

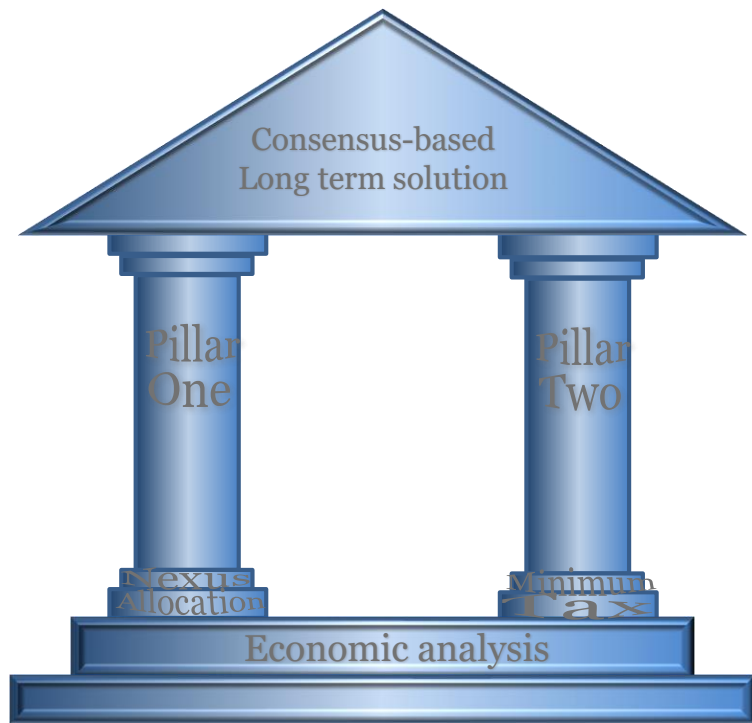


# PILLAR 2: GLOBAL ANTI-BASE-EROSION TAX

24th ANNUAL INTERNATIONAL TAXATION CONFERENCE – 2019  
5 – 7 DECEMBER 2019, ITC MARATHA HOTEL, MUMBAI, INDIA



# Tax Challenges arising from Digitalisation



- Addressing the digitalisation of business
  - Pillar One (Profit allocation and nexus)
  - Pillar Two (GloBE)
  - Economic analysis and impact assessment
- Long term solution by the end of 2020 needs political endorsement and a spirit of compromise



# Introduction: Context of Pillar Two proposal

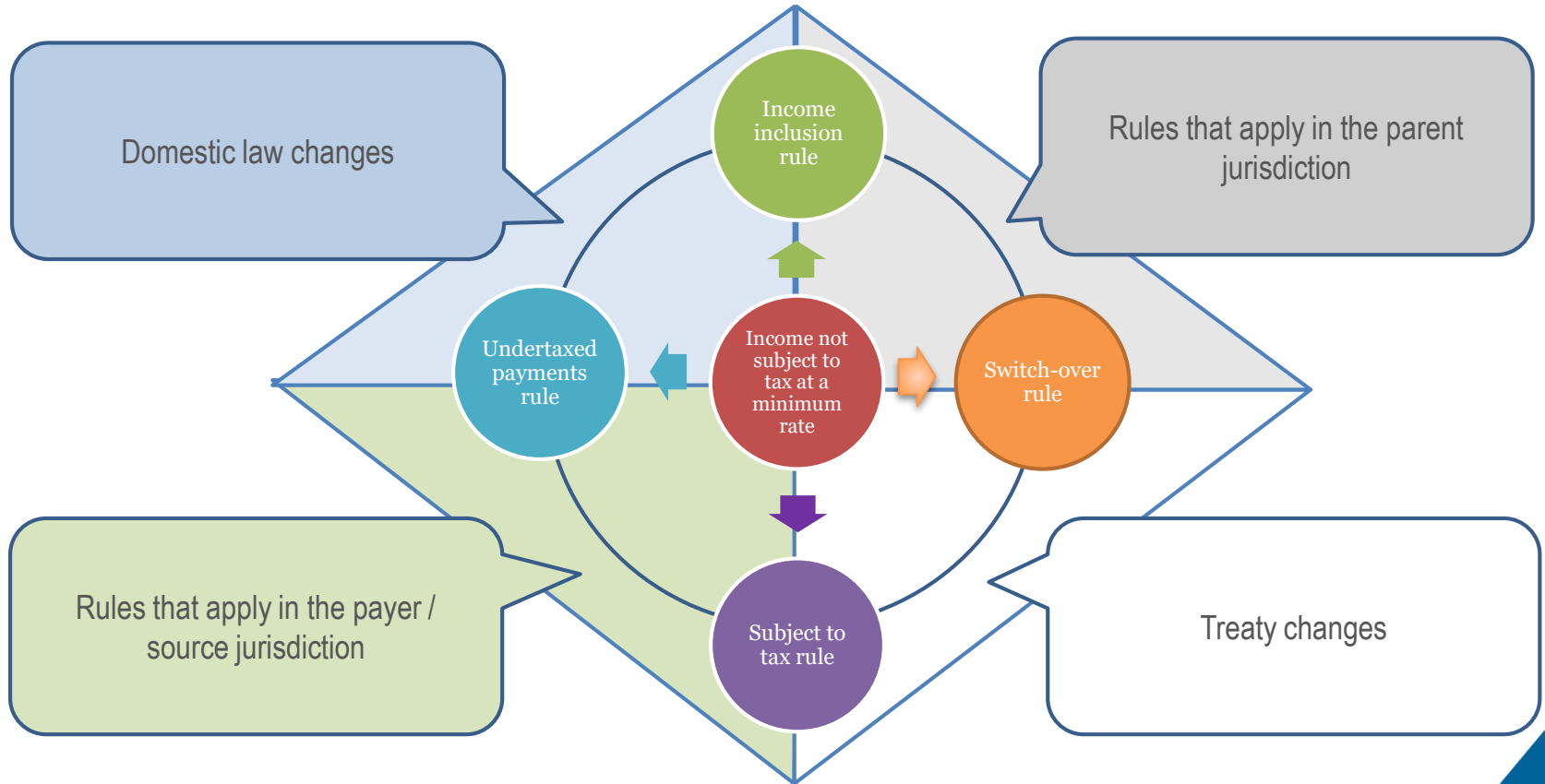
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## Rationale for Pillar Two

- Ensuring that all internationally operating businesses pay a minimum level of tax
- Provide jurisdictions with the ability to “tax back” group profits that are subject to a low effective rate of tax
- Multilateral solution to avoid un-coordinated rules, increased complexity and risk of over-taxation
- Address profit shifting risk from intangibles but not ring-fenced to digital economy
- Recent tax policy developments (e.g. GILTI)



# Overview Pillar 2 – GloBE proposal





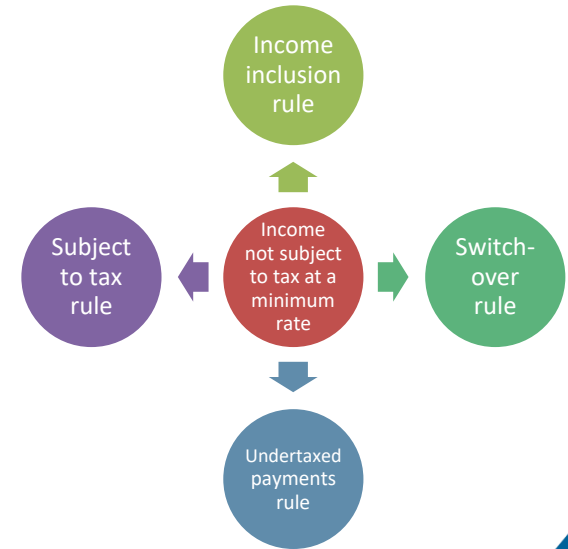
# Overview: from parent's perspective

## Income inclusion rule

- Top-up to a minimum rate and use of a fixed percentage
- Effective tax rate test (including simplifications)
- Blending
- Substance and other carve-outs
- Other technical and design issues

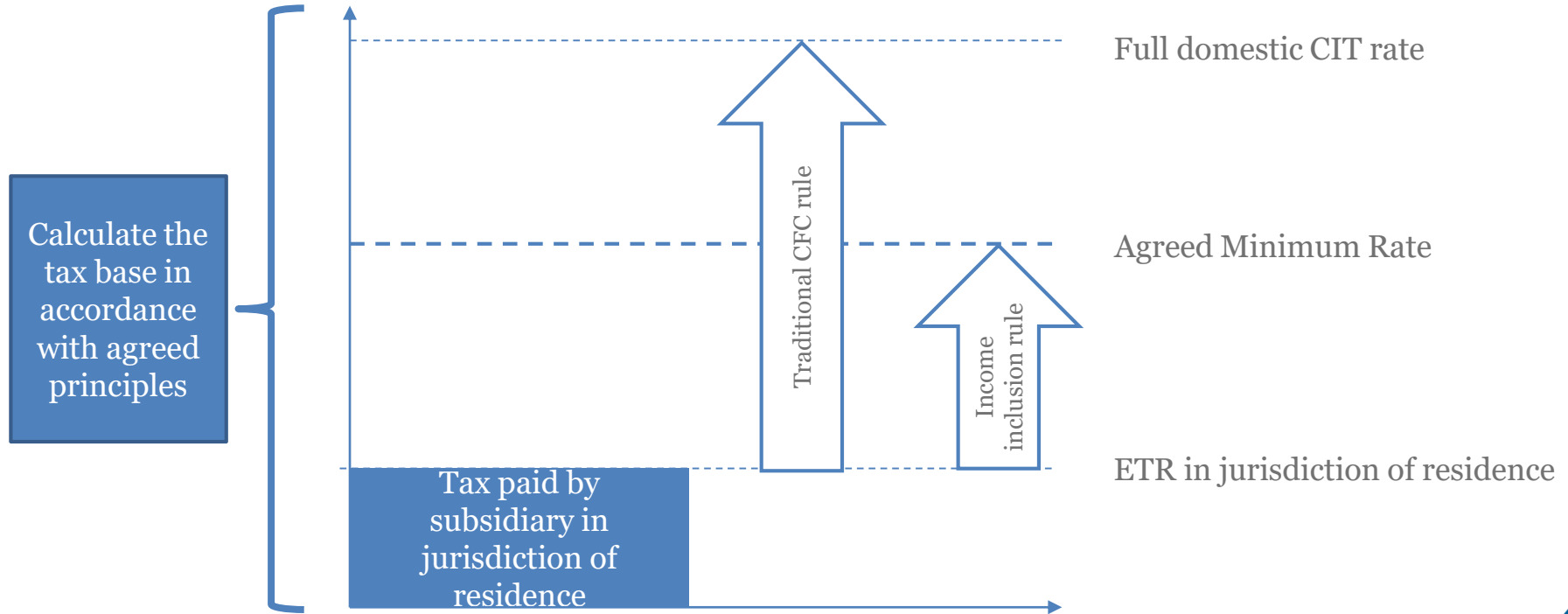
## Switch-over rule

- Allow the state of residence to apply the credit method instead of the exemption method for profits of a PE or for income derived from immovable property
- Where such profits are not subject to an effective rate of tax above a minimum rate





# Top-up to an agreed minimum rate



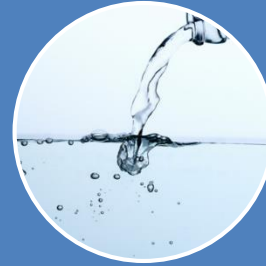


# Carve-outs and blending



## Carve-outs and limitations

- Exclusions from the application of the income inclusion rule or adjustments that limit the amount of income included under the rule.



## Blending

- Ability of taxpayers to mix high-tax and low-tax income from different sources to arrive at a blended rate of tax on income thereby limiting the amount of income included under the rule

Overlapping issues and related effects



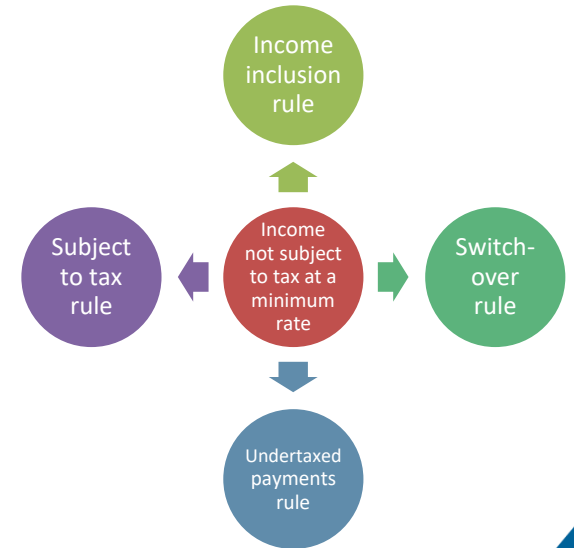
# Overview: from source country's perspective

## Undertaxed payments rule

- Adjustment for payments made to related parties if the payment was not subject to tax at a minimum rate
  - Scope of payment covered
  - Mechanism to address conduit structures
  - Effective tax rate test
  - Measures to address over taxation

## Subject to tax rule

- Treaty changes that allow for imposition of source country taxation when the income is not subject to a tax at a minimum rate
  - Consider broader policy questions
  - Focus on interest and royalties







# Co-ordination and scope of Pillar Two

## Co-ordination, thresholds and compatibility

- Co-ordination between the four different rules
- Co-ordination with other international rules, including Pillar One
- Possible use of thresholds
- Possible carve-outs
- Emphasis on simplification, avoidance of double taxation and minimising compliance and administration costs



# Next steps

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- Public consultation meeting next week:
  - Use of financial accounts
  - Blending
  - Carve-outs and thresholds
- Inclusive Framework on BEPS meeting in January 2020



# MORE INFORMATION

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## WEBSITE

<http://www.oecd.org/tax/>