



Global tax reform

G20 meeting results

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G20 endorsement

- On July 10, 2021, the G20 finance ministers and central bank governors released a communique following their meetings in Venice
- The communique states, members of the **G20 endorse the key components of the two pillars** on the reallocation of profits of multinational enterprises and an effective global minimum tax as set out in the "Statement on a two-pillar solution to address the tax challenges arising from the digitalization of the economy" released by the OECD/G20 Inclusive Framework on BEPS on July 1st
- According to the communique, in order to have a "**more stable and fairer international tax architecture**," the following needs to be done:
 - Address remaining issues of the inclusive framework
 - Finalize the design elements within the agreed framework and
 - Develop a detailed implementation package

OECD two-pillar statement

- On July 1, 2021, the OECD released "Statement on a two-pillar solution to address the tax challenges arising from the digitalization of the economy"
- Outlines agreed components with respect to Pillar One (Re-allocation of taxing rights) and Pillar Two (Global anti-base erosion mechanism)
- The OECD states, the two-pillar package provides much-needed support to governments needing to raise necessary revenues to repair their budgets and their balance sheets while investing in essential public services, infrastructure and the measures necessary to help optimize the strength and the quality of the post-COVID recovery
- Key updates since October 2020 blueprint are:
 - Reduction in scope of Pillar One for MNEs, and
 - Proposed global minimum tax rate of at least 15%

Pillar One

Re-allocation of taxing rights

- Applies to large multinational enterprises (MNEs) that have global sales of more than €20 billion and profitability greater than 10%
- Objective is to transfer a portion of taxation rights from the jurisdiction of residence to the market jurisdictions
- Currently indicating 20%-30% of profits in excess of 10% of revenue will be allocated to market jurisdictions in which the MNE is considered to have taxable nexus
- Profits will be allocated to a market jurisdiction if the revenues in that jurisdiction exceed a specific gross domestic product (GDP) threshold:
 - GDP of less than €40 billion: €250,000
 - GDP of €40 billion or more: €1 million
- Proposed safe harbor will be available for MNEs where profits may already be allocated to a market jurisdiction in order to cap residual profit allocated to the market jurisdiction

Pillar Two

Global anti-base erosion mechanism

- Introduction of Global anti-Base Erosion Rules (GloBE) and establishes a minimum taxation level on a country-by-country basis of 15%
- The computation will be based on a common definition of covered base and the tax base will be determined with reference to financial accounting income (with similar adjustments as those considered under Pillar One)
- Applies to MNEs that have global sales of more than €750 million
- Current proposal indicates countries can introduce Pillar Two measures at a lower threshold and could eventually apply to small and medium entities (SMEs)
- Government entities, international organizations, non-profit organizations, pension funds and investment funds that are the Ultimate Parent Entities (UPE) are not subject to the GloBE rules
- A lower range of rates (between 7.5% and 9%) is proposed for certain income sources (interest, royalties, and a defined set of other payments) that are within the ambit of the ‘Subject to Tax Rule’

Global tax reform: next steps

- Items for the OECD to consider in order to finalize the inclusive framework by October 2021:
 - Significant shifts of profits between jurisdictions under Pillar One proposals will require mechanisms to ensure that double taxation does not occur via either a credit or exemption mechanism (i.e. dispute resolution and prevention mechanisms)
 - Impending U.S. GILTI regime changes in order to coexist with GloBE proposals and ensure that the U.S. financial leaders will support Pillar Two
- Agreement across all members of the OECD/G20 Inclusive Framework on BEPs (seven countries yet to join the agreement)
- Implementation of the inclusive framework is expected to start in 2023