

OECD/G20 Inclusive Framework on BEPS

Cover Note by the Inclusive Framework to the Progress Report on Amount A of Pillar One

As approved by the OECD/G20 Inclusive Framework on BEPS on 1 July 2022



The landmark agreement reached on 8 October 2021 on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (the Statement) has been joined by 137 members of the OECD/G20 Inclusive Framework on BEPS (the Inclusive Framework). The Statement, together with the Detailed Implementation Plan based on very ambitious political deadlines, has guided an intense period of work for the Inclusive Framework.

Nine months after this historic agreement, the development of the Two-Pillar Solution is well advanced. The Pillar Two GloBE rules, with Model Rules for implementation, were released in December 2021 and the related Commentary published in March 2022. Work on the Implementation Framework for the GloBE rules is well underway following a very useful public consultation, and the design of the Subject To Tax Rule is on-going.

Significant progress has also been achieved in elaborating the comprehensive technical rules of the new taxing right (Amount A) for market jurisdictions established under Pillar One, as can be seen from the attached Amount A Progress Report. As further explained in the introduction to the Report, the design of many of the building blocks has been stabilised from a technical perspective. This would not have been possible without the valuable input received during the rolling public consultation held on various building blocks of Amount A. At the same time, the novelty of the concepts relating to this new taxing right and its integration within the existing international tax architecture merit further deliberation with respect to a few of the building blocks. Here, the Inclusive Framework recognises that it is important to balance the political interest in swift implementation with the need to properly finalise the design of innovative new rules intended to last for decades. As part of this process, the Inclusive Framework has also decided to seek feedback from stakeholders on the overall design of the Amount A rules as well as specific building blocks before reaching final agreement.

The Inclusive Framework further recognises that the substance of these rules must be fully stabilised before the development and completion of a Multilateral Convention (“MLC”), to be signed and ratified by Inclusive Framework members. The MLC will establish the legal obligations of the parties to implement Amount A in a coordinated and consistent manner. This will include binding rules on all aspects of implementing Amount A, including the allocation of Amount A to market jurisdictions, the elimination of double taxation, marketing and distribution safe harbour, a simplified administration process, exchange of information, and the tax certainty process. Pending finalisation of the substantive rules, work on the overall design and the framing of individual provisions of the MLC is already underway.

In addition to the operative provisions of Amount A, the MLC will also contain provisions requiring the withdrawal of all existing digital service taxes and relevant similar measures with respect to all companies, as well as a commitment not to enter into such measures in the future.

The MLC will enter into force only upon ratification by a critical mass of countries, which will include the residence jurisdictions of the ultimate parent entities of a substantial majority of the in-scope companies whose profits will be subject to the Amount A taxing right, as well as the key additional jurisdictions that will be allocated the obligation to eliminate double taxation otherwise arising as a result of the Amount A tax.

In addition to the work on Amount A, good progress has also been made on advancing the work on Amount B, to be delivered by year-end.

Against that background, the Inclusive Framework agreed to revise the schedule for completion of the work on Amount A as follows:

- i. Stakeholder feedback on the attached Amount A Progress Report¹ is sought by 19 August 2022;
- ii. the Inclusive Framework will review stakeholder input and seek to stabilise the rules at its meeting in October 2022;
- iii. the work on the detailed provisions of the MLC and its Explanatory Statement are expected to be completed so that a signing ceremony of the MLC can be held in the first half of 2023 with the objective of enabling it to enter into force in 2024 once a critical mass of jurisdictions as defined by the MLC have ratified it.

The attached Progress Report contains the different building blocks relating to the new taxing right under Amount A presented in the form of domestic model rules. It does not yet include the rules on the administration of the new taxing right, including the tax certainty related provisions, which will be released in due course and before the Inclusive Framework meeting in October.

¹ OECD (2022), *Progress Report on Amount A of Pillar One: Two-Pillar Solution to the Tax Challenges of the Digitalisation of the Economy*, OECD/G20 Base Erosion and Profit Shifting Project, OECD, Paris, www.oecd.org/tax/beps/progress-report-on-amount-a-of-pillar-one-july-2022.pdf.