CPA Practice Advisor

Abroad

While there is incredible uncertainty as we move into the final months of 2021, there are a couple major events tax teams should be tracking, as their outcomes could make a big difference for the 2022 tax landscape and well beyond.

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By George L. Salis.

The next few months and into 2022, will likely determine the fate of tax regulations globally—or not. A lot remains to be seen, including the final contents of President Joe Biden's infrastructure package and details on OECD's 15% global minimum tax proposal, and its dubious approval by the U.S. Senate.

While there is incredible uncertainty as we move into the final months of 2021, there

potentially result in a volatile regulatory landscape fraught with risks for businesses.

For example, federal lawmakers from high-cost states have been pushing for the infrastructure package to include a repeal of the $10,000 cap on the state and local tax (SALT) deduction. However, that would cost Congress an estimated $80 billion a year, which makes it a difficult sell for legislators.

Should the SALT deduction be kept in place, states like New York and California could look for other ways to fill state and local budget gaps. In fact, we've already seen state and local governments (SLGs) finding creative ways to expand their tax bases in 2021 and most are targeting sales and transaction taxes.

Those taxes already make up 33% percent of SLG budgets in jurisdictions that charge sales and use tax. It is also far easier to administer, remit and audit sales tax due to fewer exemptions and more frequent collections, so it's clear why governments are taking this tack. To date, this controversy continues, in the light of new congressional initiatives and legislation.

Ambiguity and Uncertainty Remains Around Digital Services Taxes in the EU, U.K., and other countries with "Unilateral" DST regimes

The OECD's proposal for a global minimum tax was meant, in part, to quell an uprising of unilateral digital services taxes in EU countries, and elsewhere. In fact, after 136 countries participating in the OECD's Inclusive Framework agreed to a minimum tax rate of 15% for the top 100 big tech companies and to curve tax avoidance through tax havens, on October 19, U.S. officials announced they were close to reaching an agreement with the U.K., France, Italy, Spain and Austria to suspend their DSTs when the global minimum tax comes into force. Later in October, in a joint statement, the U.K., France, Italy, Austria, and Spain, announced that they would repeal of their national 'Digital Services Taxes' (DSTs).

However, a treaty or international convention will be necessary to implement new

countries, as some recalcitrant countries did not join the agreement, and others have yet to decide.

Since the deal would mean that countries would need to drop their DSTs once the global minimum tax is codified in the next couple years, countries with DSTs could choose any time to drop those taxes. In fact, less than a week before the DST deal was announced, Italy said it would likely keep its DSTs in place until at least 2024.

This is a very "complex" time for the international tax landscape. Moving parts that we could have never imagined even a couple years ago have changed—and are still changing—the way states, countries and continents devise and implement new and expanded tax schemes. The ripples and implications are surely to be felt in matured and developing nations, and of course, across both direct and indirect tax regimes, as in the end, all commerce, is based on transactions.

There's still much to be determined, so it would be foolhardy to make big predictions. But one thing is clear. Businesses and their tax teams need to watch these developments closely or risk non-compliance.

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