

Tokyo, 2 December 2019

Re: Global Anti-Base Erosion Proposal (“GloBE”) - Pillar Two

Dear Sir or Madam,

It is our great pleasure to submit our opinion on the Global Anti-Base Erosion Proposal (“GloBE”) - Pillar Two.

Established in 2012, the Japan Association of New Economy (JANE) represents the fast-growing, dynamic digital sector of the Japanese economy. Most of our members are innovative and entrepreneurial, selling borderless services.

In our view, the global tax reform on the global anti-base erosion should take into consideration the following points:

1. Tax base

When determining tax base, it is crucial that companies be allowed to carry losses forward (specifically the ones incurred before GloBE is introduced). Start-ups and even new business launched by multinationals tend to run deficits at early stages when large investments are required to get them off the ground and build a user base in a market jurisdiction.

JANE also agrees that the use of financial accounts as a starting point can provide an appropriate income base for the computation of an effective tax rate.

In addition, we support a multi-year averaging approach to address volatility caused by year to year differences in the effective tax rate as the approach has the benefit of simplicity.

2. Blending

Although JANE supports the proposed “worldwide blending approach,” this option should be refined.

Under the present proposed approach, the MNE’s total “foreign” income and the

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total “foreign” tax on that income would be aggregated. This is problematic and needs to be revisited to avoid imposing an unworkable administrative burden on industry and in the interest of fairness.

Under our refined proposal, minimum tax would be imposed based on corporate “income.” This represents a good measurement of a company’s ability to afford taxes and remain competitive. If a minimum tax is imposed, it should take into account not only foreign taxes but also domestic taxes in assessing whether a MNE pays a required amount of minimum tax. In this way, the plan would create a level playing field.

Otherwise, blending would disadvantage MNEs that pay a high amount of tax in their home country but only a small amount of tax (less than the level of minimum tax) on foreign income. Any blending solution must avoid such a distortion to ensure fairness.

3. Carve-outs

We strongly support carve-out, in particular for highly regulated sectors such as financial services and telecommunication services. These should be out of scope because companies operating in these businesses are heavily regulated and unable to undertake aggressive tax planning.

Another important point is incentives. Based on experiences with existing regimes, we believe tax incentives represent an important part of industrial policy, contributing to economic development by accelerating foreign direct investment and generating employment. In our view, certain incentives related to investment should be allowed -provided they create a substantial contribution to the jurisdiction economy and meet strict criteria. Foreign investment incentives should be taken into consideration in designing carve-outs.



About Japan Association of New Economy

The Japan Association of New Economy (JANE) is dedicated to provide policy advocacy from a private sector perspective to help contribute to addressing the establishment of policies and systems while also providing a platform for information sharing and networking among members.

To that end, JANE works to achieve the triple objectives of promoting innovation, globalization and entrepreneurship. As an organization with a responsibility towards the socioeconomic future of Japan, JANE, with its member companies pioneering tomorrow's technologies and services, continues to challenge the status quo and advocates a vision of the future beyond conventional thinking.