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NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	Tax challenges arising from digitalisation - Exchange of views

I. DIGITAL TAXATION: INTERNATIONAL CONTEXT

1. The international negotiations on finding a solution to tax challenges arising from digitalization are progressing and are about to reach a crucial phase.
2. On 18 December 2019 the OECD published three documents:
 - Outline of an Agreement on Pillar One Issues;
 - Progress Note on Pillar Two; and
 - Statement by the Inclusive Framework on the Two -Pillar approach to Address the Tax Challenges arising from the Digitalization of the Economy.

3. The two notes are for discussion and approval at the next meeting of the Inclusive Framework on 29-30 January 2020, whereas the statement is intended to serve as a "chapeau" document *"to bring the notes on the two pillars together for purposes of submitting the note to the February G20 Finance Ministers meeting and for public release prior to that meeting."*
4. OECD is working on a two-pillar approach, both of which are considered essential for a comprehensive global solution. Pillar 1 focuses on the allocation of taxing rights, including nexus ("taxable presence without the traditional physical presence") issues. Pillar 2 (also called GloBE proposal "Global Anti-Base Erosion Proposal") deals with risks of profit shifting to entities subject to no or very low taxation and introduces as a novelty the possibility of a minimum top-up tax ("MET" - Minimum Effective Taxation).

II. PRESIDENCY APPROACH TO EU ACTIVITIES

5. In line with the approach taken by the previous Presidencies, the Croatian Presidency intends to continue participating actively in the OECD negotiations in cooperation with all EU Member States and the Commission.
6. In the coming months the Presidency plans to organize regular technical meetings at EU level as well as preparatory discussions in the HLWP in order to continue offering a platform to the Member States to exchange views on matters of relevance for the EU and its Member States in line with the approach of ECOFIN of May 2019 and November 2019.
7. The HLWP meeting on 15 January 2020 is scheduled as an opportunity for delegations to exchange initial views on OECD papers and on the way forward. In particular, delegations are expected to discuss possibilities of identifying common elements for EU Member States to address in the OECD negotiations, exchange views on how to proceed with the work on EU law compatibility of the solutions negotiated in the OECD and comment on the two pillars, their effect on EU law, on the level playing field and on EU competitiveness.

III. WAY FORWARD

8. In the light of the above the Presidency invites the ECOFIN Council to exchange views on tax challenges arising from digitalization.
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