



**IMPLICATIONS OF THE MODERN
GLOBAL ECONOMY FOR THE
TAXATION OF MULTINATIONAL
ENTERPRISES**

Response from AIIA

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INTRODUCTION

The Australian Information Industry Association (AIIA) is the peak national body representing multinational and domestic suppliers and providers of a wide range of information technology and communications (ICT) products and services.

We represent over 400 member organisations nationally, including global brands, national companies and a large number of ICT SME's. All of our members, large and small are committed to developing Australia's digital capability and presence nationally and on the global stage.

We are pleased to have this opportunity to respond to the Discussion Paper: *Implications of the Modern Global Economy for the Taxation of Multinational Enterprises*.

COMMENTS

AIIA strongly supports the view that all AIIA member organisations meet their taxation obligations. We acknowledge the impact of the Global Financial Crisis on tax revenues and understand the Australian Government's concern regarding potential tax base erosion. We agree with the proposition that the global and increasingly digital economy poses new challenges to the international tax system. AIIA supports the Government's involvement, along with G20 countries, to develop a comprehensive 'Action Plan' in support of international tax reform. It is particularly noted that the OECD report called for the development of a multilateral and well prioritised action plan and we strongly agree that all material action by Australia in this regard should not be unilateral.

In responding to the discussion paper, AIIA would like to make two points.

First, we would emphasise the compelling reality - Australia operates in a global economy and it is imperative we remain competitive. In developing new or refining existing legislative or policy frameworks that relate to or have an overflow impact on our position in the broader global

market, it is critical that we give deep consideration to the broader (global) consequences of our decisions.

Given the complexity of the international tax system, underpinned by complex bilateral Tax Treaties, we urge the Government not to progress tax reform unilaterally. There is a risk that pre-emptive action will put us 'out of step' with internationally consistent tax reforms. Having established a well regarded international reputation as a trusted revenue authority, poorly timed unilateral action – especially where current tax arrangements and their consequences have been acknowledged as requiring attention internationally, could undermine our involvement in future negotiations.

We acknowledge the frustration that will come with a protracted process of reform but believe it is critical that we are involved in these international discussions and subsequent negotiations. For tax reform to be successful a global approach is required and we must ensure we are at the table arguing for global consistency.

More broadly we would argue that formulary apportionment approaches that allocate profits based on factors such as sales, headcount, plants etc will lead to unequal broader results, including reducing tax in developing countries.

Second, in contemplating tax reform AIIA would encourage Government to take into consideration potential flow on effects of any regulatory or policy changes. Changes to current tax arrangements must be balanced with ensuring Australia retains a robust and competitive business sector that includes a strong local business presence that supports local employment, skills development and innovation. To remain internationally competitive we must acknowledge the important contribution of all businesses, irrespective of size and the contribution they make to continued national prosperity. To the same point, we need to be aware of how business value chains are changing and ultimately examine the policy settings required to encourage more of the value to remain or return to Australia.

In the case of ICT, Australia is already suffering a damaging skills shortage, has an immature small and medium sized enterprise digital capability and is yet to optimise the capacity and innovative potential of our broadband investment. Now is not the time for short term policy reforms that do not fully contemplate potential and significant flow on impacts.

We would also point out that businesses and multinational enterprises are subject to the same tax regimes relative to their direct competitors – in Australia and overseas. While current arrangements were designed for a different ‘era’, they are nonetheless, arrangements that have been developed, agreed and applied internationally to all multinational enterprises.

Finally we would note that some of our members are already working collaboratively and proactively with the ATO through Advanced Pricing Arrangements (APA) which means they have formal agreements with ATO reflecting an agreed rate of tax based on their business model.

In conclusion, in the context of lobbying for international tax reform, we encourage the Australian Government to require that all countries compile fact-based evidence including empirical and economic studies with a view to ensuring specific ‘problem issues’ are identified and addressed without too broad a scope.