

Tokyo, 14 December 2020

Re: Comments on Pillar One and Pillar Two Blueprints

Dear Sir or Madam,

It is our great pleasure to submit our comments on the Pillar One and Pillar Two Blueprints.

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

We welcome the Pillar One and Pillar Two Blueprints and would like to express our great appreciation for OECD effort. From a taxpayer point of view, our key messages are “More simplification” and “Minimize the chances of double taxation. We advance the following points in an effort to increase support from taxpayers for the two pillars.

Comments on Pillar One

■ **Scope – A phased approach on threshold tests**

We strongly support “a phased approach” for threshold tests. We expect many questions will be raised during the course of Pillar One compliance work, especially at the beginning of implementation. Based on our practical experience, we would be required to invest significant resources in addressing those questions on top of preparing and collecting information needed to comply with Pillar One. Tax authorities will also face significant challenges. Both taxpayers and authorities side have limited human resources. For this reason, we believe that it will be good to start with a soft launch of Pillar One with the world’s largest multinationals. During the soft launch period, we can use our practical experience and solutions to devise answers for frequently asked questions so that smaller MNEs can adopt Pillar One smoothly. This approach will minimize administration burden on both sides. We support the Blueprint solution outlined in paragraph 180:

One approach could be to implement the threshold on a phased approach. This could start with a higher global revenue threshold that could either be gradually reduced over a number of years or be applied for a longer period and then only start the reductions after a post-implementation review has been undertaken.

This approach will bring lessons for smaller MNEs as well as for tax authorities.

A global revenue threshold should be set at a sufficiently high level, thereby limiting the number of covered MNE groups to the number that tax authorities can manage. After the appropriate period of implementation, a post-implementation review should be conducted before expanding the pillar to smaller companies. Guidance documents should be prepared, reflecting lessons learned by authorities and taxpayers.

Comments on Pillar Two

■ General comment – Pillar Two

Pillar Two's architecture is very complicated from taxpayer's perspective. It raises many issues about coordination between IIR, UTPR and STTR, temporary adjustment under carried forward system (loss carried forward, IIR credit, local tax carried forward), nominal tax rate etc. We expect that tax authorities will also struggle to deal with the administrative burden. It is important to minimize such Pillar Two complexity as much as possible. Our advice is to exclude STTR from the Pillar Two architecture since we believe IIR/UTPR is sufficient to achieve the stated objectives. We seek simplicity, minimum administration and easy enforceable rules.

■ Specific clarification

- Taxes paid under CFC rule (paragraph 145)

We believe that more concrete guidance for CFC taxes is required to calculate ETR. We request clarification on ETR calculations when CFC taxable income is offset against NOL in UPE jurisdiction without actual tax payment. In such a case, taxpayers should be entitled to add a "virtual" tax on the numerator of the ETR calculation.

- Adjusted nominal rate trigger (paragraph 573)

We believe that more concrete guidance is required for how to determine adjusted nominal rate trigger. Some of the tax incentive frameworks is to give concessionary tax rate applied to taxable income above certain amount. It should be clarified on how we determine the nominal rate triggers in that case.

■ **Administrative relief proposal**

From the taxpayer's perspective, it is too much administrative burden to comply with Pillar One and Pillar Two at the same time. Since most stakeholders prioritize Pillar One which is replaceable with DST, it is advisable to implement "a phased approach", first Pillar One and next Pillar Two.



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.