

BEPS Action 1: Address the tax challenges of the digital economy

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Session IV: broader tax challenges raised by the digital economy

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Digitalisation and Growth of Economy

JANE Supports for Digitalisation and Growth of Economy

Benefits of Digitalisation include:

- Reduction of cost and time
- Empowering individuals and venture companies to create new businesses and to grow global
- Contribution to growth of economy
- Creation of new business models
- Eco-friendly

1. Broader Tax Challenges Raised by the Digital Economy

Nexus and Significant Presence without Being Liable to Tax

- Further discussions should be held to better understand the **comprehensive measures** to ensure **competitive distortions are minimised**
- High quality of services, direct relationship with key clients (something “important”?) – managed locally in market country – may not be transferred easily to abroad?
- PE rules and profit attribution rules

Data and Attribution of Value

Value of raw data

- Registered but use the services for free
- Customers could move to another supplier/s

Monetising activities

- Who is developing a business model to monetise it?
- Who develops index contributing to an increase in sales?
- Who is developing a technological system to scale out such index?

Characterisation of Income Derived from New Business Model

Consistent treatment across jurisdictions should be implemented for corporate income tax, withholding tax, and VAT/GST.

- Electronic order processing of tangible products,
- Electronic ordering and downloading of digital products,
- Application hosting,
- Software maintenance,
- Data warehousing, etc.

2. Options to Address These Broader Tax Challenges

Consumption Tax Options

Exemptions on Imports of Low-valued Goods

- Threshold varies across jurisdictions
- Administrative burden to consider
- Competitive distortion: same exemption should be allowed for similar B2C digital services (e.g., e-book, video, music)
- Digitalization provides a lot of benefits, and we do not support unfair measures on digital transactions

3. Potential Cost of Compliance, Suggestions for More Cost Efficient Alternatives

Consumption Tax Options

B2C Cross-Border

- There should be **incentives** for non-resident suppliers to be compliant, and a **penalty** for non-compliance
- Volatile environment and **quick changes** required: VAT deregistration issues
- **Simplified registration regime to minimize the compliance burden on businesses**
- Consistent registration and compliance system, not requiring a business to develop a complicated system for variations

4. Ottawa Taxation Framework Principles

Ottawa Taxation Framework Principles

Five Principles:

- **Neutrality**
- **Efficiency**
- **Certainty and Simplicity**
- **Effectiveness and fairness**
- **Flexibility**

Further discussions should be held to better understand the comprehensive measures to ensure competitive distortions are minimised.

Appendix

Japan Association of New Economy (JANE)

- Promoting development of new industries
- Encouraging innovation, entrepreneurship, globalization
- Contributing to a fair competitive environment, more efficient administrative process, vitalisation of regional communities
- 621 member companies/groups as of 2 April 2014 (294 general members, 327 supporting members)

Businesses of JANE Member Companies

Businesses of JANE Member Companies include:

- Online marketplaces for consumers and retailers.
- Online platforms through which consumers and businesses interact to share information, enjoy entertainment (music, electronic books, videos, etc.), and networks.
- Subscription-based and free content to consumers and businesses.
- Developing, marketing, and selling business and consumer-oriented search, advertising, hardware, and software.