and cooperation between all parties.

-  Customers requiring service are being provided with high quality and bespoke solutions for arranging any tax question.
-  The cooperation between the TA and a large customer is based on trust, in particular, in connection with the cooperative compliance services.
-  TA is an active part for the ecosystem around large tax payers. TA supports the work of the service providers and advisors.

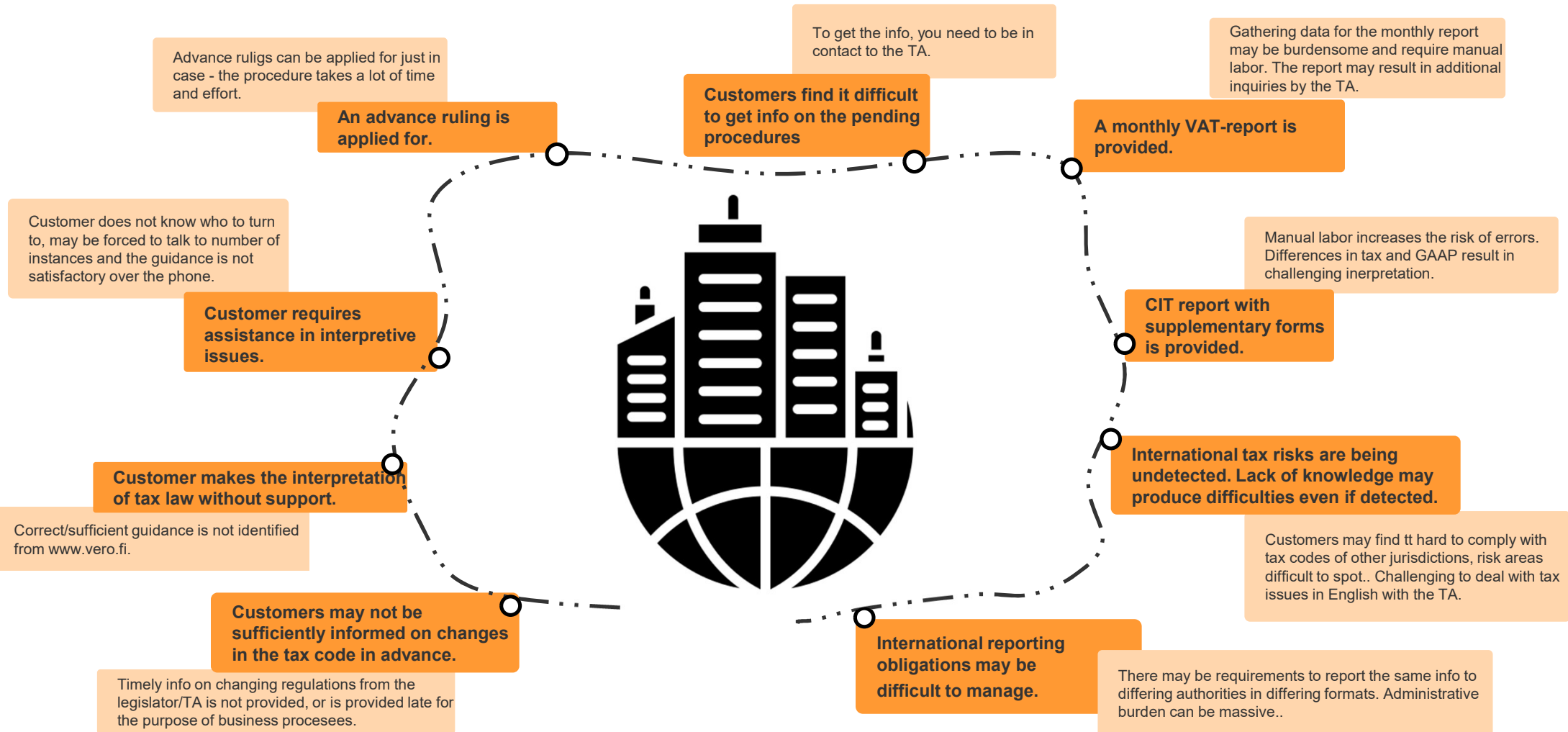


Stakeholder relations

The cooperation between the TA and stakeholders is goal-orientated and inclusive.

-  The service-, product- and customersolutions are developed in cooperation with the stakeholders.
-  International stakeholder work seeks to enhance the use of dispute preventive practices and solutions.

Procedural issues for large taxpayers - as is



Advance rulings can be applied for just in case - the procedure takes a lot of time and effort.

An advance ruling is applied for.

To get the info, you need to be in contact to the TA.

Customers find it difficult to get info on the pending procedures

Gathering data for the monthly report may be burdensome and require manual labor. The report may result in additional inquiries by the TA.

A monthly VAT-report is provided.

Customer does not know who to turn to, may be forced to talk to number of instances and the guidance is not satisfactory over the phone.

Customer requires assistance in interpretive issues.

Manual labor increases the risk of errors. Differences in tax and GAAP result in challenging interpretation.

CIT report with supplementary forms is provided.

Customer makes the interpretation of tax law without support.

Correct/sufficient guidance is not identified from www.vero.fi.

International tax risks are being undetected. Lack of knowledge may produce difficulties even if detected.

Customers may find it hard to comply with tax codes of other jurisdictions, risk areas difficult to spot.. Challenging to deal with tax issues in English with the TA.

Customers may not be sufficiently informed on changes in the tax code in advance.

Timely info on changing regulations from the legislator/TA is not provided, or is provided late for the purpose of business processes.

International reporting obligations may be difficult to manage.

There may be requirements to report the same info to differing authorities in differing formats. Administrative burden can be massive..

Procedural issues for large taxpayers - to be



Advance rulings applied for in genuinely interpretive/unclear issues only.

Majority of tax issues are dealt with in pre-emptive dialogue with the TA.

Customers maintain a real time view on progress of tax questions in the TA.

VAT-return is generated in automation and in real time based on transactional data.

Customers review their monthly VAT reports.

Service channels clearly defined.

Tax issues are dealt with effectively.

CIT report reviewed by customers.

CIT return is generated in automation, based on structural financial data. Financial data flows to TA through APIs directly.

Guidance in vero.fi is current and well-designed to client needs.

Vero.fi-guidance allows the customer to make calls on daily issues independently.

Dispute prevention services support the handling of the international tax questions, in particular, in cases with multiple jurisdictions involved.

Critical issues in tax law amendments are being detected in time.

The tax code changes are communicated in a way that allows to measure the impact on the customer.

Customers are well informed on tools available and knows how to use them. Service in EN works seamlessly.

International reporting practices are manageable.

The TA assists the tax payer in reporting by combining the data it has for these purposes. International reporting is highly standardised.



TA services, products and skillsets meet the requirements of the large tax payers.



TA is a natural and true partner of a large business.



Taxation integrates to customer's business and systems, limiting the need for separate tax reporting.



Cooperation with the stakeholders is goal-orientated and inclusive.

Dispute prevention - key service to MNEs

Increasing number of tools available

- Advance rulings
- APAs
- Pre-emptive discussions
 - Cross-border dialogue
- ICAP
- Cooperative compliance

- ETACA (pilot phase)
- OECD Pillar I dispute prevention mechanism TBD



Pre-emptive discussion

- Companies can request a pre-emptive discussion on their complex tax issues, such as changes in operations models, large divestments/investments, changes in ownership etc. - that are not covered by the available guidance in the vero.fi -site
 - Initiation also by the TA
- Applicability of the tool is decided on case-by-case basis
- The ideal timing is to address the complex tax issues as they are about to emerge but when no final calls have been made or contracts signed
- These free of charge discussion aims to enhance predictability and support compliance plus increase the transparency in the TA operations
- The discussion can result in guidance being provided to the particular issue at hand, the company can present differing solutions and gain understanding of the tax implications of the options
- The guidance is provided orally to begin with, but a written guidance can be provided nevertheless
- Pre-emptive discussions can also address transfer pricing questions - this may lead into applying the sc. cross-border dialogue or an advance pricing agreement
- Protection of good faith
 - If the issues raised are covered by established jurisprudence, the written guidance stands in the final taxation as well
 - In the absence of established praxis, or if the parties end up in disagreement of the application of the law, the company is recommended to seek for an advance ruling



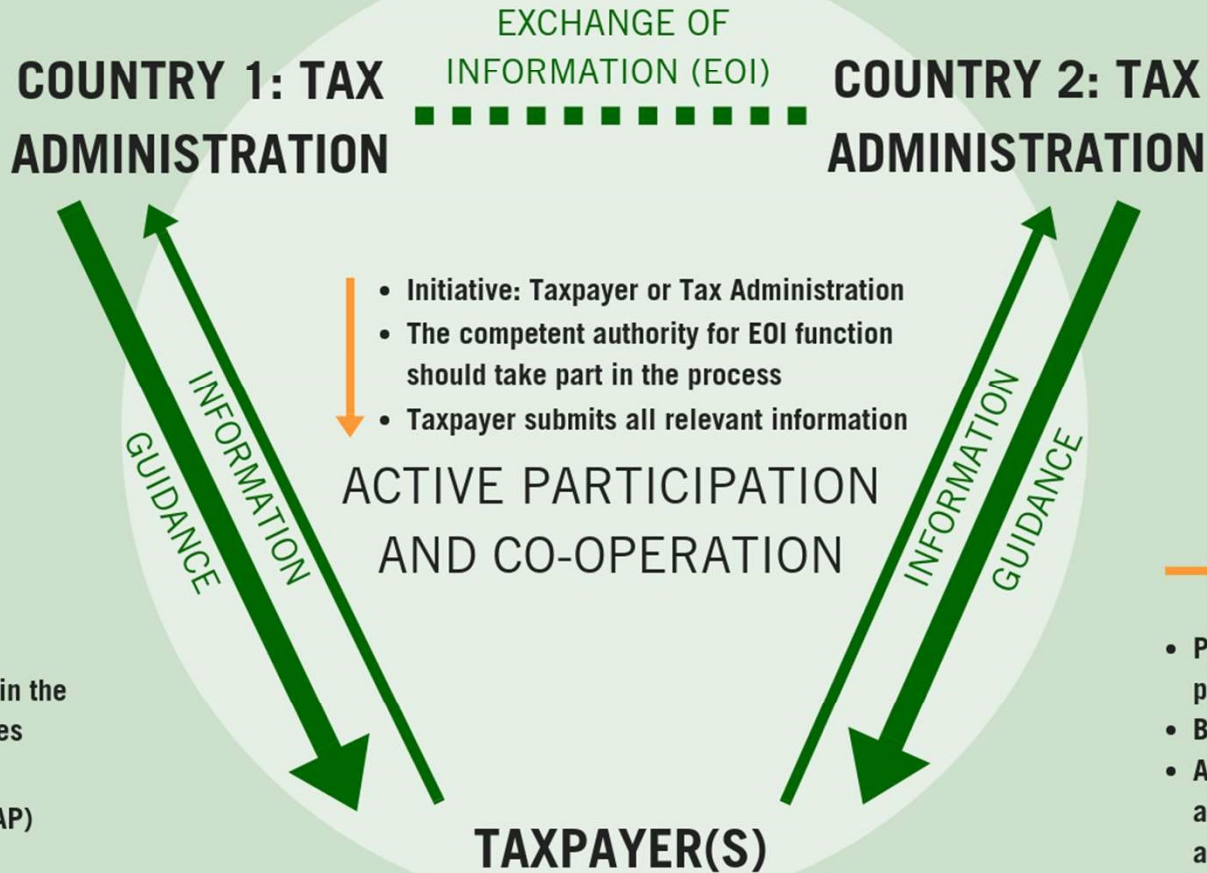
CROSS-BORDER DIALOGUE

→ SCOPE

- Different types of specified international tax issues
- For example corporate tax issues related to:
 - Permanent establishment
 - Cross-border losses
 - Withholding taxes
 - Transfer pricing

→ LEGAL BASIS

- Exchange of information by the competent authorities as set out in the provision of applicable tax treaties or
- Mutual agreement procedure (MAP)



- Initiative: Taxpayer or Tax Administration
- The competent authority for EOI function should take part in the process
- Taxpayer submits all relevant information

ACTIVE PARTICIPATION
AND CO-OPERATION

TAXPAYER(S)

→ OUTCOME

- The outcome of the CBD is not an agreement between tax administrations
- Separate guidance in writing in each country according to the domestic legislation

→ BENEFITS

- Preventing disputes and eliminating potential double taxation
- Bringing certainty to the taxpayer
- All the parties could save significant time and resources compared to intensive tax audit enforcement, litigation or mutual agreement procedures

OECD ICAP

- A voluntary risk assessment and assurance programme to facilitate engagements between MNE groups and tax administrations
 - ICAP coordination supports a faster, clearer and more efficient route to improved multilateral tax certainty
 - ICAP should reduce the resource burden on both MNE groups and tax administrations and mean fewer disputes requiring resolution through mutual agreement proceedings
- The number of tax authorities participating determined by the lead tax administration and MNE group on a case-by-case basis
 - The OECD estimating that multilateral risk assessment including between four and eight covered tax administrations is likely to be the most effective
- MNEs are advised in the handbook to approach the tax administration in the jurisdiction of their ultimate parent entity (UPE)
 - The OECD does not discuss MNEs being proactively approached by tax authorities
- MNEs should start initial discussions with the lead tax authority to determine what is involved in the process, what outcomes can be expected, and whether they would be a suitable candidate
- No obligation on any tax administration to agree to participate in any individual MNE ICAP risk assessment.
- <https://www.oecd.org/ctp/administration/international-compliance-assurance-programme.htm>

OECD ICAP

- MNE groups are required to make available a “selection documentation package” to their potential lead tax administration; details on the proposed covered tax administrations, covered periods and covered risks, as well as copies of the MNE’s latest CbC report, TP master file, current global group structure (if not included in the TP master file) and a list of all APAs and tax rulings relevant to the proposed covered risks.
- As regards qualification for participation, factors taken into account
 - MNE group’s Ultimate Parent Entity (UPE) is resident in the jurisdiction of an FTA member tax administration
 - The footprint of the MNE group and the volume and materiality of the MNE group’s covered transactions in jurisdictions
 - Whether the MNE group is subject to a CbC reporting filing requirement in its UPE jurisdiction and whether CbC reports are available for the relevant fiscal years commencing on or after 1 January 2016
 - Where the MNE group has previously participated in ICAP, the value of a further ICAP risk assessment by the same covered tax administrations, by different covered tax administrations or a combination of the two
 - The MNE group has a group tax strategy which is clearly documented and owned by senior management at the board level, and internal structures to set and manage its tax policies
 - The MNE group has an effective tax control framework (or equivalent) which addresses the covered risks at a global level
- UPEs must discuss their possible ICAP participation with the relevant potential lead tax administration in advance of the deadlines set:
 - Next 30 September 2022, with additional deadlines to be released on a rolling basis, ICAP effectively moving from an annual intake to a biannual intake process

OECD ICAP

- Risk assessment will be completed within **24 to 28 weeks** following delivery of the main documentation package by the MNE at the start of the risk assessment
- The period or periods to be included in a particular MNE group's ICAP risk assessment (the covered periods) will be agreed between participants
- ICAP risk assessments are likely to cover either a single or two consecutive covered periods - tax administrations will typically aim to provide tax assurance also for the two immediately subsequent tax filing periods (the roll-forward periods), assuming there are no material changes in circumstances
- Covered risks and covered transactions: risks associated with TP, PEs, and other international tax issues as agreed between the MNE, the lead tax administration, and the covered tax administrations
- Outcome
 - Issuance of a completion letter by the lead tax administration, confirming the finalisation of the ICAP risk assessment
 - The results of its risk assessment and assurance of the covered risks for the covered periods, each covered tax administration will reach its own conclusions, which may differ and are not co-dependent
 - Risk ratings, if any, or a description of key findings from the ICAP risk assessment
 - Any agreement reached as part of an issue resolution process
 - Confirmation of the covered risks that are considered to be low risk, with a statement that it is not anticipated that compliance resources will be dedicated to a further review of these risks for a defined period
 - Appropriate caveats or limitations, including any requirements to notify the of any material changes that impact the covered risks

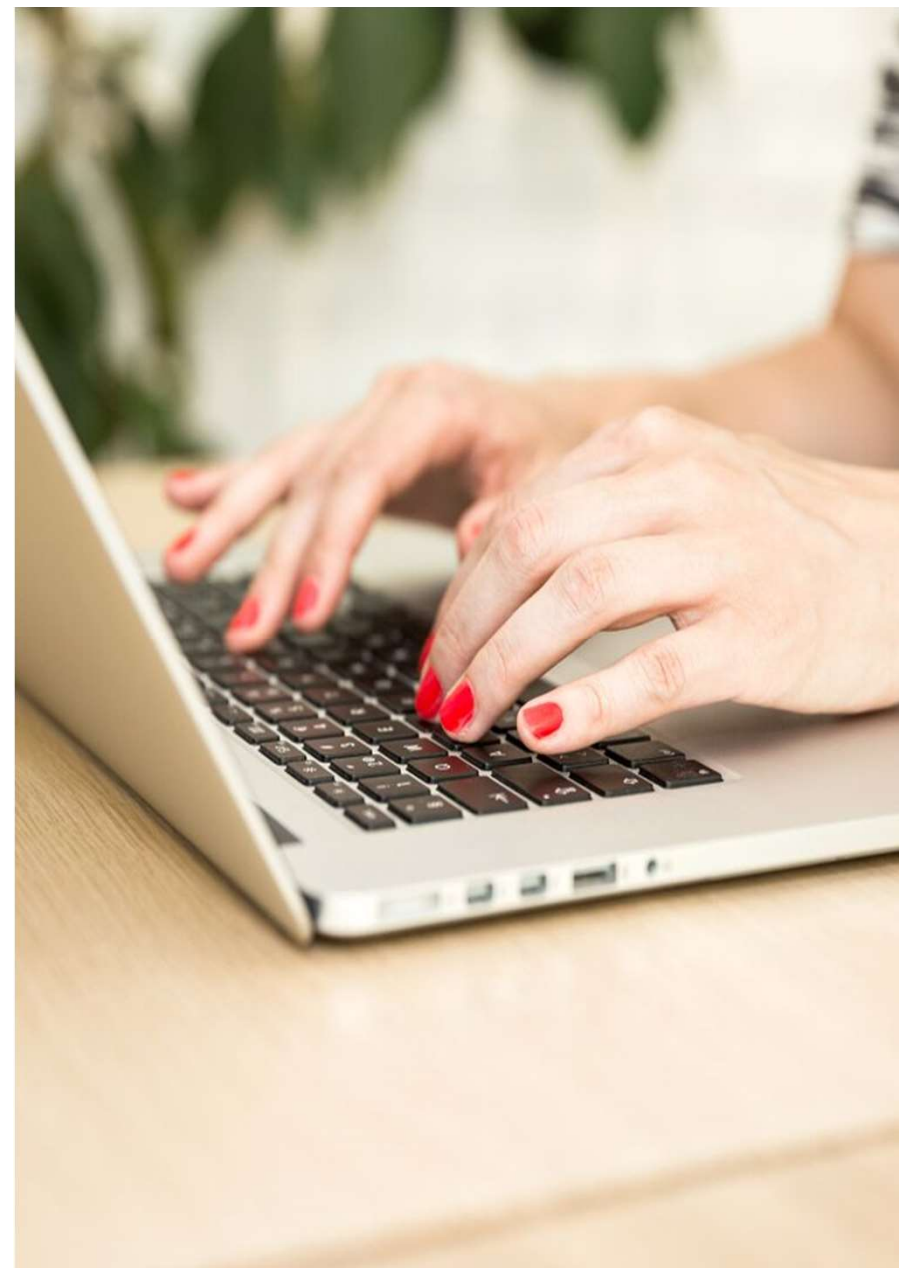
Cooperative compliance

- OECD recommended approach for supervision of large taxpayers' tax compliance
- Parties share mutual interest to manage tax matters effectively in real time
- Overall goal
 - Predictability and legal certainty
 - Managing tax issues in real time
 - Effective and flexible
- From practical perspective:
 - Dedicated team of tax advisors
 - Continuous dialogue on tax matters

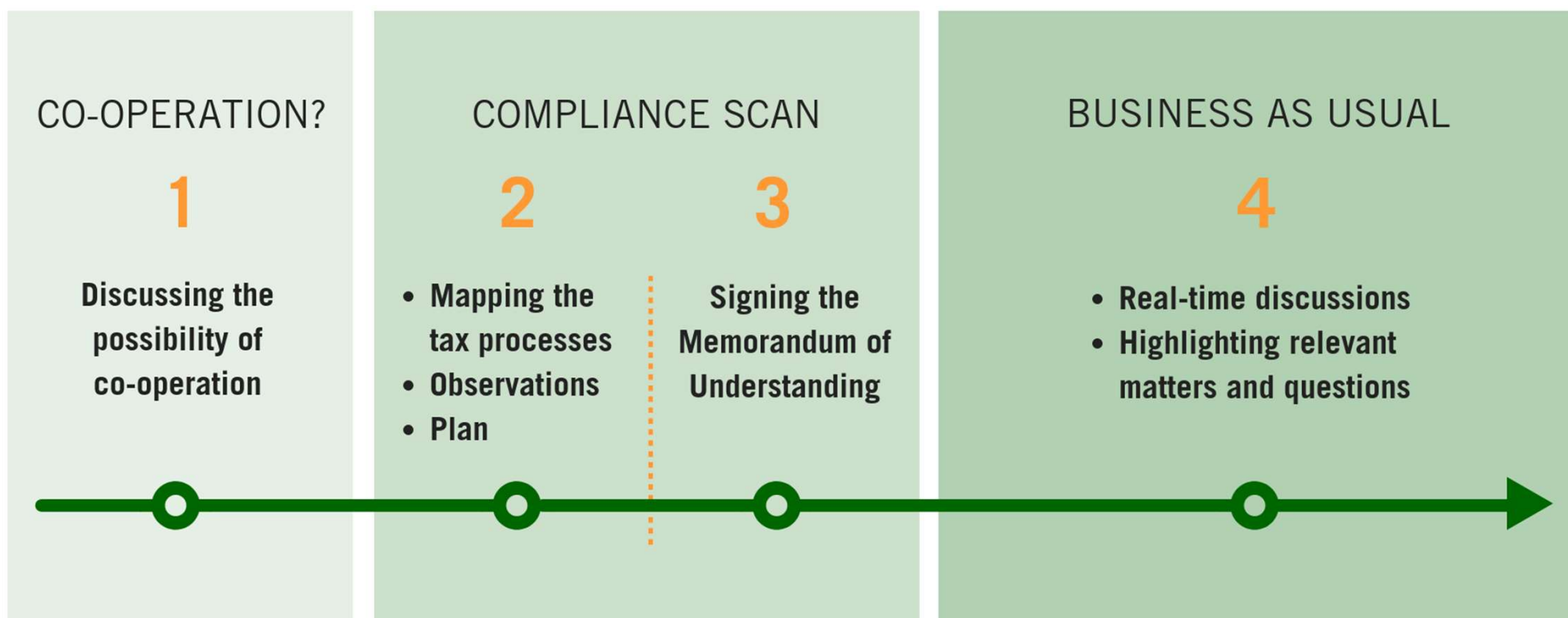


Principles and rules in CC

- Principles
 - Trust
 - Mutual understanding
 - Transparency
- Rules
 - Implementing the approach is optional
 - Parties may agree to disagree on interpretations of tax legislation
 - Protection of legitimate expectations applies



Process for CC



A glance to the nearer future

TA strategy - integrating the taxation to the real time economy ecosystem



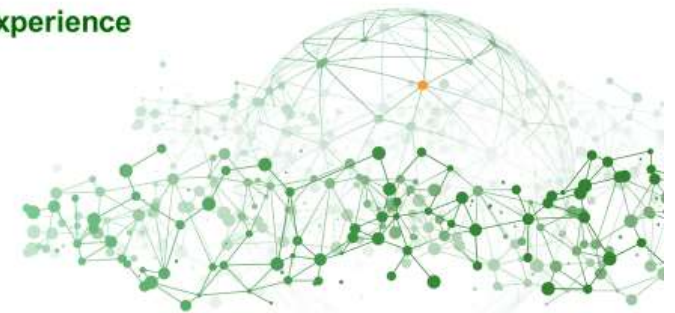
Our goal:

Finland supports businesses as a society. We develop the taxation in cooperation with the customers and their interest groups. This development leads us towards seamless customer experience for companies.

Strategic Goals



- Ensuring Revenue Income
- Equal Taxation
- Positive Client Experience



International development in digitalisation

- Nordic cooperation - Nordic Smart Government + Business
 - Project for Nordic Business registries
 - TA taking part as an active member, supporting the Nordic interoperability
 - Finnish real time economy -project as a national leg
- EU-level development
 - EIDAS
 - E-invoicing (TBD)
 - Standardisation, business architecture, single digital gateway
- OECD Tax Administration 3.0
 - Road map and further steps
 - Standardising digital identity
 - Facilitating due diligence and real time reporting for sharing and gig economy
 - Standardising e-invoicing requirements
 - Aligning the standard audit file (SAF-T)

FTA Strategic Goals 1

Taxation as a part of daily events

- Digital by default
- Cross-governmental ecosystems
- Real time economy ecosystem - continuity
- Transparency and sustainability
- VAT report development and transactional VAT
- Death in the family - digital estate management ecosystem

- Combining elements:
 - 1) Taxation as a seamless part of daily events
 - 2) Securing the data flows - ensuring the revenue income

FTA Strategic Goals 2

Simplified taxation

- Income withholding rates - enhanced adjustments
- Deductions of commuting expenses and other costs - re-evaluation
- Withholding taxation - legislative overhaul
- Improved tax payment allocation
- Light entrepreneurs - harmonising legislation on tax, employment, pension and bookkeeping

- Combining elements
 - 1) Making taxation easier for customers
 - 2) Reducing the need for corrections and additional inquiries - lower administrative burden
 - 3) Simplified rules to support digitalisation and automation

Bubbling under - transparency

- Data available at the TA could be utilised to provide additional services - TA provided information to have high level of credibility
- Information provided to tax payers or to third parties (if allowed for)
- Taxpayer to decide how to use the data, but the knowledge of such data would increase public/client interest - indirect effect on compliance
- On the drawing board
 - Tax footprint
 - Taxes paid by tax type
 - Tax behaviour certificate
 - Taxes paid by tax type
 - Level of compliance, successes and areas of improvement
 - Comparison to peer behaviour
 - Know-your customer services
 - Likely services provided by third parties
 - Info something alike tax behaviour



My vision of the future

- **Cooperation**
 - Developing solutions as a joint operation
 - Functioning ecosystems for service providers and customers, continuous development
 - Partnership models applied
 - Enhanced international cooperation
- **Simplification**
 - Less and less need for interpretation
 - GAAP vs. Tax
 - Profit allocation models
 - Improving services for dispute prevention
- **Digitalisation and automation**
 - Systems communicating with one another
 - Financial systems speaking tax
 - Human intervention for discretionary issues only
- **Transparency and trust**
 - Financial admin system verification as key control mechanism
 - Tax compliance certificates - know your customer/vendor
 - Compliance by default
 - Transparency and trust
- **Quo vadis, CIT?**





Comments, questions, further discussion - at your service

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