



OECD

# OECD Council

**ATIDMUN 2021**

*The Challenges of Taxing the Global  
Digital Economy*

## Chair Letters

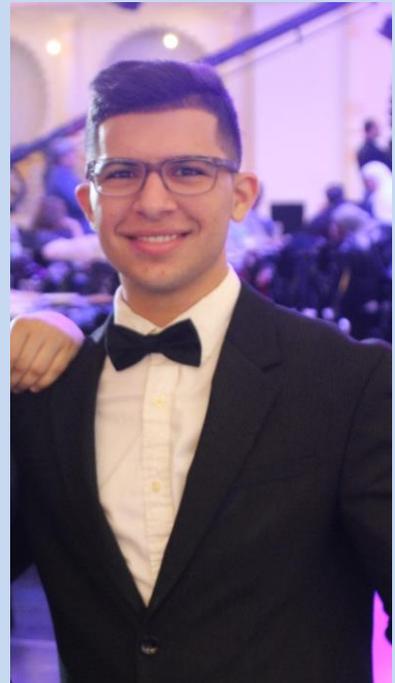
Hello, dear delegates!

My name is Abdallah Watted and I'm going to be your OECD chair! I'm 18 years old, and I have just graduated this year from high-school electro-physics major. Whenever I'm bored, I play the violin especially for the artist Fairouz. I love volunteering and motivating each group of society, as well as partaking in many leadership and diplomacy programs, like MUN. I've been MUNing for four years and attended numerous conferences, remembering panicking in front of 500 delegates and the Japanese Ambassador at my first conference. Yet, as I was adding a few conferences to my MUN belt, I honed my MUN skills and won the best delegate. Therefore, don't be stressed, life isn't worth your strain, feel confident, free, and whenever you need help, I'm here, don't hesitate to ask for assistance!

I look forward to hearing all of you in this conference, with your cameras on, working together, cooperating, being patient and considerate of others' opinions, making your voices heard and united in the joint resolutions.

See you at the conference,

Abdallah Watted- [wattedabdullah@gmail.com](mailto:wattedabdullah@gmail.com)



Dear delegates!

Welcome to our AtidMUN Conference! I am an 11<sup>th</sup> grader, and I will be chairing the OECD double-delegation committee this year.

A little bit about me: I've been doing MUN for 2 years now, having been a delegate in a few ones, with my Honorable Mention as Paul Rand in the TIMEMUN 2020 Senate being the peak of my MUN career. I chaired the UNHRC at the virtual AOSMUN 2020 and this will be the send time I have been Chairing. My double delegation experience as a delegate will definitely add to my chairing in OECD at ATIDMUN 2021.

I have also been debating in WSDC (Schools Style) and BP (Universities Style) debates in the past 3 years. I've participated in many MUN conferences and debate competitions, also in Hebrew but mostly in English. The highlights in my debate, public speaking, and MUN career were winning the 1<sup>st</sup> ESL award with Team Israel at EurOpen in Germany this year and being nominated the 3<sup>rd</sup> ESL Speaker in the same competition. I also mentor/coach junior debaters and MUNers. If you have any questions or need any help, you are welcome to ask.

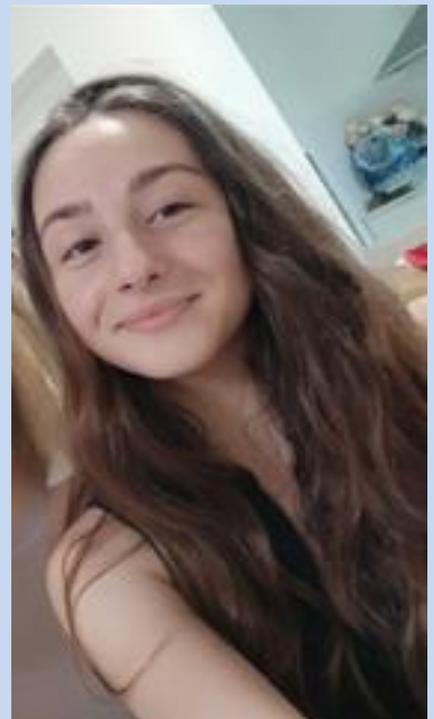
I really look forward to cooperating and collaborating in the committee

I'm very excited to meet you all!!

Sincerely,

Michal Turgeman 055-6676775;

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## **Committee Description**

Established more than 60 years ago, the Organization for Economic Co-operation and Development (OECD) is an international organization whose focus is on designing better policies to foster prosperity and equality, well-being, and more opportunities open for all, empowering the world population for a better future. OECD brings together collaborating stakeholders - governments, policymakers, relevant organizations, and individuals, OECD works on setting international standards and finding solutions to social, economic, and environmental problems; e.g., boosting economic performance, creating job positions, advancing education, and fighting international tax evasion, providing knowledge, data, and analysis, sharing experiences, and providing advice on public policies aimed at setting valid international standards.

The OECD member countries generally regarded as developed countries with high-income economies, these countries are Australia, Austria, Belgium, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

**In AtidMUN 2021, the OECD committee will function as a unanimous double-delegation committee.** This means that in order for a resolution to pass, there needs to be a unanimous agreement between all member-states on it – a single 'no' vote will fail the resolution. This makes negotiations the center of the committee. In order to provide an environment that is suited for negotiations, we have expanded the committee to a double-delegate committee (two people representing the same country), to allow all of you to negotiate with at least two other member-states at once.

# Taxing the Global Digital Economy

## Introduction to the Topic

### Taxation

One of the main duties of any modern-day country is providing basic services to its citizens. Whether it is infrastructure such as roads or bridges, basic education or healthcare, a country needs to be able to provide some sort of support to its citizens. In order to provide these services, a country must be able to pay for them; it can do so by taxation.

Taxes are a relatively simple idea – each person pays a certain amount to the government every month (or year, depending on the country), and the government uses it to provide public goods such as those listed above. Income tax is a good example: people pay a certain percentage of their monthly income to the government. The rate they pay rises in accordance with their salary – the rich pay more tax than the poor. This effectively diminishes the inequality between citizens of different socio-economic backgrounds. Moreover, a country can use some of its tax revenues to specifically target its poorer citizens (funding better schools in poor neighborhoods, for instance), thereby further aiding them.

The form of tax that is of most relevance to this committee is corporate tax. Corporate tax is a tax placed on the income of a company. We shall illustrate this with an example: in 2020, Apple had total revenue of about 274.5 billion USD. Its total expenses amounted to 208 billion USD, and so its net income (revenue minus expenses) was 66.5 billion USD<sup>1</sup>. Therefore, if the US corporate tax rate is 35% (for any income over 10 million USD), Apple should have paid over 23 billion USD in taxes to the US government.

It paid just 9.5 billion USD<sup>2</sup>. How did this happen?

### Multinational Corporations

A multinational corporation (MNC) is a company that exists in more than one country. This usually means that it has facilities – factories, distribution centers – in more than one country. For instance, Walmart has stores in over 70 different countries, and is thus an MNC.

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[Apple Inc. \(AAPL\) Income Statement - Yahoo Finance](#)<sup>1</sup>

[Apple Income Taxes 2006-2020 | AAPL | MacroTrends](#)<sup>2</sup>

Why should companies open factories or stores overseas? Firstly, it is cheaper. Instead of manufacturing all of their products in one country and then shipping it all over the world, they avoid shipping costs by manufacturing their products in different countries. This may sound more expensive, but for giant corporations it actually might be cheaper. Secondly, this enables the company to avoid tariffs (import taxes) in the country of destination, further diminishing costs. Lastly, these corporations manufacture different products in different countries, so as to minimize production costs. We'll take Apple as an example once again: it develops its iPhones in the US, where development cost isn't very high, and manufactures them in China, where labor costs are very low. Thus, Apple lowers the costs of production.

One of the difficulties arising from the existence of MNCs is taxation – how should these corporations be taxed? More precisely, which country should get to tax them? Since MNCs are usually enormous corporations with a lot of income, this question is extremely important and could drastically affect countries.

In short, MNCs are taxed according to the profit they make in every different country. Assuming a corporation has a net income of 10 billion USD in the US and 2 billion USD in Germany, it would pay the US taxes for just the 10 billion USD that it made in the US and it would pay Germany taxes for the 2 billion USD.

This system generally works - in most situations, we can know quite well how much a company earned in every country it operates in. However, this question becomes much more difficult when it comes to digital corporations.

### **Taxing the Digital Economy**

Digital corporations such as Facebook, Google, Apple and Microsoft are unique in that a large share of their revenue comes from Intellectual Property (IP). Intellectual Property is any property that isn't physical – songs, brand names and software are all examples of IP. Intellectual property has a characteristic that other products do not have: they are not tied down to a location since they are not produced in manufacturing factories.

Why does this matter? Facebook's revenue comes from its website. The website doesn't exist in one specific country; rather, it exists in all of them simultaneously. Who gets to tax Facebook? In theory, the same rule for taxation of any MNC should apply: we assume that we can know the revenue of Facebook in every country, and so each country should get to tax its share. Simple, really.

But it isn't. It is very unclear in which country money was made. The way to bypass this is by creating a tax system that is based on where the IP is located, and that is indeed the method in use today. However, IP can be moved from country to country in a click of a button. Technically, Facebook can register its IP in Ireland (and can also move its headquarters there), and thus avoid paying the high corporate taxes of the US. Moreover, it could just 'shift' profits from countries which high corporate taxes to countries with low corporate taxes.

This practice is called Base-Erosion and Profit-Shifting (BEPS), and it is a huge problem for countries.

### **Current Situation**

How big of a problem is BEPS? According to recent estimates, BEPS tactics result in a shifting of around 40% of the profit of MNCs; this leads to a loss of over 200 billion USD in tax revenues worldwide per year<sup>3</sup>. If it harms the global economy so much, why don't countries do something about it? To answer this question, we must ask ourselves which countries profit from this phenomenon and which lose from it.

#### *Winners and Losers from BEPS Tools*

The countries that lose money are the countries of origin for these MNCs. These tend to be large and rich countries, such as the United States, which have the environment that enables giant (digital) MNCs to grow in: good education, good quality of life, and a high-skilled labor force. Instead of paying taxes in the country that enabled their success, these corporations shift their profits into lower-taxed countries and thus avoid a large amount of the taxes that they needed to pay. The United States could have used this money for a variety of purposes, including helping its poorer citizens. These companies, aided by low-taxed countries, are actively responsible for the deteriorating conditions of the poorest citizens in these countries.

In contrast, the countries that profit off of BEPS are generally smaller, poorer countries. These countries did not have the environment to create giant MNCs since they are not as rich and have fewer citizens (and are thus a smaller market) than the larger, richer countries. BEPS tools allow these countries to secure funds that would have otherwise gone to the richer countries. A 5% corporate tax isn't a lot, but when applied to the large incomes of

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[Corporations Push Profits Into Tax Havens as Countries Struggle in Pursuit, Study Says - WSJ](#)<sup>3</sup>

MNCs it is a substantial sum. Furthermore, these companies hire locals and thus reduce unemployment.

### *The 'Race to the Bottom'*

As we have shown, there are substantial benefits to be gained from attracting MNCs to a country. This means that most countries will attempt to present lower taxes to MNCs than other countries. Let's assume we have three countries, two of which have a 30% corporate tax and one has a 25% tax. Most MNCs will shift their profits to the third country, and so the first two will lower their tax rate to 25% or even lower. The third country, who wants the MNCs to stay in its own territory, will lower taxes again. This will happen until tax rates are 0% in all countries (because no one can lower them anymore). This is called the 'Race to the Bottom'<sup>4</sup>, and all countries end up losing all the revenue from taxes. This problem exists today, and it could be fixed with international coordination.

### *The Collective Action Problem*

It is perplexing that BEPS still exists. We tend to believe that when something bothers most (if not all) of the major economic powers, they should have enough leverage over poorer countries to force them to change their tax mechanisms. So how come BEPS is still a problem today?

The winners from such a move – the larger, richer countries – will win back some billions of dollars. It is a substantial amount, but not a significant one. These countries have a very high GDP – in the trillions sometimes – and a few billion dollars a year don't make that big of a difference.

In stark contrast, the losers from such a move will suffer extreme losses. MNCs in Ireland, for example, account for 80% of the corporate tax paid and 25% of employment (1 in 4 Irish citizens work for an MNC)<sup>5</sup>. Eliminating BEPS tools will result in those corporations leaving Ireland (and similar countries), which would create disastrous unemployment and could lead to a financial crisis.

And so, even though it would help the world economy as a whole, the losers from banning BEPS tools (the smaller, poorer countries) will lose a lot and the winners will gain a little.

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[Race to the bottom - Wikipedia](#)<sup>4</sup>

[Corporation tax in the Republic of Ireland - Wikipedia](#)<sup>5</sup>

The potential winners have no true incentive to try, and the potential losers will fight any change tooth-and-nail. This is called the Collective Action Problem<sup>6</sup>.

*The BEPS 2.0 Initiative*

In January of 2019, the OECD had begun work on the BEPS 2.0, an initiative to regulate the international taxation of MNCs<sup>7</sup>. The idea was this: MNCs would be taxed based on where the product was used, and not where their IP was located. The winners and losers from such a move are clear.

The stage is set. The lines are clear. You must strive to do the impossible and negotiate a solution that is acceptable for each and every country. It is an extremely tall order, and so each country has been allotted not one, but two negotiators.

Your citizens are counting on you. The world is counting on you. May luck forever be in your favor.

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[Collective action problem | Britannica](#) <sup>6</sup>

[BEPS 2.0 – Pillar Two: the OECD issues consultation document on design of global minimum tax rules](#) <sup>7</sup>

[| EY - Global](#)

### Questions to Consider

- Should the smaller, poorer countries be compensated if the BEPS 2.0 passes? If so, how?
- How can OECD countries ensure that MNCs pay their fair share of taxes?
- How can OECD countries ensure that the taxation of MNCs align where economic activities take place and value is created?
- What are the benefits of MNCs to the host country? Do you have MNCs? Why are they important to you?
- What is the effect of taxation on the operation of MNCs?
- How can the 'Race to the Bottom' be avoided?
- How can double taxation be avoided by international tax treaties?
- How can OECD countries coordinate bilateral tax treaties to avoid double taxation?

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