



# Tax Alert: The OECD published Pillar One and Pillar Two blueprints of the BEPS 2.0 Project

October 2020

## Background

The OECD has published blueprints on Pillar One and Pillar Two on 12 October 2020, and with them a suite of accompanying materials including an economic impact assessment and the OECD's report to the G20 Finance Ministers and Central Bank Governors.

The OECD/G20 Inclusive Framework has invited input from stakeholders on the Blueprints and has published a public consultation document that sets out a series of questions for each of the Pillars to help focus the input. Written comments need to be submitted by 14 December 2020 and a public consultation meeting will be held virtually in mid-January 2021.

The 137 members of the Inclusive Framework have worked on a global solution to address the challenges that come with globalisation and digitalization. The fundamental features of the international income tax system, such as the traditional notions of permanent establishment and the arm's length principle (ALP), need to be revisited to ensure higher levels of tax certainty through more extensive multilateral tax co-operation. No agreement has been reached yet, but the OECD maintains that they are working towards a successful conclusion of discussions on both Pillars by mid-2021.

## In Detail

### Pillar One

Pillar One is focused on the new nexus and profit allocation rules to ensure that taxing rights, with respect to business profits, will no longer be exclusively limited to physical presence.

The three primary components of Pillar One are Amount A, Amount B, and the development of dispute prevention and resolution mechanisms that will promote tax certainty. Amount A would apply a formulary approach to allocate a portion of a multinational enterprises' (MNE) deemed residual profits to market jurisdictions, and to provide these jurisdictions with nexus for taxing that allocation. Amount B would provide a fixed return for certain baseline marketing and distribution activities that is intended to be consistent with the arm's length principle. To increase tax certainty, the Blueprint outlines a proposed approach to mandatory binding dispute prevention and resolution for Amount A and explores approaches to enhance dispute prevention and resolution more broadly.

### Pillar Two

The Pillar Two Blueprint proposes a set of rules that attempt to ensure that large internationally operating businesses pay a minimum level of tax regardless of where they are headquartered or the jurisdictions they operate in. The Pillar Two Blueprint proposes four new rules to accomplish this goal.

As a next step, the Inclusive Framework will develop model legislation and guidance, develop a multilateral review process, and explore the use of a multilateral convention that could coordinate the implementation of Pillar Two, though the Pillar Two Blueprint argues that changes to tax treaties are not strictly necessary to implement the Income Inclusion Rule (IIR) and Undertaxed Payments Rule (UTPR).

## Impact Assessment

The Economic Impact Assessment analyses the economic and tax revenue implications of the Pillar One and Pillar Two proposals. A number of the design elements and parameters of Pillar One and Pillar Two will be the subject of future decisions by the Inclusive Framework. The 'ex ante' assessment in the report, which has been carried out by the OECD Secretariat, relies on a number of illustrative assumptions on proposal design and parameters, without prejudice to the final decisions of the Inclusive Framework.

The final design and parameter choices to be agreed upon by the Inclusive Framework will shape the effect of the proposals on tax revenue. The effect of Pillar One and Pillar Two implementation has the potential to increase global corporate income tax by about USD50-80 billion per year. It is worth noting that in all scenarios analyzed, Pillar One's impact is only a third of Pillar Two's impact.

The negative effects on global investment are estimated to be very small and will mostly affect highly profitable MNEs in digitalised and intangible-intensive sectors in the case of Pillar One and on MNEs engaging in profit shifting in the case of Pillar Two. The negative effect on global GDP is estimated to be less than 0.1% in the long term whereas a lack of consensus and an increase in tax disputes could reduce global GDP by more than 1%.

## Implications

There is no doubt that the current tax regimes and concepts should be prepared to face the business realities of a globalized and digitized economy. The current blueprints show that a lot of work still needs to be done at the OECD and government level. There is no agreement on nexus and profit allocation yet, which are the two main parameters for Pillar One. There is a tendency to rely on concepts and definitions of the recently introduced Country-by-Country requirements, which is a step in the right direction, as it will provide a certain level of comfort to taxpayers and will minimize the additional compliance burden.

The approach taken by the Inclusive Framework is a consensus amongst 137 countries. As such, global organizations should start to familiarize themselves with these new concepts. Now could be the right time to have a critical review of your value chain, assess the impact, and identify opportunities.

# Get in touch

## Middle East International Tax Contacts

### Wadiah Abu Nasr

Head of Tax, KSA and  
Levant

E: [wabunaser@kpmg.com](mailto:wabunaser@kpmg.com)

### Stuart Ciocarelli

Head of Tax,  
Lower Gulf

E: [scioccarelli@kpmg.com](mailto:scioccarelli@kpmg.com)

### Nilesh Ashar

Partner,  
Lower Gulf

E: [nashar1@kpmg.com](mailto:nashar1@kpmg.com)

### Anuj Kapoor

Partner,  
M&A/ Int'l Tax  
Lower Gulf

E: [AnujKapoor@kpmg.com](mailto:AnujKapoor@kpmg.com)

### Peter Bourke

Senior Director,  
M&A/ Int'l Tax  
KSA and Levant

E: [peterbourke@kpmg.com](mailto:peterbourke@kpmg.com)

### Stefan El Khouri

Director,  
Transfer Pricing  
KSA and Levant

E: [selkhouri@kpmg.com](mailto:selkhouri@kpmg.com)

### Filip Vukovic

Director,  
Transfer Pricing  
Lower Gulf

E: [fvukovic@kpmg.com](mailto:fvukovic@kpmg.com)



<https://home.kpmg.com/sa>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Disclaimer: Tax advisory services could be prohibited for audit clients.

© 2020 KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.