

## **KPMG Submission on Workstream II – Cross border services**

### **Summary**

It is important that the evaluation of the tax treatment of cross border services is forward looking – taking into account demographics for the 2030s and 2040s, the level of economic integration of many developing and emerging economies in the global environment and the technological setting that is anticipated. It would be a fundamental error to design a system based only on past experience and to exclude the future shape of the world.

The main argument for cross border withholding taxes on services is generally that they are simple; however, it would seem to be clear that they can act as an impediment to economic growth when compared to net taxation methodologies. This may be exacerbated if the future involved generally lower profit margins on the provision of services. Moreover, the relative level of services from ‘Global North to South’ is likely to decline with the substantial growth of South-South and South to North services. To elaborate: on the (shrinking) volume of North to South services (where South is payer, and would pick up the WHT), there is economic damage predominantly to North services; and on the (otherwise growing) volume of South to North services (where North is payer and would pick up the WHT), there is economic damage predominantly to South services.

This requires full economic analysis.

### **Recommendations**

1. That the Committee commission significant economic analysis of the potential impacts of withholding taxes on cross border services based on:
  - (a) The likely future global demographics in the 2030s and 2040s and the needs for future generations to participate in labour activities;
  - (b) The likely technological benefits that will enable emergent economies to participate in the global services environment at a significantly greater level than at present;
  - (c) The potential for lower profit margins in a future world that may increase the economic damage arising from withholding taxes;
  - (d) The likely balance of revenue raised under different scenarios for the Global North and South arising from (a) to (c) above;
  - (e) The level of administration in taxation collection arising from small scale provision of services;
  - (f) The level of administration in determining the location of the provision of services in the future;
  - (g) The potential for inefficiencies and disincentives to arise from the differential treatment of the provision of services domestically and cross-border;
  - (h) The improvements in skills capacity and the use of technology for revenue authorities to evaluate transfer pricing and net basis taxation methodologies particularly in relation to intra-group activities.

2. That various options be considered in relation to the above scenarios including the potential for sole taxation for the jurisdiction of the provider of the services, partial taxation by the jurisdiction of the recipient of the services, alternative mechanisms and low and high levels of taxation. One option, among others, may involve net basis taxation at the option of the taxpayer.