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By PwC Deutschland | 13 August 2021

Update: OECD reaches agreement on international tax reform

On 1 July 2021, the OECD reached broad agreement on key points for a fair taxation: 130 countries and jurisdictions have joined a new two-pillar plan to reform international taxation rules and ensure that multinational enterprises pay a fair share of tax wherever they operate.

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According to the OECD the new framework for international tax reform updates key elements of the century-old international tax system, which is no longer fit for purpose in a globalized and digitalized 21st century economy.

The **two-pillar package** is the result of negotiations coordinated by the OECD for much of the last decade and aims to ensure that large Multinational Enterprises pay tax where they operate and earn profits and thus adding much-needed certainty and stability to the international tax system.

Pillar One will ensure a fairer distribution of profits and taxing rights among countries with respect to the largest Multinational Enterprises (MNEs), including digital companies. It would re-allocate some taxing rights over MNEs from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there. Pillar 1 should apply to multinational companies with revenues (turnover) of more than EUR 20 billion and with a profitability of more than 10%. In the long run (i.e. 7 years after implementation), it shall be assessed whether the system has been successfully implemented and whether the revenue threshold should be lowered to EUR 10 billion.

Pillar Two seeks to put a floor on competition over corporate income tax through the introduction of a global minimum corporate tax rate of at least 15% that countries can use to protect their tax basis. The basic principle of global effective minimum taxation is fairly simple: all countries should agree on a minimum level of taxation that applies worldwide. No S

state is told which tax rate should apply in its country. At the same time, countries with a higher level of taxation should be given the opportunity to react to the very low tax rates of other countries (e.g. by subsequent taxation of profits shifted abroad or by refusing the tax deduction of operating expenses). The level of taxation is based on the difference between the actual taxation in the other country and the agreed minimum tax rate.

Outlook (Update)

Participants in the negotiations have set an ambitious timeline for conclusion of the negotiations. This includes an October 2021 deadline for finalizing the remaining technical work on the two-pillar approach, as well as a plan for effective implementation in 2023.

(**Update**) The German Federal Ministry of Finance announced on 12 July 2021, that the OECD approach was adopted at the G20 finance ministers' meeting on 9 and 10 July 2021. The final issues will most likely be clarified by October 2021, at which point approval will be sought from the G20 heads of state.

Source:

OECD **press release of 1 July 2021**; Federal Finance Ministry press release of 10 July 2021

Keywords

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