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OECD Secretary-General Report to G20 Leaders: Key Developments in International Tax Reform

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The OECD Secretary-General Report to G20 Leaders, published ahead of the Leaders' Summit under the Brazilian G20 Presidency, sets out key developments in international tax policy, emphasising progress under the Two-Pillar Solution for addressing tax challenges from the digital economy. Key insights include the signing ceremony and implementation of the Subject to Tax Rule (STTR) and Global Anti-Base Erosion (GloBE) Rules under Pillar Two, which are aimed at achieving global minimum taxation and reducing tax competition.

The report elaborates the ongoing implementation of BEPS (Base Erosion and Profit Shifting) minimum standards, including information exchange on tax rulings and country-by-country reporting, alongside progress in addressing harmful tax practices and strengthening treaty anti-abuse measures. Tax and inequality remain focal points of the report, with studies exploring taxation's role in mitigating disparities and challenges linked to HNWI (high-net-worth individuals). The report also highlights the international cooperation in combating tax evasion through the advancements in the Automatic Exchange of Financial Account Information and the introduction of frameworks like the Crypto-Assets Reporting Framework (CARF). Capacity-building initiatives such as Tax Inspectors Without Borders (TIWB), are also highlighted, as well as tailored workshops, and e-learning resources which demonstrate the OECD's commitment to equipping jurisdictions to adopt and benefit from international standards.

EU Reaches Landmark Agreement on Modernised VAT Rules

This month, ECOFIN Council of Ministers reached a political agreement to finalise key VAT reforms under the EU's VAT in the Digital Age (VIDA) package. This legislative proposal will introduce new standardised digital reporting and e-invoicing for cross-border transactions, a digital platform policy to streamline VAT for short-term rentals and transport services offered via digital platforms, and a single VAT registration across EU Member States. After nearly two years of negotiations, the Council has agreed on the VIDA package.

Hungarian Finance Minister Mihály Varga described the agreement as a "cornerstone for the digital transition," highlighting its role in enhancing the EU's competitiveness: "*This is a cornerstone for the digital transition and a significant step in improving the competitiveness of the EU. The new rules will update our VAT systems to reflect the digitalisation of our economies, help combat VAT fraud, and ease administrative obligations for small companies and individual service providers. Today's decision was preceded by intense discussions led by the Hungarian presidency; thus, we are grateful to all delegations for their constructive approach and hard work".* Key reforms in the VAT package include:

1. Digital VAT Reporting:

The new measures will replace the current periodic reporting system with real-time digital reporting via e-invoices for cross-border business-to-business (B2B) transactions. By 2030, businesses will issue standardised electronic invoices, automatically transmitting data to national tax authorities. These authorities will share information through a unified EU IT system, providing real-time tools to combat VAT fraud. Member states must ensure interoperability between national systems and the EU framework by 2035.

2. VAT Rules for the Platform Economy:

Platforms facilitating short-term accommodation rentals and passenger transport will now be responsible for collecting and remitting VAT when their service providers are not VAT-registered. This "deemed supplier" model addresses VAT gaps in the digital economy while fostering fair competition between traditional and platform-based services. The agreement also introduces flexibility for member states, such as exemptions for SMEs and an expanded definition of short-term rentals for tax purposes.

3. Expanded One-Stop Shop for VAT:

The one-stop shop (OSS), which simplifies VAT compliance for cross-border business-to-consumer (B2C) sales, will now cover sales conducted within a member state other than a business's home country. This change will allow businesses to declare VAT on local sales, such as goods stored in warehouses for later direct consumer sale, through a single portal. The reverse charge mechanism will also become mandatory in cases where a supplier is not established in the VAT-collecting member state.

The agreement includes a directive, a regulation, and an implementing regulation, all of which require Council unanimity. The European Parliament, which initially gave its opinion in November 2023, will need to be consulted again due to substantial changes in the directive. Formal adoption by the Council will follow before the rules are published in the EU's Official Journal and come into force. These reforms are part of the Commission's "VAT in the Digital Age" package proposed in December 2022. They aim to close VAT gaps, simplify administrative obligations for businesses, and adapt tax systems to the realities of the digital economy. The package reflects the EU’s commitment to fostering a more integrated and fraud-resistant VAT system while reducing compliance burdens for businesses operating across borders.

Global Forum's 17th Plenary Meeting & 2024 Annual Report

Members of the OECD's Global Forum held their 17th Plenary Meeting in Asunción, Paraguay in November, with over 400 representatives from more than 110 jurisdictions and 13 international organisations gathering to review recent achievements, address emerging challenges, and plan future actions. The 2024 Global Forum Annual Report was published on the occasion of the Plenary, and sets out progress made by the Global Forum concerning global tax transparency and cooperation.

A key highlight was the advancement of the Crypto-Asset Reporting Framework (CARF), designed to extend automatic exchange of information (EOI) to crypto assets. Sixty-one jurisdictions, including major crypto-asset centres, have committed to implementing CARF by 2027 or 2028, with 48 jurisdictions set to formalise this commitment through a multilateral agreement. The initiative is expected to strengthen global efforts to address tax evasion in the evolving digital asset landscape.

In addition to CARF, the Global Forum has introduced amendments to the Common Reporting Standard (CRS) for financial account exchanges. These changes, slated for implementation by 2027, aim to expand the scope of CRS, improve its effectiveness, and ensure consistency with CARF. Combined, these measures aim to future-proof international tax transparency frameworks, building on the Forum’s track record of advancing transparency and information exchange standards.

EU Parliament Approves College of Commissioners : New EU Commission to Commence Duties on 1 December

The European Parliament approved the new EU College of Commissioners in a vote that took place in Strasbourg on 27 November, with the new Commission set to assume office on 1 December 2024. During the plenary session in Strasbourg, President Ursula von der Leyen presented her vision for the next five years, emphasising freedom as the EU's driving force. *"Because fighting for freedom connects us as Europeans,"* she stated, underlining the importance of nurturing and protecting this value through deliberate choices. These choices will be guided by the Commission's first major initiative, the Competitiveness Compass, which focuses on innovation, decarbonisation, and enhancing security to reduce dependencies. *"The Compass will be built on the three pillars of the Draghi report. The first is closing the innovation gap with the US and China. The second is a joint plan for decarbonisation and competitiveness. And the third is increasing security and reducing dependencies,"* the President explained. Von der Leyen also highlighted the diversity and expertise of her team, which includes leaders from various sectors and backgrounds.

In a press conference following the vote, von der Leyen expressed gratitude for the Parliament's confidence and outlined ambitious plans for her first 100 days in office. Key initiatives include a Clean Industrial Deal, a Cybersecurity Action Plan for Health Infrastructure, and Youth Policy Dialogues to amplify the voices of young Europeans. Stressing the need for strong cooperation between the EU institutions, she remarked, *"Over the next five years, European unity will be absolutely critical."* Von der Leyen reaffirmed her team's commitment to fostering this partnership to address pressing challenges and uphold Europe's unity and progress.

2024 Peer Review Report on Automatic Exchange of Information

The Global Forum on Transparency and Exchange of Information for Tax Purposes published its latest peer review report on the implementation of the Automatic Exchange of Information (AEOI) Standard in November. This international standard facilitates the annual exchange of financial account information between tax authorities to improve compliance with tax obligations. By 2024, 111 jurisdictions participate in the AEOI framework, exchanging information on over 134 million accounts valued at EUR 12 trillion in 2023. The report updates on the progress of jurisdictions implementing the AEOI Standard and evaluates the effectiveness of these exchanges in practice.

Among 114 jurisdictions assessed for their legal frameworks, 108 were found to have systems that are fully or substantially in place. However, six jurisdictions received a “Not In Place” determination, with deficiencies noted in their frameworks. Practical implementation was assessed for 104 jurisdictions, with 67 rated as “On Track” for meeting compliance requirements. The report identifies areas for improvement, particularly in the administrative compliance and enforcement frameworks used to ensure reporting by financial institutions.

The report also includes updates from the second round of peer reviews, which began in 2023. These reviews involve detailed assessments, including onsite visits, to examine how effectively jurisdictions are implementing the AEOI Standard in practice. They focus on compliance frameworks, enforcement measures, and information exchange procedures. Jurisdictions are encouraged to address identified gaps to improve effectiveness and ensure a consistent approach across participating countries.

The Forum has also supported more than 28,970 requests for information under EOI frameworks, aiding ongoing tax investigations. Capacity-building initiatives have been a cornerstone of the Forum’s work, with 100 jurisdictions receiving direct support in 2024, the highest number since the program began. These activities, alongside the Forum’s peer review process, underscore its role in enhancing global adherence to transparency standards and equipping jurisdictions to address new and complex tax challenges effectively. The findings are current as of November 2024 and are accessible through the Global Forum's website for further reference.

EU Parliament Hearing on International Tax Policy

The European Parliament Subcommittee on Tax Matters (FISC) held a hearing in November with policymakers and experts to examine the current state and future direction of European and international tax policy. The meeting was attended by Benjamin Angel, Director of Direct Taxation, European Commission, and Sanya Gbonjubola and Liselott Kana, Co-Chairs of the UN Committee of Experts on International Cooperation in Tax Matters. Subcommittee Chair Pasquale Tridico opened the session by highlighting critical question as such the role of the UN in tax policy, how will UN cooperate with the OECD, what will be the role of the EU with regards to both fora et cetera. He emphasised the importance of understanding how

UN and OECD initiatives intersect and their implications for the EU's role in global tax policy.

The invited experts and officials outlined the current dynamics of tax policy at OECD and UN levels, emphasising the need for inclusive agreements that reflect diverse national interests and capacities. They suggested that pushing through agreements with simple majorities which would never be implemented is not the way forward. MEPs raised critical concerns about the potential impact of the US administration's stance on implementing OECD Pillar II and advancing negotiations on Pillar I. They also stressed the administrative burdens created by the evolving tax landscape and called for solutions, such as safe harbours under OECD Pillar II. Additionally, Members of Parliament sought clarity on the EU's position for negotiations under the proposed UN framework convention on international tax cooperation and best practices for regional tax agreements.

Some MEPs questioned the apparent absence of "tax justice" from the European Commission's priorities, urging renewed focus on equitable taxation. Mr Angel called for enhanced global transparency, including comprehensive beneficial ownership and real estate registers and stressed the importance of taking preparatory steps to ensure effective implementation of any HNWI tax.

The next meeting of the FISC Subcommittee is scheduled on 3 December 2024.

OECD Publishes 2024 Tax Administration Report

The OECD released the 12th edition of its *Tax Administration Series* (TAS) this month, providing comprehensive data and insights from 58 jurisdictions. This latest report, aimed at analysts, tax officials, and policymakers, is a key resource for understanding the design and operation of tax systems worldwide, offering cross-border comparisons and practical lessons for improving tax administration. The 2024 edition incorporates performance-related data, trends through the end of fiscal year 2022, and insights into the organisational practices of tax administrations, examined in greater detail than any edition since 2019. It also introduces a special feature on tax gap estimations, exploring methodologies and trends in measuring non-compliance and the overall health of tax systems.

This year's edition reflects the ongoing transformation of tax administration in response to digitalisation, technological advancements, and shifting taxpayer expectations. One of the standout themes is the widespread adoption of e-administration. E-filing rates for major tax types have surged by up to 23 percentage points since 2014, and e-payment adoption has reached an impressive 90%. Tax administrations have embraced tools like artificial intelligence, virtual assistants, and advanced data analytics to enhance efficiency and better serve taxpayers.

The report also delves into the day-to-day operations of tax administrations. It examines how they manage compliance risks, address tax debts, and provide dispute prevention tools such as Advance Pricing Arrangements and cooperative compliance programs. Taxpayer services take centre-stage, with the report shedding light on how administrations handle billions of taxpayer interactions annually, from online accounts to phone calls and in-person visits. The increasing focus on tailored services, satisfaction surveys, and educational initiatives highlights efforts to meet the evolving needs of taxpayers. A significant feature of the report is its exploration of workforce management within tax administrations. Effective recruitment, training, and retention strategies are emphasised as critical for maintaining high-performing organisations. By fostering professional development and prioritising staff well-being, tax administrations aim to cultivate a culture of accountability and excellence.

Finally, *Tax Administration 2024* includes tax gap estimations. With an increasing number of jurisdictions adopting these analyses, the report examines methodologies and trends for measuring non-compliance and the overall health of tax systems. These insights offer a clearer understanding of revenue shortfalls and provide a basis for developing more effective tax administration and compliance strategies.

EU Parliament Approves Revised Council Proposal on FASTER

On 14 November, the European Parliament approved the Council-agreed text of the *FASTER* Directive (Faster and Safer Relief of Excess Withholding Taxes – Directive 2023/0187), aimed at modernising withholding tax (WHT) procedures within the European Union. The European Parliament endorsed the previous directive in February 2024, followed by a vote in the Council of the European Union in May 2024. However, substantial amendments introduced by the Council necessitated a renewed consultation with the European Parliament, which occurred on 14 November. The revised directive was subsequently approved with 555 votes in favour out of 645.

The directive introduces several key measures to improve the speed, security, and efficiency of cross-border tax processes. One of the central elements is the introduction of a digital tax residence certificate (eTRC), which must be issued by

Member States within 14 days of a request, replacing the slower paper-based systems. It also establishes a new category for banks, known as Certified Financial Intermediaries (CFIs), which will be responsible for conducting due diligence and reporting WHT payment information to national tax authorities. The directive allows Member States to choose between implementing relief-at-source systems or quick refund procedures to simplify the WHT process for investors.

The directive's approval by the European Parliament now paves the way for it to be resubmitted to the Council of the European Union for final approval. Member States must transpose the directive by 31 December 2028, with implementation set for 1 January 2030. This will require financial institutions and investors to adapt to new due diligence and reporting processes, ensuring compliance with the revised withholding tax systems.

OECD Publishes Consumption Tax Trends Report

The OECD published its *Consumption Tax Trends 2024* Report in November, which offers a detailed analysis of VAT/GST and excise taxes in OECD countries, highlighting key trends and developments. The Report notes that consumption taxes accounted for 9.9% of GDP in 2022, maintaining stability from previous years, though their share of total tax revenues declined slightly to 29.6%. This reduction is largely due to a decrease in taxes on specific goods and services, such as excise duties. VAT remains the primary source of consumption tax revenue, contributing over 20% of total tax revenues on average, with slight increases observed in many countries.

According to the OECD, consumption tax-to-GDP ratios declined in 12 out of the 38 OECD countries between 2020 and 2022, increased in 22 countries while 4 countries saw no change. Consumption taxes produce more than 40% of total taxes in 5 OECD countries (Chile, Colombia, Hungary, Latvia, and Türkiye), and they account for less than 20% of total taxes in 3 OECD countries (Japan, Switzerland, and the United States).

The publication emphasises significant developments in VAT systems, including measures to combat fraud and ensure compliance. Many OECD countries have implemented digital reporting systems and electronic invoicing, reflecting ongoing efforts to adapt VAT regimes to the digital economy. By 2024, average VAT rates increased slightly to 19.3%, with several countries harmonising VAT rules for online trade in alignment with OECD recommendations. These measures have enhanced VAT efficiency and its role as a key revenue source. The report highlights the opportunities and challenges posed by digitalisation, environmental goals, and global trade. While digital tools have enhanced tax compliance and fraud prevention, maintaining VAT neutrality in international trade remains a priority.

Revised EU Energy Taxation Directive: Presidency Progress

The Hungarian Presidency of the Council of the European Union has advanced negotiations on the revision of the Energy Taxation Directive (ETD), a key part of the EU's Fit for 55 package aimed at reducing emissions by 55% by 2030 and achieving climate neutrality by 2050. Recent progress at working group level in Council includes provisions for new energy products and flexible transitional periods for sectors such as natural gas and combined heat and power generation. These adjustments are designed to ensure smooth implementation while accommodating the unique challenges faced by Member States.

One of the most contentious issues is the taxation of aviation and maritime navigation, with some Member States opposing mandatory exemptions. The Presidency has suggested maintaining the current provisions for these sectors, coupled with a review clause in 2035, to break the deadlock and allow progress on other elements of the directive. While some differences persist, recent progress reflects a compromise between environmental ambitions and national priorities, with the Presidency calling for flexibility to ensure consensus.

The revised directive proposed clearer rules for emerging technologies, such as hydrogen and fuel cells, and addressing discrepancies caused by volume-based taxation. It harmonises tax treatments across Member States, strengthens consistency with broader EU legislation, and aims to align energy taxation with environmental performance, such as switching to energy content taxation. The original Commission proposal dates July 2021 and the rules also aim to complement other initiatives in the EU's July 2021 package.

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