International Tax in an Uncertain World

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Predictably Uncertain: Key Recent Shifts

- U.S. presidential memorandum blocks implementation of OECD agreement
- OBBB: Threat of retaliatory tax under IRC §899 against OECD members
- G7 deal: Acceptance of a 'side-by-side' approach
  – U.S. model (NCTI and BEAT) vs. OECD model (GloBE rules)
- Pillar Two carve-outs: Effectiveness weakens, competitive neutrality at risk

The U.S. Approach: Market-Driven Digital Policy

- Deregulation: Minimal rules for AI and crypto to prioritize innovation
- Suspicion toward foreign rules: DSTs, AI laws, crypto restrictions viewed as barriers to U.S. firms
- Risk of dominance:
  - U.S. companies strengthen global digital dominance
  - Widespread use of USD stablecoins could bypass local banking systems

  → tax evasion harder to detect

Digital-Economy Challenges: Paths to Resolution

- New international rules (OECD/UN): Cooperative, permanent, but hard to reach consensus
- Unilateral measures (DSTs, etc.): Quick and direct, but risk double taxation and trade conflicts
- Platform-based taxation: Uses technology and real-time data, but privacy and enforcement issues

Who Leads?

- OECD/G20: Technical expertise, but high political cost of consensus
- UN: Broader voice for developing countries, alternative frameworks emerging
- EU: Regional action on indirect taxes, unanimity required for direct taxes
- U.S. & China: Political and market power shape global landscape
- Conclusion: No single leader — fragmented, overlapping governance

Mobilizing Domestic Resources: Building Regional Capacity

- When global consensus stalls, domestic capacity and regional alliances must rise.
- Domestic: E-invoicing, platform-based VAT, AI-driven risk scoring, rapid legal updates
- Regional: Joint audits, shared analytics hubs, collective negotiation positions
- Global: Engage in OECD/UN forums realistically, leverage Common Reporting System (CRS) and Country-by-Country Reporting data

Enforcement Tools & Challenges

- E-invoicing & Real-time VAT/GST: Detect under-reporting quickly, but requires legal mandates
- Platform Reporting & Withholding: Capture gig economy and cross-border services
  - Risk: Global platforms may resist sharing data
- AI & Advanced Analytics (OECD): Targeted audits, predict risk, optimize resources
  - Risk: Algorithm bias, transparency issues (IRS example)
- Automatic Exchange of Information: Identify offshore wealth and profit shifting
  - Risk: Data overload, secure handling needed
- Joint Audits / Regional Cooperation: Share costs, increase bargaining power
  - Risk: Trust deficits, legal framework differences

Modern Tax Enforcement: Data, Capacity, and Trust

- Better enforcement increases revenue only when three foundations are in place:

1. Information (Data): Accurate, timely, integrated data for detection and risk assessment

   E.g. International exchanges, e-invoicing, platform reporting

2. Resources (Capacity): Human and technological capacity to analyze and act on data

   E.g. Skilled staff, strong project management

3. Trust (Legitimacy): Responsible use of AI and big data builds public trust and taxpayer cooperation

   • Houser & Sanders: Ensure privacy protection and algorithmic transparency in tax enforcement

   • TAS Report: Prevent black-box decision-making through clear, auditable systems

Key Takeaways

- The world remains predictably uncertain
- U.S. 'digital freedom' disrupts global consensus and strengthens U.S. firms
- Pillar Two carve-outs threaten competitive neutrality
- Next Steps for Tax Administrations:
  1. Modernize systems through digital tools and AI
  2. Enhance data, resources, and trust as the foundation of enforcement
  3. Collaborate regionally to share expertise and information
  4. Take early action — don't wait for global consensus