OECD Global Anti-Base Erosion ('GloBE') Report on the Pillar Two Blueprint

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To: cfa@oecd.org

Introduction and background

1. The British Property Federation (BPF) represents the real estate sector – an industry which contributed more than £100bn to the economy in 2018 and supported more than 2 million jobs[1]. We promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers and developers of real estate as well as those who support them. Their investments help drive the UK's economic success; provide essential infrastructure and create great places where people can live, work and relax.

2. We are supportive of the OECD's efforts to consider the tax challenges arising from the digitalisation of the economy, and base erosion more broadly, and welcome the opportunity to provide comments on the GLoBE Pillar Two blueprint.

3. Almost a third of UK commercial real estate is owned by overseas investment and a further third are owned by collective investment vehicles (including funds and real estate investment trusts (REITs)), which cater to a global investor base. Given the global and collective nature of real estate investment, we welcome the OECD's recognition of the importance of ensuring that these new measures to do jeopardise the concept of tax neutrality for investors in funds – to ensure that those who invest collectively are able to obtain as similar tax outcome as if they had invested directly.

4. The list of 'excluded entities' (and the extension to holding companies owned by excluded entities) is an important element of the Pillar Two blueprint which will help protect the tax neutrality of investors for many types of funds. However, we would like to draw your attention to two areas where we believe the scope of the excluded entities could be broadened slightly without jeopardising the objective of these rules, in order to provide better certainty that tax neutrality will be maintained for more funds and their investors.

    A. **REITs** – we support the recommendations within EPRA's submission, and call on the OECD to refer to REIT regimes directly and as a stand-alone category of excluded entities - and to use the definition of REITs contained in the 2008 OECD report on REITs. This approach would be consistent with the past OECD actions in relation to REITs and would bring a sought after clarity on the exclusion of REITs.

    B. **Non CIV real estate funds** – we support the recommendations within INREV's submission, to protect those non-CIV (collective investment vehicles) real estate funds, which may inadvertently be outside the scope of the defined 'Excluded Entities'. As we noted in our previous submission, on 2nd December 2019, real estate is typically subject to tax in the jurisdiction in which it is based, and therefore real estate fund structures repatriating profits to investors pose very little risk of BEPS, even when there are only a small number of investors in the fund. In particular, we would note that joint venture arrangements between two professional or institutional investors are a common way to invest in real esate - to share risk

[1] https://bpf.org.uk/media/2659/16688-bpf-economic-footprint-report-140819.pdf

and pool resources – and these structures may not always meet the criteria in the current 'Investment Fund' definition. Given the negligible BEPS risk that real estate fund structures pose generally, we recommend that non-CIV real estate funds should be carved out of Pillar Two completely.

5. We welcome the opportunity to provide this brief submission - please do not hesitate to get in touch if you require further information.

Rachel Kelly
Assistant Director (Finance)
020 7802 0115
rkelly@bpf.org.uk