OECD/G20 Base Erosion and Profit Shifting Project

Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy

OCTOBER 2021

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BETTER POLICIES FOR BETTER LIVES

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Introduction

Following years of detailed and intensive work and negotiations to bring the international tax rules into the 21st century, members of the OECD/G20 Inclusive Framework on BEPS (the Inclusive Framework) agreed on 8 October to the Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy. The Two-Pillar Solution will ensure that multinational enterprises (MNEs) will be subject to a minimum tax rate of 15%, and will re-allocate profit of the largest and most profitable MNEs to countries worldwide.

Digitalisation and globalisation have had a profound impact on economies and the lives of people around the world, and this impact has only accelerated in the 21st century. These changes have brought with them challenges to the rules for taxing international business income, which have prevailed for more than a hundred years and resulted in MNEs not paying their fair share of tax despite the huge profits many of these businesses have garnered as the world has become increasingly interconnected.

In 2013, the OECD ramped up efforts to address these challenges in response to growing public and political concerns about tax avoidance by large multinationals. Implementation of the 15 Actions of the BEPS package agreed in 2015 is well underway, but gaps remain. The current rules still allow large multinationals to earn significant income in a jurisdiction without paying corporate income tax there. New business models that rely heavily on intellectual property have made it easier for MNEs to shift profits to low-tax jurisdictions. Globalisation has exacerbated unhealthy tax competition.

Now, 136 countries and jurisdictions, representing more than 90% of global GDP, have joined the Two-Pillar Solution establishing a new framework for international tax and agreed a Detailed Implementation Plan that envisages implementation of the new rules by 2023. A small number of the Inclusive Framework's 140 members have not yet joined the Two-Pillar Solution at this time.

The Two-Pillar Solution is comprised of Pillar One and Pillar Two. Pillar One aims to ensure a fairer distribution of profits and taxing rights among countries with respect to the largest MNEs, which are the winners of globalisation. Tax certainty is a key aspect of the new rules, which include a mandatory and binding dispute resolution process for Pillar One but with the caveat that developing countries will be able to benefit from an elective mechanism in certain cases, ensuring that the rules are not too onerous for low-capacity countries. The agreement to re-allocate profit under Pillar One includes the removal and standstill of Digital Services Taxes (DST) and other relevant, similar measures, bringing an end to trade tensions resulting from the instability of the international tax system. It will also provide a simplified and streamlined approach to the application of the arm's length principle in specific circumstances, with a particular focus on the needs of low capacity countries.

Pillar Two puts a floor on tax competition on corporate income tax through the introduction of a global minimum corporate tax at a rate of 15% that countries can use to protect their tax bases (the GloBE rules). Pillar Two does not eliminate tax competition, but it does set multilaterally agreed limitations on it. Tax incentives provided to spur substantial economic activity will be accomodated through a carve-out. Pillar Two also protects the right of developing countries to tax certain base-eroding payments (like interest and royalties) when they are not taxed up to the minimum rate of 9%, through a "Subject to tax rule" (STTR).

KEY ELEMENTS OF THE TWO-PILLAR SOLUTION

Pillar One	Pillar Two
Taxing rights over 25% of the residual profit of the largest and most profitable MNEs would be re-allocated to the jurisdictions where the customers and users of those MNEs are located	GloBE rules provide a global minimum tax of 15% on all MNEs with annual revenue over 750 million euros
Tax certainty through mandatory and binding dispute resolution, with an elective regime to accommodate certain low-capacity countries	Requirement for all jurisdictions that apply a nominal corporate income tax rate below 9% to interest, royalties and a defined set of other payments to implement the "Subject to Tax Rule" into their bilateral treaties with developing Inclusive Framework members when requested to, so that their tax treaties cannot be abused.
Removal and standstill of Digital Services Taxes and other relevant, similar measures	Carve-out to accommodate tax incentives for substantial business activities
The establishment of a simplified and streamlined approach to the application of the arm's length principle in specific circumstances, with a particular focus on the needs of low capacity countries.	

Benefits to developing countries

Developing countries make up a large part of the Inclusive Framework's membership and their voices have been active and effective throughout the negotiations. The OECD estimates that on average, low-, middle- and high-income countries would all experience revenue gains as a result of Pillar One, but these gains would be expected to be larger (as a share of current corporate income tax revenues) among low income jurisdictions. Overall, the GloBE rules will relieve pressure on developing countries to provide excessively generous tax incentives to attract foreign investment; while at the same time, there will be carve outs for activities with real substance. Specific benefits aimed at developing countries include:

- the Subject to tax rule (STTR), which prevents companies from avoiding tax on their profit earned in developing countries by making deductible payments such as interest or royalties that benefit from reduced withholding tax rates under tax treaties and which are not taxed (or taxed at a low rate) under the tax laws in the treaty partner; this will help developing countries protect their treaty networks from abuse through profit shifting to low tax jurisdictions.

- the simplified and streamlined approach to the application of the arm's length principle to in-country baseline marketing and distribution activities, as low capacity countries often struggle to administer transfer-pricing rules and will benefit from a formulaic approach in those cases.

- a lower threshold for determining the re-allocation of profit under Pillar One to smaller economies.

The OECD will provide bespoke technical assistance to support all aspects of implementation of the Two-Pillar Solution.

Revenue impact

Under Pillar One, taxing rights on more than USD 125 billion of profit are expected to be reallocated to market jurisdictions each year. With respect to Pillar Two, the global minimum tax rate of 15% is estimated to generate around USD 150 billion in new tax revenues globally per year. Additional benefits will arise from the stabilisation of the international tax system and the increased tax certainty for taxpayers and tax administrations.

Swift implementation

A Detailed Implementation Plan was also agreed. It contains ambitious deadlines to complete work on the rules and instruments needed to bring the Two-Pillar Solution into effect by 2023.

TARGET DEADLINES

Pillar One	Pillar Two
Early 2022 – Text of a Multilateral Convention (MLC) and Explanatory Statement to implement Amount A of Pillar One	**November 2021** – Model rules to define scope and mechanics for the GloBE rules
Early 2022 – Model rules for domestic legislation necessary for the implementation of Pillar One	**November 2021** – Model treaty provision to give effect to the subject to tax rule
Mid 2022 – High-level signing ceremony for the Multilateral Convention	**Mid 2022** – Multilateral Instrument (MLI) for implementation of the STTR in relevant bilateral treaties
End 2022 –Finalisation of work on Amount B for Pillar One	**End 2022** – Implementation framework to facilitate co-ordinated implementation of the GloBE rules
2023 – Implementation of the Two-Pillar Solution	

This document sets out the Statement which has been discussed in the OECD/G20 Inclusive Framework on BEPS. 136 member jurisdictions have agreed to it as of 8 October 2021. It is noted that not all Inclusive Framework members have joined as of today.

Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalisation of the Economy

8 OCTOBER 2021

Introduction

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (IF) has agreed a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. The agreed components of each Pillar are described in the following paragraphs.

A detailed implementation plan is provided in the Annex.

Pillar One

Scope

In-scope companies are the multinational enterprises (MNEs) with global turnover above 20 billion euros and profitability above 10% (i.e. profit before tax/revenue) calculated using an averaging mechanism with the turnover threshold to be reduced to 10 billion euros, contingent on successful implementation including of tax certainty on Amount A, with the relevant review beginning 7 years after the agreement comes into force, and the review being completed in no more than one year.

Extractives and Regulated Financial Services are excluded.

Nexus

There will be a new special purpose nexus rule permitting allocation of Amount A to a market jurisdiction when the in-scope MNE derives at least 1 million euros in revenue from that jurisdiction. For smaller jurisdictions with GDP lower than 40 billion euros, the nexus will be set at 250 000 euros.

The special purpose nexus rule applies solely to determine whether a jurisdiction qualifies for the Amount A allocation.

Compliance costs (incl. on tracing small amounts of sales) will be limited to a minimum.

Quantum

For in-scope MNEs, 25% of residual profit defined as profit in excess of 10% of revenue will be allocated to market jurisdictions with nexus using a revenue-based allocation key.

Revenue sourcing

Revenue will be sourced to the end market jurisdictions where goods or services are used or consumed. To facilitate the application of this principle, detailed source rules for specific categories of transactions will be developed. In applying the sourcing rules, an in-scope MNE must use a reliable method based on the MNE’s specific facts and circumstances.

Tax base determination

The relevant measure of profit or loss of the in-scope MNE will be determined by reference to financial accounting income, with a small number of adjustments.

Losses will be carried forward.

Segmentation

Segmentation will occur only in exceptional circumstances where, based on the segments disclosed in the financial accounts, a segment meets the scope rules.

Marketing and distribution profits safe harbour

Where the residual profits of an in-scope MNE are already taxed in a market jurisdiction, a marketing and distribution profits safe harbour will cap the residual profits allocated to the market jurisdiction through Amount A. Further work on the design of the safe harbour will be undertaken, including to take into account the comprehensive scope.

Elimination of double taxation

Double taxation of profit allocated to market jurisdictions will be relieved using either the exemption or credit method.

The entity (or entities) that will bear the tax liability will be drawn from those that earn residual profit.

Tax certainty

In-scope MNEs will benefit from dispute prevention and resolution mechanisms, which will avoid double taxation for Amount A, including all issues related to Amount A (e.g. transfer pricing and business profits disputes), in a mandatory and binding manner. Disputes on whether issues may relate to Amount A will be solved in a mandatory and binding manner, without delaying the substantive dispute prevention and resolution mechanism.

An elective binding dispute resolution mechanism will be available only for issues related to Amount A for developing economies that are eligible for deferral of their BEPS Action 14 peer review[1] and have no or low levels of MAP disputes. The eligibility of a jurisdiction for this elective mechanism will be reviewed regularly; jurisdictions found ineligible by a review will remain ineligible in all subsequent years.

Amount B

The application of the arm's length principle to in-country baseline marketing and distribution activities will be simplified and streamlined, with a particular focus on the needs of low capacity countries. This work will be completed by the end of 2022.

Administration

The tax compliance will be streamlined (including filing obligations) and allow in-scope MNEs to manage the process through a single entity.

Unilateral measures

The Multilateral Convention (MLC) will require all parties to remove all Digital Services Taxes and other relevant similar measures with respect to all companies, and to commit not to introduce such measures in the future. No newly enacted Digital Services Taxes or other relevant similar measures will be imposed on any company from 8 October 2021 and until the earlier of 31 December 2023 or the coming into force of the MLC. The modality for the removal of existing Digital Services Taxes and other relevant similar measures will be appropriately coordinated. The IF notes reports from some members that transitional arrangements are being discussed expeditiously.

Implementation

The MLC through which Amount A is implemented will be developed and opened for signature in 2022, with Amount A coming into effect in 2023. A detailed implementation plan is set out in the Annex.

1. The conditions for being eligible for a deferral of the BEPS Action 14 peer review are provided in paragraph 7 of the current Action 14 Assessment Methodology published as part of the Action 14 peer review documents.

Pillar Two

Overall design

Pillar Two consists of:

- two interlocking domestic rules (together the Global anti-Base Erosion Rules (GloBE) rules): (i) an Income Inclusion Rule (IIR), which imposes top-up tax on a parent entity in respect of the low taxed income of a constituent entity; and (ii) an Undertaxed Payment Rule (UTPR), which denies deductions or requires an equivalent adjustment to the extent the low tax income of a constituent entity is not subject to tax under an IIR; and
- a treaty-based rule (the Subject to tax rule (STTR)) that allows source jurisdictions to impose limited source taxation on certain related party payments subject to tax below a minimum rate. The STTR will be creditable as a covered tax under the GloBE rules.

Rule status

The GloBE rules will have the status of a common approach.

This means that IF members:

- are not required to adopt the GloBE rules, but, if they choose to do so, they will implement and administer the rules in a way that is consistent with the outcomes provided for under Pillar Two, including in light of model rules and guidance agreed to by the IF;
- accept the application of the GloBE rules applied by other IF members including agreement as to rule order and the application of any agreed safe harbours.

Scope

The GloBE rules will apply to MNEs that meet the 750 million euros threshold as determined under BEPS Action 13 (country by country reporting). Countries are free to apply the IIR to MNEs headquartered in their country even if they do not meet the threshold.

Government entities, international organisations, non-profit organisations, pension funds or investment funds that are Ultimate Parent Entities (UPE) of an MNE Group or any holding vehicles used by such entities, organisations or funds are not subject to the GloBE rules.

Rule design

The IIR allocates top-up tax based on a top-down approach subject to a split-ownership rule for shareholdings below 80%.

The UTPR allocates top-up tax from low-tax constituent entities including those located in the UPE jurisdiction. The GloBE rules will provide for an exclusion from the UTPR for MNEs in the initial phase of their international activity, defined as those MNEs that have a maximum of EUR 50 million tangible assets abroad and that operate in no more than 5 other jurisdictions.[2] This exclusion is limited to a period of 5 years after the MNE comes into the scope of the GloBE rules for the first time. For MNEs that are in scope of the GloBE rules when they come into effect the period of 5 years will start at the time the UTPR rules come into effect.

ETR calculation

The GloBE rules will operate to impose a top-up tax using an effective tax rate test that is calculated on a jurisdictional basis and that uses a common definition of covered taxes and a tax base determined by reference to financial accounting income (with agreed adjustments consistent with the tax policy objectives of Pillar Two and mechanisms to address timing differences).

In respect of existing distribution tax systems, there will be no top-up tax liability if earnings are distributed within 4 years and taxed at or above the minimum level.

2. An MNE is considered to operate in a jurisdiction if that MNE has a Constituent Entity in that jurisdiction as defined for purposes of the GloBE rules.

Minimum rate

The minimum tax rate used for purposes of the IIR and UTPR will be 15%.

Carve-outs

The GloBE rules will provide for a formulaic substance carve-out that will exclude an amount of income that is 5% of the carrying value of tangible assets and payroll. In a transition period of 10 years, the amount of income excluded will be 8% of the carrying value of tangible assets and 10% of payroll, declining annually by 0.2 percentage points for the first five years, and by 0.4 percentage points for tangible assets and by 0.8 percentage points for payroll for the last five years.

The GloBE rules will also provide for a *de minimis* exclusion for those jurisdictions where the MNE has revenues of less than EUR 10 million and profits of less than EUR 1 million.

Other exclusions

The GloBE rules also provide for an exclusion for international shipping income using the definition of such income under the OECD Model Tax Convention.

Simplifications

To ensure that the administration of the GloBE rules are as targeted as possible and to avoid compliance and administrative costs that are disproportionate to the policy objectives, the implementation framework will include safe harbours and/or other mechanisms.

GILTI co-existence

It is agreed that Pillar Two will apply a minimum rate on a jurisdictional basis. In that context, consideration will be given to the conditions under which the US GILTI regime will co-exist with the GloBE rules, to ensure a level playing field.

Subject to tax rule (STTR)

IF members recognise that the STTR is an integral part of achieving a consensus on Pillar Two for developing countries.[3] IF members that apply nominal corporate income tax rates below the STTR minimum rate to interest, royalties and a defined set of other payments would implement the STTR into their bilateral treaties with developing IF members when requested to do so.

The taxing right will be limited to the difference between the minimum rate and the tax rate on the payment.

The minimum rate for the STTR will be 9%.

Implementation

Pillar Two should be brought into law in 2022, to be effective in 2023, with the UTPR coming into effect in 2024. A detailed implementation plan is set out in the Annex.

3. For this purpose, developing countries are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of USD 12 535 or less in 2019 to be regularly updated.

Detailed Implementation Plan

This Annex describes the work needed to implement the two-pillar solution described in the body of the Statement. It also sets out a timeline for that process, including the key milestones for the Inclusive Framework (IF) going forward, noting that bespoke technical assistance will be available to developing countries to support all aspects of implementation. IF members recognise the ambitious nature of the timelines contained in this implementation plan and are fully committed to use all efforts within the context of their legislative process in achieving that goal.

Pillar One

Amount A, the removal of all Digital Service Taxes and other relevant similar measures on all companies, and Amount B will be implemented under the Pillar One solution, as described below.

AMOUNT A

Amount A will be implemented through a Multilateral Convention (MLC), and where necessary by way of correlative changes to domestic law, with a view to allowing it to come into effect in 2023.

Multilateral Convention

In order to facilitate swift and consistent implementation, an MLC will be developed to introduce a multilateral framework for all jurisdictions that join, regardless of whether a tax treaty currently exists between those jurisdictions. The MLC will contain the rules necessary to determine and allocate Amount A and eliminate double taxation, as well as the simplified administration process, the exchange of information process and the processes for dispute prevention and resolution in a mandatory and binding manner between all jurisdictions, with the appropriate allowance for those jurisdictions for which an elective binding dispute resolution mechanism applies with respect to issues related to Amount A, thereby ensuring consistency and certainty in the application of Amount A and certainty with respect to issues related to Amount A. The MLC will be supplemented by an Explanatory Statement that describes the purpose and operation of the rules and processes. Where a tax treaty exists between parties to the MLC, that tax treaty will remain in force and continue to govern cross-border taxation outside Amount A, but the MLC will address inconsistencies with existing tax treaties to the extent necessary to give effect to the solution with respect to Amount A. The MLC will also address interactions between the MLC and future tax treaties. Where there is no tax treaty in force between parties, the MLC will create the relationship necessary to ensure the effective implementation of all aspects of Amount A.

The IF has mandated the Task Force on the Digital Economy (TFDE) to define and clarify the features of Amount A (e.g., elimination of double taxation, Marketing and Distribution Profits Safe Harbour) and develop the MLC and negotiate its content, so that all jurisdictions that have committed to the Statement will be able to participate. The TFDE will seek to conclude the text of the MLC and its Explanatory Statement by early 2022, so that the MLC is quickly open to signature and a highlevel signing ceremony can be organised by mid-2022. Following its signature, jurisdictions will be expected to ratify the MLC as soon as possible, with the objective of enabling it to enter into force and effect in 2023 once a critical mass of jurisdictions as defined by the MLC have ratified it.

Removal and Standstill of All Digital Services Taxes and Other Relevant Similar Measures

The MLC will require all parties to remove all Digital Services Taxes and other relevant similar measures with respect to all companies, and to commit not to introduce such measures in the future. A detailed definition of what constitutes relevant similar measures will be finalised as part of the adoption of the MLC and its Explanatory Statement.

Domestic Law Changes

IF members may need to make changes to domestic law to implement the new taxing rights over Amount A. To facilitate consistency in the approach taken by jurisdictions and to support domestic implementation consistent with the agreed timelines and their domestic legislative procedures, the IF has mandated the TFDE to develop model rules for domestic legislation by early 2022 to give effect to Amount A. The model rules will be supplemented by commentary that describes the purpose and operation of the rules.

AMOUNT B

The IF has mandated Working Party 6 and the FTA MAP Forum to jointly finalise the work on Amount B by end of 2022. The technical work will start by defining the in-country baseline marketing and distribution activities in scope of Amount B. Working Party 6 and the FTA MAP Forum will then jointly develop the rest of Amount B components, with a view of releasing Amount B final deliverables by end of 2022.

Pillar Two

Model rules to give effect to the GloBE rules will be developed by the end of November 2021. These model rules will define the scope and set out the mechanics of the GloBE rules. They will include the rules for determining the ETR on a jurisdictional basis and the relevant exclusions, such as the formulaic substance-based carve-out. The model rules will also cover administrative provisions that address an MNE's filing obligations and the use of any administrative safeharbours. The model rules will further include transition rules. The model rules are supplemented by commentary that explains the purpose and operation of the rules, and addresses the need for a switch-over rule in certain treaties and in circumstances that otherwise commit the contracting parties to the use of the exemption method.

A model treaty provision to give effect to the STTR will be developed by the end of November 2021. The model treaty provision will be supplemented by commentary that explains the purpose and the operation of the STTR. A process to assist in implementing the STTR will be agreed.

A multilateral instrument (MLI) will be developed by the IF by mid-2022 to facilitate the swift and consistent implementation of the STTR in relevant bilateral treaties.

At the latest by the end of 2022 an implementation framework will be developed that facilitates the coordinated implementation of the GloBE rules. This implementation framework will cover agreed administrative procedures (e.g. detailed filing obligations, multilateral review processes) and safeharbours to facilitate both compliance by MNEs and administration by tax authorities. As part of the work on the implementation framework, IF members will consider the merits and possible content of a multilateral convention in order to further ensure co-ordination and consistent implementation of the GloBE rules.

Consultations

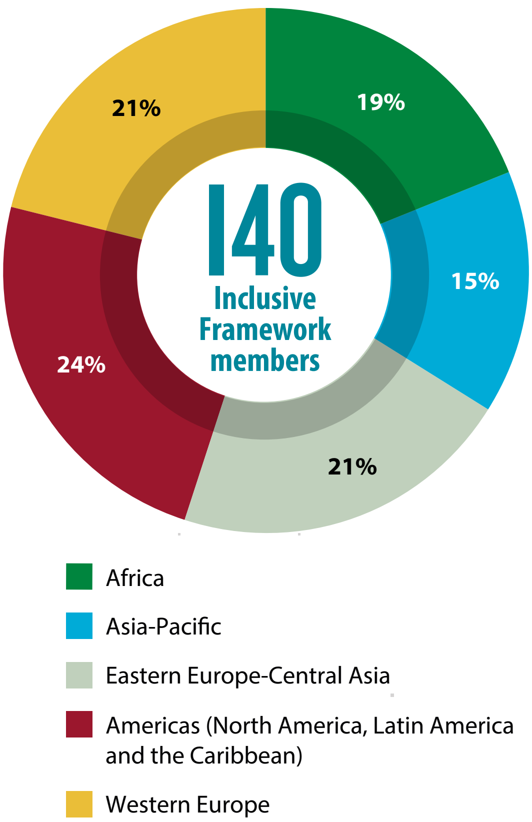
Within the constraints of the timeline set forth in this implementation plan, the work will continue to progress in consultation with stakeholders.

Background

The OECD has been leading international efforts since the 1990s to enable countries to prevent tax evasion and corporate tax avoidance. Early work in the 2000s sought to identify standards and obtain commitments from countries to establish a global level playing field. This was the foundation for the great progress made in the aftermath of the global financial crisis in 2008/09. World leaders' resolve to repair the global financial system included a pledge to end bank secrecy and crack down on tax evasion by individuals. This led to the creation of the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) in 2009. Subsequently, the international community turned its attention to the problem of corporate tax avoidance, leading to the launch of the project on Base Erosion and Profit Shifting (BEPS) in 2013.

The BEPS Project has made significant progress in bringing more coherence, substance and transparency to the international tax system. **A key part of the OECD/G20 BEPS Project is addressing the tax challenges arising from the digitalisation of the economy, which has undermined the basic rules that have governed the taxation of international business profits for the past century.** Large MNEs are able to earn significant revenue in foreign markets without those markets seeing much, if any, tax revenue as a result.

Under the OECD/G20 BEPS Project, Inclusive Framework members are collaborating to put an end to tax avoidance strategies that exploit gaps and mismatches in tax rules.



WHAT ARE THE PROBLEMS WITH THE EXISTING INTERNATIONAL TAX RULES?

The old international tax rules are based on agreements made in the 1920s and are today enshrined in the global network of bilateral tax treaties.

There are two problems:

- **The first is that the old rules provide that the profits of a foreign company can only be taxed in another country where the foreign company has a physical presence.** One hundred years ago, when business revolved around factories, warehouses and physical goods, this made perfect sense. But in today's digitalised world, MNEs often conduct large-scale business in a jurisdiction with little or no physical presence there.

- **The second problem is that most countries only tax domestic business income of their MNEs, but not foreign income, on the assumption that foreign business profits will be taxed where they are earned.** The growth of intangibles, like brands, copyright and patents, and companies' ability to shift profits to jurisdictions that impose little or no tax, means that MNE profits often escape taxation. This is further complicated by the fact that many jurisdictions are engaged in tax competition by offering reduced taxation – and often zero taxation – to attract foreign direct investment.

The OECD estimated corporate tax avoidance costs anywhere from USD 100-240 billion annually, or from 4-10% of global corporate income tax revenues. Developing countries are disproportionately affected because they tend to rely more heavily on corporate income taxes than advanced economies. Countries' inability to tax MNE profits have given rise to unilateral measures at the national level, such as Digital Services Taxes (DST), and the prospect of retaliatory tariffs. Such an outcome could cost the global economy up to 1% of global GDP and hamper recovery efforts from the COVID-19 crisis. Again, this would hit developing countries harder than more advanced economies. The implementation of the Two-Pillar Solution will avoid trade wars and prevent uncertainty that would adversely impact trade and investment.

Corporate tax avoidance costs countries anywhere from **USD 100-240 billion*** annually, which is equivalent to 4-10% of global corporate income tax revenues.

*OECD estimates

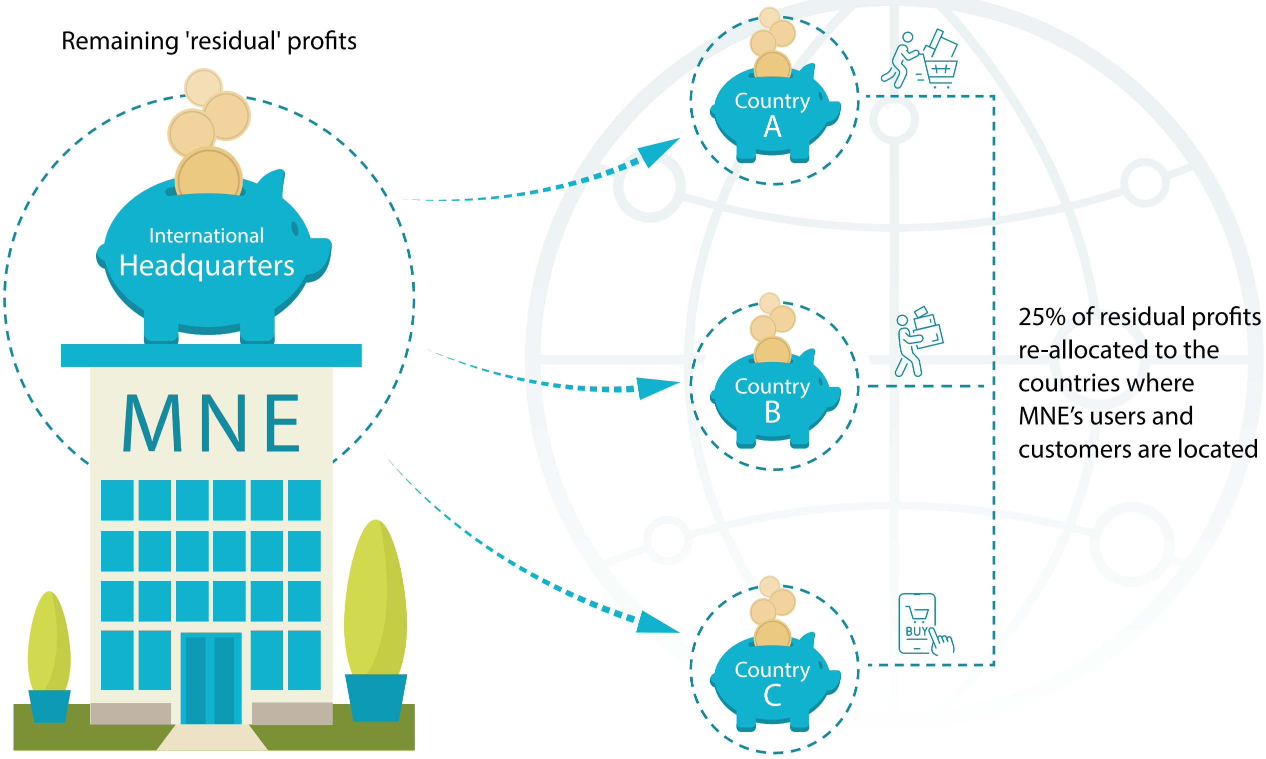
WHAT IS THE SOLUTION?

The OECD/G20 Inclusive Framework, which has 140 members, all participating on an equal footing, was mandated to provide a solution to these two problems in 2021.

As of 8 October 2021, 136 member countries and jurisdictions joined the Two Pillar Solution – the outcome of negotiations co-ordinated by the OECD for much of the last decade – to ensure that large MNEs pay tax where they operate and earn profits.

Pillar One

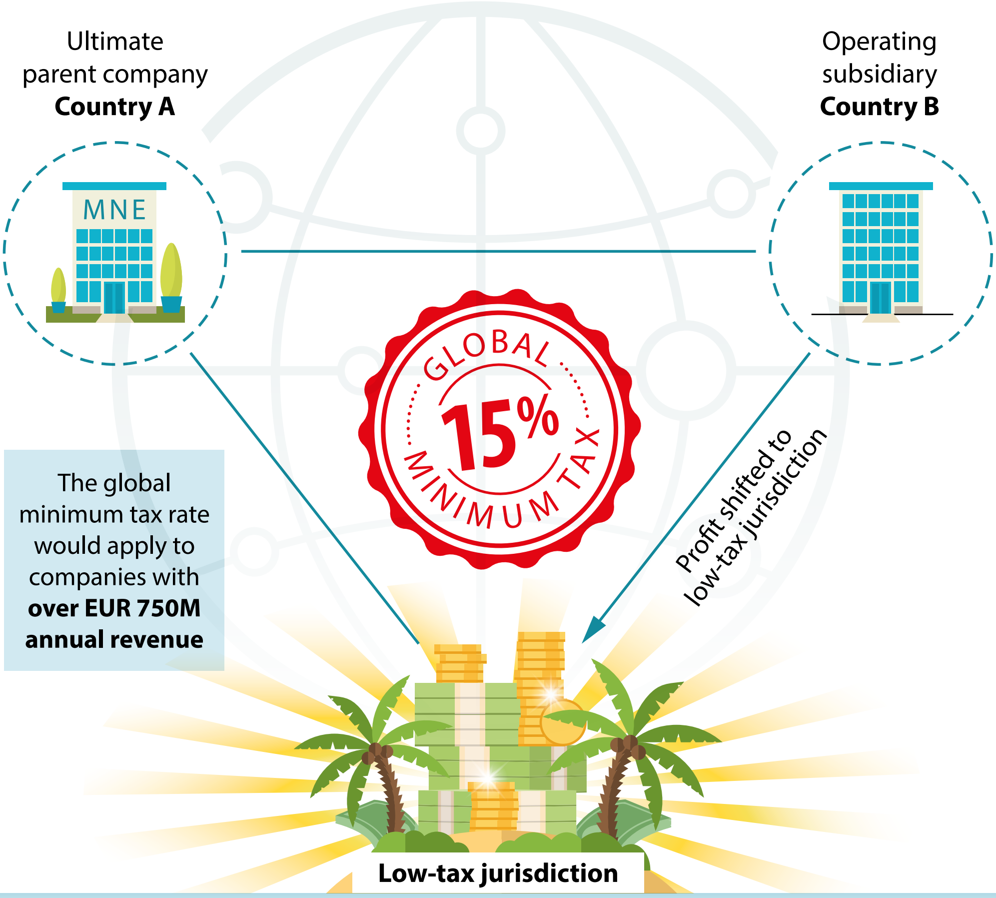
- **Pillar One would bring dated international tax rules into the 21st century**, by offering market jurisdictions new taxing rights over MNEs, whether or not there is a physical presence.
  - Under Pillar One, 25% of profits of the largest and most profitable MNEs above a set profit margin (residual profits) would be reallocated to the market jurisdictions where the MNE's users and customers are located; this is referred to as Amount A.
  - Pillar One also provides for a simplified and streamlined approach to the application of the arm's length principle to in-country baseline marketing and distribution activities (Amount B).
  - Pillar One includes features to ensure dispute prevention and dispute resolution in order to address any risk of double taxation, but with an elective mechanism for some low-capacity countries.
  - Pillar One also entails the removal and standstill of Digital Services Taxes (DST) and similar relevant measures, to prevent harmful trade disputes.



Under Pillar One, taxing rights on more than **USD 125 billion of profit** are expected to be reallocated to market jurisdictions

Pillar Two

- **Pillar Two provides a minimum 15% tax on corporate profit, putting a floor on tax competition.** Governments worldwide agree to allow additional taxes on the foreign profits of MNEs headquartered in their jurisdiction at least to the agreed minimum rate. This means that tax competition will now be backstopped by a minimum level of taxation wherever an MNE operates.
- A carve-out allows countries to continue to offer tax incentives to promote business activity with real substance, like building a hotel or investing in a factory.



Under Pillar Two, the global minimum tax, with **a rate of 15%**, is expected to generate around **USD 150 billion** in new tax revenues globally.

WHAT WILL THE IMPACT BE?

Under Pillar One, taxing rights on more than USD 125 billion of profit are expected to be reallocated to market jurisdictions each year. With respect to Pillar Two, with a minimum rate of 15%, the global minimum tax is estimated to generate around USD 150 billion in additional global tax revenues per year. The precise revenue impact will depend on the extent of the implementation of Pillar One and Pillar Two, the nature and scale of reactions by multinational enterprises and governments and future economic developments.

In terms of the investment impacts, the Two-Pillar Solution will provide a more favourable environment for investment and growth than would likely be the case otherwise. The absence of an agreement would likely have led to a proliferation of uncoordinated and unilateral tax measures (e.g. Digital Services Taxes) and an increase in damaging tax and trade disputes, which would have undermined tax certainty and investment and resulted in additional compliance and administration costs. These disputes could reduce global GDP by more than 1%.

The absence of a consensus-based solution would likely have led to a proliferation of uncoordinated and unilateral tax measures (e.g. Digital Services Taxes) and an increase in damaging tax and trade disputes.

Next steps

With the October Statement and the Detailed Implementation Plan in place, the Inclusive Framework is positioned to move quickly to implementation in domestic law and through the negotiation, signature and ratification of the multilateral instruments necessary to adjust treaty relationships among its members. Model rules to implement Pillar Two will be developed in 2021 with a Multilateral Convention (MLC) to implement Pillar One finalised by February 2022. Swift implementation is key to stabilising the international tax architecture and avoiding damaging trade disputes. Inclusive Framework members have set an ambitious deadline of 2023 to bring the new international tax rules into effect.

Key milestones

1996
G7 makes the problems of tax evasion and avoidance a priority.

1998
OECD report: *Harmful Tax Competition: An Emerging Global Issue.*

2000 – 2007
Development of international standards on tax transparency and securing commitments to a global level playing field.

2008-2009
Global Financial Crisis – G20 pledge to end bank secrecy and establish the Global Forum on Transparency and Exchange of Information for Tax Purposes.

July 2013
G20 identifies tax avoidance as a priority.

October 2015
Adoption of the Base Erosion and Profit Shifting (BEPS) package of 15 Actions to counter tax avoidance – Action 1 deals with the digitalisation of the economy.

June 2016
Establishment of the OECD/G20 Inclusive Framework on BEPS, now counts 140 members.

2017-2020
Active discussions in the Inclusive Framework on how to address the tax challenges of the digitalisation of the economy culminating with the release of "blueprints" for a two-pillar solution in October 2020.

July 2021
Over 130 countries and jurisdictions join the Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy.

October 2021
136 members of the Inclusive Framework join the Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy with a Detailed Implementation Plan.

2022
Target dates for development of model legislation, a Multilateral Convention and a multilateral instrument for the implementation of the Two-Pillar Solution.

2023
Target date for implementation of the Two-Pillar Solution.

Frequently asked questions

1. How will the Two-Pillar Solution make sure that MNEs pay their fair share of tax?

Each pillar addresses a different gap in the existing rules that allow MNEs to avoid paying taxes. First, Pillar One applies to about 100 of the biggest and most profitable MNEs and re-allocates part of their profit to the countries where they sell their products and provide their services, where their consumers are. Without this rule, these companies can earn significant profits in a market without paying much tax there. Under Pillar Two, a much larger group of MNEs (any company with over EUR 750 million of annual revenue) would now be subject to a global minimum corporate tax. With the new rules, companies organising their affairs in a way that their profits in a given jurisdiction (whether in a low-tax jurisdiction or otherwise) are subject to an effective tax rate lower than the minimum rate, those profits would still be taxed at a minimum rate of 15%.

2. In July 2021, Inclusive Framework members agreed a Statement on how to address these issues. What are the main changes in the Statement finalised in October?

The Statement adopted in July 2021 was a major achievement in that 134 countries and jurisdictions agreed on the framework for a Two-Pillar Solution to the Tax Challenges Arising from Digitalisation. The framework left certain key parameters for decision by October. For example, the amount of residual profit to be re-allocated to market jurisdictions under Pillar One was left open but has now been agreed as 25%. The rate of the minimum tax under Pillar Two has now also been agreed at 15%, whereas in July the level remained open to a rate of "at least 15%". There were other thresholds and rates that needed to be finalised, as well as how to ensure tax certainty. In addition, a detailed implementation plan has now been agreed to help ensure that the ambitious timelines for implementation can be met.

3. Does this only apply to around 100 companies? What about the other multinational companies: shouldn't they pay tax, too?

First, all taxpayers should pay their fair share of tax and the BEPS Project as a whole aims at making sure this is the case for MNEs. While it is true that the re-allocation of profit under Pillar One applies to about 100 companies, these are the largest and most profitable companies, and expanding the scope of this rule to bring more companies in would not necessarily increase the amount of re-allocated profit significantly but would add complexity. Nevertheless, there is a provision to expand the scope after 7 years once there is experience with implementation. Pillar One also includes a commitment to develop simplified, streamlined approaches to the application of transfer pricing rules to certain arrangements, with a particular focus on the needs of low capacity countries, which are very often the subject of tax disputes.

Pillar Two's goal is to ensure that a much broader range of MNEs (those with a turnover of at least EUR 750M, which will be hundreds of companies) pay a minimum level of tax, while preserving the ability of all companies to innovate and be competitive. For other, smaller companies, the existing rules continue to apply and the Inclusive Framework has a number of other international tax standards like the BEPS actions, to reduce the risks of tax avoidance and ensure that they pay their fair share.

4. How much tax are we talking about?

With the Two-Pillar Solution, all types of economies – developing, emerging or with a higher GDP – will benefit from extra tax revenues. Under Pillar One, taxing rights on more than USD 125 billion of profit are expected to be reallocated to market jurisdictions each year. With respect to Pillar Two, the global minimum tax of 15% is estimated to generate around USD 150 billion in additional global tax revenues annually. These extra revenues will be particularly welcome, as governments need to fund the COVID-19 recovery.

5. What do developing countries get out of this deal?

The Two-Pillar Solution acknowledges the calls from developing countries for more mechanical, predictable rules, and more generally, provides a redistribution of taxing rights to market jurisdictions based on where sales and users are located – often in developing countries. It also provides for a global minimum tax, which will help put an end to tax havens, lessen the incentive for MNEs to shift profits out of developing countries, and reduce pressure on developing country governments to offer wasteful tax incentives and tax holidays, while providing a carve-out for low-taxed activities that have real substance. This means that developing countries could still offer effective incentives that attract genuine, substantive foreign direct investment. Importantly, this multilaterally agreed solution avoids the risk of retaliatory trade sanctions that could result from unilateral approaches such as digital services taxes.

Developing countries (particularly those in Africa, and with the support of the African Tax Administration Forum (ATAF)) have had a significant influence on the agreement. For example, on Pillar One, the agreement includes a commitment to reduce the scope threshold in 7 years (provided the system is operating as intended), which will result in a bigger pool of profits to be reallocated to markets; the nexus threshold – the point at which developing countries would see an allocation under Pillar One from an in-scope MNE – is set at a low level (EUR 1 million, reduced to EUR 250 000 for the smallest countries) so as to maximise the number of countries that will see revenue benefits; an elective option on tax certainty which will help ensure that countries which have no or only very small numbers of disputes do not get tied up in mandatory dispute resolution processes; Pillar One also includes a commitment to develop simplified, streamlined approaches, with a particular focus on the needs of low capacity countries, to the application to transfer pricing rules to certain arrangements that are very often the subject of tax disputes and, under Pillar Two, the guaranteed availability of the Subject to tax rule (STTR). These elements contributed to a balanced agreement for all parties in the negotiations.

Developing countries will gain revenue. Under Pillar One, which will see more than USD 125 billion of profit re-allocated to market jurisdictions, developing countries will stand to gain more than developed countries as a share of corporate income tax (CIT). With a rate of 15%, the global minimum tax is expected to generate around USD 150 billion in additional global tax revenues per year. In addition to this, developing countries are expected to gain further revenues under a treaty-based Subject to tax rule (STTR) which will allow countries to retain their right to tax certain payments made to related parties abroad which often pose BEPS risks, such as interest and royalties. The subject to tax rule will be made available to all developing countries.

6. Will developing countries get support in the implementation phase?

The OECD has a comprehensive programme of capacity building support for developing countries and has supported them consistently in their participation in the Inclusive Framework and in the implementation of the international tax standards since its inception. The Two-Pillar Solution is no different, and as the work turns towards developing the rules and instruments needed to implement and then the job of turning all that into law, then the OECD will be ready to support developing countries throughout this process. This support will be provided in close co-operation with regional tax organisations such as the African Tax Administration Forum (ATAF), the Inter-American Center of Tax Administrations (CIAT), the Intra-European Organisation of Tax Administrations (IOTA) and the Study Group on Asian Tax Administration and Research (SGATAR), as well as key development partners through the Platform for Collaboration on Tax (PCT) and donor countries that provide resources and expertise.

7. Will this be the end of profit-shifting by MNEs, via tax havens?

Yes. All countries are sovereign and can set the tax policy of their choice, but harmful tax competition and aggressive tax planning need to end. Tax havens have thrived over the years by offering secrecy (like bank secrecy) and shell companies (where the company doesn't need to have any employees or activity in the jurisdiction) and no or low tax on profits booked there. The work of the G20 and the OECD-hosted Global Forum on Transparency and Exchange of Information for Tax Purposes has ended bank secrecy (including leading to the automatic exchange of bank information) and the OECD Base Erosion and Profit Shifting (BEPS) Project requires companies to have a minimum level of substance to put an end to shell companies along with important transparency rules so that tax administrations can apply their tax rules effectively. Pillar Two will now ensure that those companies pay a minimum effective tax rate of 15% on their profits booked there (subject to carve outs for real, substantial activities). The cumulative impact of these initiatives means that "tax havens" as people think of them would no longer exist. Those jurisdictions that offer international financial services may continue to find a market for their services, but on the basis that they add real economic value for their customers and support for commercial transactions that are not tax-driven.

8. When will companies start paying this new tax?

The Detailed Implementation Plan provides for a clear and ambitious timeline to ensure an effective implementation from 2023 onwards. On Pillar One, model rules for domestic legislation will be developed by early 2022 and the new taxing right in respect of re-allocated profit (Amount A) will be implemented through a multilateral convention with a view to allowing it to come into effect in 2023. Meanwhile, work will be developed on Amount B and the in-country baseline marketing and distribution activities in scope, by the end of 2022. As for Pillar Two, model rules to give effect to the minimum corporate tax will be developed by November 2021, as well as the model treaty provision to implement the subject to tax rule. A multilateral instrument will then be released by mid-2022 to facilitate the implementation of this rule in bilateral treaties.

9. If most countries have corporate tax rates of more than 20%, then why is the minimum tax set at 15%?

A large portion of corporate profit is subject to an effective tax rate lower than 15% - despite the fact that the MNEs' home jurisdiction has a stated corporate tax rate that is much higher rate, so the compromise reached represents a major achievement. Remember also that the Two-Pillar Solution has been agreed by a large and diverse group of Inclusive Framework members, many of which have corporate tax rates that are lower than 15%. While many members may have been happier with a higher minimum rate, Pillar Two is the result of compromises on all sides.

10. Can't countries just tax these companies on their own, like some have tried to do with "Digital Services Taxes"?

The two-pillar package provides for the standstill and removal of unilateral measures, such as Digital Services Taxes (DST) and other relevant similar measures. Countries have experimented with these taxes in the absence of a global solution agreed by all members, but always as a second-best approach. Inclusive Framework members understand that unilateral measures can be inefficient and lead to disputes with other countries – both because they may create double taxation and because they can lead to trade retaliation. The main targets of these DST were always the major digital companies, which would now be subject to the new tax in Pillar One. By negotiating together the standstill and removal of such measures, the members of the Inclusive Framework recognised that a coordinated approach is more efficient than the proliferation of unilateral actions that would lead to more uncertainty for taxpayers, and to trade tensions between governments.

11. How can the OECD guarantee that all the countries joining the Two-Pillar Solution will actually implement it?

The Two-Pillar Solution is the commitment of 136 out of 140 Inclusive Framework members, under a mandate from the G20. As with other international standards developed by the OECD, commitment comes with the obligation to implement and this implementation process will be monitored closely by the Inclusive Framework. The OECD track record on this is excellent – implementation of tax transparency standards and the BEPS package are prime examples – and securing a global level playing field has always been the highest priority. The adoption of the Detailed Implementation Plan, which provides for a concrete and ambitious target dates, is the first important step to ensure that the agreed solution will be implemented in practice.

12. The Two-Pillar Solution provides exclusions for things like mining companies, shipping, regulated financial services and pension funds; why shouldn't those kinds of companies pay their fair share?

The aim of the Two-Pillar Solution is to make sure that MNEs can't take advantage of the old rules on international tax to avoid paying their fair share and the new rules are designed to capture and address this problem. The exclusions provided for relate to types of profit and activities that are not part of this problem either because the profit is already tied to the place where it is earned (for example, regulated financial services and mining companies will have to have their operations in the place where they earn their income) or the activity benefits from different taxation regimes due to their specific nature (such as shipping companies and pension funds). These types of businesses are still subject to all the other international tax standards on transparency and BEPS to ensure that tax authorities can tax them effectively.

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