

Tax Alert

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BEPS 2.0 progress update from G20/OECD Bali Summit

In a historic agreement reached at the G20 Rome Summit in October 2021, the OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) agreed to reform existing international tax rules. The reform aims to make the international tax system fairer and address tax challenges in a digitalised and globalised world economy.

A 2021 statement released by the Organisation for Economic Cooperation and Development (OECD) sets out the agreed core rules, as endorsed by 137 out of 141 IF members and G20 Finance Ministers and leaders.



Bali meeting – July 2022

At the G20 Finance Ministers and Central Bank Governors Meeting in Bali from 13 to 16 July 2022, the OECD released a tax report by way of a progress update. It mentioned that significant progress has been made on all aspects of BEPS 2.0, as follows:

- the Pillar Two global minimum tax rules are now ready for countries' implementation;
- the Subject to Tax Rule is under discussion and should be released late in 2022;
- key Pillar One rules have been released for public consultation as agreed by the OECD/G20 IF; and

- work is ongoing in relation to the Multilateral Convention (MLC) for Pillar One implementation.

Pillar One

The OECD also noted that more time is needed to allow for public consultation on Pillar One, to ensure that the proposed rules (which are intended to last decades) are properly drafted and benefit from wider public and intergovernmental consultation before finalisation. In short, "better right than rushed" was the message from the OECD. A new deadline calls for the work to be completed by the first half of 2023, which is expected to be a fixed date for completion.

The work on Amount A (refer below) and Amount B has made some progress. Amount B is a new rule for a marketing and distribution safe harbour methodology and is proving challenging to develop as it calls for an agreed methodology for companies across sectors in the world.

With these challenges in mind, the IF has also agreed to a new, more realistic timeline to deliver an MLC for the implementation of Amount A. With this new timetable, the IF will aim to finalise the MLC by mid-2023 with entry into force in 2024.



The proposed Pillar One rules to achieve this outcome are revolutionary, and ongoing negotiations remain justifiably complex. It was reported that delegates in the Inclusive Framework worked around the clock over the past few months, driving significant progress. To recap, the OECD released draft rules for rolling public consultations on:

- 18 February: [nexus and revenue sourcing](#)
- 4 March: [tax base determinations](#)
- 20 April: [scope under Amount A](#)
- 29 April: extractives exclusion
- 20 May: regulated financial services exclusion
- 10 June: tax certainty

On 11 July, the OECD released a progress report focused on Pillar One Amount A extending the public consultation period to 19 August 2022.

The current schedule to complete Pillar One is:

- 19 August 2022 - Stakeholder feedback on the annexed Amount A progress report
- October 2022 - Inclusive Framework will review stakeholder input and seek to stabilise the rules at its meeting
- 1st half of 2023 - Work on detailed provisions of the MLC and its Explanatory

Statement are expected to be completed. This will enable a signing ceremony of the MLC in the first half of 2023, with entry into force in 2024 once a critical mass of jurisdictions as defined by the MLC have ratified it

Pillar Two

Pillar Two introduces a global minimum tax rate of 15%, and/or the reallocation of low-taxed profits to adopting jurisdictions under the Undertaxed Profits Rule.

The technical work on Pillar Two is now close to completion, following the agreement of the model Global Anti-Base Erosion (GloBE) Rules in December 2021 and related Commentary in March 2022. Implementation now lies in the hands of IF members, with significant progress already made. The OECD specifically mentioned that: *'All G7 countries, the European Union, a number of G20 countries and many others have already scheduled changes in their domestic legislation to introduce the Model Rules'*.

It seems that most are planning for an entry into force in 2024, which represents a slight delay from the original G20 Rome Statement in October 2021.

The draft European Union (EU) directive on Pillar Two has not been finalised to date, despite some developments. It remains to be seen if it can be finalised later

this year, or another scenario may occur with some major Member States moving ahead with the 2024 implementation schedule under the Enhanced Cooperation route, rather than together with the EU as a whole.

Domestic top-up taxes

An increasing number of countries have announced that they intend to implement a domestic top-up tax in response to the proposed new BEPS 2.0 rules. This approach enables them to retain taxation revenue that would otherwise be lost to other countries.

The likely 2024 implementation will also provide sufficient time to the IF to develop the Pillar Two implementation framework, designed to limit the risks of double taxation and facilitate good coordination between tax administrations.

Subject to Tax Rule

Work continues on the Pillar Two Subject to Tax Rule (STTR). This includes the development of draft model provisions and related Commentary, as well as the draft multilateral instrument to facilitate the implementation of the STTR.

This should be released publicly towards the end of 2022.

If you would like to discuss the above or BEPS 2.0 in general, please contact your local KPMG representative. You may also reach out to [Dean Rolfe](#), Head of International Tax, Asia Pacific.

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