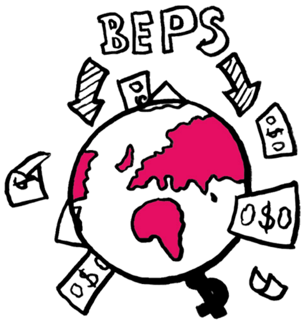
Debevoise & Plimpton



BEPS Primer: Key Definitions

Action Plan
In response to the challenges faced by BEPS, the OECD has set out a 15 point action plan to combat BEPS.

BEPS
The official definition: “Base erosion and profit shifting (BEPS) refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations.”

Base Erosion
An entity’s tax base is the income, profits, gains (or other determining factor) against which tax is charged. At a basic level, corporation tax is calculated by:

[tax base] x [tax rate]

Base erosion is the process of reducing an entity’s tax base; this can obviously happen by simply not being profitable but the base erosion targeted by the BEPS Project is erosion that has been “aimed for” (assuming that no one intends to run an unprofitable business).

Profit Shifting
The practice of moving a multinational group’s profits from one (typically high tax) country to another (typically low/no tax) country (for example, through royalty payments).

OECD
The Organisation for Economic Cooperation and Development (OECD) is a group of 34 countries around the world dedicated to improving people’s lives economically and socially. The OECD tries to understand what causes economic growth and works to promote it by measuring productivity, trade and investment, making predictions based on data it collects and offering policy recommendations.

Digital Economy
The universe of transactions, the sale of goods and services, which take place online.

Transfer pricing and mispricing

Transfer pricing rules aim to regulate the terms and conditions (including the price paid) for transactions between connected parties.

Please contact BEPS@Debevoise.com to discuss further.