On Taxation of the Digital Economy. Where Are We Now and Where Are We Going?

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Abstract. *This study aims to contribute to the continuing discussion about the compatibility and feasibility of the OECD/G20 October Statement. By this means, a literature review is conducted to gain appropriate considerations to the Pillar One and Two implementations. Amongst the findings are that: i) Approach Pillar 1A: This philosophy eliminates the request-demand principle and adopts a uniform approach to taxation and will allow developing countries to focus on their core activities and avoid becoming part of an open market environment; ii) As countries step up their efforts to attract more income-producing businesses, they will need to adopt more sophisticated tax systems to compete effectively. A new tax system is limited by a set of barriers that prevent it from becoming overly complex and inefficient; iii) the main reason for limiting competition is that tax administrations deliver lower-quality services to their clients. A new approach will allow tax administrations to compete more effectively; and iv) Since many tax administrations with DST income will lose what they gain due to the implementation of Pillar 1&2, the real results will need to be studied.*

Keywords: digital economy, globalization, global minimum tax, digital service tax, transfer pricing, tax administration

JEL Classification: E31, E62, G3, G18, H20, H21, H26, H87.

1. Introduction

Due to the changes brought about by digitalisation, the international corporate tax system is under pressure (De Mooij et al., 2021). This is because, to avoid paying tax in other countries, companies can now avoid their physical presence in their local markets. The evolution of the multi-actor model (i.e., multi-sided businesses) has created new opportunities to capture value from the externalities of free products, especially user data and contributions. The digitalisation of the economy has led to the emergence of new business models (OECD, 2014), such that the value of intangible assets is increasingly being realised in the form of digitalised assets. The value of digital assets is often realised in a form of intellectual property rights, such as software, or digitalised products.

The amplified potentials of digital businesses to reduce their tax burden through various tax planning structures make it more difficult for governments to collect tax revenue (Gianni, 2018). In addition, many states are engaging in tax competition to attract business investment.

The Organization for Economic Cooperation and Development (i.e. OCDE) is exploring the possibility of introducing a minimum tax for digital economy transactions. A minimum tax may be a template for the US' Global Intangible Low Taxed Income (i.e. GILTI) (Blum, 2019). The main goal of this article is to assess the Pillar One and the Pillar Two proposal by the OECD in October 2021. In this manner, in this paper we try to follow three different approaches as follows: i) Understand the reasons for the need to reform the global tax system and the last framework structure proposed by OECD; ii) differentiate between Pillar One and Pillar Two frameworks and understand the details of each plan; iii) summarize the key open issues, the timeline for resolution and global implementation, and obstacles to US implementation (i.e., GILTI).

2. Research methodology

This research paper follows a qualitative method, which is carried out through a literature review. Qualitative research involves conducting a comprehensive and in-depth analysis of various sources of information, particularly articles and books (Creswell, 2014).

The proposals, stated in our goal research, originate from the OECD's work on Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (OECD, 2021). This research will explore the related issues concerning: i) Digitalization of the Economy; ii) current global tax parameters and growth of intellectual propriety (i.e., IP); iii) the last OECD statement; iv) Pillar One and Pillar Two - key elements; v) digital services taxes –overview and critiques; vi) agreement to remove Digital Service Tax; and vii) the future of taxation of the digital economy.

3. Discussion

3.1 Digitalization of the Economy

The OECD argues various new business models that are based upon the use of modern communication technologies, such as electronic commerce and app stores (OECD, 2014, p. 73). Some examples in this sector are the app stores of Apple, Facebook, Google, Amazon, Netflix, Pay-Pal and others. Some new business models are emerging in the area of financial services and the use and development of the internet as a platform for the transfer of information from one party to another. Also, the impact of these new business models on the development and functioning of the economy, generally, and on the job market, and different branches, in particular, in Europe (Fabo, et al. 2017; Litvinenko, 2020; Sabbagh et al., 2013), China, USA, etc. is significant and increasing day by day.

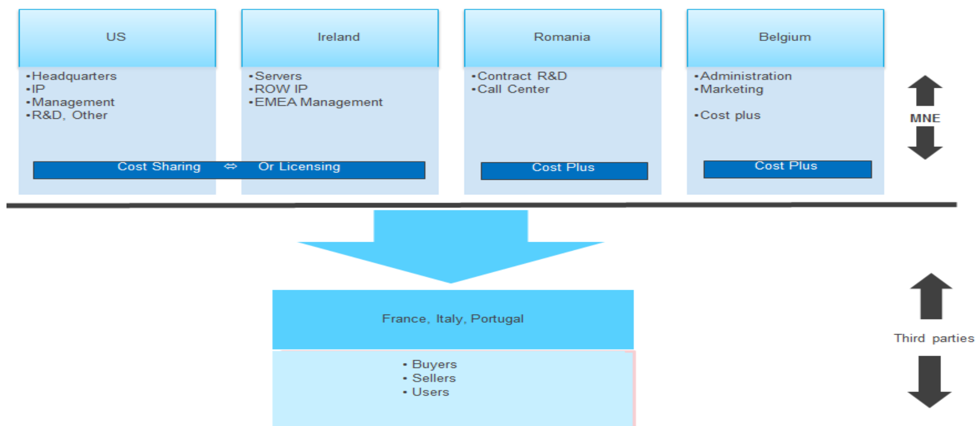

Figure 1. Digital Service MNE
Source: authors' processing

Digital economy allows companies to deliver in a specific tax jurisdiction without having a physical presence (Skaar, 2020, p. 177), without generating a permanent establishment and without the obligation to pay corporate tax, in that specific tax jurisdiction (Sánchez Rojas, 2019, p. 7). In EU countries situation, taxation on physical presence principle, have no right to tax income generated in the digital economy (i.e.: income from streaming services, cloud services, digital applications, etc.).

Based on the growing digital economy EU needs to adapt its tax system (Olbert and Spengel, 2017) to allow tax income generated by the digital economy and from this perspective to add to the principle of "physical presence" the principle "force of attraction". Force of attraction, in the case of the digital economy, has as driver location of the clients and not the physical presence of the company.

The most used model of companies that deliver in the digital economy is to organise routine functions (Aslam and Shah, 2020, p. 24) and intangible in separate companies and separate tax jurisdictions. From this business model companies will generate income only in tax jurisdictions where is a physical presence (or incorporated) and in tax jurisdictions where the clients are income for taxation purposes will not be generated (Spinosa, 2018).

A proper example is the Netflix case in Romania, income is not taxed (corporate tax) in Romania but it is taxed in tax jurisdiction where billing services are located. Taking into consideration also the last 2 years where digital services knew an important increase, clients from Romania generate income for the company and corporate tax, according to the client's location, is not paid in Romania. Added value from Romania is not taxed in Romania, corporate tax is not paid where value-added is produced.

The digital economy is an issue approached by Pillar 2 and more details are presented in section 3.4 below.

3.2 Current global tax parameters and growth of intellectual propriety

The state has a right to collect taxes from individuals and corporations if there is a legally-binding connection between the taxpayer and the authority (Rohatgi, 2002, p. 12). Similarly, the concept of residence and source tax emerged as the basis for the right to impose taxes on domestic and foreign legal entities (Buriak, 2020).

Global intangible low-taxed income, called GILTI, is a category of income that is earned abroad by U.S.-controlled foreign corporations (i.e., CFCs) and is subject to special treatment under the U.S. tax code. The U.S. tax on GILTI is intended to prevent erosion of the U.S. tax base (Clausing, 2020, p. 250) by discouraging multinational companies from shifting their profits on easily moved assets, such as intellectual property (i.e., IP) rights, from the U.S. to foreign jurisdictions with tax rates below U.S. rates (Ferrantino, 1993, Dreyfuss and Frankel, 2014).

Companies affected by the tax reform in case of the minimum global tax rate will be companies with more than 750m euro annual income and for Pillar 2 companies with more than 20b euro revenue. From thresholds, we can conclude that Pillar 1 will affect a significant number of companies compared with Pillar 2 that will affect the biggest 100 companies worldwide (OECD, 2021).

From this perspective global anti-base erosion (i.e., GLOBE) wants to address tax issues related to transactions intra-group (De Broe, 2019) that are formal and have no economic substance, usually seen on transactions like service providers and intellectual property (Bunn et al. 2019).

Pillar 1 is addressing changes in how the digital economy affects splitting corporate tax between tax jurisdictions. Pillar 1 will address corporate tax allocation between tax jurisdictions via a reallocation of residual profit (OECD, 2021).

Pillar 2, besides addressing mentioned tax issues, also set a mechanism to recuperate the debt created by those types of transactions (OECD, 2021).

The current tax system agreed between tax administrations in tax treaties, is based on the principle of "physical presence" which generate "permanent establishment" (Hoffart, 2007) and give the rights to tax the income in that specific tax administration jurisdiction. Allocation of expense and income to that specific tax administration is made according to transfer pricing rules (Zielke, 2014) and is followed by a computation of a tax base for corporate tax purposes. A permanent establishment is subject to tax declaration and accounting standards, applied in that specific tax jurisdiction, as an incorporated company (Cockfield, 2003).

A different approach is used by US tax jurisdiction, and it is "source of income" or "force of attraction" (McLure, 1988). This principle allows US tax jurisdiction to tax income if the source of income is from the US. Force of attraction is used in combination with a physical presence on a case-by-case approach.

3.3 October 2021 OECD Statement

• *Race to the bottom*

The next tax issue, besides the digital economy, is the competition between tax jurisdictions to attract foreign investments (Avi-Yonah, 2000). In this competition tax administration offer tax incentives and low tax rates which are considered when companies are budgeting investments, taxation is an important cost, besides other economic costs (Zee, et al. 2002).

Competition between taxes jurisdictions has a big impact on the sustainability of the country's budget for developed economies (Bahl and Bird, 2008) and economies that rely heavily on direct taxation.

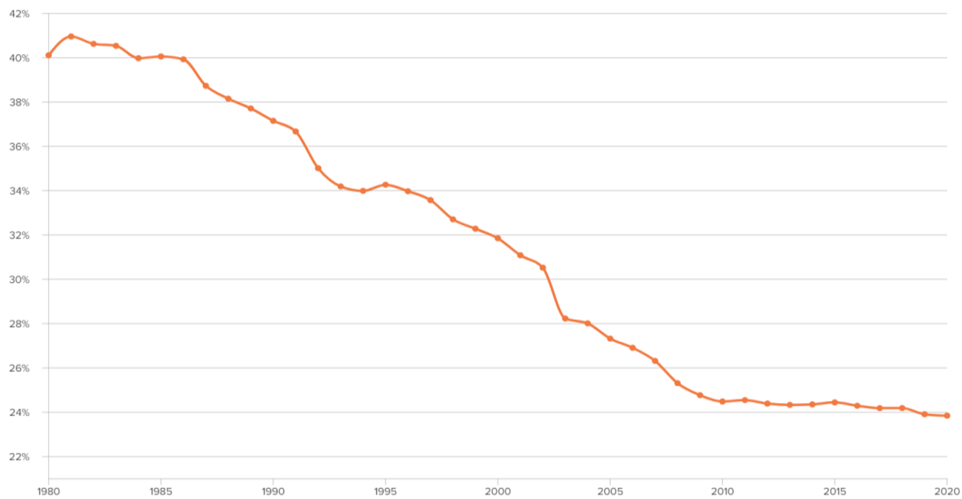

Figure 2. Worldwide Average Statutory Corporate Income Tax Rates
Source: Tax Foundation, 2020

The last decade shows that taxes cannot be lowered under a specific threshold being unsustainable for medium- and long-term development and financial stability (Cecchetti, S. G., et al. 2011, OECD, 2021).

As a result of the unsustainability of competition between tax jurisdictions, we agree that a minimum corporate global tax of 15% seems to be the solution for this moment. This will lead to no financial impact on the investment budgets, of companies, if taxes are below 15%.

One can notice that the last 40 years shows a decrease in direct taxation from more than 40% to less than 20%. This dynamic is affected also by an increase in indirect taxation policies, but still, the decrease is heavily due to tax competition.

Table 1. Inclusive Framework -the path so far

Date	Action
2013	• BEPS (Base Erosion and Profit Shifting) project initiated to examine multiple issues
October 2015	• 15 BEPS final "Action" reports adopted – Action 1 dealt with the digitalization of the economy
June 2016	• Establishment of OECD/G20 IF, now at 140 member countries, more than 94% global GDP
2017-October 2020	• OECD discussion, drafts, & public comment • Blueprints for new global tax framework
July 2021	• OECD/G20 IF releases draft framework; G20 and G7 endorse
October 2021	• OECD/G20 IF releases “final” framework

Source: authors' processing

Implementing Pillar 1 and Pillar 2 needs a consensual approach because risks of double taxation manifest heavily. Measures from pillars, incoordination or harmonization way, will have to be implemented in a global tax treaty (Vanistendael, 1997) which will eliminate double taxation “de facto”/”de jure”.

Having this in consideration several debates, between 2013 and 2021, has achieved coverage of 94% of global GDP for the future measures of a global multilateral tax treaty.

3.3.1 Pillar One and Pillar Two - key elements

• *Pillar One*

Pillar 1 has 2 parts/amounts in which the first part refers to allocation based on routine activities and is likely to be "as usual", and a second part which is referring to a reallocation of residual profits to tax jurisdictions where clients are (Bunn et al., 2020).

Residual profit is determined to be the amount above 10% profit before tax, considered as routine profit and based on a physical presence (Chand, 2019). The next step, according to OECD Statement, is to distribute 25% of residual profits based on the client's location.

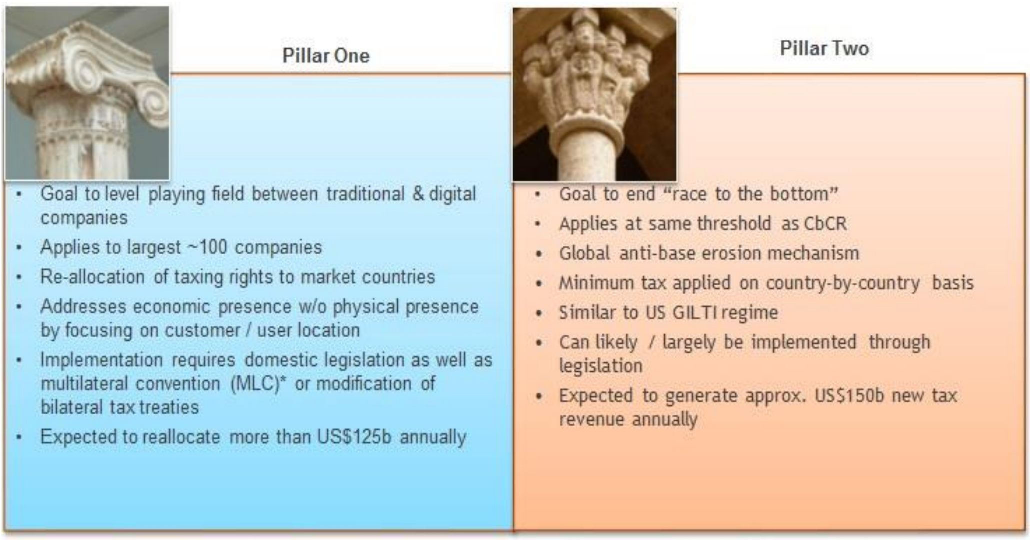

Figure 3. OECD/G20 IF Framework, October 2021

Source: authors' processing

During the discussions, taking into consideration the time with impact on countries budget and the fact that no solution was predictable, some countries have implemented DST as a percentage from income generated by clients from that specific tax jurisdiction (Cui and Hashimzade, 2019). We consider that from the internal market and in an external market environment point of view, taxation based on income is generating double taxation (Devereux, 2004) or no taxation "de jure". In addition, OECD considers that DST will generate conflicts and negative impacts on the development of international trade.

Implementing Pillar 1 with a multilateral tax treaty instrument will also be associated with the elimination of DST (Osborn, et al., 2020).

During the discussions, taking into consideration the time with impact on countries budget and the fact that no solution was predictable, some countries have implemented DST (digital service tax) as a percentage from income generated by clients from that specific tax jurisdiction. As taxation based on income is generating double taxation or no taxation "de jure" (on the internal market and in an external market environment) OECD consider that DST will generate conflicts and negative impact on the development of international trade development.

Implementing Pillar 1 with multilateral tax treaty instruments will also be associated with the elimination of DST.

Aside from the multilateral convention

Multisided tax treaty/framework for all countries that join, regardless of whether there is a bilateral tax treaty between the jurisdictions and will cover (OECD, 2021):

- Rules to determine and allocate Amount A;
- Eliminate double taxation;
- Simplified administration process;
- Exchange of information process;
- Processes for mandatory & binding dispute prevention & resolution;
- Will not supersede existing treaties on issues outside of Amount A, but will address inconsistencies with Amount A;
- If no existing treaty, MLC ensures effective administration of Amount A.

Table 2. Pillar One - Key Elements

Amount A	Amount B	DTS`s	Tax certainty (Amount A)
• Initially applies to MNEs w/revenue > €20b and profit > 10% (average profit before tax) • Segmentation required in “exceptional” circumstances (Amazon) • The threshold may fall to €10b 7-8 years after implementation • Taxing rights of 25% of the residual profit reallocated to jurisdictions where customers and users of the MNE are located, using revenue as an	• Establishment of simplified and streamlined ALP for in-country baseline marketing and distribution activities • Fixed return/benchmarks • Particular focus on needs of low-capacity countries	• Standstill & removal of DSTs and similar measures (tied to Pillar One implementation)	• Mandatory & binding dispute resolution • The elective regime for low-capacity countries

allocation factor • Formulaic approach – not ALP • Extractives and regulated financial services excluded • De minimus activity in market countries excluded (below €1m) • Safe harbour for market jurisdictions where income is already taxed			

Source: authors' processing after OECD October 2021 Statement

Pillar 1 will be implemented into a multilateral convention that will not eliminate bilateral treaties but will cover elements related to how to compute and allocate amount A and amount B. Acceptance of the common rules for allocation will eliminate double taxation. Multilateral convention wants to eliminate double taxation (Li and Chatel, 2021) "de jure" and will implement a system for an effective exchange of information.

Common rules intend to make the administrative process clear and simple. Bilateral conventions and the "model tax treaty" from OECD also have this purpose of "clear and simple process" (Picciotto, 2015) but the reality has shown us that double taxation remains an obstacle to be bear by the companies. From the description of OECD seems that the "burden of double taxation" will be assumed by tax administration (Dagan, 1999), at least this will ensure the elimination of double taxation “de jure”.

- *Pillar Two*

As can be seen in figure no. 3 and table no. 2, Pillar 1 will cover new digital global market and solve problems for tax jurisdiction where clients are by allocating a part of 25% from the residual profit of the multinational company (from consolidated accounts) and Pillar 2 will cover the problem of no taxation, or lower taxation by implementing a 15% minimum tax.

Pillar 2 will still have to accept old rules, called “safe harbours", and taxation on the source will be acceptable (Gunasekara, 2009, Turina, 2020).

As it has been pointed out from Pillar 1 construction the approach will not target "artificial transactions" but will apply a 15% tax. Seems that going in tax jurisdictions with 15% is still a cost-saving, (Graetz and Doud, 2013) compared with sophisticated tax jurisdictions with higher tax rates, but it is accepted.

From our perspective, as global taxation, we will have an increased amount, but this will not necessarily mean that sophisticated tax jurisdictions will collect more tax from this approach. If this is the case the Pillar 2 solution is only temporary on this form and changes will appear in short term.

Table 3. Pillar Two - Key Elements

Subject to Tax Rule (STTR)	Global anti-Base Erosion (GloBE)	Application
***A**pplies in tax jurisdiction of affiliate* • Source-country taxation of interest, royalties, & certain other I/C payments to countries taxing those	•Applies to all MNEs with revenue over €750m (or less) – except international shipping income •Two-step application •Income inclusion rule (IIR):	• No country is required to adopt GloBE rules, but must accept application by other IF

receipts below 9% • Gross-level tax, not income tax (similar to withholding) • Applies before other elements of Pillar Two (and creditable under GloBE rule)	15% minimum tax ("top-up tax") on country-by-country basis • Paid to the tax jurisdiction of the parent company, but doesn't apply to the parent company itself • Undertaxed payment rule (UTPR) • Backstop if parent country income itself is taxed below 15% (because IIR does not apply to parent companies) • The top-up tax would be applied and allocated among other countries.	members; • Carve-out for substantial business activities (8% of carrying value of tangible assets & payroll decreasing to 5% over time) • Exclusion for MNEs with de minimus activity in a (low-tax) jurisdiction

Source: authors' processing after OECD October 2021 Statement

Summarizing, one can see that; i) in case of Pillar One: Amount A: Reallocation of a portion of profit; Amount B: Use of published benchmarks for routine functions; ii) in case of Pillar Two: STTR: Subject-to-tax-rule, assessed at subsidiary-country level; GloBE: Global anti-Base Erosion rule - Minimum tax, assessed at parent-country level

(Income inclusion rule; under-taxed payment rule); GILTI: US Global intangible low-taxed income regime.

• *Developing countries*

In the context of the above-highlighted issues, there are two questions we can ask, namely:

First: *Is there too much complexity for countries without sophisticated tax administrations?* The answer: Yes.

Tax jurisdiction of developing countries was an issue to address because they do not have the resources to act in a sophisticated tax environment (Bahl, 1999, Carnahan, 2015). By resources, we must understand material resources but also knowledge. For this type of tax administration Pillar, 1&2 keeps taxation on the source, create a formula to eliminate the arm's length principle and still allocate tax rights for smaller thresholds.

Covering the concerns of smaller economies means more support for a new approach of taxation, they will receive tax without any effort or knowledge.

On the other hand, a new approach is complicated, some tax administration needs to accept allocation on the fact that is more than they have before, and they do not need to invest in tax administration development. This needs to come with transparency due to lack of control or "frustration" can manifest.

Second: *Does the 100-company approach provide enough revenue to make Pillar One worthwhile?* The answer: Yes

Under Pillar 1 approach seems that "physical presence" is still the main principle for allocating the profits to tax jurisdiction for taxation purposes (Avi-Yonah, 2021). Part of remaining profits, residual profits and only 25% from it, will be subject to reallocation for taxation to client's tax jurisdiction. It was considered, our opinion, that driver for generating value is still activities at the company level and not clients, which seems to be "majority for normal physical presence" also in a digital environment.

It was considered that clients and force of attraction is part of residual profit and more, 25% it. This rule, 25% from residual profits, is general rule for all appx 100 companies' subjects and is not based on facts and circumstances.

This led us to conclusion that differences between companies who act in a digital environment are NOT to be considered in Pillar 1 approach, maybe more based on client's tax jurisdiction or maybe more based on physical presence according to facts and circumstances is disregarded. From this perspective, the OECD points out that: "under Pillar One, taxing rights on more than USD 125 billion of profit are expected to be reallocated to market jurisdiction" (OECD, 2021)

It will be very important to follow on the results of reallocation versus actual results of DST and no DST for some countries, will be accepted as "good" for budgetary resources of reallocated countries.

Estimation of OECD for reallocation is accepted at this stage, otherwise general agreement has not been met but, if numbers, in practice, will differ then adjustments of Pillar 2 will be asked for.

Having this potential changes, that comes from real numbers, can lead to decrease the threshold or modification on "25% from residual profit" or corelation with "facts and circumstances", maybe marketing on a specific tax jurisdiction is not "routine in digital environment "as it is in "physical based activities".

In conclusion, the benefits of this system can be summarized in two main ways: *a) specific benefits* as follows: i) STTR helps prevent erosion of tax base in developing countries; ii) Amount B relieves transfer pricing administration burden; iii) Lower threshold for Amount A to smaller economies; and b) the *expected benefits* like so: i) Revenue gains from Pillar One larger (as % current tax revenue) for low-income countries; ii) GloBE rules relieve "Race to the Bottom" pressure on developing countries to attract investment.

3.3.2 Digital Services Taxes –overview and critiques

Overview

According to Lowry, (2019) Digital Services Taxes (i.e., DSTs) have been characterized as: "extensions of different types of tax regimes ranging from a tax on corporate profits in the digital economy to something more like a selective or excise tax on specific types of activities that is standalone from income tax regime"

Implementing Pillar 1 is conditioned by eliminating Digital Service Tax (i.e., Statement on October 21, 2021, that repeal of the DST would be contingent on Pillar 1 implementation). Some tax jurisdictions, being stopped by bilateral tax conventions rules to tax based on client's location, implemented DST as a unilateral solution that will tax income based on the source of income. DST was imposed as a percentage on income generated by digital services from their countries (e.g., Poland 1.5% effective July 2020, UK 2%, effective April 2020, France 3%, effective July 2019, Italy 3% effective January 2020, Spain 3%, effective January 2021, Turkey 7,5%, effective March 2020)

Implemented as a (temporary) response to lack of consensus on broad global digital taxation plan. Tax bases are broad (and different) types of digital goods and services, from advertising to movie and music rentals to multi-sided platform transactions and more

- *Critiques*

Critics of DSTs claim that: "the taxes target income or profits that would not otherwise be subject to taxation under generally accepted income tax principles. U.S. critics, in particular, see DSTs as an attempt to target U.S. tech companies, especially as minimum thresholds are high enough that only the largest digital MNCs (such as Google, Facebook, and Amazon) will be subject to these specific taxes" (Lowry, 2019:2).

Some other drawbacks complement the criticisms of DTS, as follows: i) revenue tax can result in very high effective tax rates at the local level (Elitzur and Mintz, 1996), (no deductions for cost, tax not tied to profit); ii) results in entities paying tax even if making a very low profit or incurring losses; iii) disproportionately affects high-volume, low-margin businesses (Clow and Beisel, 1995); iv) discourages investment with longer-term pay-offs (i.e., no deduction for R&D); v) could be a new race to the bottom?; vi) administrative difficulty re long-term contracts; vii) can result in double tax; viii) induces retaliatory tariffs.

Finally, we conclude that DSTs: i) is a very ”rough instrument”; ii) is not considered an income tax, so tax treaties often don’t apply, and tax credits are not available; iii) leads to double taxation; iii) in addition since it is a tax on revenue, not income or profit, it can end up being a very high effective tax rate; iv) tax people generally really don't like DSTs and are hoping that agreement on something like the OECD blueprint can truly result in the repeal of these taxes.

3.3.3 Agreement to remove Digital Service Tax

Agreement between the US and five European governments (i.e., UK, France, Italy, Spain, Austria) on approach to remove existing DSTs (October 21, 2021) can be summarized along this lines: i) retains DSTs (allows five countries to maintain revenue collection and puts pressure on Congress to enable Pillar One); ii) after Pillar One enactment, amount companies paid to countries over Amount A tax due (in year one), would be credited back, w/credit carry-forward available; iii) the US agrees to drop retaliatory tariffs enacted (but currently temporarily suspended); iv) deal falls apart if Pillar One not enacted by end of 2023.

- *Expect other similar agreements?*

For example, India collects $400m/year, also Turkey, Vietnam and Indonesia have broad-based DSTs.

A decrease of income for the countries with DST, following Pillars approach, will be accepted in a very limited amount but maybe will accept a compensation between Pillar 1 and Pillar 2 results, if any (i.e. negative results from Pillar 1 with positives from Pillar 2).

3.4. The future of taxation of the digital economy

- *Global*

Worldwide we should expect (see target dates presented in Table 4): i) additional detail from OECD; ii) Pillar One: definition of profit, sourcing rules, source of reallocated income (entities earning a residual profit); iii) model legislation and treaty language; iv) implementation framework; v) additional guidance on returns for routine functions.

- *Domestic*

A national-level we should anticipate: i) revisions to GILTI regime (legislation, regulations); ii) framework for implementation of “Pillar One” (Congressional-Executive Agreement, Treaty?); iii) additional work on removing DSTs.

The implementation date of 2023 for most provisions.

It is noticeable that there are numerous *beneficial aspects* such as i) certainty; ii) clear timeline for implementation; and iii) elimination of DSTs; but there are also various *concerning aspects*, for instance: i) amount A is a step back from arm's length standard; ii) difficulty of end-market sourcing (Amount A); iii) trade-offs between expedience, accuracy (complexity), and enforceability; iv) implementation challenges; v) risk of double-tax if implementation inconsistent across countries; and vi) Will Pillar

One eventually apply to companies below €20b?

Table 4. OECD/G20 Inclusive Framework target dates

Pillar one	Pillar two
Early 2022 – Text of a Multilateral Convention (i.e., MLC) and Explanatory Statement to implement Amount A of Pillar One	November 2021 –Model rules to define scope and mechanism for GloBE rules
Early 2022 – Model rules for domestic legislation necessary for the implementation of Pillar One	November 2021 – Model treaty provision to the tax rule
Mid 2022 – High-level signing ceremony for the Multilateral Convention	Mid-2022 – Multilateral Instrument (i.e., MLI) for implementation of STTR in relevant bilateral treaties
End 2022 – Finalisation of work on Amount B for Pillar One	End 2022 – Implementation framework to facilitate co-ordinated implementation of the GloBE rules
2023 – Implementation of the Two-Pillar Solution	

Source: authors' processing after OECD October 2021 Statement

Nevertheless, different issues remain to be resolved and raise multiple questions and notes, in particular: i) Will other industries be carved out of Pillar One?; ii) Where does Amount A reallocation come from?; iii) interaction between Pillars One and Two; iv) Interaction between Pillar One and indirect taxes; v) effects of partial global adoption; vi) Could out-of-scope company use APA to apply Pillar One approach? vii) Could tax authorities? viii) Will the EU resurrect the idea of a common tax return? Ix) Will companies want this? ix) Will Country by Country reporting (i.e., CbCr) be affected by this?

4. Conclusions

The OECD's Pillar One and Pillar Two proposals are designed to address the various tax challenges that ascend from digitalisation and competition between tax administration jurisdictions (race to the bottom). The main issue that the organization tackles is how to regulate the taxable relationship of digital businesses and low/no taxation jurisdictions.

The approach of Pillar 1 is a central arithmetical computation which means that the request-demand principle is eliminated, and monopole activities are endorsed and taxed differently. In this philosophy tax administration of developing countries will be stopped to gain knowledge (no experience available anymore) and stopped to take part as a player in an open market environment (or limited). The profile for tax administrations of developing countries will develop into a routine function being remunerated by the developed tax administration. On the other hand, since we will deal with "limited risks tax administration" no allocation, or low allocation of tax can lead to further conflicts (frustrations) due to the lack of control.

Developed countries will increase the sophistication and automatically the costs to operate and as a result, they will expect more income. Discussion on how deep this gap is and will be, must follow the implementation of Pillar 1&2.

As a competitive tax administration, until now, an equilibrium between the level of tax, services offered, and acceptance of costs by companies was imposed by market forces, predictability, tax system, etc. In a new system, competition is limited by a set of barriers to assume a minimum level of tax and prevent entropy for the tax systems.

Limiting competition is a result of the limitations of a tax administration to deliver value to its clients (taxpayers). Tax administrations accepted that a discrepancy is a material between what they charge and what they deliver.

The new approach will increase taxation, sophistication for some tax administration and limitation for other tax administration together with a limited playground for competition between tax administrations.

Tax administrations with DST income will not accept or find further solutions not to lose what they gain thru DST.

Having this anchor, the real results of Pillar 1&2 implementation need to be followed up since some stress factors can appear and must be addressed.

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