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WORKING PAPER

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MEETING DOCUMENT

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Delegations will find attached a document in view of the Working Party on Tax Questions (Direct Taxation - Digital) on 11 October 2019.
Background

• Initial hypothesis of the Finnish Tax Administration (FTA)
  • Finland is an export driven small and open economy
  • Competitive advantages being the quality of education and skilled workforce, innovations
  • Due to its small size in terms of population, surrendering part of the residual profits to market jurisdictions might result in loss of revenue income
• Approach for the IA by the FTA
  • Assessment of the current situation
    • Identification of the taxpayers potentially impacted by the contemplated reform
    • Definition of taxes paid on the income stream affected by the reform
  • Impacts of the reforms
    • Definition of the data sources, followed by data collection
    • Allocation exercises based on the known elements of the reform
Assessment of the current situation

• Definition of the taxpayers affected
  • Data sources
    • Corporate tax data based in tax return forms (including specific form for intercompany (I/C) transactions)
    • VAT-data (e.g. sales to EU)
    • CbC-data
    • Customs data
    • Orbis

• Scoping: All corporate taxpayers (FYs 2013-2017)
  • Identification of taxpayers with
    • Sales to market jurisdictions – outbound effect
      • FI resident companies selling goods or services to overseas, directly to customers or to associated enterprises
      • Identification: EU sales or 0%-rate sales (VAT-data) OR sales to associated parties (I/C data) OR exports (customs data)
    • Sales to Finland – inbound effect
      • FI resident group entities purchasing goods or services from overseas
      • Identification – I/C data
      • Non-resident companies selling goods or services to FI without a taxable presence
      • Identification: VAT-sales data AND registered (FI CIN) as foreign entity/branch AND no CIT PE

• Further specifications to be included in accordance with the OECD work
Assessment of the current situation

• Number of taxpayers identified
  • Outbound
    • Sales to market jurisdictions – ca. 23 000 – inaccuracies in VAT-data
  • Inbound
    • IC-sales to Finland – ca. 2 600 – potential overlaps with the above
    • Sales by non-residents – ca. 2 500 – some inaccuracies in VAT-data
• Taxes paid by first two (23 000 and 2 600 companies combined) of the above: 3,1 billion
  • The reform will have two-way impacts to the total sum
  • Proportion impacted by the reform, ie. new taxing rights in market jurisdictions – identifiable based on VAT-data – work in progress

• Approach for IA – work in progress
  • Utilisation of Orbis-data as broadly as possible
  • Outbound effect per taxpayer counted in if
    • Consolidated profits exceed set threshold (e.g. 10 % EBIT) OR
    • In the absence of group profit data, if taxpayer profit exceeds the set threshold
    • Share of the FI taxpayer of the residual allocable to the new taxing rights is calculated in proportion of the FI resident company residual profit to group residual profit
  • Inbound effect per taxpayer counted in if
    • Consolidated group profits exceed the set threshold
    • Definition of residual profit allocable to FI (new taxing right) in proportion of the sales to FI to the group sales