

G20 Finance Ministers and Central Bank Governors welcome progress on addressing the tax challenges arising from digitalization and reiterate commitment to final solution by 2020

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Executive summary

The G20 Finance Ministers and Central Bank Governors meeting in Fukuoka, Japan on 8-9 June 2019 concluded with the issuance of a communiqué¹ on key topics discussed at the meeting. This meeting will be followed by the G20 Leaders' Summit in Japan at the end of the month.

In advance of the meeting, the Organisation for Economic Co-operation and Development (OECD) and other multilateral bodies issued several tax-related documents for the ministers' consideration. The most significant of these documents is the *Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy* (the Workplan), which was agreed to by the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and released by the OECD on 31 May 2019.²

The communiqué welcomed the progress on addressing the tax challenges of digitalization and endorsed the Workplan and its two-pillar approach. It also indicated the intention of the G20 countries to redouble their efforts toward a consensus-based solution to be reflected in a final report in 2020.

Detailed discussion

The communiqué addresses several key topics discussed by the G20 Finance Ministers and Central Bank Governors at the 8-9 June meeting in Fukuoka, Japan, including economic growth, monetary policy, trade, and tax.

Tax

The tax section of the communiqué addresses all the same topics as were covered in the 2018 G20 Finance Ministers Communiqué. It begins by noting the intention to continue the G20 countries' cooperation for a "globally fair, sustainable, and modern international tax system" and welcoming "international cooperation to advance pro-growth tax policies." It then reaffirms "the importance of the worldwide implementation of the G20/OECD Base Erosion and Profit Shifting (BEPS) package and enhanced tax certainty."

With respect to the current OECD project on digitalization, the communiqué welcomes "the recent progress on addressing the tax challenges arising from digitalization" and endorses the Workplan that was agreed to by the Inclusive Framework on BEPS and released by the OECD on 31 May.³ In addition, the communiqué states that the G20 countries plan to "redouble" efforts for a consensus-based solution with a final report by 2020. Under the ambitious timetable laid out in the Workplan, an outline of the architecture of a long-term solution to address the challenges of the digitalization of the economy is to be submitted to the Inclusive Framework on BEPS for agreement in January 2020. Following that agreement, there will be further work to flesh out the policy and technical details of the solution with the intention of delivering consensus agreement on new international tax rules by the end of 2020.

The communiqué also references other tax developments that have been a focus of the G20 finance ministers group at prior meetings. This includes their "welcome [of] the recent achievements on tax transparency, including the progress on automatic exchange of financial account information for tax purposes." In this regard, the communiqué welcomes the publication of an updated list of jurisdictions that have not satisfactorily implemented the internationally agreed tax transparency standards, looks forward to a further update by the OECD of the list that takes into account all of the strengthened criteria, and notes the availability of defensive measures against listed jurisdictions. The communiqué also calls upon all jurisdictions to sign and ratify the multilateral

Convention on Mutual Administrative Assistance in Tax Matters. These projects are discussed in more detail in the OECD Secretary-General's Report to G20 Finance Ministers and Central Bank Governors, which is included in the annex of supplementary documents to the communiqué.⁴

Finally, the communiqué expresses the G20 countries' continued support for tax capacity building in developing countries, including coordinating through the Platform for Collaboration on Tax (PCT). It further welcomes the first progress report of the PCT and the Asia-Pacific Academy for Tax and Financial Crime Investigation in Japan.⁵

Trade

The communiqué also includes a brief discussion of trade issues. In noting the presence of low growth and downside risks, it cites the fact that "trade and geopolitical tensions have intensified" and indicates that the G20 "will continue to address these risks, and stand ready to take further action." The communiqué further states that the Finance Ministers and Central Bank Governors "reemphasize that international trade and investment are important engines of growth, productivity, innovation, job creation and development," and reaffirming the G20 Leaders' conclusions on trade at the 2018 Buenos Aires Summit."⁶

Implications

The messaging on tax in the Finance Ministers meeting communiqué is consistent with prior output from these meetings, underscoring the continued G20 support for the OECD's tax work in the areas discussed. It does not introduce any new tax focus areas, nor does it directly address the use by countries of unilateral measures with respect to digital taxes, which is one of the drivers of the ongoing OECD project on digitalization.

Companies should take note of the G20 endorsement of the Workplan on addressing the tax challenges of the digitalization of the economy. The proposals described in the Workplan have implications well beyond digital businesses or digital business models and are intended to lead to significant changes to the overall international tax framework under which multinational businesses operate.

The communiqué includes specific reference to the Workplan's ambitious timeline, which envisions full consensus-based agreement among the 129 jurisdictions that participate in

the Inclusive Framework on BEPS to secure full consensus on a solution by 2020. The Workplan acknowledges that this project involves “the need to revisit fundamental aspects of the international tax system” and states that the short timeline reflects the “political imperative” that the participating jurisdictions attach to timely resolution of the issues at stake. It is important for businesses to follow these developments closely as they unfold in the coming months.

Taxpayers may also wish to continue to monitor the ongoing work of the OECD and other multilateral organizations on automatic exchange of financial account information,

including developments with respect to the listing of jurisdictions that are considered not to meet transparency standards. The potential implementation of defensive measures, such as withholding taxes or limits on treaty benefits, against listed jurisdictions could have implications for businesses that have operations or entities in such a jurisdiction as part of their structure.

In addition, taxpayers should watch for the upcoming statement from the G20 Leaders’ Summit in Osaka, Japan on 28-29 June 2019.

Endnotes

1. https://www.mof.go.jp/english/international_policy/convention/g20/communique.htm.
2. <http://www.oecd.org/tax/international-community-agrees-on-a-road-map-for-resolving-the-tax-challenges-arising-from-digitalisation-of-the-economy.htm>.
3. See EY Global Tax Alert, *OECD workplan envisions global agreement on new rules for taxing multinational enterprises*, dated 3 June 2019.
4. https://www.mof.go.jp/english/international_policy/convention/g20/annex.htm.
5. https://www.mof.go.jp/english/international_policy/convention/g20/annex10_5.pdf.
6. http://www.g20.utoronto.ca/2018/buenos_aires_leaders_declaration.pdf.

For additional information with respect to this Alert, please contact the following:

Ernst & Young Belastingadviseurs LLP, Rotterdam

- ▶ Marlies de Ruiter marlies.de.ruiter@nl.ey.com
- ▶ Ronald van den Brekel ronald.van.den.brekel@nl.ey.com

Ernst & Young Belastingadviseurs LLP, Amsterdam

- ▶ David Corredor Velasquez david.corredor.velasquez@nl.ey.com

Ernst & Young LLP (United Kingdom), London

- ▶ Christopher Sanger csanger@uk.ey.com
- ▶ Jeffrey Owens jowens@uk.ey.com

Ernst & Young LLP (United States), Global Tax Desk Network, New York

- ▶ Jose A. (Jano) Bustos joseantonio.bustos@ey.com
- ▶ Konstantina Tsilimigka konstantina.tsilimigka1@ey.com

Ernst & Young LLP (United States), Washington, DC

- ▶ Barbara M. Angus barbara.angus@ey.com
- ▶ Cathy M. Koch cathy.koch@ey.com
- ▶ Rob Thomas rob.l.thomas1@ey.com
- ▶ Douglas M. Bell douglas.m.bell@ey.com

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