Tax Policy and Statistics Division

Centre for Tax Policy and Administration

By email to: TFDE@oecd.org

Hoofddorp, 12 November 2019

Dear Sir/Madam,

Comments on the Public consultation document Secretariat Proposal for a “Unified Approach” under Pillar One

Naspers Ltd (“Naspers”) and Prosus NV (“Prosus”) welcome the opportunity to submit comments on the Public consultation document Proposal “Unified Approach” under Pillar One as released by the OECD on 9 October 2019.

Introduction

Naspers and Prosus are global consumer internet groups and amongst the largest technology investors in the world. Prosus came to market in September 2019 through the listing of the international internet assets of Naspers. Prosus directly employs more than 20,000 people globally, with many more employed by its associates. The shares in Prosus are listed on Euronext Amsterdam, with a secondary, inward listing on the Johannesburg Stock Exchange. Naspers has its primary listing on the Johannesburg Stock Exchange and a secondary listing on the A2X Exchange in South Africa, and has an ADR listing on the London Stock Exchange. Naspers owns approx. 74% of the shares in Prosus.

Prosus aims to build leading companies that create value by empowering local people and enriching communities. The group has grown by investing in, acquiring and building leading companies across the Americas, Africa, Central and Eastern Europe and Asia.

Prosus typically concentrates on large consumer trends where it tries to identify changes early, invests in and adapts proven business models. Every day, millions of people use the products and services of companies that Prosus has invested in, acquired or built, including Avito, Brainly, BYJU’S, Codecademy, dott, eMAG, Frontier Car Group, Honor, ibibo, iFood, LazyPay, letgo, meesho, Movile, OLX, PayU, PaySense, SimilarWeb, Swiggy, Tradus and Udemy. Similarly, hundreds of millions of people have made the platforms of its associates a part of their daily lives: Tencent (www.tencent.com; SEHK 00700), Mail.ru (www.corp.mail.ru; LSE: MAIL), and DeliveryHero (www.deliveryhero.com; Xetra: DHER).

Today, Naspers and Prosus companies and associates help improve the lives of around a fifth of the world's population. The groups actively search for new opportunities to partner exceptional local entrepreneurs who are using technology to address big societal needs.

Question 1 – Scope

Naspers and Prosus firmly believe that businesses should pay their taxes locally. Paying taxes locally is an important contribution to the societies in which Naspers and Prosus operate.

Arriving at a global solution is of critical importance as a mix of different local solutions will create complexities, will increase compliance burdens and will, in all likelihood, result in double taxation for players with operations in more than one territory.

It is important that the global and local tax playing fields are level. Irrespective whether a business is local, regional or global, it should be subject to the same tax rules in the countries where it operates, employs staff or owns assets or where its clients, consumers or users are based. Origin, presence, size or business model shouldn't result in a completely different tax profile. Companies with clients, consumers or users in the same country should be subject to the same rules no matter whether these companies are based in this specific country or operate there remotely.

The most important objective of the proposal is to come to a unified approach that stops the shifting of profits from high tax to low or no tax territories and the erosion of the tax base in high tax territories. The shifting of profits from high tax territories to low or no tax territories is not only a matter for digital companies. On the contrary, it happens across all industries and sectors irrespective whether the businesses are consumer facing, are B2B or have a hybrid form. The new rules should apply not only to *"highly digitalized businesses"* or *"consumer facing businesses"*, but to <u>all</u> businesses across <u>all</u> industries. Uniform application of the rules will improve the durability of the new legislation, with the rapid development of business models in mind. (And, of course, the number of carve outs from any unified approach should be limited.)

Please note, however, that many businesses are set up locally, already pay their taxes locally, do not shift profits from high tax to low or no tax territories and do not base erode in high tax territories. These companies may be purely local businesses or can also be regional or multinational businesses with pure local business models and limited centralisation. It should be clear that companies that are already paying taxes locally, will not be subject to additional taxes created by these new rules.

In our view it will be important for the new rules to focus on the reallocation of profits between countries and legal entities and not to be a tax on revenues. A tax on revenues punishes innovation.

Question 2 – New Nexus

We welcome the intent to create a new nexus for businesses that have a sustained and significant involvement in the economy of a particular jurisdiction. A fair and sensible sales threshold per country could be used as an effective measure of the level of involvement in a jurisdiction.

Question 3-5 – Amount A

We assume that in determining which profits will be reallocated under the new profit allocation methods, profits of associates are disregarded as the new rules will also apply to the associates themselves. It will be important for the new rules to be all inclusive and to avoid double counting.

Segmentation by activity or business line is essential to ensure that the new allocation methods are fair and effective. Profits of successful, high-margin companies operating in local markets should be taxed in those local markets. Less successful, low-margin affiliates or related entities that operate less mature businesses (eg, in their startup phase that still need to prove their model) through separate legal entities in the same countries as the successful and high margin related companies should not be pooled. These businesses should be taxed separately (unless these different activities take place in the same legal entities). To achieve this, proper segmentation is necessary.

A simple and fair allocation key is required in order for the new allocation method to remain effective and efficient.

Reaching a global consensus on the calculation of the new taxing right and, equally important, the determination of the country that should provide relief of double taxation are key to avoid double taxation.

Arriving at a global solution is of eminent importance as a mix of different local solutions will create complexities, increase compliance burdens and will, in all likelihood, result in double taxation for players with operations in more than one territory.

Questions 6 and 7 – Fixed returns and dispute prevention

Naspers and Prosus support exploring possibilities to apply fixed remunerations for certain functions and activities. This will result in fewer transfer pricing disputes and greater certainty.

Kind regards,

Dirk Delmartino
Naspers & Prosus Head of Policy

Serge de Reus
Naspers & Prosus Head of Tax