INTRODUCTION
Preliminary results of the Economic Analysis & Impact Assessment

**PURPOSE**
This analysis is undertaken to inform key decisions to be taken by Inclusive Framework members in negotiations underway at the OECD.

**ASSUMPTIONS**
in this preliminary analysis are illustrative and do not pre-judge decisions of the IF.

**HIGH-LEVEL RESULTS**
at the level of country groups (e.g. low-, middle- and high-income).

**UPDATED RESULTS**
as further decisions are taken by the IF on the design and parameters of the reform.
Overall impact on global tax revenues would be significant

The combined effect of Pillars 1 & 2 would lead to a significant increase in global tax revenues

- Estimated global net revenue gain up to 4% of global CIT revenues or USD 100 billion annually, depending on reform design
- The revenue gains are broadly similar across high, middle and low-income economies, as a share of corporate tax revenues
- The reforms are expected to lead to a significant reduction in profit shifting

Failure to reach a consensus-based solution would lead to further unilateral measures and greater uncertainty
APPROACH & CAVEATS
Approach to assess reform impact

Flexible analysis framework
To inform ongoing discussions on Pillar 1 and Pillar 2 design and parameters

Broad geographic and company coverage
With more than 200 jurisdictions (all members of the Inclusive Framework and a large number of developing countries) and more than 27,000 MNE groups

Combining data from a range of sources
Firm-level data wherever possible, combined with aggregate data

Extensive interactions with stakeholders
including delegates from Inclusive Framework jurisdictions and other key stakeholders
Main caveats

Results will depend on Pillar 1 & Pillar 2 design, which is still to be decided by the Inclusive Framework

- Further revisions will be made to reflect future design decisions
- Current estimates assume that Pillar 1 is not a “safe harbour” regime

Underlying data have limitations

- Due to gaps in coverage and time lags and the methodology inevitably involves simplifying assumptions

Refinements are still ongoing to improve data quality, in cooperation with Inclusive Framework members

Potential strategic reactions of MNEs & governments

- For Pillar 2, some of these reactions have been modelled in the assessment
- These reactions are difficult to anticipate with certainty
REVENUE EFFECTS
PILLAR 1
Pillar 1 changes the way countries carve up the ‘tax pie’

Pillar 1: Amount A

- Substantial reallocation of taxing rights across jurisdictions
- Going beyond physical presence to determine taxing rights
- Considers MNE groups as a whole rather than entity-by-entity
- Allocates some tax base to market jurisdictions based on a formula

![Diagram of Pillar 1: Amount A]

- $X\%$ of non-routine profit
  - Allocated to market jurisdictions
  - Profitability threshold (e.g. $X\%$ on Profit Before Tax/ Turnover)

![Diagram of total profit of the MNE Group]
Most jurisdictions gain tax revenues, except investment hubs

Note: Illustrative scenarios of Pillar 1 (Amount A only), where residual profit is defined with a 10% or 20% threshold on profit-before-tax to turnover, assuming a 20% reallocation of residual profit to market jurisdictions, with commodities and financial sectors excluded from scope. High, middle and low income jurisdictions are defined based on the World Bank classification. Investment hubs are jurisdictions with inward FDI above 150% of GDP.
In addition to reallocating taxing rights, Pillar 1 would slightly increase tax revenues

- Global tax revenues would slightly increase as some taxing rights shift from low-tax jurisdictions to higher-tax jurisdictions
- Most economies would experience a small tax revenue gain
- On average, low and middle-income economies would gain relatively more revenue than advanced economies
- Investment hubs would experience some loss in tax revenues
- More than half of the profit reallocated comes from 100 MNE groups
Pillar 2: GloBE

- GloBE gives countries the right to ‘tax back’ profit that is currently taxed below the minimum rate.
- It would operate as a ‘top-up’ tax, up to the minimum rate.
- It could be applied either on global MNE profit or jurisdiction-by-jurisdiction.

Minimum tax rate (X%)

Top-up:
Taxes paid under Pillar 2 to reach the minimum tax rate

Taxes currently paid

Corporate taxes paid by MNE
Main stylised scenarios on strategic reactions of MNEs & governments

Scenario 1
Static scenario (no behavioural reaction)

Scenario 2
Interaction with Pillar 1

Scenario 3
MNEs reduce their profit shifting intensity

Scenario 4
Some low-tax jurisdictions increase their CIT rate

Scenario 3
Higher degree of uncertainty
Global tax revenue gains could be up to 4% of global CIT revenues

Illustrative scenario on Pillar 1 and 2 design

Interaction Between Pillars  
Reaction by MNEs  
Reaction by governments

Global tax revenue gains  
(% of CIT revenues)

- Scenario 1
- Scenario 2
- Scenario 3
- Scenario 4

Note: Pillar 1 (Amount A only) estimates are based on an illustrative scenario where residual profit is defined with a 10% threshold on profit-before-tax to turnover, assuming a 20% reallocation of residual profit to market jurisdictions, with commodities and financial sectors excluded from scope. Pillar 2 estimates are based on an illustrative scenario with jurisdiction blending and a 12.5% minimum tax rate.
Pillar 2 would raise significant tax revenues and reduce profit shifting

**Pillar 2 would raise a significant amount of additional tax revenues**

- The amount will depend on the rate and the design

**The reform would reduce profit shifting**

- Pillar 2 would reduce tax rate differentials between jurisdictions and reduce the incentives for MNEs to shift profit
- This will be important for developing economies as they tend to be more adversely affected by profit shifting than high-income economies
COMBINED REVENUE EFFECTS OF PILLARS 1 & 2
The revenue gains are broadly similar across income groups

**Illustrative scenario on Pillar 1 and 2 design**

Average tax revenue gains across income groups, Scenario 3 (% of CIT revenues)

- **High income**
  - Pillar 1: 0%
  - Pillar 2: 2%
  - Pillar 2: Reduced profit shifting: 4%

- **Middle income**
  - Pillar 1: 2%
  - Pillar 2: 2%
  - Pillar 2: Reduced profit shifting: 2%

- **Low income**
  - Pillar 1: 4%
  - Pillar 2: 2%
  - Pillar 2: Reduced profit shifting: 0%

**Note:** Pillar 1 (Amount A only) estimates are based on an illustrative scenario where residual profit is defined with a 10% threshold on profit-before-tax to turnover, assuming a 20% reallocation of residual profit to market jurisdictions, with commodities and financial sectors excluded from scope. Pillar 2 estimates are based on an illustrative scenario with jurisdiction blending and a 12.5% minimum tax rate. High, middle and low income jurisdictions are defined based on the World Bank classification. Excludes investment hubs, which are jurisdictions with inward FDI above 150% of GDP.
INVESTMENT EFFECTS
Investment impacts are assessed in a stylised, standard framework

Use of the Effective Tax Rates (ETR) framework

- To assess the impact of the proposals on a stylised investment project
- The methodology incorporates the profit shifting behaviour of MNEs and the underlying data is consistent with the revenue estimation

Impact of ETRs on investment may vary across firms

- A firm-level analysis is being undertaken

Assessment of the counterfactual scenario with no agreement and more unilateral measures
The direct effect on investment costs is expected to be small in most countries

• Many firms will be unaffected by the proposals, which target firms with high levels of profitability and low effective tax rates

The reforms would reduce the influence of corporate taxes on investment location

• Investment could be driven more by other factors (e.g. infrastructure, education levels or labour costs)
• This could channel more investment to jurisdictions where it would be more productive, which would support global growth

The failure to achieve a consensus-based solution would lead to more unilateral measures, uncertainty and trade disputes
QUESTIONS
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