5 things to know about BEPS 2.0

As technological advancements change the global trade of goods, there has been increasing pressure placed on internationally accepted principles governing the taxation of cross-border business income. Enter the Organisation for Economic Co-operation and Development's (OECD) and their Base Erosion and Profit Shifting (BEPS) initiative. So what exactly is BEPS 2.0 and what are the implications for Singapore?

1. Aims of BEPS

One of the key aims of the BEPS programme is to combat tax planning strategies used by some multinationals (MNCs) to avoid taxes, including "shifting" profits from higher-tax jurisdictions to lower-tax jurisdictions. The new round of proposals (BEPS 2.0) seek to address the challenges of the digitalisation of the economy.

The Programme of Work introduced in May 2019 by the OECD/G20 Inclusive Framework is divided into two pillars:

- Pillar One which looks at the allocation of taxing rights between jurisdictions
- Pillar Two, also referred to as the global anti-base erosion proposal, provides jurisdictions with a right to tax where other jurisdictions have not exercised their primary taxing rights or where the payment is otherwise subject to low levels of effective taxation

2. Impact of a small population

What is important for us under Pillar One are the transfer pricing changes, which seek to allocate greater taxing rights to jurisdictions where the consumer is base. As pointed out by Deputy Prime Minister and Finance Minister Heng Swee Keat during his Budget 2020 round-up speech, hub economies with small markets like Singapore stand to lose corporate income tax revenue.

3. Impact of a global minimum tax concept

MNCs have indicated concern that the corporate tax changes in Pillar 2 of the proposal, which seeks to impose a global minimum tax concept, may undermine Singapore's position by neutralising the effects of its tax incentives. A key concern of business centres is whether Singapore will increase its corporate tax rate or the basis of taxation in an attempt to balance any potential loss of revenue.

4. What's in it for Singapore?

Singapore announced that it is joining the inclusive framework back in 2016. Tharman Shanmugaratnam, who was then deputy prime minister and finance minister, said Singapore is committed to work with the international community to ensure consistent implementation of the BEPS standards across all jurisdictions to ensure a level playing field.

On the flip side, Singapore has been able to provide input in areas of particular national importance and to commit to incorporating internationally accepted principles. In the eyes of the international community, this has enhanced Singapore's competitive index.

5. What's next?

MPs have been discussing these proposed changes in Parliament since last year. One backbencher, Cedric Foo, opined that this is one reason why the upcoming hike in the Goods and Services Tax is necessary.

Practically speaking, the OECD hopes to finalise the concept by the middle of 2021. But even if it is approved, the concept will require the development of a large number of documents. According to Deloitte's timeline, unless there are additional delays, the new provisions will realistically not enter into force until 2024.

Compiled by BT