ECONOMIC IMPACT ASSESSMENT OF THE TWO-PILLAR SOLUTION

REVENUE ESTIMATES FOR PILLAR ONE & PILLAR TWO

Webinar

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Speakers

David Bradbury
Deputy Director
OECD Centre for Tax Policy and Administration

Pierce O’Reilly
Head of Business and International Taxes Unit
OECD Centre for Tax Policy and Administration

Ana Cinta González Cabral
Economist, Business and International Taxes Unit
OECD Centre for Tax Policy and Administration
In October 2020, the OECD released an Economic Impact Assessment (EIA 2020) examining the revenue and investment impacts of the Two-Pillar solution.

The design of both pillars has changed significantly since the release of EIA 2020.

This presentation includes updated revenue estimates, based on the latest data and design features, for the two pillars:

- **Pillar One**: Revised estimates at the global and jurisdiction-group level
- **Pillar Two**: Revised global estimates, with ongoing work on estimates at the jurisdiction-group level

Overall, the results suggest additional revenue gains for both pillars.
MAIN RESULTS
Overview of main findings

**Overall**: Revenue gains have increased, with higher revenue gains accruing to low, middle and high income jurisdictions under Pillar One

**Pillar One**: Revenue gains have increased and rise over time

- Estimated annual global revenue gains of **USD 13-36 bn** (2021) or **USD 12-25 bn** per year on average over the period 2017-2021
- Taxing rights on an estimated **USD 200 bn** of profit to be allocated under Amount A (2021) or **USD 132 bn** on average over the period 2017-2021
- Low and middle income jurisdictions gain more than high income jurisdictions, as a share of existing CIT revenues, while investment hubs face increased revenue losses on average

**Pillar Two**: Estimated annual global revenue gains of **USD 220 bn** for 2018

- Ongoing work on jurisdiction-group results
Factors accounting for the increase in revenues

• Most of the changes in the revenue estimates compared to EIA 2020 result from:
  – **Design changes**, with respect to both pillars
  – **More recent and better data**, with higher levels of in-scope profit (Pillar One) and low-taxed profit (Pillar Two)
  – **Changes in modelling**, with improved estimation approaches
Many new design features benefit low-income jurisdictions

Pillar One

- **Special nexus thresholds** secure Amount A allocation for smaller jurisdictions, which are often low-income
- **Tail-end revenue provisions** in the revenue sourcing rules for consumer-facing businesses provide additional Amount A revenue for low-income jurisdictions
- **De minimis rules** (e.g., for elimination of double taxation (EoDT)) ensure that smaller jurisdictions are unlikely to surrender taxing rights

Pillar Two

- **Revised UTPR allocation key**, which includes employees, results in modest gains for low-income jurisdictions
- **Qualified Domestic Minimum Top-Up Taxes (QDMTTs)** (modelling work still ongoing), will allow affiliate jurisdictions to collect top-up tax in priority to the application of the GloBE Rules in other jurisdictions
DATA & METHODOLOGY
Economic Impact Assessment: Timeline

• **October 2020**: OECD Economic Impact Assessment (EIA 2020)
  – Detailed assessment of the revenue and investment impacts of Pillars One and Two based on the Blueprints published by the Inclusive Framework on BEPS (IF)
  – The design of both pillars has changed significantly since the EIA 2020

• **October 2021**: Updated global figures released at the time of the global agreement

• **Today**: Updated revenue estimates, based on the latest data and design features
  – **Pillar One**: Revised estimates at the global and jurisdiction-group level
  – **Pillar Two**: Global figures, with ongoing work on estimates at the jurisdiction-group level
Main caveats

• All estimates remain preliminary and work is ongoing

• The methodology relies on a number of simplifying assumptions, for example on the design of the pillars and the way MNEs and governments may react

• Though most parameters of the pillars are now agreed, some key features remain undecided and some assumptions on outstanding issues have been made. Results will ultimately depend on design and parameters to be decided by the IF

• The data underlying the analysis is the best available to the Secretariat, but they have limitations in terms of coverage, granularity, consistency and timeliness

• Data still largely pre-dates the COVID-19 crisis, the 2022 global increase in inflation, and the ongoing implementation of some aspects of (and behavioural reactions to) BEPS measures and the US Tax Cuts and Jobs Act
### Data used and design features modelled

<table>
<thead>
<tr>
<th>Data &amp; Methodology</th>
<th>Pillar One</th>
<th>Pillar Two</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Similar approach to EIA 2020</td>
<td>• Based on the Amount A Progress Report (PR)</td>
<td>• Based on Pillar Two Model Rules</td>
</tr>
<tr>
<td>• 2017 and 2018 anonymised and aggregated CbCR Data (with projections for 2019/20/21 for Pillar One)</td>
<td>• Revised scope: New data matrices for all in-scope MNEs</td>
<td>• Revised UTPR allocation key</td>
</tr>
<tr>
<td>• With more extensive CbCR data (82% of profit covered versus 63% in EIA 2020)</td>
<td>• Revenue sourcing</td>
<td>• Revised Substance Based Income Exclusion (SBIE)</td>
</tr>
<tr>
<td>• Additional use of Orbis data</td>
<td>• De Minimis thresholds</td>
<td>• Consistent application of GloBE rules across all jurisdictions</td>
</tr>
<tr>
<td>• Other improvements to data quality</td>
<td>• Tiered approach to EoDT</td>
<td>• Better examination of low-taxed profit in high tax jurisdictions (in progress)</td>
</tr>
<tr>
<td>• New approach to data validation</td>
<td>• Revised nexus rules</td>
<td>• Does not account for the Subject to Tax Rule (STTR) or for QDMTTs (in progress)</td>
</tr>
<tr>
<td></td>
<td>• Loss/averaging rules</td>
<td></td>
</tr>
</tbody>
</table>
Data sources

Profit Matrix
- **Use**: estimation of P1 MNE-level matrices & estimation of P2 low-taxed profit
- **Key sources**: CbCR, Orbis, FDI data, macroeconomic extrapolations

Turnover Matrix
- **Use**: extrapolations in asset & employee matrices
- **Key sources**: CbCR, Orbis, AMNE

Asset Matrix
- **Use**: estimation of P1 EoDT & MDSH (with MNE-level data on depreciation) & P2 SBIE
- **Key sources**: CbCR, Orbis, extrapolations based on turnover matrix

Employee Matrix
- **Use**: extrapolations in payroll matrix & UTPR
- **Key sources**: CbCR, Orbis, AMNE, extrapolations based on turnover matrix

Payroll Matrix
- **Use**: P1 EoDT & MDSH (MNE-level payroll data) & P2 SBIE
- **Key sources**: Orbis, BEA, AMNE, extrapolations based on employee matrix, BEA & ILO wage data

- This analysis is based on five matrices (addition of employee matrix for UTPR relative to EIA 2020)
- More extensive anonymised and aggregated CbCR data (86% of profit in 2018 covered versus 63% in EIA 2020)
- Wider use of CbCR, including ETRs and employee data for payroll matrix
- Detailed information on data sources in Annex
PILLAR ONE METHODOLOGY
**Methodological overview**

- In-scope residual profit adjusted using consolidated MNE-level data and revised scoping rules including broader sectoral scope and time averaging

Global numbers common to all jurisdictions

- Reallocation percentage increased to 25%

- Location of residual profit and sales are based on MNE-level analysis reflecting the revised scope with between 82 and 108 MNE groups in-scope 2017-2021
- Jurisdiction-specific numbers are aggregated using MNE-level results

Jurisdiction-specific numbers

- Accounting for special purpose nexus rules, revenue sourcing rules, and the marketing and distribution safe harbour (MDSH)

- Using updated STRs and improved ETR estimates

- Accounting for revised approach to the elimination of double taxation (EoDT)
Revised scope and revised modelling approach

• EIA 2020 relied on aggregate data e.g., anonymised and aggregated CbCR data to build jurisdiction-by-jurisdiction matrices

• Revised scope means that 82-108 MNEs are in scope (2017-21).
  – Aggregate data is unlikely to be representative of in-scope MNEs

• New methodological approach: build MNE-level matrices for sales, profit, depreciation and payroll

• MNE-level matrices are built by combining unconsolidated and consolidated MNE data where available and extrapolations based on industry data and jurisdiction-level matrices

• New MNE-by-MNE approach is needed to analyse the revised approach to EoDT, profit allocation, MDSH and other policy design features

• Additional methodological details are included in the Annex
**MNE-level matrices methodology**

Annual Reports (ARs) typically provide data by UPE jurisdiction, other main jurisdictions of activity and regional totals

- Annual Reports (e.g., the US 10K form) are used to fill MNE-level matrices to the extent possible
- Some MNEs have confidentially provided CbCR data to the Secretariat
- For some MNE groups AR data is not fully disaggregated across all jurisdictions of affiliate – i.e., only regional totals are provided in areas where there is less activity
- Wherever required, industry shares are used to distribute regional totals across jurisdictions of affiliate
- All MNE-level matrices are rescaled (if needed) to match consolidated group-level financials
- This approach entails extensive new data collection as well as benchmarking against external sources

<table>
<thead>
<tr>
<th>Jurisdiction of ultimate parent entity (UPE)</th>
<th>ORBIS consolidated financial account data used to determine the column totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jurisdiction of affiliate</td>
<td>US Group #1</td>
</tr>
<tr>
<td>US</td>
<td>Profit of Group #1 in the US</td>
</tr>
<tr>
<td>France</td>
<td>Profit of Group #1 in France</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Profit of Group #1 in Nigeria</td>
</tr>
<tr>
<td>Bahamas</td>
<td>.</td>
</tr>
</tbody>
</table>

Columns without in-scope MNEs are now irrelevant

**Industry-weighted baseline matrices used to estimate shares within regional groups**
Validation exercise

Issue: Limited firm-level data available to the Secretariat

Approach

• To verify the accuracy of results, jurisdiction-group level matrices (similar to those in Annex 5.D of the EIA 2020) have been shared for feedback with selected jurisdictions with in-scope MNEs who have carried out their own analysis

• Jurisdictions were asked to validate the shares of relief being provided due to the new tiered EoDT approach as well as the impact of the de minimis threshold

• Several jurisdictions were able to assist in different ways due to differing confidentiality standards – no MNE-level data (e.g. CbCR or other data) have been shared with the OECD by the assisting jurisdictions

Results

• Overall, the exercise confirmed the broad allocation of activities of in-scope MNEs and the modelling of EoDT, including the de minimis thresholds

• However, the validation exercise suggested the data originally included in the matrices shared had underestimated the share of profit in investment hubs, and the extent to which investment hubs had high-profitability entities – this likely resulted from within-country averaging in the aggregated data used

• Additional adjustments have been made to better align the data to external benchmarks
**Time series extension**

**Issue:** Key challenge with existing Pillar One estimates is lack of comprehensive recent data

- 2019-2021 consolidated data is generally available, but 2018 CbCR data is the most recently available for the unconsolidated matrices

**Approach**

- MNE-jurisdiction-level matrices are estimated for 2017 and 2018

- The 2018 geographic distribution of economic activity (sales, profit, payroll and depreciation) is projected forward through to 2021 and scaled to match yearly consolidated account values for each MNE group

- At the consolidated level, profit and sales are imputed for 3 out of 75 in-scope MNEs in 2020 (<4% of residual profit) and 11 out of 108 in-scope MNEs in 2021 (<6% of residual profit)

- Pillar One is calculated with new scope, averaging, revised EoDT approach and MDSH

**Result:** This approach overcomes the usual data time lag limitations and creates the most up-to-date assessment possible – with some assumptions – to account for the growth of in-scope profit
Pillar One design features

- **Scope:** USD 20 bn global revenue test, 10% return on revenues profitability test, financial services & extractives exclusions
- **Losses & averaging:** Includes prior period test and average test
- **Revenue sourcing**
  - Including MNE-by-MNE revenue sourcing rules (e.g. special rules for B2B services)
  - Tail-end revenue provisions for low-income jurisdictions
- **Nexus:** Lower nexus threshold for jurisdictions with GDP below EUR 40 bn
- **EoDT:** Tiered approach based on Return on Depreciation and Payroll (RoDP) and de minimis provisions
- **MDSH:** Revised quantitative approach based on RoDP modelled with a range of parameters
- No accounting for **WHTs**
- Further details in the Annex
PILLAR ONE KEY RESULTS
Key results: Pillar One (i)

• Pillar One revenue gains have increased and rise over time
  – More than **USD 200 bn** in taxing rights are allocated to market jurisdictions in 2021, or an average of USD 132 bn (over the period 2017-2021) which is up from USD 125 bn in earlier estimates for 2016
  – Tax revenue gains of **USD 21-36 bn** (FY 2021) or an **average of USD 12-25 bn per year** (over the period 2017-2021), which is up from USD 5-12 bn in EIA 2020
  – Results due to increases in profit of in-scope MNEs and design changes (e.g. EoDT)

• Revenue gains accrue to low, middle and high income jurisdictions
  – Low and middle income and smaller jurisdictions benefit from lower nexus thresholds, de minimis rules and tail-end revenue provisions
  – Most high income jurisdictions gain taxing rights, but a small number of high income jurisdictions with in-scope MNEs may see limited gains or small losses
Key results: Pillar One (ii)

• Estimated losses have modestly increased in investment hubs
  – Largely due to the revised approach to the EoDT, which requires that highest-profitability entities relieve double taxation first
  – This concentrates the surrender of taxing rights amongst investment hubs
  – These impacts are only partially offset by the MDSH, although the extent of this will depend on the final design

• Any slowing in global economic growth could result in lower Pillar One revenue gains
  – While very high levels of profitability are observed among MNEs in-scope of Pillar One in 2021, there is significant uncertainty about whether these high levels of profitability will be maintained
Evolution of in-scope MNEs
For years 2016-2021: Number of MNEs and amount of residual profit

• In-scope residual profit rises gradually over time from USD 363 bn in 2016 to USD 454 bn in 2020, with a sharp increase in 2021 to USD 790 bn
• Based on preliminary checks of 2022 financials of the largest in-scope MNEs, the trend of growing levels of residual profit in 2021 continues at least into 2022

Note: These estimates assume the new scope as well as the most-up-to-date losses and averaging rules.
Global residual profit by sector
2017-2021

- Digital MNEs are concentrated in the telecom, broadcast and software, and programming and information, and electronics manufacturing (e.g., cellphones, semiconductors) sectors, which together comprise 52% of total residual profit in 2021

- Other key sectors include pharmaceuticals and food, beverage and tobacco

Pillar One: Global net revenue gains
For years 2016-2021

- The reallocation of taxing rights from low-tax to high-tax jurisdictions results in global revenue gains
- These gains rise over time with the growth of Pillar One in-scope profit

Note: 2016 (EIA 2020) assumes a scope of ADS and CFB, as well as a pro-rata approach to EoDT, and no MDSH. The other estimates assume the new scope, the revised tier approach to EoDT, and incorporate a range of MDSH scenarios from 25% to 100% offset within the range of the error bars. The results for 2019, 2020 and 2021 assume the same global distribution of profit, sales, payroll and assets as in 2018. Withholding taxes are not modelled due to data constraints.
Pillar One: Jurisdiction-group results
For years 2016-2021: Excluding Investment Hubs

- Pillar One revenue impacts are positive for most jurisdictions
- Increased gains driven by growth of in-scope profit
- Higher revenue gains for low- and middle-income jurisdictions driven by design features such as EoDT, nexus, tail-end revenues

Note: 2016 (EIA 2020) assumes a scope of ADS and CFB, as well as a pro-rata approach to EoDT, and no MDSH. The other estimates assume the new scope, the revised tier approach to EoDT, and incorporate a range of MDSH scenarios from 25% to 100% offset within the range of the error bars. The results for 2019, 2020 and 2021 assume the same global distribution of profit, sales, payroll and assets as in 2018. Withholding taxes are not modelled due to data constraints.
Pillar One: Jurisdiction-group results

For years 2016-2021: Including investment hubs

- Investment hubs tend to lose tax base and tax revenue
- Zero-tax investment hubs lose tax base, but not tax revenue in this model
- This effect is intensified by the revised approach to EoDT which concentrates relief in investment hubs
- Impact of EoDT partially offset by the MDSH

**Note:** 2016 (EIA 2020) assumes a scope of ADS and CFB, as well as a pro-rata approach to EoDT, and no MDSH. The other estimates assume the new scope, the revised tier approach to EoDT, and incorporate a range of MDSH scenarios from 25% to 100% offset within the range of the error bars. The results for 2019, 2020 and 2021 assume the same global distribution of profit, sales, payroll and assets as in 2018. Withholding taxes are not modelled due to data constraints.
PILLAR TWO METHODOLOGY
Methodological overview

Revenue gain for Jurisd. A = Global low-taxed profit × Effect of substance-based income exclusion × Minimum tax rate × Current effective rate on low-taxed profit × Top-up tax

- Amount of low-taxed profit updated with latest data including revised list of low-taxed jurisdictions
- Consistent implementation of the GloBE rules across jurisdictions
- Substance-based income exclusion parameters revised to reflect October 2021 Agreement
- Baseline of 15% will be modelled
- ETR updated with latest data
- Allocation of revenues based on the value of tangible assets and number of employees
- Revenue allocation and jurisdiction-specific results will depend strongly on MNE & jurisdiction behavioural responses (ongoing work)
- Share of revenues from minimum tax accruing to Jurisd. A
PILLAR TWO KEY RESULTS
Pillar Two: Global results
For years 2016-2018

• Pillar Two revenue gains have increased
  • 2017 data: estimated gains of USD 141 bn to USD 211 bn, with a central estimate of USD 175 bn
  • 2018 data: estimated gains of USD 175 bn to USD 261 bn, with a central estimate of USD 220 bn
• Compared to previous estimate of around USD 150 bn (October 2021)
Key results: Pillar Two

• Changes in the revenue gains result from several factors
  – Better data on global low-taxed profit, due to the expansion of anonymised and aggregated CbCR data coverage
  – Increase in low-taxed profit over time in both investment hubs and non-hub jurisdictions
  – New modelling assumes consistent application of GloBE rules across all jurisdictions

• Accounting for pockets of low-taxed profit may result in higher revenue gains for jurisdictions where firms are facing low ETRs
Key results: Pillar Two

Ongoing work

• Global revenue gains modelled, but jurisdiction impacts will depend on behavioural responses of jurisdictions (e.g. QDMTTs)

• Currently only **low-tax profit in low-tax jurisdictions** is modelled

• There is growing evidence that a high share of **low-tax profit is located in high-tax jurisdictions**
  – Tax incentives are likely to be a key factor

• **Additional modelling to assess the location of low-taxed profit and the impact of QDMTTs is required**
  – Important to improve the accuracy of jurisdiction-specific results
  – Broad QDMTT introduction will shift potential revenue gains from UPE jurisdictions to affiliate jurisdictions where low-tax profits are currently located
  – However, there are significant data limitations
NEXT STEPS
Outreach and next steps

• Ongoing work is being carried out to model the impact of Pillar Two at the jurisdiction-group level, including the impact of QDMTTs

• Secretariat will continue to assist jurisdictions in understanding the provisions of the Two-Pillar Solution as they evolve

• Results remain preliminary and a full economic impact analysis as well as a detailed methodology will be released in the coming months.

• Comments and feedback welcome: ctp.contact@oecd.org

• Presentation available on event page: https://oe.cd/eia
TECHNICAL ANNEX
Data sources for jurisdictional profit matrix

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of cells</td>
<td>% of total profit</td>
<td>% of cells</td>
</tr>
<tr>
<td>CbCR</td>
<td>2</td>
<td>63</td>
<td>7</td>
</tr>
<tr>
<td>Orbis</td>
<td>3</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Extrapolations</td>
<td>95</td>
<td>27</td>
<td>89</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: This table corresponds to the section on profits in Table 5.6 from EIA 2020. CbCR data includes information imputed based on CbCR data from other years.
# Profit matrix

*Preliminary results*

## The profit matrix 2018

<table>
<thead>
<tr>
<th>Jurisdiction of affiliate</th>
<th>USD billion</th>
<th>High income</th>
<th>Middle income</th>
<th>Low income</th>
<th>Investment Hubs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High income</strong> (66 jurisd.)</td>
<td>4672.5 (+31%)</td>
<td>151.3 (+236%)</td>
<td>0.1 (+94%)</td>
<td>260.4 (+50%)</td>
<td>5084.4 (+34%)</td>
<td></td>
</tr>
<tr>
<td><strong>Middle income</strong> (101)</td>
<td>455.0 (+27%)</td>
<td>1715.4 (+109%)</td>
<td>0.1 (-26%)</td>
<td>306.3 (+85%)</td>
<td>2476.7 (+85%)</td>
<td></td>
</tr>
<tr>
<td><strong>Low income</strong> (32)</td>
<td>2.6 (+80%)</td>
<td>1.9 (+30%)</td>
<td>2.6 (-28%)</td>
<td>0.2 (+13%)</td>
<td>7.3 (+10%)</td>
<td></td>
</tr>
<tr>
<td><strong>Investment Hubs</strong> (23)</td>
<td>984.6 (+51%)</td>
<td>139.6 (+101%)</td>
<td>0.0 (-42%)</td>
<td>505.9 (+61%)</td>
<td>1630.1 (+58%)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6114.6 (+33%)</td>
<td>2008.2 (+115%)</td>
<td>2.8 (-26%)</td>
<td>1072.9 (+64%)</td>
<td>9198.5 (+49%)</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Brackets show percentage changes from EIA 2020 matrix using 2016 data. Number of jurisdictions in each group are in brackets in the left-hand column. Jurisdiction groupings are based on World Bank classifications and have been updated compared to the EIA 2020. Investment hubs are defined as jurisdictions with a total inward FDI position above 150% of GDP. Results are preliminary.
# Tangible asset matrix

## Preliminary results

<table>
<thead>
<tr>
<th>Jurisdiction of ultimate parent</th>
<th>USD billion</th>
<th>High income</th>
<th>Middle income</th>
<th>Low income</th>
<th>Investment Hubs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>High income (66 jurisd.)</td>
<td>Middle income (101)</td>
<td>Low income (32)</td>
<td>Investment Hubs (23)</td>
<td>Total</td>
</tr>
<tr>
<td>High income (66 jurisd.)</td>
<td>13938.6 (+20%)</td>
<td>405.8 (+27%)</td>
<td>15.7 (+118%)</td>
<td>809.2 (+31%)</td>
<td>15169.3 (+21%)</td>
<td></td>
</tr>
<tr>
<td>Middle income (101)</td>
<td>1246.2 (-4%)</td>
<td>9876.4 (+134%)</td>
<td>9.6 (+73%)</td>
<td>1144.7 (+53%)</td>
<td>12276.9 (+95%)</td>
<td></td>
</tr>
<tr>
<td>Low income (32)</td>
<td>22.1 (-7%)</td>
<td>16.0 (+23%)</td>
<td>6.4 (-69%)</td>
<td>9.8 (+103%)</td>
<td>54.3 (-13%)</td>
<td></td>
</tr>
<tr>
<td>Investment Hubs (23)</td>
<td>649.9 (48%)</td>
<td>406.6 (+490%)</td>
<td>1.7 (+54%)</td>
<td>842.7 (+100%)</td>
<td>1900.9 (+104%)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15856.8 (+19%)</strong></td>
<td><strong>10704.8 (+131%)</strong></td>
<td><strong>33.4 (-4%)</strong></td>
<td><strong>2806.4 (+56%)</strong></td>
<td><strong>29401.4 (+48%)</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Brackets show percentage changes from EIA 2020 matrix using 2016 data. Number of jurisdictions in each group are in brackets in the left-hand column. Jurisdiction groupings are based on World Bank classifications and have been updated compared to the EIA 2020. Investment hubs are defined as jurisdictions with a total inward FDI position above 150% of GDP. Results are preliminary.
## The payroll matrix 2018

<table>
<thead>
<tr>
<th>Jurisdiction of ultimate parent</th>
<th>USD billion</th>
<th>High income</th>
<th>Middle income</th>
<th>Low income</th>
<th>Investment Hubs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(High income)</td>
<td>(Middle income)</td>
<td>(Low income)</td>
<td>(Investment Hubs)</td>
<td></td>
</tr>
<tr>
<td>High income (66 jurisds.)</td>
<td>5320.2</td>
<td>187.8</td>
<td>6.0</td>
<td>419.6</td>
<td>5933.6</td>
<td>(-22%)</td>
</tr>
<tr>
<td>Middle income (101)</td>
<td>411.6</td>
<td>818.0</td>
<td>2.0</td>
<td>170.8</td>
<td>1402.4</td>
<td>(-34%)</td>
</tr>
<tr>
<td>Low income (32)</td>
<td>2.4</td>
<td>1.1</td>
<td>0.6</td>
<td>0.4</td>
<td>4.5</td>
<td>(-79%)</td>
</tr>
<tr>
<td>Investment Hubs (23)</td>
<td>179.9</td>
<td>22.5</td>
<td>0.4</td>
<td>176.9</td>
<td>379.7</td>
<td>(-8%)</td>
</tr>
<tr>
<td>Total</td>
<td>5914.1</td>
<td>1029.3</td>
<td>9.1</td>
<td>767.6</td>
<td>7720.1</td>
<td>(-24%)</td>
</tr>
</tbody>
</table>

**Note:** Brackets show percentage changes from EIA 2020 matrix using 2016 data. Number of jurisdictions in each group are in brackets in the left-hand column. Jurisdiction groupings are based on World Bank classifications and have been updated compared to the EIA 2020. Investment hubs are defined as jurisdictions with a total inward FDI position above 150% of GDP. Results are preliminary.
### Data Sources of MNE-level Matrices by Variable

<table>
<thead>
<tr>
<th>Data Sources</th>
<th>Percentage of Total</th>
<th>Percentage of Cells</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Turnover</td>
<td>Profit</td>
</tr>
<tr>
<td>Jurisdictional data from financial statements</td>
<td>51%</td>
<td>26%</td>
</tr>
<tr>
<td>Regional data from financial statements</td>
<td>42%</td>
<td>31%</td>
</tr>
<tr>
<td>Consolidated MNE-level data</td>
<td>7%</td>
<td>43%</td>
</tr>
</tbody>
</table>

- Jurisdictional data from financial statements (FS) is always preferred if available.
- If only regional data is available in FS, it is combined with destination shares from industry-weighted baseline matrices.
- If no FS data is available, consolidated MNE-level data is combined with destination shares from industry-weighted aggregate matrices.
Step 1: Update baseline matrices from 2016 to 2017 & 2018, including expanded use of CbCR & Orbis data, and collection of unconsolidated and consolidated data for in-scope MNE groups from 2016-2021.

Step 2: Build MNE-level matrices by combining consolidated group level data with MNE-specific jurisdiction-level weights estimated using Annual Reports (ARs), CbCRs and industry-weighted baseline matrices.

Step 3: Apply revised policy changes at the MNE level, including tax base rules to calculate Amount A, rules for EoDT, special purpose nexus, revenue sourcing and profit allocation rules including the MDSH.

Step 4: Estimate net overall revenue effects by aggregating MNE-level results to jurisdictions, jurisdiction-groups and globally, taking revised scoping rules into account.
Pillar One: Main assumptions on policy parameters (i)

Scope (PR Article 1)

• Estimates based on scope of:
  – a global revenue threshold of EUR 20 bn in the period (the revenue test), and
  – a profitability threshold of 10% return on revenues in the period (the profitability test) and

• In-scope groups based on averaging and prior period tests
  – When the group was not in scope in the two consecutive periods immediately preceding the period, a profitability greater than 10% in two or more of the four periods immediately preceding the period is required to be in-scope (the prior period test)
  – A profitability greater than 10% on average across the period and the four periods immediately preceding the period is required to be in-scope (the average test)

• Financial services and extractives excluded

• No accounting for segmented businesses that may be in scope
Nexus and revenue sourcing (PR Articles 3 & 4)

- **Revenue sourcing**: based on MNE business types using firm-level information and macro proxies (e.g., advertising services sourced to the location of the viewer)

- **Nexus threshold**: EUR 1m or EUR 250k depending on jurisdictional GDP (EUR 40 bn threshold)

- **Tail-end revenue**: 2.5% allocated to low and lower-middle income jurisdictions for finished goods producers

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**Table: Business type and allocation key used in modelling**

<table>
<thead>
<tr>
<th>Business type</th>
<th>Number of MNEs (FY 2021)</th>
<th>Allocation key used in modelling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished goods B2C (incl. B2C Services)</td>
<td>45</td>
<td>MNE specific* / Final consumption expenditure</td>
</tr>
<tr>
<td>Finished goods - B2B</td>
<td>10</td>
<td>Final consumption expenditure</td>
</tr>
<tr>
<td>Components</td>
<td>20</td>
<td>GDP</td>
</tr>
<tr>
<td>Location specific services</td>
<td>10</td>
<td>MNE specific* / Final consumption expenditure</td>
</tr>
<tr>
<td>Transport services</td>
<td>2</td>
<td>MNE specific* / GDP (excl. non-markets)</td>
</tr>
<tr>
<td>B2B Services</td>
<td>9</td>
<td>GDP</td>
</tr>
<tr>
<td>Real estate</td>
<td>6</td>
<td>MNE specific* / GDP</td>
</tr>
<tr>
<td>ADS</td>
<td>4</td>
<td>MNE specific* / FCE x internet usage</td>
</tr>
</tbody>
</table>

*MNE-specific allocation keys are based on destination-specific sales from annual reports & 10Ks, combined with aggregate data on final consumption expenditure. In individual cases, revenues of in-scope MNEs are assigned to a single jurisdiction.*
Allocation of profit (Article 6)

- 25% of residual profit (profit in excess of 10%) allocated to market jurisdictions

MDSH (Article 6)

- Given ongoing work on the precise design of the MDSH, a range of options are included within the margins of error presented
- All options would be based on the higher of (i) an RoDP threshold equivalent to 10% RoR, and (ii) an absolute 40% RoDP threshold, as outlined in Article 6.5 of the PR
- A variety of MDSH parameters are modeled
  - An offset parameter ("Y%" in the PR) of between 25% and 100%
  - A deduction of offset profit from elimination profit of between 25% and 100% (i.e., a multiple of between 1 and 4)
  - Either no de minimis provisions or a de minimis of EUR 50m
- All options are chosen on a without prejudice basis
Pillar One: Main assumptions on policy parameters (iv)

EoDT (Articles 8-9)

- Residual profit is calculated using RoDP equivalent to 10% RoR at the consolidated level
- EoDT is determined based on a tiered approach (Article 9 in the PR):
  - Tier 1: 1500% of MNE group-level RoDP
  - Tier 2: 150% of MNE group-level RoDP
  - Tier 3: 40% RoDP (in absolute terms)
  - Tier 4: MNE group-level RoDP equivalent to 10% RoR
- De minimis thresholds (Article 8):
  - Jurisdictions with less than EUR 50m are excluded from EoDT
  - The smallest number of jurisdictions containing 95% of global MNE profit is included in EoDT