

April 17, 2014

Centre of Tax Policy & Administration  
OECD  
2, rue André Pascal 75775 Paris Cedex 16  
France  
By email: [ctp.beeps@OECD.org](mailto:ctp.beeps@OECD.org)

Re: BEPS Action 1: Address the Tax Challenges of the Digital Economy

To whom it may concern,

On behalf of the Chartered Professional Accountants of Canada (CPA Canada) Commodity Tax Committee (the “CTC”), I am pleased to provide our comments on the Public Discussion Draft “BEPS Action 1: Address the Tax Challenges of the Digital Economy” (the “Document”). We support the work of the OECD in its development of international guidance on VAT/GST matters and in its work addressing the tax challenges raised by the digital economy. In particular, we support the efforts of the OECD to achieve increased harmonization in VAT/GST treatment of digital supplies, as significant divergences of rules exist in this area resulting in uncertainty, additional costs and distortions of competition. It is our view that effective taxation of such electronic supplies can only be achieved where a more uniform approach is adopted by jurisdictions.

The Committee has had occasion to consider the Document and offer the following:

- In principle, the CTC agrees that a move to taxation at place of consumption based on residence is the best approach to make certain taxation occurs where individual consumption takes place. However, this could result in fundamental changes for business that sell cross border to local customers. As such, any compliance requirements to be imposed on businesses to collect and remit VAT/GST need to be managed proportionally in order for such changes to ultimately be effective and to ensure that VAT/GST does not inadvertently become a barrier to trade. If the compliance burden is too high (both in terms of cost and risk) businesses may not appropriately comply or choose not to supply customers in some countries due to the complex VAT/GST requirements or not.
- The following simplification measures are recommended to ensure that compliance requirements are reasonable and proportionate:
  - For ‘business to business’ transactions it makes sense to rely on a reverse charge or self-assessment mechanism to account for the VAT/GST at the place of consumption by the customer.



- Where it is determined that a non-resident registration may be appropriate (e.g., cross border ‘business to consumer’ transactions) registration thresholds should be introduced. The use of thresholds could help tax authorities manage audit and the risk factors associated with non-established businesses.
- Where it is determined that a non-resident registration may be appropriate, simple to administer registration, submission and payment methods (e.g., online portals) should be mandatory in order to achieve proportionality and optimise compliance. In this regard consideration should be given to allow global or regional registrations, such as the model in place in the EU. Also, it is recommended that a single regime should apply to cover similar sub-national situations, such as Canada or the US.
- It should be made clear that any form of a VAT/GST registration does not in itself result in a ‘permanent establishment’ and does not as a result give rise to any other tax obligations (e.g., a liability to corporate tax). Moreover, such a registration should not result in any additional reporting or withholding tax obligations simply due to a simplified form of VAT/GST registration.
- The role of technology may offer more efficient collection mechanisms in the future and greatly diminish the compliance burden on vendors. Financial incentives, such as a compensation mechanism that operates in certain sales tax jurisdictions, may encourage developments in this area by non-tax authorities (e.g., real time accounting and remittance of VAT/GST to tax authorities by payment providers).
- Finally, as regards Exemptions for Low-Valued Goods it is the CTC view that countries should focus on improving their import VAT/GST processing systems. This needs to be balanced with any expected increase in VAT/GST revenue resulting from abolishing or reducing import exemption thresholds. Should suppliers be, however, required to charge VAT/GST on supplies made to consumers in other countries we believe that a simplified registration, reporting and payment mechanisms should be put in place. Please see our comments above.

I trust the above is helpful and as always, please free to contact me should you wish to discuss or require clarification of any of the points raised.

Sincerely,

A handwritten signature in blue ink, appearing to read 'John Bain', written over a light blue horizontal line.

John Bain  
Chair, CPA Canada Commodity Tax Committee  
Partner, KPMG LLP



C.c. CPA Canada Commodity Tax Committee (CTC)

- Sania Ilahi, Vice Chair, CTC, Partner, Tax Services, Ernst & Young LLP
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