



SOUTH CENTRE TAX INITIATIVE

PEER EXCHANGE CAPACITY BUILDING MODULE: TAXATION OF THE DIGITAL ECONOMY

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INTRODUCTION

The South Centre Tax Initiative (SCTI) seeks to strengthen policies and practices in developing countries by drawing on lessons and experiences from other developing countries. Peer-to-peer knowledge building and exchange on taxation policies is one key strategy for this purpose. South-South peer exchanges among developing countries open spaces for innovation and expand the capacities of tax officials to design more effective and realistic national policies in line with their capabilities and that are more likely to bring in revenue. These exchanges also increase the ability of Global South tax officials to participate actively in international standard setting fora, including in the United Nations, the OECD, and other bodies.

Peer exchange activities in learning and collaboration provide the opportunity for special focus on topics of priority for developing countries and those high in the agenda of the global reform effort, including those emerging from the OECD, UN, and other international agencies.

In addition, increased cooperation among developing country tax officials can also help identify areas of common interest in the international tax agenda, which will facilitate developing countries to achieve positions of consensus for norms and mutual action at the regional and global levels.

Digital Economy

The peer exchange will cover the following aspects of the taxation of the digitalized economy:

Multilateral Options

The taxation of the digitalized economy is arguably the single most important issue being negotiated in the G20/OECD Inclusive Framework on BEPS and the United Nations. The digitalized economy has increasingly become the 'real' economy and can no longer be restricted to a few sectors. Traditional understandings of nexus and profit attribution are no longer fit for purpose as countries struggle to tax non-residents who earn profits from there without having any physical presence.



This session will cover the two options provided by the UN Tax Committee and the OECD Inclusive Framework (IF). The UN's option consists of a new Article 12B in the UN Model Convention which provides for the taxation of income from Automated Digital Services (ADS). The IF's "Two-Pillar Solution" consists of changes to nexus and profit allocation rules and the establishment of a global minimum tax. The Two Pillar Solution is not yet finalized, however the broad architecture has been agreed upon.

A one-day session can be conducted online on these multilateral options. This can also provide a forum for participants to better understand how to promote developing country interests in the pending negotiations in the Two Pillar Approach.

Peer Exchange Delivered By:

- a. Experts from the UN Tax Committee and the Steering Group of the OECD Inclusive Framework.

Domestic Options

Countries around the world, both developed and developing, have taken a series of national measures to begin taxing the digital economy. Broadly, these can be categorized as (1) the equalization levy which taxes income from online advertisements (2) Significant Economic Presence laws which establish a nexus in the absence of physical presence and (3) withholding taxes on digital transactions.¹

These measures have resulted in countries collecting revenue from this important stream of activity. The focus of the training will be on the equalization levy as it covers the bulk of revenue from the digital economy and is enforced via a withholding tax.

Peer Exchange Delivered By:

- a. The government of India can be contacted for sharing its experience in this regard. However, if Indian trainers are unavailable, alternative options can be explored.

¹ <https://www.southcentre.int/research-paper-111-may-2020/>



MODALITY

One Day Programme

The South Centre will organize and facilitate the peer exchange module which will take place virtually and with the help of interpreters if required. South Centre Member States, G77 countries and the South Centre Tax Initiative's network of tax officials will be invited to participate.

The Programme can tentatively be held in the month of September.

Comprehensive Programme

The comprehensive programme will cover the domestic options outlined above. Given the gradual relaxation of travel restrictions, an in-person training session for two days can be organized in Malaysia for revenue officials. At a minimum, the South Centre can facilitate the travel of trainers. A hybrid format can also be considered for participation of trainers who may not be able travel due to restrictions.

If the in-person session is not possible, then the entire activity can be conducted online over a two-day period.