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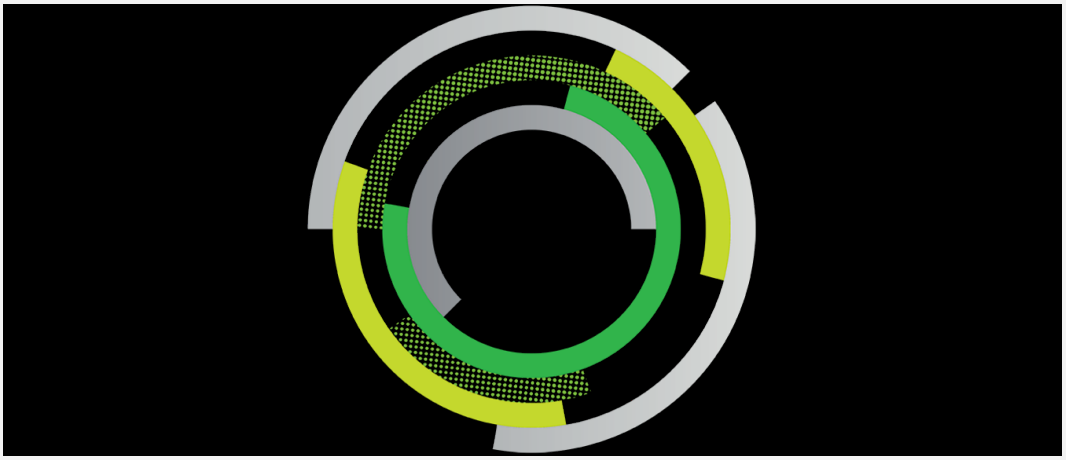

Corporate tax alert
International tax

OECD releases blueprints relating to the tax challenges of digitalisation

The OECD/G20 Inclusive Framework on BEPS ("Inclusive Framework"), which groups 137 countries and jurisdictions for multilateral negotiation of international tax rules, agreed during its 8-9 October 2020 meeting that the two-pillar approach they have been developing since 2019 provides a solid foundation for a future agreement.

Following this meeting, the Inclusive Framework released two detailed "blueprints" in relation to its ongoing work to address the tax challenges arising from the digitalisation of the economy.

A detailed analysis and comments on both Blueprints are available on Global tax@hand.

The Pillar One blueprint sets out "building blocks" for potential future international agreement on rules for taxable presence (nexus) in countries and profit allocation between countries to address tax challenges arising from digitalisation.

The Pillar Two blueprint proposes a set of interlocking international tax rules designed to ensure that large multinational businesses pay a minimum level of tax on all profits in all countries.

Comments on the blueprints are invited by 14 December 2020 and a virtual public consultation meeting will be held in January 2021.

The Inclusive Framework acknowledges that "no agreement has been reached," but asserts that "the blueprints nevertheless provide a solid foundation for a future agreement that would adhere to the concept of net taxation of income, avoid double taxation and be as simple and administrable as possible." It establishes a new goal of "bringing the process to a successful conclusion by mid-2021," while acknowledging further work "to resolve technical issues, develop model draft legislation, guidelines and international rules and processes as necessary to enable jurisdictions to implement a consensus-based solution."

The economic impact assessment estimates that Pillars One and Two could increase global corporate income tax revenues by approximately USD 47-81 billion annually (between 1.9% and 3.2% of corporate income tax revenues, with the bulk of the gains coming from Pillar Two (USD 42-70 billion)). For both pillars, investment hubs have the most revenues to lose, whereas high, middle, and low-income countries all stand to benefit. Finally, the OECD highlights that a consensus-based solution should only have minimal negative impact on MNE investment activity: less than 0.1% of global GDP in the mid-to-long term, whereas the lack of consensus could cause global GDP to decrease by more than 1%, especially if unilateral digital services taxes (DSTs) are broadly implemented.

Contacts

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