

1 November 2022

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ARA SUBMISSION TO TREASURY: GLOBAL AGREEMENT ON CORPORATE TAXATION. ADDRESSING THE TAX CHALLENGES ARISING FROM THE DIGITALISATION OF THE ECONOMY

INTRODUCTION

The Australian Retailers Association (ARA) welcomes the opportunity to provide comment to Treasury regarding how best Australia can engage with the new global agreement on corporate taxation as it applies to multinational enterprises (**MNEs**).

The ARA is the oldest, largest and most diverse national retail body, representing a \$400 billion sector that employs 1.3 million Australians and is the largest private sector employer in the country. As Australia's peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates, educates, protects and unifies our independent, national and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate across all categories - from food to fashion, hairdressing to hardware, and everything in between.

This submission is informed by consultation with members, including the expert guidance of the ARA's Tax Advisory Committee.

The ARA understands this consultation will help inform consideration of domestic implementation of the OECD Two-pillar Global Tax Agreement. We also understand this submission will assist Treasury in forming a view on issues including the interaction with Australia's existing corporate tax system, ways to minimise compliance costs and the implementation of a Domestic Minimum Tax, as well as various design elements.

ARA RECOMMENDATIONS

Digitisation of the global economy has had a huge impact on business. In our sector, digitisation has fundamentally changed how retail operates, with Australian consumers now having 24/7 access to goods and services from retailers across the globe. Likewise, Australian retailers have had global markets opened that were previously not accessible.

Such changes have created challenges in relation to taxation of MNEs and we recognise that the Two-Pillar framework is designed to ensure that MNEs are taxed fairly for the value they derive from local markets.

The ARA recommends the following principles underpin how Australia implements changes to its corporate tax regime to address the challenges associated with digitalisation of the economy and implementation of the global two-pillar agreement.

1. MNEs should be taxed fairly and consistently across the globe.
2. Implementation of the two-pillar approach should be focussed on addressing tax avoidance practices and ensuring MNEs pay their fair share of tax in Australia.
3. To meet its objective, the two-pillar global tax agreement depends on adoption and alignment globally. Australia's implementation should be in step with the progress of the global agreements. The problem is international in nature and Australian legislation should align with the international process, rather than lead it.
4. Existing domestic mechanisms to address tax avoidance need to be considered as part of the implementation process to ensure efforts are not duplicated and that Australia's corporate tax system becomes over-complicated.

The ARA expects that Australia's adoption of the two-pillar solution will, as it has been designed, address the problem of 'profit-shifting' by MNEs as well as provide added revenue to the Australian budget.

We note that Pillar 1 is unlikely to apply to any current Australian businesses, due to the threshold of EUR 20 billion per annum, meaning that approximately 100 MNEs fall into the scope of Pillar 1 globally. However, the global approach embedded in the Two-Pillar solution may mean that MNEs could be encouraged to make Australia their base country, particularly if domestic laws offered further incentives.

The ARA recommends the Government uses the adoption of the Two-Pillar approach into Australia's domestic legislative framework to review the current company tax and regulatory framework. Existing domestic mechanisms to address tax avoidance should be reviewed, to avoid duplication of measures and ensure the framework does not become over-complicated. This is an opportunity to ensure Australia's tax system enables further investment and creates a competitive environment for businesses, including MNEs.

We note that it is important that the new rules and obligations are clearly defined and communicated to businesses that will be impacted and this consultation process offers a pathway to achieving good engagement with stakeholders.

The OECD timeframes are ambitious and the ARA recommends the Government follows the OECD implementation process rather than aim to move ahead of global developments, as there are still components of the Two-Pillars that are yet to be clearly defined.

Thank you again for the opportunity to provide a submission to Treasury. We look forward to further engagement as discussions progress regarding Australia's implementation of the global agreement.

Any queries in relation to this submission can be directed to our policy team at policy@retail.org.au.

Yours sincerely,



Paul Zahra
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