ICRICT
Independent Commission for the Reform of International Corporate Taxation

PRESS RELEASE

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International corporate tax reform needs a comprehensive approach

The first meeting of the G20 finance ministers under the Argentinian presidency will take place this week in Buenos Aires. International taxation of multinationals will be again on the agenda, as six EU/G20 countries have recently written a letter to the Argentinian minister (g20 chair) to ensure that a global response to the tax challenges raised by the digital economy is identified.

The Independent Commission for the Reform of International Corporate Taxation (ICRICT) shares the concerns raised in this letter that **immediate actions, preferably on a coordinated basis, are required to address the tax challenges raised by the digital economy**.

The ICRICT also concur that the momentum in reform should be maintained, as **digitalisation has exacerbated the unsuitability of current international tax rules**, accentuating the need to change them.

The OECD/G20 Base Erosion and Profit Shifting (BEPS) reform proposals, while helpful at the margins, do not help resolve the basic challenge of ensuring that **multinational enterprises (MNEs) are taxed 'where economic activities occur and value is created'. In particular, they failed to address the crucial issue of criteria for apportionment of profits.**

The transfer pricing rules attempt to construct prices for the transactions among entities that are part of MNEs as if they were independent, which is inconsistent with the economic reality of a modern-day MNE, a unified firm organized to reap the benefits of integration across jurisdictions. Large MNEs, including those operating in the digital economy, are oligopolies and in practice there are no truly comparable independent local firms that can serve as benchmarks.

However:

- **It has been clearly shown that digitalization is not restricted to a specific group of companies, but affects the whole economy;**
- **this means that a comprehensive approach is required, not another patch-up solution;**
- **a comprehensive approach means tackling the core problem, the separate entity approach to MNEs taxation.**

The ICRICT recommends an alternative to taxation of all multinationals, including those which operate in the digital economy: **tax multinationals as single firms by combining their global profits and then allow each country where the corporation operates or sells goods to tax only the portion of profits attributable to the corporation's economic activity there**.

The G20 first Meeting of Finance Ministers and Central Bank Governors this week should mark the beginning of a wider and deeper debate on global tax reform.

*ICRICT is a non-profit group of economists, tax experts and former senior officials which works to promote debate on reform of international corporate taxation, in the global public interest. Our latest report, "**A roadmap to improve the the rules for taxing multinationals**" is here.*

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