European Payment Institutions Federation aisbl

EPIF Secretariat
c/o Afore Consulting
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Belgium

To the attention of:

Organisation for Economic Cooperation and Development (OECD)
Centre for Tax Policy and Administration

9 December 2020

Dear Sir/Madam,

I am writing to you on behalf of the European Payment Institutions Federation (EPIF) in response to the OECD's invitation for public input on the Inclusive Framework's Report on the Pillar Two Blueprint.

EPIF understands the political and economic impetus to look at the fairness of the current international tax system, which has not only driven the ongoing work at OECD but also proposals by the European Commission at EU level and national proposals at individual country-level across the world. EPIF completely endorses and encourages fairness of the taxation system.

On this basis, EPIF fully supports the OECD's goal of setting out new rules to address ongoing risks from structures that allow MNEs to shift profit to jurisdictions where they are subject to no or very low taxation. EPIF believes that any new rules should be proportionate and pragmatic; reflecting the specificities of the payments industry and its important role in the wider economy.

In the interest of removing any legal ambiguity, EPIF would like to see an explicit carve-out from Pillar 2 on profits for payment services, including any conversion fees, pay-in fees for e-money products or complementary services to payment processing such as fraud detection based on machine learning.

In addition EPIF supports many of the other submissions by the financial services industry to this consultation.

Why payment companies are different

- EPIF believes that it is important to reiterate the **essential role of the payments system to the wider economy**. The payments system is an infrastructure which is fundamental not only for the growth of the economy but also in upholding trust to the financial system which is crucial for financial stability and economic growth.
- Payment institutions and the **complex value chains** within the payments sector are what makes transactions possible: between people, business and across countries and continents. In a global digital economy which is increasingly intertwined it is of utmost importance to not disrupt the flow through creating bottlenecks in the system for transactions to be able to proceed smoothly and fast.
- The reason why our members are successful businesses is because they have harnessed current technology and are developing future technology to identify and meet gaps in the financial services market. Our members feel strongly that the technology that drives their businesses is highly valuable and the value driven. There are concerns within the industry that a digital tax would hamper the possibilities of enhancing technological development in the payments sector.
- Finally, it is important to draw attention to the fact that many companies in the payments sector are **start-ups**. EPIF believes any new tax proposal would need to be very carefully calibrated not to undermine the competitiveness of this group of companies.

Why the payments industry should be carved-out

EPIF strongly believes there are a number of industry-specific challenges and characteristics that merit a carve-out for the payments industry. Operationally, the payments industry is a complex, multi-party network spread across Fiscs that suffers from generally not being well understood even within wider Financial Sector. It acts as an enabling utility for global commerce and involves very high volumes but very low margins. EPIF further underlines that the payments industry is already facing demands to provide bulk data and in some cases functionality to assist fiscal authorities in collecting taxes, particularly those arising from digital commerce.

In terms of the OECD proposals as a whole:

- It remains unclear if Payment Service Providers are in scope of Pillar 1 (or carved-out) and if in scope how any Pillar 1 adjustments contribute to the questions of when, and if so to what extent, Pillar 2 adjustments might then apply.
- Many Payment Service Providers are not Banks nor Financial institutions with large balance sheets and therefore can be differentiated from other parts of the Financial sector.
- Payment Service Providers which are not Banks have a very heavy reliance on Banks to actually effect the payments, which can and do represent direct competitors.
- If Banks and other Financial Institutions are carved-out (of Pillar 1 and/or Pillar 2) in whole or part, it follows on tax neutrality grounds that non-bank Payment Service Providers should similarly be carved out.

Given the complexities involved, there is a significant risk of unforeseen and unintended consequences. In particular, the imposition of clip taxes, withholding taxes, joint & several liability etc in the context of cross border gross settlement flows should generally be resisted as that creates disproportionate fiscal exposures for the payments Industry and creates barriers to efficient global trade. Thus the payments Industry as a whole needs separate consideration for carve-outs in context of both Pillar 1 and Pillar 2.

ABOUT EPIF (EUROPEAN PAYMENT INSTITUTIONS FEDERATION)

EPIF, founded in 2011, represents the interests of the non-bank payment sector at the European level. We currently have over 190 authorised payment institutions and other non-bank payment providers as our members offering services in every part of Europe. **EPIF** thus represents roughly one third of all authorized Payment Institutions ("PI") in Europe. All of our members operate online. Our diverse membership includes a broad range of business models, including:

- 3-party Card Network Schemes
- Acquirers
- Money Transfer Operators
- FX Payment Providers
- Mobile Payments
- Payment Processing Service Providers
- Card Issuers
- Third Party Providers
- Digital Wallets

EPIF seeks to represent the voice of the PI industry and the non-bank payment sector with EU institutions, policy-makers and stakeholders. We aim to play a constructive role in shaping and developing market conditions for payments in a modern and constantly evolving environment. It is our desire to promote a single EU payments market via the removal of excessive regulatory obstacles.

We wish to be seen as a provider for efficient payments in that single market and it is our aim to increase payment product diversification and innovation tailored to the needs of payment users (e.g. via mobile and internet).

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