Tax Co-operation for the 21st Century

OECD REPORT FOR THE G7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

May 2022, Germany

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Abbreviations and acronyms

APAs	Advance Pricing Agreements
ATAF	African Tax Administration Forum
BEPS	Base Erosion and Profit Shifting
CRS	Common Reporting Standard
FTA	Forum on Tax Administration
G20	Group of 20
G7	Group of 7
GVS	Government Verification Service
ICAP	International Compliance Assurance Programme
IMF	International Monetary Fund
IT	Information Technology
MAP	Mutual Agreement Procedure
MNE	Multinational Enterprise Group
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay As You Earn
TADAT	Tax Administration Diagnostic Assessment Tool
TIWB	Tax Inspectors Without Borders
UNDP	United Nations Development Programme
VAT	Value Added Tax
WBG	World Bank Group

Executive summary

In light of the recent adoption of the Two-Pillar Solution to Address the Tax Challenges of the Digitalisation of the Economy, as well other changes to the international tax landscape over the last ten years, it is timely to consider what implications these developments may have for the way international tax rules are administered by national tax administrations. While international tax policy design has resulted in many common and co-ordinated rules, the tax administration framework is still more inward looking.

It is against this background that the German G7 Presidency asked the OECD to prepare a report that would focus on the further strengthening of international tax co-operation, including recommendations for further action. The OECD was invited to consider the TwoPillar Solution but also other recent changes to the international tax architecture introduced under the leadership of the G7 and the G20.

This report is set out in three sections, the first addressing the corporate tax landscape and a need for simple, collaborative, and digital administration of common rules. The second addresses topics beyond corporate tax, such as how the international information exchange architecture could evolve, with a view to improving timeliness through real-time data availability and incorporating compliance by design. Lastly, the third section addresses what this changing tax landscape means for developing countries and how the G7 could lead advanced economies in assisting developing countries implement the Two-Pillar Solution. Each section contains a set of recommendations that for ease of reading are compiled below in this Executive summary.

Box 1. Recommendations – Executive summary

Corporate tax

Reliable framework for cross-border investment. Countries should ensure that the framework for international tax co-operation enhances rather than presents an obstacle to cross-border investment.

Tax administration as a common mission. Countries should view the administration of common international tax rules as a joint mission of correctly and consistently applying the same rule, rather than as a potentially adversarial exercise.

Collaborative approach with early and binding resolution. Common rules should be administered using a collaborative approach built on common risk assessments and co-ordinated actions, coupled with early and binding resolution.

Going digital. Effective digital communications channels coupled with one stop shop approaches should be in place to support the administration of the Two-Pillar Solution and common international tax rules more generally. This should cover the engagement with taxpayers as well as the communication between tax administrations, whilst maintaining data privacy and taxpayer confidentiality.

Removing burdens. Against the backdrop of the Two-Pillar Solution and other changes to the international tax landscape, countries should eliminate or modify existing rules and measures addressing essentially similar risks which have become duplicative.

Moving from vision to action. The high-level vision included in this report is intended to provide food for thought and stimulate the discussion. Further work should now be carried out to translate it into action, which may involve changes to domestic rules and procedures as well as relevant international tax rules. The OECD stands ready to do so.

Beyond corporate tax

Moving to real time. Recognising the wider trend towards and benefits of more real-time data availability for both taxpayers and tax administrations, countries should explore avenues for ensuring more timely access to tax-relevant information held abroad, making efficient use of evolving technologies whilst maintaining data privacy and confidentiality.

Moving towards compliance by design. Recognising the growing trend towards and benefits of tax compliance by design to both taxpayers and tax administrations countries should consider embedding such approaches as much as possible in their tax policy design including in their information exchange architecture.

Translating principles into action. Further work should now be carried out to translate these principles into action, which could then lead, for instance, to changes to domestic and international reporting regimes and the development of new IT-tools to support these changes. The OECD stands ready to help in these efforts.

Implications for developing countries

Ensuring full participation by developing countries. Advanced economies should commit to support developing countries, including their regional networks so that they can fully benefit from the policy changes, with a strong focus on capacity-building, especially for the Two-Pillar Solution. This support should be both financial and in providing access to expertise. In this regard, the G7 could lead advanced economies in committing to a major support package for the implementation of the Two PillarTwo-Pillar Solution.

Overview

1. The last decade has seen substantial and often unprecedented changes to the international taxation framework. Those changes were necessary; an open and rule-based global economy, necessary for promoting cross border investment, innovation, growth and employment, needs to be underpinned by a commitment to shared norms and values, including notions of fairness and equity to be sustainable in the long run. If the tax issues of the last decade had not been addressed at the international level, they would have led to fragmentation and uncoordinated unilateral approaches resulting in double taxation, barriers to cross-border trade and investment and impeding the efficient allocation of resources.

2. Thanks to the leadership of the G7 and the G20, countries from around the world have agreed to a number of global co-ordinated policy approaches that have helped to address:

- the risk to domestic tax bases related to the globalisation and digitalisation of the economy, by agreeing a new taxing right for market jurisdictions in respect of the largest and most profitable multinational groups and levelling the playing field and ending the race to the bottom in corporate income tax through a global minimum tax for groups with an annual turnover of more than EUR 750 million;[1]
- aggressive tax avoidance by multinational enterprises through the artificial shifting of profits away from the place of economic activity through the OECD/G20 BEPS Project;[2]
- risks that arise from a lack of effective dispute resolution mechanism, in part through the OECD/G20 BEPS Project[3] but also through the launch of a G20 tax certainty initiative that has been taken forward by tax administrations domestically as well as collectively through the OECD Forum on Tax Administration;[4]
- the difficulty of efficiently taxing individuals and entities providing services and selling goods through digital platforms by agreeing common reporting rules;[5]
- tax evasion by individuals and entities seeking to hide financial assets in jurisdictions outside of their jurisdiction of tax residency, including through the automatic reporting of financial account information under the Common Reporting Standard (CRS)[6] and the related development of a technical infrastructure to support the exchange of information.

3. The changes have focused mainly on large business and individuals with financial assets and/or income abroad, but have also increasingly focused on a wider group of individuals and small businesses actively participating in foreign markets using digital platforms. Work on the above aspects is still ongoing, for instance in expanding the reporting framework to crypto-assets. This is to ensure that the global economy can function in an efficient manner across borders, while providing tax authorities with the information needed to assess the taxes due by their taxpayers.

4. Following the adoption of these rules, the current international taxation framework builds to a much larger extent on common substantive tax rules where the application and administration by one tax administration often directly impacts the application of the corresponding rule in another country. At the same time, supply chains and business transactions more generally have become far more global, often

creating more multilateral dependencies, which also has implications for tax administrations and international tax co-operation.

5. Finally, these changes did not occur in a vacuum, but coincided with an unprecedented increase in digitalisation that has not only driven some of the policy initiatives but has also had a profound impact on the way tax administrations operate and interact with taxpayers.

6. This report therefore sets out what these major developments in the international direct tax architecture[7] may mean for the future of co-operation between governments in tax matters. The report first turns to the corporate tax landscape, and sets out a possible vision for simple, collaborative and digital approach to tax administration in a multilateral context. The report then turns to the key trends that are emerging beyond the corporate tax space, with a focus on what can be done to improve access to, and the quality of, information that tax administrations rely on for ensuring compliance in a cross-border setting, while doing so in a taxpayer and business-friendly manner. Finally, the report looks at the perspective of developing countries, with a view to making sure that they can fully benefit from the new international tax architecture, and taking into account their specific resource and capacity constraints.

Notes

[1] https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm, accessed 26 April 2022.

[2] https://www.oecd.org/tax/beps-2015-final-reports.htm, accessed 26 April 2022.

[3] https://www.oecd.org/tax/beps/beps-actions/action14/, accessed 26 April 2022.

[4] https://www.oecd.org/tax/forum-on-tax-administration/international-compliance-assurance-programme.htm, accessed 26 April 2022.

[5] https://www.oecd.org/tax/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm, accessed 26 April 2022.

[6] https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/, accessed 26 April 2022.

[7] Given the report's focus on major developments in the architecture of corporate and personal income taxes, it does not focus on indirect taxes such as VAT, where considerable progress has already been made in leveraging the benefits of digitalisation for tax administration.

1. Corporate tax landscape

7. Since the 1920s, the international community has recognised that we need a common playbook on how we tax multinational businesses to ensure their profits are taxed once – not twice. The arm's length principle was the first standardisation initiative together with a common model for income tax conventions. Having a standardised rule for transfer pricing ensures that the right amount of tax is paid, while minimising the risks of double taxation for intragroup transactions.

8. However, the increased integration of national economies and markets, combined with weaknesses in the international taxation framework created opportunities for base erosion and profit shifting (BEPS), which over the last ten years drove policy makers to markedly increase the pace of international rule co-ordination. Countries have not only adopted much more aligned transfer pricing rules, but they have also adopted many more common rules relating to the taxation of Multinational Enterprise Groups (MNEs) including standardised changes to treaties introduced through the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, anti-hybrid rules, interest limitation rules, rules relating to preferential regimes, as well as mandatory disclosure rules. The Two-Pillar Solution to address the tax challenges arising from the digitalisation of the economy is the most recent initiative adopted at the worldwide level which relies on common and co-ordinated rules across jurisdictions.

9. To help tax administrations apply these common rules, standardised information reporting and documentation requirements were introduced for country-by-country reporting using a central filing approach. Building on this approach, the information reporting and exchange infrastructure contemplated for Pillars One and Two relies on standardised information reporting and centralised filing where possible. This centralised filing approach has been facilitated by the expansion of the exchange of information network that has occurred over the same period.

10. Despite the move to more common rules and related information tools, the way tax administrations operate has not significantly changed. Historically, tax administrations have run their own risk assessments and audits and made their own adjustments, often requiring additional and specific information. Only at a relatively late stage, and upon the request of the taxpayer, do tax administrations co-ordinate to relieve double taxation; but only for adjustments covered by bilateral tax treaties, and where both sides want to reach a resolution. It is clear that for the administration of a common international tax rule this process is often sub-optimal; it is costly for taxpayers and tax administrations, time-consuming, and is not available to everyone or in every circumstance. In addition, domestic statutes of limitation may sometimes be expired and not even allow for a resolution. Recurring issues that arise during multiple years may also cause specific concerns, as the late resolution will have effects on the intervening years from a tax perspective. To address or mitigate these issues several tax administrations have taken a range of initiatives (e.g. joint audits, Advance Pricing Agreements [APAs], International Compliance Assurance Program [ICAP]) that enhance their co-operation and provide certainty earlier often in a more collaborative and multilateral setting.

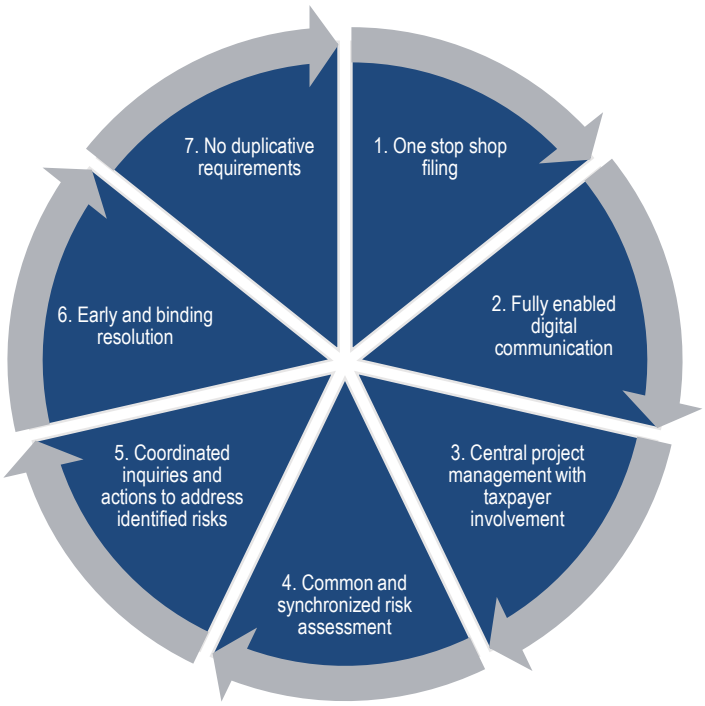
11. The development of the Two-Pillar Solution represents a new opportunity to re-think co-operation among tax administrations and the interactions between taxpayers and tax administrations. Both Pillars rely on common rules and tools, which call for a co-ordinated administrative process. Pillar One even includes a novel multilateral early certainty process for the administration of Amount A. An approach that

builds thereon to incrementally improve and enhance the way tax administrations co-operate seems desirable.

12. It is against this backdrop, and building on some of the existing initiatives taken by tax administrations, that this report sets out a possible vision for the administration of common international tax rules relating to the taxation of MNEs. A vision that is simple, collaborative and digital.

13. It builds on the notion that a common rule, in particular where its application in one jurisdiction affects the application in another, should result in a common approach to the administration of the rule. Tax administrations should move away from a potentially adversarial approach to one of a joint mission framed as the correct and consistent application of the same rule by different tax administrations applying the same common rule, using the same information and documentation to do so.

Figure 1. A vision for a simple, collaborative and digital administration of common international tax rules



Source: OECD

1.1. The same information and documentation filed once and made available to all affected tax administrations (one stop shop)

Why does it matter?

14. Standardised information reporting and single filing reduces the compliance burden on taxpayers. Taxpayers do not need to prepare several versions of the same filing and monitor filing timelines and specificities of each jurisdiction.

15. Standardised information reporting and single filing also help tax administrations to form a common view about a given transaction or intragroup structure, because they rely on the same identified facts and

their analysis can be standardised. It ensures that tax administrations are starting with the same data set when reviewing tax packages, such that anomalies do not occur as a result of differences in data submission. Standardised information reporting and documentation requirements also provide more comfort to tax administrations since the relevant information is likely to be provided upfront, without the need to ask for additional information from the local taxpayer. Standardised information and documentation further ensures that all tax administrations involved have the same transparency level, which avoids information asymmetry among tax administrations. Therefore, standardised information reporting and documentation requirements allow tax administrations to align their positions within a shorter timeframe, and potentially without needing to take further actions beyond reviewing the documentation that was provided.

Where are we today?

16. Despite the fact that jurisdictions have more and more common rules, most of the time taxpayers are not able to file the required information and documentation with a single tax administration, except under specific rules such as country-by-country reporting. Currently, taxpayers must often report the same data in many jurisdictions in varying formats. This applies not only to financial data (e.g. amount of intragroup transactions which needs to be provided along with the tax return) but also to supporting documentation (e.g. master file or local file) that sometimes needs to be adapted for local purposes.

17. There may be a number of explanations for this. For instance, accepting a foreign filing may raise practical questions, including language and data formats. However, more fundamentally, it is simply not how tax administration has evolved. Taxation laws are domestic laws that naturally call for domestic filing and documentation obligations. Common rules are no different as they are also implemented via domestic law. As such, a deliberate departure from this traditional approach is needed to harvest the benefits of a one stop shop approach.

Where could we be tomorrow?

18. Recognising the benefits of standardised and single filing, new international regimes that apply standard rules across borders, such as the Two-Pillar Solution, are designed to allow taxpayers to compile and submit data only once and then such data is accessible or shared across the relevant tax administrations. The way the information is shared depends on the information exchange infrastructure in place and could evolve over time from the current exchange of information models, to, for instance, more real-time models within this architecture, the use of electronic data rooms, or to a possible use of block chain or other emerging technologies. Over time, the model could therefore be adapted to be more real-time, so that a single filing does not delay information reaching affected tax administrations, without adversely affecting the applicable rules on confidentiality and data protection.[1] Such a model of single filing of standardised information could then be applied to a range of information required to administer common rules, including relevant transfer pricing rules or other domestic rules based on an international co-ordinated standard, such as common interest limitation rules or imported hybrids mismatch rules.

1.2. Fully-enabled digital communication

Why does it matter?

19. Efficient digital communication channels that permit the submission of documents and interactions with taxpayers are a cornerstone of all modern tax administrations. Paper-based filing systems and physical service centres are increasingly being phased out in favour of fully-digital filing and tax compliance procedures and digital communication channels (OECD, 2021[1]).

20. This shift has meant that the filing of information, the completion of tax compliance processes and interactions with taxpayers have become significantly more efficient and user-friendly. These benefits of the digitalisation of filing and communication systems do not need to be confined to domestic settings, but can also be similarly beneficial when applied successfully and coherently in an international context.

Where are we today?

21. Digitalisation has already changed the way in which tax administrations co-operate internationally. Where ten years ago paper mail-based information exchanges were the norm, this has been replaced by digital information exchanges. In light of applicable international legal instruments and data safeguards, these exchanges first took place on the basis of commonly agreed IT-security and encryption policies, but have since shifted to a commonly-developed and operated secure communication channel.[2]

22. A similar trend is manifesting itself in the space of meetings between tax administration officials, where physical meetings are being increasingly replaced by remote discussions using digital means.

23. These trends have not only increased the efficiency of existing information exchanges and communication channels between tax administrations, they also serve as the basis for conducting multilateral compliance initiatives, such as ICAP, where multiple tax administrations jointly assess the transfer pricing documentation of multinational enterprise groups.

24. It is against this background that work is now underway at the level of the OECD Forum on Tax Administration (FTA) to develop technical solutions for real-time multilateral interactions between tax administrations, allowing both the sharing of documentation and virtual meetings to discuss confidential taxpayer information.

25. One notable remaining difference with the move towards digital communication channels in a domestic context is that taxpayers have so far not been able to access information transmission or communication channels in an international setting, as these are currently designed to accommodate communications between tax administrations only.

Where could we be tomorrow?

26. Taking into account the importance of a fully-co-ordinated, multilateral and iterative process to be able to successfully deliver the implementation of the Two-Pillar Solution, it could be explored how the technical solutions for the sharing information and the organisation of virtual meetings could also be relied upon for the interactions between tax administrations and taxpayers, including for instance for documentation to be submitted as part of the early tax certainty process under Pillar One.

27. In addition, the administration of the Two-Pillar Solution could be supported with this digital infrastructure. For instance, tax certainty panels that may be set up under Pillar One could use the secure communication facilities for their video conferences, with facilities also opened as appropriate to interactions between taxpayers and tax administrations as needed throughout the process.

1.3. Collaborative approach with central project management and an active role for the taxpayer

Why does it matter?

28. A common rule, supported by a common information reporting infrastructure should result in a common approach to the administration of the rule. This matters because it moves away from a potentially adversarial approach to one of a joint mission framed as the correct and consistent application of the same rule by different tax administrations in countries that have adopted the rule. Stating the approach to

administration in those terms should then drive a collaborative culture, posture and process as discussed in more detail in the subsequent sections. It would also need to be underpinned by its incorporation in the relevant incentive structures and performance evaluation metrics of tax administrations.

29. To give it structure, focus and ensure it delivers on time, such an approach will require careful project management. This would include a governance framework that gives full ownership and control to participating tax administrations, so that they can establish a common project management function that works on the basis of clearly defined and commonly agreed goals and objectives.

30. Finally, the collaborative approach needs to not only govern the interactions between tax administrations, but also relate to the interactions with taxpayers. The involvement of taxpayers beyond the context of responding to formal information requests can facilitate the timely resolution of questions or doubts, not only by providing clarifications on specific facts or circumstances, but also by suggesting a resolution. Therefore, providing for the opportunity of an active role to taxpayers can be beneficial to taxpayers and tax administrations alike.

Where are we today?

31. Currently, even where common international tax rules are applied, tax administrations mainly work independently, and involve foreign counterparties on an exceptional basis. For instance, while transfer pricing rules are supposed to be the same across many jurisdictions, each tax administration mostly follows its own verification process and collaboration takes place mainly at the mutual agreement procedure (MAP) stage.

32. Tax administrations sometimes co-operate earlier, for instance in the context of multilateral APAs. Tax administrations can conduct a multilateral risk assessment programme in the framework of ICAP, although this programme is not yet widely available. A dedicated project management function has been designed to support this multilateral programme,[3] which has contributed to a clear sense within the programme that tax administrations are working together towards a common goal rather than defending competing interests.[4]

33. The collaboration with taxpayers can also be improved. Currently, taxpayers often have a passive role in the tax administration process and their input is frequently limited to providing clarifications to tax administrations specific requests. Tax administrations often do not involve taxpayers in their discussions with other tax administrations and sometimes only inform taxpayers at the end of the process of the outcomes of their cases.

Where could we be tomorrow?

34. The collaborative approach, using clear and centralised project management with active involvement of the taxpayer could be applied in both the risk assessment and the risk treatment stage (see Sections 1.4 and 1.5). Much of this will already be designed into Pillar One, but important lessons could be drawn for the administration of Pillar Two. Further, the collaborative approach can continue to be refined as other common rules are developed and implemented going forward, with a strong central management and support function as key element to ensure consistent and correct application of common rules in the multilateral context.

1.4. Common and synchronised risk assessment

Why does it matter?

35. Where common rules apply, a group is likely to pose the same risk across multiple jurisdictions. A common approach to assessing these risks should mean that tax administrations have a more consistent view as to whether further action is needed in a particular case, or if a transaction can be considered low risk. Further benefits arise where these risk assessments are co-ordinated in a simultaneous or multilateral process, giving tax administrations the opportunity to share their views on the level of risk that may be present with each other and also to obtain feedback on their concerns from a group before reaching a conclusion. This has the potential to reduce the resource burden on tax administrations, if unnecessary compliance action can be avoided, while improving the accuracy of risk assessment outcomes and providing greater, earlier certainty to groups across multiple jurisdictions. It also offers the potential for the use of common tools and the use of technology. Where a transaction is found to be high risk, a common understanding of that risk reached in a consistent timeframe provides an improved opportunity for tax administrations to agree a co-ordinated strategy to deal with the risk.

Where are we today?

36. Currently, tax administrations often undertake risk assessments in accordance with domestic timeframes and processes, which are typically uncoordinated, even where common documentation is available. This results in inconsistent risk assessment conclusions with respect to the same transactions, which is the first step towards a dispute. Some steps have been taken, including within the FTA, to improve consistency in risk assessment approaches.[5]

37. In particular, ICAP[6] represents a significant step forward in providing a framework for tax administrations to undertake co-ordinated risk assessments of a group's transfer pricing and permanent establishment risk using common documentation and agreed timeframes, with an active role for the taxpayer in presenting their business and transfer pricing approach and responding to questions before decisions are reached. However, while some tax administrations have adapted their approach to risk assessments within the programme to reflect their learnings, in general tax administrations continue to apply different risk assessment approaches and standards and may reach different conclusions with respect to the same transactions.

Where could we be tomorrow?

38. Significant steps could be taken to ensure that tax administrations have a consistent understanding of the meaning of tax risk in the areas where they operate common rules, together with the types of arrangements that could give rise to these risks, and the most useful indicators that they should be focusing on to determine whether a risk is likely or unlikely to be present. This could be supplemented by shared risk assessment methodologies and tools, and agreed timeframes, to improve the consistency, accuracy and timeliness of risk assessment outcomes based on common data, while reducing the resource burden for many tax administrations. These methodologies should provide for direct engagement with willing groups to explain possible risk flags and provide reasonable additional information or clarification before a decision is made to progress to a tax audit or other compliance action.

39. Tax authorities could also apply common materiality thresholds, which could be linked to jurisdiction-specific factors, to simplify compliance and reduce the cost for both taxpayers and tax administrations such that immaterial audit adjustments do not require costly compliance exercise for both the taxpayer to prepare and the tax administration to process. This is especially true for immaterial audit adjustments that impact other jurisdictions or other tax years. For example, an immaterial audit adjustment in a prior year could result in the need to amend several years of tax returns as the effect of the adjustment

is carried forward. Alternatively, if immaterial adjustments cannot be disregarded, consideration could be given to taking the impact of such adjustments into account in the current tax year as a lump sum adjustment without regard to impact of the adjustment on other tax years.

40. While a common approach to assessing shared risks will provide benefits to groups and tax administrations, these will be further enhanced where a risk assessment is conducted under a co-ordinated multilateral process, similar to ICAP, but with greater standardisation as to each tax administration's process and the agreed risk assessment outcomes. Ideally, this would result in a single risk assessment outcome for a particular risk area covering all participating tax administrations, but there may be some cases where even with a common understanding, data and methodology, tax administrations reach different views (e.g. where, even with a common materiality threshold, a transaction is material to some jurisdictions and not to others).

41. A co-ordinated process could begin with the biggest groups which have the potential to pose most risk across multiple jurisdictions. For example, risk assessments on transfer pricing and permanent establishment issues could first focus on groups within the scope of Amount A of Pillar One, with a broader roll-out over time. For groups not covered by this process (or for tax administrations that do not participate on a particular group's multilateral risk assessment) where a common risk assessment process results in a conclusion that a transaction is high risk, a co-ordinated mechanism for the exchange of these risk assessment outcomes could be developed, which would still allow tax administrations to participate in a co-ordinated action plan to address identified risks, as set out under Section 1.5.

1.5. Co-ordinated inquiries and actions to address identified risks

Why does it matter?

42. Tax administrations assess potential risks with a view to taking further actions such as internal verifications, audits and/or tax reassessments. Adopting a common and synchronised approach towards risk assessment (see Section 1.4) is not enough to achieve a high degree of co-ordination and collaboration. If tax administrations do not co-ordinate the actions that need to be taken when the risks are identified, they could still make concurrent additional information requests and take diverging views regarding the same case, which also increases the burden placed on taxpayers. Co-ordinated inquiries can reduce the burden placed upon taxpayers, as the audit or inquiry cycle will run concurrently such that taxpayers can address issues relating to the same transaction or structure across jurisdictions contemporaneously. Attempting to co-ordinate action also facilitates the tax administration process and allows tax administrations to be more efficient and achieve a comprehensive resolution earlier in the process.

Where are we today?

43. Despite the opportunities described above and the fact that jurisdictions have more common rules, and standardised information, tax administrations have historically run their own risk audits independently and made their own adjustments. At a relatively late stage, and upon request of the taxpayer, tax administrations might co-ordinate to relieve double taxation; but only for adjustments covered by bilateral tax treaties, and where both sides want to reach a resolution. In addition, domestic statutes of limitation may sometimes be expired and not even allow for a resolution. It is clear that for the administration of a common international tax rule this process is sub-optimal; it is costly for taxpayers and tax administrations, time-consuming, and is not available to everyone or in every circumstance.

44. To address this shortcoming and allow earlier resolution of cross-border issues, some cross border initiatives have already been explored, including in the framework of the FTA.[7]

Where could we be tomorrow?

45. A co-ordinated protocol for the verification process could standardise common steps such as information requests and include collaboration amongst tax administrations from the outset, such that compliance interventions relating to common rules would be co-ordinated, rather than purely unilateral. This may involve an early dialogue with the taxpayer to share risk assessments and/or to clarify questions that may have arisen with one or more tax administrations concerned. It may further involve undertaking joint compliance action, such as joint or co-ordinated audits rather than uncoordinated individual audits. This should prevent disputes at a relatively early stage. To the extent an agreement is reached on an issue that is covered by, for instance, a joint audit, tax administrations should then consider suggesting to the taxpayer that this solution is adopted for intervening and future years, thereby providing advance certainty for the future.

46. Lastly, the timeframes in which audits and compliance activities more generally are undertaken for corporate taxpayers would need to be aligned across jurisdictions. This would provide greater certainty, facilitate a co-ordinated process and prevent cross-border adjustments that occur in one country after the statute has closed in another jurisdiction, which today can lead to distorted outcomes.

47. Taken together, the actions described in the sections above, including in the risk assessment stage and, where applicable, the risk treatment stage could effectively constitute a continuous cross-border resolution programme for most of the material corporate income tax risks at each step of the process and provide a much greater degree of certainty for taxpayers, both with respect to outcome and the time in which adjustments can be anticipated.

1.6. Early and binding resolution

Why does it matter?

48. Despite all efforts being made to prevent disputes, there will be situations where tax administrations will not take the same position with respect to a given case. Resolving disputes as early as possible saves tax administration resources and avoids that taxpayers bear the financial risk of double taxation, not only for the years at stake but also for all intervening years in case of a recurring issue.

49. Mandatory and binding dispute resolution mechanisms ensure that disputes are resolved within a certain timeframe, providing certainty to both taxpayers and tax authorities. In addition, those mechanisms incentivise competent authorities to reach an agreement before the dispute resolution mechanism is activated.

Where are we today?

50. Under Action 14 of the BEPS Action Plan, jurisdictions committed to ensure that tax treaties include a MAP provision, agreed to minimum standards on the way they would operate it and further agreed to be peer reviewed on their performance relative to those standards. This has led to a substantial improvement in the dispute resolution environment. However, much room for further improvement remains, case inventories are increasing and resolution timelines are often still too long.

51. Ideally, a MAP provision where governments endeavour to resolve issues would be complemented by a mandatory and binding dispute resolution mechanism (such as an arbitration provision), which then ensures that a resolution is reached in all cases. However, not all international tax disputes are covered by a mandatory and binding dispute resolution mechanism such as arbitration, either because the relevant tax treaty does not include an arbitration provision, or because the issues may not be covered by the treaty

or by the arbitration provision itself.[8] Also, when activated, dispute resolution mechanisms may still take some time before the dispute is actually resolved.

52. Separately, tax administrations are increasingly involved in disputes that affect more than one jurisdiction or more than one transaction. This is not surprising given the often global supply chains of MNEs. However, the legal framework provided in tax treaties for the resolution of disputes is not well suited to deal with multilateral cases, either at the MAP stage or at a subsequent arbitration stage. This is because existing resolution mechanisms are bilateral in nature. Even where there are treaty relationships among all affected tax administrations, not all agree to enter into MAP discussions with multiple treaty partners. Furthermore, existing arbitration provisions are not designed for multilateral dispute resolution. Multilateral cases are therefore frequently handled bilaterally, which raises the risk of a very drawn out process without a complete solution.

Where could we be tomorrow?

53. The process discussed in the previous sections should already substantially reduce the number of cases that will require dispute resolution. However, there will always be such cases and a future framework should ensure that binding dispute resolution mechanisms covering the application of common rules are available and designed to address both bilateral and multilateral settings.

54. Furthermore, where competent authorities find a solution for an issue, the rationale and the grounds that led to that solution may be relevant to prevent or inform the resolution of similar, future cases. Therefore, Competent Authorities that have found an acceptable solution for a case may, with the consent of the taxpayer, consider applying the same rationale or grounds to similar issues arising in intervening and future years. More broadly, the reasoning behind such an agreement may also assist competent authorities in resolving other similar cases, involving other taxpayers.

1.7. No duplicative requirements

Why does it matter?

55. Duplicative rules and measures complicate the international tax architecture and increase the compliance burden for taxpayers, without any commensurate benefits for the corporate income tax system or for tax administrations. Tax administrations that need to use limited resources to review redundant filings or compliance with redundant rules are less likely to work efficiently. In addition, duplicative rules and measures may adversely affect growth and investment and put jurisdictions at a competitive disadvantage.

Where are we today?

56. Given the addition of several new rules and standards in recent years at international, regional and domestic level, there may now be overlapping rules and obligations that largely address the same or similar risks. Often no comprehensive analysis is undertaken on which existing rules or obligations could be standardised, simplified or removed with the introduction of a new standard or regime.

Where could we be tomorrow?

57. When countries introduce or adopt new rules or filing requirements, an impact assessment should be performed to determine which existing rules and obligations would no longer seem needed, could be refocused, revised, simplified or standardised. For instance, there may be slightly different information reporting obligations that could be streamlined. Similarly, given that the Pillar Two rules reduce the incentive to shift profits across jurisdictions by providing a floor to tax competition, countries may wish to

review existing anti-abuse measures with this in mind. To the extent duplicative rules or filing requirements are identified in this assessment, countries should assess the possibility to eliminate or adapt the duplicative rules or filing requirements.

Recommendations

Box 2. Recommendations – Corporate tax

- **Reliable framework for cross-border investment.** Countries should ensure that the framework for international tax co-operation enhances, rather than presents an obstacle to cross-border investment.
- **Tax administration as a common mission.** Countries should view the administration of common international tax rules as a joint mission of correctly and consistently applying the same rule, rather than as a potentially adversarial exercise.
- **Collaborative approach with early and binding resolution.** Common rules should be administered using a collaborative approach built on common risk assessments and co-ordinated actions coupled with early and binding resolution.
- **Going digital.** Effective digital communications channels coupled with one stop shop approaches should be in place to support the administration of the Two-Pillar Solution and common international tax rules more generally. This should cover the engagement with taxpayers as well as the communication between tax administrations, whilst maintaining data privacy and taxpayer confidentiality.
- **Removing burdens.** Against the backdrop of the Two-Pillar Solution and other changes to the international tax landscape, countries should eliminate or modify existing rules and measures addressing essentially similar risks which have become duplicative.
- **Moving from vision to action.** The high-level vision included in this report is intended to provide food for thought and stimulate the discussion. Further work should now be carried out to translate it into action, which may involve changes to domestic rules and procedures as well as relevant international tax rules. The OECD stands ready to do so.

Notes

[1] See Section 1.2 and Chapter 2.

[2] This channel is the OECD Common Transmission System, commissioned by the FTA in 2015. The channels is fully operational since 2017 and supports all types of exchange of information, including pursuant to the CRS and country-by-country reporting, and in the future the Two-Pillar Solution.

[3] In the framework of the ICAP, a lead tax administration (typically that in the jurisdiction where the relevant MNE group is headquartered) performs a central project management function, including organising and chairing meetings, collating requests for information and sharing these with the taxpayer, and ensuring that, to the extent possible, target timeframes are respected.

[4] Beyond taxpayer specific interactions, the FTA and the FTA MAP Forum are dedicated bodies that aim at enhancing the collaborative approach taken by tax administrations. For instance, the FTA MAP Forum has developed strong, collegial relationships among competent authorities around the world by sharing best practices, designing MAP trainings for competent authorities and analysing common performance indicators that are relevant for the MAP function.

[5] This includes for instance the development of the country-by-country reporting risk assessment handbook and the Tax Risk Evaluation and Assessment Tool (TREAT). Further, the Comparative Risk Assessment initiative (CoRA) is currently surveying risk assessment practices across key transfer pricing risk areas to identify similarities and differences in how tax administrations detect risk and the sources of data they use to do so, which could provide a basis for further work.

[6] There are also a number of other similar initiatives, such as for instance the Cross-Border Dialogue. The goal of the Cross-Border Dialogue is to determine in advance or in real-time the possible tax treatment and/or interpretation of the tax law to a specific international tax question; See https://www.vero.fi/yritykset-ja-yhteisot/yhteistyo-ja-palvelut/ennakollinen-keskustelu/pre-emptive-discussion-and-cross-border-dialogue/, accessed 26 April 2022.

[7] For instance, an FTA report on joint audits has identified both the benefits that can arise from the greater use of joint audits as well as the challenges that need to be overcome to ensure that those benefits can be realised as effectively and efficiently as possible for both tax administrations and taxpayers. See https://www.oecd.org/tax/joint-audit-2019-enhancing-tax-co-operation-and-improving-tax-certainty-17bfa30d-en.htm, accessed 26 April 2022.

[8] Some issues that are covered by the tax treaty can be specifically excluded from the application of the arbitration provision (for instance, regarding the application of domestic anti-avoidance legislation). Furthermore, some issues, such as those arising in the context of the limitation on deduction of interest or in the context of Pillar Two may not be covered by existing double tax treaties. They can be dealt with under the mutual agreement procedure of existing treaties provided that the competent authorities of the jurisdictions involved are willing to do so under Article 25(3) of the OECD Model Tax Convention. However, those issues would not be covered by the arbitration mechanism provided under the relevant treaty.

2. Beyond corporate income tax

2.1. Where are we today?

58. Since the early 1990s, the cross-border mobility of capital and labour rapidly accelerated. As a result, and given the bank secrecy rules applicable at the time, tax administrations faced increasing information asymmetries relative to their taxpayers, giving rise to opportunities for both offshore tax evasion and avoidance. The need to resolve these issues, in turn, put more emphasis on effective international tax co-operation, in particular exchange of information.

59. At the time, however, the exchange of information framework was largely reliant on a bilateral treaty network with limited coverage and subject to a number of limitations. Crucially, many jurisdictions did not have in place tax information exchange agreements or double tax treaties to exchange information with their partners, while access to information in other jurisdictions was limited by laws protecting bank secrecy and corporate anonymity. Further, exchanges of information that did occur were usually reliant on time-consuming paper-based procedures and frequently did not take advantage of the technological advances that had been made by domestic tax administrations.

60. Following the 2008 financial crisis, a political consensus emerged for ending bank secrecy and establishing the international Exchange of Information on Request (EOIR) standard, which allows tax authorities to request information on accounting records, bank accounts and on legal and beneficial ownership of assets, for enforcing the provisions of a tax treaty or its domestic tax laws. The OECD Global Forum on Tax Transparency and Exchange of Information was tasked with ensuring the global implementation of the EOIR standard through peer reviews. As of 2020, it was estimated that EOIR had enabled the recovery of nearly EUR 7.5 billion of additional tax revenue (OECD, 2019, p. 3[2]).

61. As the implementation of the EOIR standard increasingly became a reality across the globe, there were increased calls for further improving the international tax information exchange framework, by moving to the automatic exchange of financial account information. In response, in 2014, the OECD under a mandate from the G7 and G20 countries launched the CRS, taking inspiration from the United States Foreign Account Tax Compliance Act (FATCA). The CRS requires participating jurisdictions to collect a predefined set of information from their financial institutions with respect to accountholders resident abroad and to annually and automatically exchange this information with their jurisdictions of residence. In 2020, information on more than 75 million financial accounts worldwide, covering total assets of around EUR 9 trillion was exchanged automatically and, as of March 2022, more than 110 jurisdictions had committed to the CRS (OECD, 2022, p. 10[3]).

62. In addition to the CRS, automatic exchange of information has become an accepted principle in a host of other domains in recent years. For example, at the level of the European Union, the Directive on Administrative Co-operation (DAC) provides for mandatory exchange of various categories of income and assets, including employment income, pension income, directors fees, as well as income and ownership of immovable property. Similarly, Nordic countries are engaging in automatic exchange of information on a wide range of income items, including salary and pension income. More recently, and reflecting the rapid growth of the gig and sharing economy, the OECD released the Model Reporting Rules for Digital Platforms

(Model Rules) in 2020, requiring operators of digital platforms to report to tax authorities the identity of sellers active on their platforms, as well as details on the transactions they have concluded.[1] Currently, the OECD is developing a new global tax transparency framework designed to ensure the collection and exchange of information on transactions in crypto-assets and is conducting the first review of the CRS.

63. As the scope of international information exchange continues to expand, tax administrations are now able to access third-party data on their taxpayers' activities and assets from a range of foreign data sources, such as banks, insurers, funds and digital platforms, enabling them to improve taxpayer compliance with respect to income realised and assets held abroad.

64. This growing wealth of data has complemented the increasing use of technology by tax administrations in a domestic setting. IT-driven data analysis tools have supported more complex taxpayer risk assessment, helping to increase the deterrent effect by uncovering new connections between taxpayers and undeclared assets and income, increasing the chances of detection.

65. While the present policies and architecture have been highly successful in providing access to standardised information from foreign third-party information providers, there is room for further improvement. For instance, in the current environment, the information only reaches the concerned tax administrations with a delay, which in practice means that it is difficult to use the information for more real-time compliance mechanisms, such as the pre-population of tax returns. Instead, the data is used under a self-reporting model, where taxpayers report their income and tax liability to the tax administration, who then subjects the information to verification checks.

2.2. Where could we be tomorrow?

66. A major trend in tax administration domestically is to increasingly move from accessing third-party information periodically to more targeted, direct and real-time access to data. Examples of this trend are included in Box 3.

Box 3. Move towards compliance in real-time

- A number of jurisdictions (including Argentina, Brazil, Croatia, Czech Republic, India, Italy and Turkey) have introduced real-time invoice reporting for VAT purposes, requiring businesses to report sales transactions electronically to their tax authority as transactions occur. In some instances, software is relied upon to integrate the business' accounting system with that of the tax administration, resulting in faster and more accurate compliance.
- In 2019, Ireland implemented a new Pay As You Earn (PAYE) system, known as PAYE Modernisation, which allows for PAYE reporting to be submitted to Revenue in real time and enables the Irish tax administration to ensure that the correct tax deduction is being made at the right time for every employee. A similar concept, known as Real Time Information, was also successfully rolled out in the United Kingdom.
- Australia is doing real time anomaly checks as a business completes a return so that errors are spotted automatically and alerts are flagged to the taxpayer in real time.
- Denmark has built a system that connects accounting software to the VAT return system, meaning information flows between the tax administration and businesses, automating much of the VAT return process.
- Singapore has built a no filing service for private car hire drivers where their tax bills were computed based on information obtained directly from third parties which they derived their income from. This includes a system for automatically dealing with expenses. Singapore has

also embedded their processes into the application of a local bank, so a taxpayer can view their tax details, including amounts that are owed and then make payments directly from the banking application. The tax authority can push reminders to taxpayers about when payments are due, and as the payment is done from the application there are reduced errors. For taxpayers, as tax is directly integrated into the financial planning of customers it makes their lives easier, with 70% of the bank customers completing their tax payments from the banking application.

67. This shift is not only allowing more effective and rapid access to the information needed by tax administrations, but is opening great potential for making tax compliance processes more efficient and seamless. This is achieved by integrating the data collection, reporting and exchange elements into the existing processes of taxpayers, meaning that tax compliance is 'designed into' systems and processes, allowing a shift from the self-reporting voluntary compliance models of tax administration, where tax gaps can be high.

68. PAYE systems for salaried employees are good examples of this approach as tax is built into systems that employers use for payroll, resulting in high compliance rates with minimum burdens for the taxpayer. In these contexts, reported tax gaps are very low, for example in the United Kingdom, the tax gap for compliance-by-design PAYE is around 1% whereas for self-reported income it is estimated to be at around 13% (HMRC, 2022[4]). Increasingly, therefore, tax administrations are exploring the potential of including so-called compliance by design models into the natural systems of taxpayers to enhance compliance while making taxation much more seamless and simpler for taxpayers wishing to comply (OECD, 2020[5]).

69. The following sections explore how the international information exchange architecture could evolve, with a view to improving timeliness through real-time reporting and incorporating compliance by design features. This would complement, and align with, the wider trends in tax administration and is expected to ultimately lead to simpler processes for intermediaries, reduced compliance burdens for taxpayers and increased tax certainty, while reducing the tax gap for governments.

Figure 2. How the international information exchange architecture could evolve

Source: OECD

Improving the timeliness of access to information held abroad

70. Taking these ideas and thinking through what this could mean for improving the timeliness of information exchange within the current architecture , one option would be to move towards more real-time exchanges of information on the basis of a system that would enable tax administrations to more instantaneously approve exchanges of information with foreign tax administrations regarding pre-defined data sets that have been prepared by third-party information providers, such as banks and digital platforms. This approach would ensure that tax administrations maintain full control over the exchange of information process, while significantly increasing the speed of access to the data by foreign tax administration, therewith taking away some of the delays frequent in the current approach. Over time, it could then also be considered if this exchange architecture can incrementally develop further.[2] The proposed approach could be fully implemented within the framework of existing international tax information exchange agreements, ensuring the confidentiality of the tax information and the data privacy rights of taxpayers.

71. As such, the key advantages of the move towards a more dynamic, real-time approach to exchanging information would include:

- **Facilitating compliance** for intermediaries by allowing more real-time reporting, and updating, of data;
- **Expediting associated tax compliance processes** as a result of faster and targeted access to data, which could be used for more real-time taxation or the pre-filling of tax returns, thereby providing earlier tax certainty and reducing compliance burdens for taxpayers; and
- **Increasing tax certainty**, as compliance processes are quicker.

Moving towards compliance by design

72. A crucial cornerstone of compliance by design is the effective sharing of digital identities, as it provides a common view and certainty on the identity of individuals or entities. In the international context, the identity information collection process by (foreign) third-party intermediaries and the use of the information by tax administrations are currently largely disconnected. This creates inefficiencies for all, as intermediaries are required to ask taxpayers for documentation to confirm their identity, which then, following reporting and exchange, needs to be associated to the database of tax administrations, before such information can be used for tax compliance purposes.

73. Initiatives are emerging to integrate identity systems of tax administrations with those that have reporting obligations, for instance in the context of reporting on the income earned by taxpayers through digital platforms:

Box 4. Using technology solutions to verify the identity of taxpayers

The *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy* (OECD, 2020[6]) released by the OECD in 2020 foresee the possibility for the reporting intermediary (i.e. platform operator) to confirm the identity and tax residence of a platform seller through a so-called government verification service (GVS). Under a GVS, a tax administration would normally make available an interface to the reporting intermediary. Subsequently, the reporting intermediary can redirect its users (i.e. taxpayers) to the interface, which would allow the relevant tax administration to identify the taxpayer based on its domestic identification requirements (for example a government-issued ID or username). Upon successful identification of the user as a taxpayer of that jurisdiction, the tax administration would provide the intermediary with a unique reference number or code. Where the intermediary subsequently reports information concerning that user, it would include the unique reference number or code to allow the jurisdiction receiving the information to enable matching of the

user. Recognising the benefits of such solution to enhance the quality of information for tax administrations while reducing significant compliance burdens to reporting intermediaries, GVS verification options will also be introduced in the proposed crypto-asset reporting framework, as well as the amended CRS.

74. Once third parties and tax administrations share a common view on the identity of an individual or entity, information reporting flows can be enhanced, creating opportunities to apply the principles of PAYE to other areas. As set out earlier this holistic, technology-driven approach to tax compliance by design, can reduce tax gaps, and the administrative costs of compliance for all parties. Additionally, it can also increase tax certainty for taxpayers. For example, when verifying the identity of a user renting accommodation via a digital platform through a portal, the tax administration with taxing rights over the user could simultaneously instruct the platform on the appropriate rate of withholding to be applied to the rental income generated by the user and to remit such taxes directly to the tax administration.

Recommendations

Box 5. Recommendations – Beyond corporate income tax

- **Moving to real-time.** Recognising the wider trend towards and benefits of more real-time data availability for both taxpayers and tax administrations, countries should explore avenues for ensuring more timely access to tax-relevant information held abroad, making efficient use of evolving technologies whilst maintaining data privacy and confidentiality.
- **Moving towards compliance by design.** Recognising the growing trend towards and benefits of tax compliance by design to both taxpayers and tax administrations, countries should consider embedding such approaches as much as possible in their tax policy design including in their information exchange architecture.
- **Translating principles into action.** Further work should now be carried out to translate these principles into action, which could then lead, for instance, to changes to domestic and international reporting regimes and the development of new IT-tools to support these changes. The OECD stands ready to help in these efforts.

Notes

[1] The OECD *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy* (OECD, 2020[6]) served as the basis for the European Council Directive (EU) 2021/514 of 22 March 2021 (DAC7): https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021L0514, accessed 26 April 2022.

[2] For example, Finland and Estonia are moving towards real-time exchange of information with respect to predefined information sets held in the tax databases of the other administration. Similarly, the Nordic Smart Government 4.0 initiative aims to allow structured and standardised business data to be shared automatically and frequently, thereby replacing burdensome manual handling of data by tax administrations.

3. Implications for developing countries

3.1. Where are we today?

75. Many developing countries have seen significant improvements in their tax administrations in recent years. As domestic resource mobilisation has become an increasing priority both domestically and internationally more developing countries have committed to investment in, and reform of, their tax administrations, while development partners have sought to expand the support available. However, resource and capacity constraints in such countries can result in slower adoption of new international tax rules. Further targeted support in building basic capacities and skills is required to facilitate widespread adoption of common international tax standards.

76. The Addis Ababa Action Agenda on Financing for Development reiterated the central role of domestic resources as the only viable source of large scale, long-term development financing, reinforcing the commitment seen in many developing countries to improve tax administration performance. Semi-autonomous revenue agencies have been established in many developing countries, with half of Sub-Saharan African countries having introduced such agencies by 2015. Developing countries have also developed and intensified regional networks to support tax administration development, and facilitate peer-exchange. While such networks are long established in some regions, for example Inter-American Center of Tax Administrations was established in 1967, others are more recent, the Intra-European Organisation of Tax Administrations was established in 1996, the Pacific Islands Tax Administrators Association in 2004 and African Tax Administration Forum (ATAF) in 2009.

77. To support this commitment from developing countries, development partners have been increasing the support available. Support has come both through financing and new tools and instruments. In financing terms, Official Development Assistance to Domestic Revenue Mobilisation increased from USD 184 million in 2015 to USD 440 million in 2020.[1] In terms of tools, these have varied from those that look at the tax administration as a whole, to training on specific issues. Looking at the tax administration as a whole, the Tax Administration Diagnostic Assessment Tool (TADAT)[2] developed in 2011 provides an all-round assessment of the performance of the tax administration, proving to be a valuable tool to help countries identify priorities for reform. Since its establishment, 118 TADAT assessments have been undertaken. The IMF Revenue Administration Gap Analysis Programme (RA-GAP) provides support to countries to quantitatively assess and monitor revenue collection performance to provide tax administrators and policy makers with a measure of the tax revenues lost through noncompliance, avoidance and impact of policy choices. The OECD has been providing training to tax administrations through its Global Relations Programme since 1992. This has expanded to include six multilateral tax centres, and an e-learning programme; in 2021 over 23 000 tax administrators from over 100 countries participated in OECD training programmes. The OECD/UNDP Tax Inspectors Without Borders (TIWB) initiative, established in 2015 provides hands-on support bringing experts from other countries to work alongside the host tax administration on live audit cases; with over 100 programmes either completed or running, TIWB, and

related programmes run with ATAF and the WBG, have resulted in over USD 1.6 billion in additional revenues.

78. While good progress is being made, this has not been uniform across developing countries. In addition, the global pace of change in tax administration in recent years has been such that it has been difficult for most developing countries to keep up with developments. As a result, there remains significant demand from developing countries for further support in respect to building tax administration capacity,[3] and the new opportunities that have been created through technology and new international tools have not yet been fully realised in many developing countries.

79. The revolution in exchange of information, and the BEPS Actions, provide a range of new tools that developing countries could utilise to improve domestic resource mobilisation, but progress has not been as rapid as hoped. The reasons for delay in adoption are varied and include political challenges in passing legislation and/or ratifying new instruments; there are also more practical challenges, most notably in putting in place the confidentiality safeguards to facilitate automatic exchange of information (including of country-by-country reports). The limited capacities, both human and technological, in many developing countries are also limiting the potential to make full use of the increased information available to tax administrations, for example through data analytics. Limited capacities may also constrain the scope to improve compliance and certainty for taxpayers. With limited resources, and limited experience of new tools for improved tax certainty, many tax administrations will focus on enforcement actions for non-compliant taxpayers, rather than seeking to improve certainty for the compliant. This may explain the limited use of APAs in many developing countries.

80. With the implementation of the Two-Pillar Solution due to commence in 2022, the demand for support will continue to increase, especially as the timelines for implementation are even more ambitious than for the original BEPS Actions.

3.2. Where we could be tomorrow?

81. The changing global tax administration landscape will continue to offer significant potential for developing countries. Most obviously these can come through harnessing the use of technology and leapfrogging to more technologically advanced approaches. The opportunities provided by the spread of increasingly standardised global rules to unlock a greater range of approaches to bolstering capacities in developing countries have been less discussed, but could play a major role in the future. In the short term, the implementation of the Two-Pillar Solution will be a high priority and require significant additional resources to help developing countries keep to the timetables.

82. The implementation of the Two-Pillar Solution in developing countries will require significant tax policy and administration responses. Developing countries not yet committed to the approach will have to decide whether to implement, while those that have already decided will need to determine the legislative and regulatory reforms needed for domestic implementation, together with building administrative capacity to apply the new rules. Alongside this, the impacts of Pillar Two will provide an impetus for many developing countries with significant tax incentive regimes in place to review, and potentially modify or abolish, such incentives. Development partners, including the G7, should be ready to support developing countries wishing to implement the Two-Pillar Solution, including through making expertise available.

83. Developing countries have an opportunity to leapfrog several stages of technological development to implementing cutting edge tax administration approaches. This can already be seen in real-time invoice reporting for VAT, where a number of developing countries are in the vanguard of introducing this approach (see Chapter 2). As highlighted in the report *Supporting the Digitalisation of Developing Country Tax Administrations* (OECD, 2021[7]), implementing technological solutions in developing countries requires much more than the procurement of the relevant technology, it is a journey, which requires tax

administrations to establish clear objectives as well as putting in place the combination of human and financial resources, together with effective governance to realise those objectives.

84. As developing countries increasingly adopt international standards, and multilateral approaches, there is scope for new approaches to supporting their capacity. The TIWB initiative has demonstrated the impact that bringing in external expertise can have in the application of transfer pricing standards, with additional revenues noted above. Through expanding the TIWB approach to other areas, as is currently being piloted in automatic exchange of information, it will be possible to bring in expertise to work directly with tax administrations in a wider range of international standards. In addition, the increasing scope for multilateral approaches to tax administration offers significant potential for capacity constrained countries to benefit. The implementation of Amount A of Pillar One, for example, may require relatively little administration resources by many developing countries, as the tax certainty panels should play the major role. More broadly, developing countries could explore further ways to pool their capacity through multilateral mechanisms. For example, the Convention on Mutual Assistance in Tax Matters contains provisions to facilitate joint audits, an approach that ATAF has also consistently encouraged.

85. The design of Pillar Two with one standardised effective tax rate calculation implies that the interests of countries will generally be aligned. This consistent and co-ordinated design means that tax administrations with less capacity may be able to rely on the filing, verification and risk assessment requirements imposed by other tax administrations with greater capacity and more experience to ensure that the right amount of tax is assessed and paid in their jurisdiction.

86. Multilateral approaches can also be considered before the audit stage. The ICAP approach is likely to be of increasing interest to developing countries as their capacities grow, and there could be further exploration of voluntary multilateral dialogue between taxpayers and tax administrations, building on the ICAP model. This could provide a more efficient way to identify and discuss risks, as well as an avenue to enable a number of developing country tax administrations to receive country-by-country reports voluntarily from some taxpayers, to build their experience in the use of country-by-country reports, and encourage faster implementation of the necessary regulations and safeguards to enable access.

Recommendation

Box 6. Recommendation – Implications for developing countries

Ensuring full participation by developing countries. Advanced economies should commit to support developing countries including their regional networks so that they can fully benefit from the policy changes, with a strong focus on capacity-building, especially for the Two-Pillar Solution. This support should be both financial and in providing access to expertise. In this regard, the G7 could lead advanced economies in committing to a major support package for the implementation of the Two-Pillar Solution.

Notes

[1] Disbursements, 2020 prices, bilateral ODA, OECD DAC members.

[2] https://www.tadat.org/overview#overview, accessed 26 April 2022.

[3] For example, the consultation for the report *Developing Countries and the OECD/G20 Inclusive Framework on BEPS* (OECD, 2021) showed tax administration issues as one of the top three areas for priority in capacity building.

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Tax Co-operation for the 21st Century

OECD REPORT FOR THE G7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS, MAY 2022, GERMANY

This report considers the implications of international tax developments over the last 10 years, including the adoption in October 2021 of the *Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* for national tax administrations. It provides recommendations to strengthen co-operation at the national tax administration level in the context of increasingly coordinated international rules. The report considers the corporate tax landscape and the need for a simple, collaborative, and digital administration of common rules. Topics beyond corporate tax are addressed, such as how the international information exchange architecture could evolve, with a view to improving timeliness through real-time data availability and incorporating compliance by design. Finally, the report notes the implications of this changing tax landscape for developing countries and how the G7 could lead advanced economies in assisting with the implementation by developing countries of the Two-Pillar Solution.

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