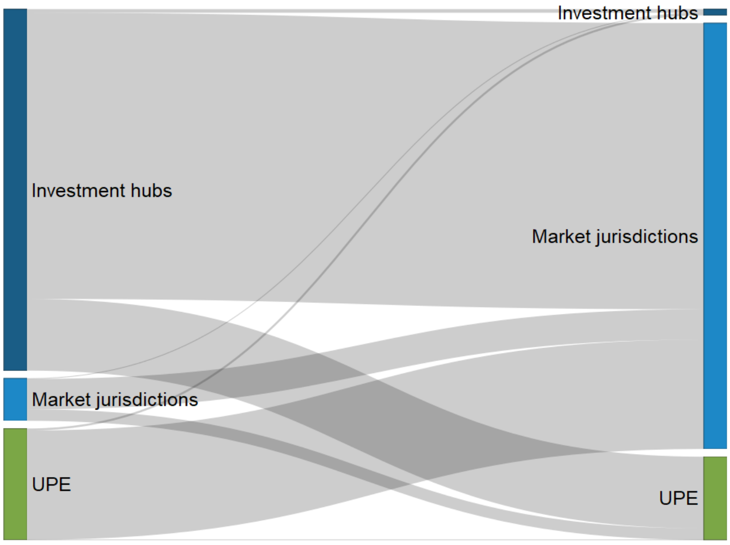
A key part of the OECD/G20 BEPS Project is addressing the tax challenges arising from the digitalisation of the economy to ensure a fairer distribution of profits and taxing rights among countries and jurisdictions with respect to the world's largest Multinational Enterprises (MNEs). In October 2021, over 135 members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) – joined a ground-breaking plan – the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy – to update key elements of the international tax system which is no longer fit for purpose in a globalised and digitalised economy.

With the release of the Multilateral Convention on Amount A of Pillar One (the MLC), the OECD has issued a new working paper containing updated estimates of the economic and revenue impacts of Amount A of Pillar One as part of the work on the Two-Pillar Solution. These estimates account for the latest design features as agreed in the MLC text, and take advantage of more up to date and granular data than has been previously used to assess the impact of Amount A.

The primary goal of Amount A is to modernise the profit allocation and nexus rules in response to the tax challenges arising from the digitalisation and globalisation of the economy. While the raising of additional revenues has never been the principal objective of this reform, Amount A is expected to have positive global revenue effects because of the significant reallocation of taxing rights from low-tax to higher-tax jurisdictions.

The latest analysis finds that Amount A delivers a major reallocation of taxing rights from low-tax investment hubs to market jurisdictions. Amount A reallocates taxing rights from investment hubs, where MNEs have large amounts of profit relative to economic depreciation and payroll, to market jurisdictions, where the final customer or user is located. It is estimated that around 70% of all taxing rights reallocated under Amount A come from investment hubs (see Figure 1).

Figure 1. Amount A reallocation of taxing rights



Note: UPE means the jurisdiction of the Ultimate Parent Entity, which is defined uniquely for each MNE. The left column indicates the origin jurisdiction (i.e., the jurisdiction where the MNE profits over which taxing rights are to be reallocated is currently located), and the right column indicates the destination jurisdiction (i.e., the jurisdiction benefitting from the reallocation of taxing rights under Amount A). The thickness of the band and the vertical size of jurisdiction group bar corresponds to the reallocated amount under Amount A.

The amount of profit in-scope of Amount A has increased over time as more MNEs fall in-scope and the profitability of some of the world's largest MNEs has increased considerably. The 2023 Economic Impact Assessment Update (2023 EIA) estimates that in 2021, the total amount of allocable residual profit under Amount A would have been USD 204.6 billion, coming from 106 MNEs. Over the period from 2017-2021, accounting for averaging, allocable residual profit is estimated to range from USD 100.3-204.6 billion with between 74-106 MNEs in-scope.

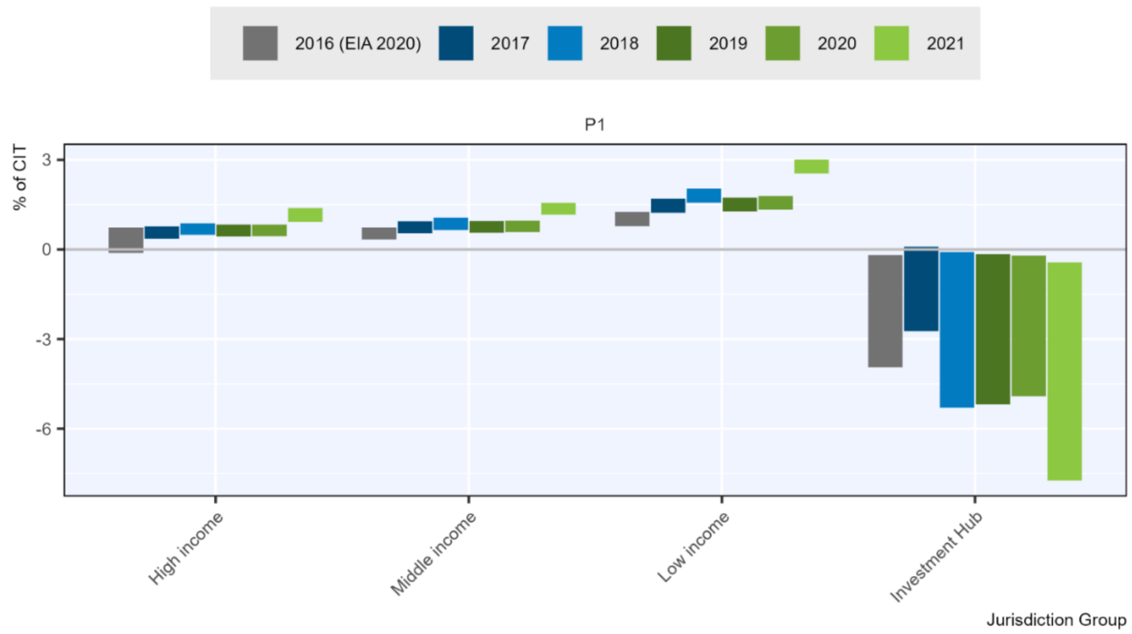
The latest analysis shows a significant increase in the additional revenue expected to be raised under Amount A compared to the OECD's previous estimates. While the OECD's 2020 Economic Impact Assessment (2020 EIA) estimated revenue gains of USD 5-12 billion in the baseline scenario, the revised estimates involve gains of USD 17.4-31.7 billion in 2021 or in the range of between USD 9.8-22.6 billion on average over the years 2017-2021. The additional revenues result from the increase in global allocable residual profit, as well as improved data and further updates in the modelling to account for specific design features of Amount A (discussed below).

Revenue gains accrue to low, middle, and high-income jurisdictions, with low-income jurisdictions experiencing the greatest gains as a share of current corporate tax revenues. While most jurisdictions are expected to gain revenues, investment hubs are expected to experience significant losses in tax base and tax revenues (see Figure 2).[1]

Certain design features have significantly boosted low- and middle- income jurisdiction revenue gains. Taken together, these provisions play a significant role in increasing the revenue estimates from Amount A for low-and and middle-income jurisdictions. Some of the key design features driving this increase result from the following measures that have been secured by low- and middle-income jurisdictions in the MLC negotiations. For example:

- **Lower Nexus Threshold:** For jurisdictions with GDP under USD 40 billion, which includes all low-income jurisdictions in the Inclusive Framework on BEPS, the nexus threshold to receive Amount A is lowered from EUR 1 million to EUR 250 000. This change increases the share of low- and middle-income jurisdictions that are able to benefit from Amount A.
- **The de minimis provisions** largely exempt small and lower income jurisdictions from the obligation to provide double tax relief and from the marketing and distribution safe harbour (MDSH).
- **Tail-end revenue provisions:** These provisions in the revenue sourcing rules allow MNEs to set aside up to 5% of Amount A that they may have difficulty sourcing to the final consumer and distribute this share of Amount A to low-income and lower-middle-income[2] jurisdictions on a pro-rata basis by GDP.
- **Double Tax Relief Approach:** The change from a pro-rata allocation of double tax relief based on return on revenue towards a tiered approach based on return on depreciation and payroll (RoDP), concentrates relief obligations on investment hub jurisdictions, which tend to have a higher ratio of profit to depreciation and payroll.

Figure 2: Amount A Inclusive Framework Jurisdiction Group Revenue Estimates



Note: 2016 (2020 EIA) assumes a scope of Automated Digital Services and Consumer Facing Businesses, as well as a pro-rata approach to Elimination of Double Taxation, and no Marketing and Distribution Safe Harbour. The other estimates follow the MLC. The results for 2019, 2020 and 2021 assume the same global distribution of profit, revenue, payroll and assets as in 2018. Withholding taxes are not modelled due to data constraints. Only revenue gains in Inclusive Framework jurisdictions are included. Jurisdiction group revenue estimates reflect the arithmetic mean of the revenue estimates of the jurisdictions within the group.

[1] Investment hubs are all jurisdictions with an inward FDI position exceeding 150% of GDP, as discussed further in the 2020 EIA. Jurisdiction income groups are defined according to the World Bank methodology.

[2] While higher-middle and lower-middle are combined into the "middle" category for the presentation of jurisdiction group results, the MLC allocates tail-end revenues to low and lower-middle income groups, specifically.