OECD SECRETARY-GENERAL TAX REPORT TO G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

Indonesia, February 2022

G20

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OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors

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Introduction

Since October 2021 and the historic agreement reached on the two-pillar international tax package,[1] **the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS) - the Inclusive Framework - has moved swiftly into the implementation phase. The technical design of** Pillar Two model rules has now been approved, with commentary soon to be adopted to provide tax administrations and taxpayers with guidance on the interpretation and application of those rules. Building blocks of Pillar One are also in the making, with public consultation on the first block already launched.

All efforts are being deployed for meeting the extremely ambitious 2023 implementation deadline you have fixed and we will need your political support to make sure implementation is delivered on time with, in particular, a signing ceremony for the Multilateral Convention to implement Pillar One (MLC) by the July 2022 meeting of G20 Finance Ministers and Central Bank Governors.

Changes are, however, already underway with a number of countries on the move: the European Union aims to agree a directive adopting the Pillar Two's Global Anti-Base Erosion (GloBE) rules by the second quarter of 2022; the United Kingdom has launched a public consultation with a view to implementing Pillar Two by the third quarter of 2022;and Switzerland has announced it will change its Constitution to establish a minimum tax by January 2024.

Work is also advancing to establish an inclusive dialogue on carbon pricing, which could provide data on both explicit and implicit carbon pricing and potentially facilitate coordination among countries.

This report also covers the implementation of BEPS, tax transparency developments and progress made in supporting developing jurisdictions to build sustainable tax revenue bases. In addition, I am pleased to deliver to you the report *Tax Policy and Gender Equality*. As the report shows, further work is needed, including to address possible biases in tax systems and I look forward to continuing to report to you on this important work.

The Two-Pillar International Tax Package

As part of the deal reached last October, Inclusive Framework members agreed to a Detailed Implementation Plan, the first step of which was completed in November 2021 with the finalisation of the technical design of the model rules to implement the Pillar Two minimum tax.

The technical working group on Pillar Two have now turned to finalising the Commentary on the GloBE rules to provide tax administrations and taxpayers with guidance on the interpretation and application of those rules, to ensure coordinated outcomes and avoid double taxation. In addition, the draft model provision for the Subject to Tax Rule (STTR) and its commentary will be released in March 2022 and work is ongoing to release a public discussion draft on the development of a multilateral instrument to facilitate the implementation of the STTR.

On Pillar One, negotiations formally began on 17 January to agree the MLC, with a view to signing the MLC by mid-2022. This instrument is critical to the effective and consistent implementation of Pillar One and will incorporate the work on the technical elements of Pillar One.

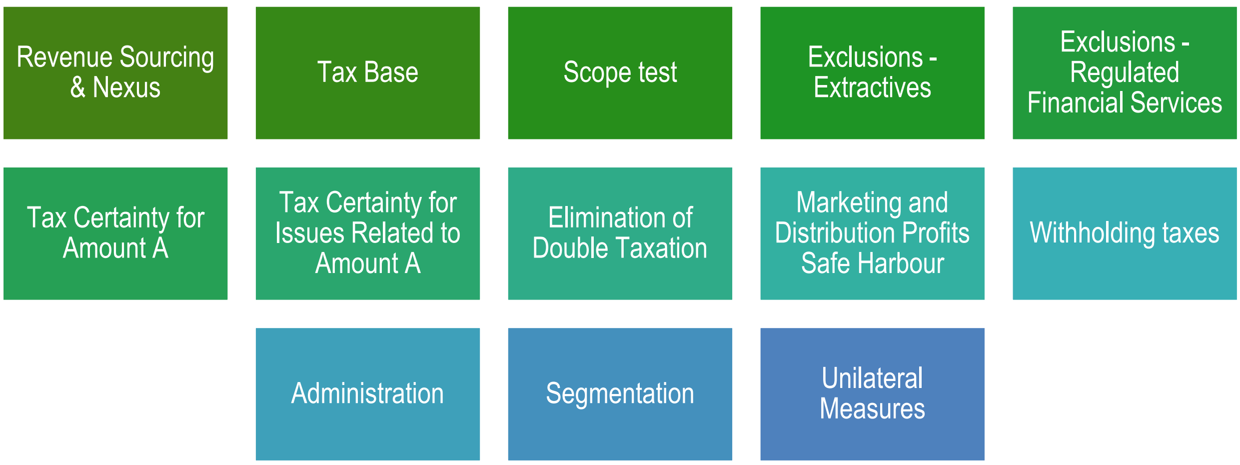
[1] Pillar One seeks to ensure a fairer allocation of profits by creating a new taxing right for market countries, while Pillar Two seeks to put a floor on competition over corporate income tax through the introduction of a global minimum corporate tax rate.

	Pillar One	Pillar Two
Early 2022	Text of the MLC and Explanatory Statement to implement Amount A to be agreed	Model GloBE rules to be agreed ✓
Mid 2022	Model rules for domestic implementation of Pillar One to be agreed	Model treaty provision to give effect to the subject to tax rule (STTR)
	High level signing ceremony for the MLC	Multilateral instrument (MLI) for the implementation of STTR in bilateral treaties
End 2022	Finalisation of work on Amount B	Implementation framework to facilitate to coordinated implementation of the GloBE rules
2023 – Implementation of the Two-Pillar solution		

Timeframe for Implementation

Since I last reported to you, the Inclusive Framework has launched public consultations. This is a critical part of the process, ensuring that the input of all stakeholders and business in particular can be used to shape the rules in a way that best manages compliance costs and provides as much certainty as possible.

- **Pillar One – Amount A** (the residual profits to be allocated to market jurisdictions) has been distilled into building blocks and a consultation will be launched on them on a rolling basis. As the technical working group advances its work on specific building blocks, consultations will be launched on those issues to obtain feedback quickly and before the work is finalised. This staged approach, rather than waiting for a comprehensive document to be ready, allows the Inclusive Framework to continue to move at a rapid pace in order to remain within the political timetable agreed in October 2021. The first consultation relates to the set of draft rules for nexus and revenue sourcing, which will determine when a market jurisdiction is entitled to tax profit reallocated under Amount A, and which are designed to permit such taxation even where the relevant multinational enterprise has no physical presence in that jurisdiction.



Building Blocks of Amount A

- On **Pillar Two**, while work is ongoing on the Commentary to the GloBE rules, an implementation framework is also being developed to facilitate the co-ordinated implementation of the GloBE rules and to address administrative and compliance issues, including the development of safe harbours. To receive feedback on the Pillar Two implementation, the Inclusive Framework has planned a consultation on the implementation framework, with a public consultation event to discuss the input to follow in March. In addition, public consultations will be held later this year on the Treaty-based element of Pillar Two, the STTR, which will allow certain treaty arrangements currently in place to be superseded. In March, consultation will be launched on the model treaty provision to facilitate STTR and a public discussion draft on the development of a new multilateral instrument - an MLI - to facilitate the implementation of the STTR will be released for input at the same time.

With the extremely hard work of your delegates, we are still on track to deliver the implementation package as per the agreed Detailed Implementation Plan. However, the task is daunting and we need your political support and steer to ensure that progress is made in a timely manner. A number of technical issues also raise political challenges (such as the elimination of double taxation) and we need to count on your ability to compromise to make sure that we deliver on time.

Work on Explicit and Implicit Carbon Pricing

Following the first G20 High Level Symposium on Tax Policy and Climate Change in Venice last July, I wrote to all of you to propose the creation of an Inclusive Framework-like initiative to facilitate dialogue on implicit and explicit carbon pricing. Drawing on the success of other G20/OECD initiatives, in particular the Inclusive Framework and the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum), this initiative aims to bring countries together on an equal footing to agree on common methodologies for modelling carbon price equivalent measures (implicit pricing) and measuring explicit prices to better inform policy choices.

Countries around the world have committed to domestic and global emission reduction targets. As governments continue to adopt a wide and diverse range of mitigation policies to achieve their climate objectives, cross-country evidence on the policies adopted and what effects such policies are expected to have on emissions is largely missing. Currently, the OECD produces data on effective carbon rates through the OECD Joint Meeting of Tax and Environment Experts (JMTEE), which informs the international debate on carbon pricing and provides a valuable benchmark, including in our recent reports to you on Tax Policy and Climate Change.[2] Going forward, however, we need further analysis with the support of other International Organisations, including work to determine the price equivalence of non-price based measures, so that we can more effectively capture the full array of policy instruments countries adopt to reduce emissions and thereby address many of the issues raised at the G20 July 2021 Symposium.

The initiative will bring countries together to develop a transparent measurement framework to support the comparison of key climate mitigation policies (both price and non-price based) and their effects, availing of the OECD's multi-disciplinary competence and our track record of providing internationally comparable statistics, measurement frameworks, and evidence-based analysis. The initiative's focus on data, analysis and developing a transparent and acceptable methodology will facilitate technical understanding, dialogue and reflection on climate action in the G20 and will complement, and not substitute, other fora including the UNFCCC. I look forward to reporting back to you on this promising initiative.

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[2] IMF/OECD (2021), *Tax Policy and Climate Change: IMF/OECD Report for the G20 Finance Ministers and Central Bank Governors*, September 2021, Italy, www.oecd.org/tax/tax-policy/imf-oecd-g20-report-tax-policy-and-climate-change.htm

Tax Policy and Gender Equality

Ahead of your February meeting, we have prepared the first cross-country report analysing national approaches to tax policy and gender outcomes.[3] This report – *Tax Policy and Gender Equality: A Stocktake of Country Approaches* – draws upon input from 43 G20/OECD countries in response to a detailed survey on the issue of gender and tax policy design, and explores the extent to which countries consider and address gender equality in tax policy development and tax administration. The report analyses country perspectives on how and to what extent gender should be taken into account in tax policy and takes stock of the impact of the COVID-19 pandemic on gender equality in the tax system.

Even in tax systems that do not include overt gender biases, other **implicit biases** exist due to the interaction of the tax system with differences in the nature and level of income earned by men and women, consumption decisions, the ownership of property and wealth, and the impact of different social expectations on male and female taxpayers.

- **Gender equality is an important consideration in tax policy design for most countries.** About half of the 43 countries surveyed have already implemented specific tax reforms to improve gender equity, most commonly in the taxation of personal income. Although few countries noted examples of explicit bias in their tax system, more than half of the countries surveyed indicated that there is a risk of implicit bias in their system. The report also highlights the need to improve the collection of gender-disaggregated data on taxation, in particular on men and women's consumption and property and capital ownership.
- **Countries identified consider labour taxation as the key priority for future work to improve tax systems to increase gender equality**, including the impact of tax credits and allowances on gender equality, the taxation of second earners, the relationship between the progressivity of the tax system and gender equality, and the impact of social security contributions. A secondary priority is work on identifying an assessment framework for considering the use of explicit biases to reduce gender inequality, and on exploring gender bias in the taxation of capital income and capital gains, notably in wealth and inheritance taxes.

Governments can act to improve the gender outcomes of taxation; by removing overt biases and reconsidering tax settings that currently result in implicit gender bias, and evaluating avenues within the tax system to design and implement tax policy that promotes gender equality. I will continue to report to you on this important issue.

[3] OECD (forthcoming), *Tax Policy and Gender Equality: A Stocktake of Country Approaches*, OECD Publishing, Paris, www.oecd.org/publications/tax-policy-and-gender-equality-b8177aea-en.htm.

Tax and Development

TIWB programmes have raised a total of USD 1.6 billion in additional tax revenues and USD 3.9 billion in additional tax assessed in developing countries

For your last meeting in October 2021, I presented a report, *Developing Countries and the OECD/G20 Inclusive Framework on BEPS.*[4] The report proposed ideas that would ensure that all members of the Inclusive Framework's strong coalition of countries advance together. The report acknowledges that the pace and scale of progress in international tax reform and intergovernmental co-operation has meant that many developing countries remain on a steep learning curve. The OECD is now preparing a roadmap – to be informed by a dedicated G20 Ministerial Symposium later in 2022 – to track progress made by developing countries in international tax reform. The roadmap will also address further priorities identified by developing countries, including the impact on tax incentives for investment as a result of the international tax package implementation.

In line with the G20 mandate to improve developing countries' capacity to strengthen their tax systems and mobilise domestic resources, bespoke technical assistance is being rolled out to ensure that the needs of lower capacity members the Inclusive Framework are met in the implementation phase of the Two-Pillar agreement. This is in addition to ongoing capacity building work, including over 100 programmes being carried out through the OECD/UNDP Tax Inspectors Without Borders (TIWB) initiative, helping developing countries collect taxes from multinational enterprises operating in their jurisdiction. [5]

Over 70 jurisdictions worldwide have now implemented VAT reform based on the OECD standard

Our work to assist developing economies in addressing the VAT challenges of e-commerce growth has continued at a strong pace. Following the release of the regional VAT Digital Toolkit for Latin America and the Caribbean last year, the toolkits for Asia Pacific and for Africa will be released later in 2022.[6] The toolkits are detailed practical manuals to assist developing economies in the design, administrative and operational implementation of the OECD framework for the collection of VAT on digital trade, developed in close consultation with tax authorities in developing economies. In response to strong demand, the OECD will soon begin a comprehensive technical assistance program on VAT and e-commerce for developing economies, covering all aspects of VAT reform targeted at digital trade and the implementation of robust audit and enforcement strategies.

Last year marked the 10th anniversary of the Global Forum's Capacity Building and Outreach (CBO) Programme, which aims to ensure that all members, including developing countries, benefit from the exchange of information standards.[7] Over half of the Global Forum members are developing countries. Thanks to the partners and donors, the CBO programme has trained 22 000 officials since its inception. In 2021, it delivered pre-membership assistance to 5 jurisdictions, 36 induction programmes and 34 trainings. In recent years, the Global Forum has also produced seven toolkits on the practical implementation of the transparency standards across a range of technical areas.

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[4] OECD (2021), *Developing Countries and the OECD/G20 Inclusive Framework on BEPS: OECD Report for the G20 Finance Ministers and Central Bank Governors, October 2021*, Italy, OECD, Paris, https://www.oecd.org/tax/beps/developingcountries-and-the-oecd-g20-inclusive-framework-on-beps.htm.

[5] See http://www.tiwb.org/

[6] OECD/WBG/CIAT/IDB (2021), *VAT Digital Toolkit for Latin America and the Caribbean*, OECD, Paris, https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-latin-america-and-the-caribbean.htm

[7] See *2021 Global Forum Capacity Building Report* https://www.oecd.org/tax/transparency/documents/2021-Global-Forum-Capacity-Building-Report.pdf

Tax Transparency

Since the G20/OECD Common Reporting Standard (CRS) on the automatic exchange of financial account information (AEOI) was adopted in 2014, the world has moved on, and virtual assets have become more widespread. Since I last reported to you, we have now advanced our work to design a tax reporting and exchange framework that will adequately address the tax compliance risks associated with the emergence of crypto-assets. A new tax transparency package, comprising the new crypto-assets reporting framework and a proposed revision of the CRS will soon be released for public consultation.

"We acknowledge the progress made on implementing the internationally agreed tax transparency standards and support the Organization for Economic Cooperation and Development's (OECD) ongoing work to explore proposals for automatic exchange of information on crypto-assets."

G20 Finance Ministers and Central Bank Governors Communiqué April 7, 2021

Progress on transparency and exchange of information has helped identify approximately **EUR 112 billion** in additional revenue to date

The Global Forum continues to support countries to ensure that all taxpayers pay the tax that is due and to safeguard the level playing field. By the end of 2022, the Global Forum will have completed the first peer reviews of the effectiveness of the implementation of the AEOI standard in practice. Reviews to date show that most of the 100 jurisdictions that committed to commence AEOI in 2017 or 2018 have effectively implemented the standard, and significant further progress is expected in the coming months. By 2024, 120 jurisdictions are expected to exchange information under AEOI.

The Global Forum continues to innovate and launched two new initiatives in November 2021:

- The **Asia Initiative**, which aims to give Asian members a regional voice and help them advance the transparency agenda, in co-operation with the Asian Development Bank's Asia-Pacific Tax Hub and other development partners. This complements the existing Africa Initiative launched in 2014 and the Latin America Initiative, launched in 2018; and
- The **Women leaders in tax transparency programme**, a network contributing to gender equality and empowering women to take leading roles on tax transparency in tax administrations.

The Global Forum has also adjusted its activities regarding the exchange of information on request (EOIR) during the COVID-19 pandemic, enabling peer reviews to continue even where an on-site visit has not been possible. This allowed nine reports on the legal frameworks for EOIR to be issued in 2021, with the remainder of these reviews to be completed (and ratings assigned) once on-site visits can resume. For the first time in 2021, members of the Global Forum provided feedback on their EOIR experience over the last year. Feedback was received in respect of 66 members of the Global Forum's 163 members and most members are satisfied with ongoing bilateral EOIR, although COVID-19 has affected the timeliness of responses to requests for information. The issues raised by peers will be reviewed and actions taken if needed. With the international community looking towards recovery from the COVID-19, the Global Forum will continue to deliver on its mandate in 2022.

A robust international network	Wide AEOI coverage	Steady increase in revenues
• Global Forum membership reached 163 jurisdictions in 2021 • 144 jurisdictions are participating to the multilateral Mutual Assistance Convention • Over 7 700 exchange relationships are in place • 129 jurisdictions have been partly or fully reviewed on EOIR	• 120 jurisdictions are committed to AEOI by 2024 • 46 developing jurisdictions are carrying out AEOI or committed to do so in the near future • In 2020, AEOI on more than 75 million financial accounts worldwide, covering total assets of around EUR 9 trillion	• A total of EUR 112 billion of additional revenues (tax, interest, penalties) have been identified so far, thanks to voluntary disclosure programmes and similar initiatives against the backdrop of increased global tax transparency and EOI • EUR 30bn of which have been identified by developing countries

Tax Transparency snapshot

BEPS Minimum Standards and Taxation of Multinationals

While addressing the tax challenges arising from digitalisation continues to dominate the Inclusive Framework's work programme, steady progress has continued on other aspects of the fight against base erosion and profit shifting.

More than 3 000 bilateral relationships for the exchange of CbC reports are now in place

- The Inclusive Framework released the results of the fourth annual peer review of **BEPS Action 13** in October 2021. The review covers the implementation of the country-by-country (CbC) reporting minimum standard by 132 Inclusive Framework members. The review confirmed that over 100 jurisdictions have already introduced legislation to impose a filing obligation on MNE groups, covering practically all MNE Groups with consolidated group revenue at or above the threshold of EUR 750 million.
- The Inclusive Framework has also released the latest statistics on Mutual Agreement Procedures (MAP), which play an important role in the monitoring of **BEPS Action 14** and measuring the progress made by jurisdictions. Since my last report, the Stage 2 peer review monitoring reports of the BEPS Action 14 minimum standard for the batches 7 and 8 jurisdictions were released. These reports show the efforts the fifteen jurisdictions in these batches have made to be in line with the BEPS Action 14 minimum standard.
- In addition, the Inclusive Framework has released peer review assessments of 131 jurisdictions regarding the exchange of information on tax rulings under **BEPS Action 5**. The review confirmed that 95 jurisdictions are now fully in line with the BEPS Action 5 minimum standard, with the remaining 36 jurisdictions receiving one or more recommendations to improve their legal or operational framework to identify and exchange the tax rulings.
- The Inclusive Framework also approved the **BEPS Action 6** Peer Review report on the implementation of the minimum standard on treaty shopping on 9 February 2022. The report, which includes detailed information on the implementation of the minimum standard for each Inclusive Framework member, shows that the

Over 22 000 tax rulings have been identified and 41 000 exchanges on tax rulings have taken place between jurisdictions as a result of **BEPS Action 5** level of compliance has more than doubled since last year and around 2 300 of 2 400 tax treaties concluded between the members should become compliant with the minimum standard in a near future.

Since I last reported to you, the reach of the **Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting** (BEPS MLI) has expanded to cover 99 jurisdictions and around 1 850 bilateral tax treaties.[8] The BEPS MLI has already started to impact the bilateral treaties of 68 jurisdictions that have ratified it and an additional 950 treaties will be modified once the MLI is ratified by all signatories, thereby impacting 1 850 treaties worldwide.

Finally, in January, the OECD released the 2022 edition of the *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, following the release of new transfer pricing country profiles for in December.[9] Transfer pricing country profiles have been published by the OECD since 2009, and were updated in 2017 in line with the BEPS Project. The profiles provide high-level information about the transfer pricing systems of 63 countries including G20 members.[10]

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[8] See: http://oe.cd/mli

[9] OECD (2022), *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022, OECD Publishing, Paris*, https://doi.org/10.1787/0e655865-en.

[10] Austria, Belgium, Bulgaria, France, Georgia, Germany, Indonesia, Ireland, Italy, Latvia, Malaysia, Mexico, Peru, Poland, Seychelles, Singapore, South Africa and Sweden. The release also included for the first time country profiles for Albania, Kenya and the Maldives, bringing the total number of countries covered to 63. Further information: https://oe.cd/transfer-pricing-country-profiles.

OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors

Indonesia, February 2022

This report outlines key developments in international tax reform in recent months, in particular the latest developments regarding the two-pillar agreement since 8 October 2021, as well as progress made in tax transparency, the implementation of the BEPS minimum standards and the taxation of multinational companies. The report also provides the latest on OECD work to establish an Inclusive Framework-like initiative to facilitate dialogue on implicit and explicit carbon pricing, and takes note of progress made since the October 2021 report on *Developing Countries and the Inclusive Framework*. The report also highlights key analysis from the first OECD cross-country report on tax policy and gender, as requested by the Indonesian G20 Presidency.

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