

2023 Progress Report on Tax Co-operation for the 21st Century

OECD REPORT FOR THE G7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

May 2023, Japan

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Foreword

Common, collaborative, digitally enabled and more real time approaches to the administration of common rules is becoming a central feature in the design of international tax rules, for corporate income tax and beyond. As work on multilateral solutions to increase international tax co-operation continues to advance, there are significant potential gains in rethinking the approach to tax administration which in turn can increase investment and growth, and bring jurisdictions closer together in everyday practice.

Prepared at the request of Japan, as president of the G7, this OECD report provides an update on a report published in May 2022, “Tax Co-operation for the 21st Century”. The report discusses potential areas of consideration for the future of international tax co-operation and immediate next steps for policy makers.

The report contains three sections in addition to an executive summary and the introduction: Chapter 1 provides an analysis of how the vision developed in the “Tax Co-operation for the 21st Century” report is reflected in the reforms undertaken by the Inclusive Framework in its Two-Pillar Solution to the digitalised economy, Chapter 2 explores recent developments in the international information exchange architecture, and Chapter 3 examines the areas where developing countries will need capacity building assistance to ensure that there are lasting outcomes that can assist in meeting the Sustainable Development Goals.

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Abbreviations and acronyms

AEOI	Automatic Exchange of Information
APA	Advance Pricing Agreement
ATAF	African Tax Administration Forum
BEPS	Base Erosion and Profit Shifting
CARF	Crypto-Asset Reporting Framework
CbCR	Country-by-Country Reporting
CDS	Confidentiality and Data Safeguards
CRS	Common Reporting Standard
FTA	Forum on Tax Administration
G20	Group of 20
G7	Group of 7
GIR	GloBE Information Return
GloBE	Global Anti-Base Erosion Rules
ICAP	International Compliance Assurance Programme
IMF	International Monetary Fund
IT	Information Technology
ISM	Information Security Management
JITSIC	Joint International Taskforce on Shared Intelligence and Collaboration
MAP	Mutual Agreement Procedure
MNE	Multinational Enterprise
OECD	Organisation for Economic Co-operation and Development
PCT	Platform for Collaboration on Tax
TADAT	Tax Administration Diagnostic Assessment Tool
UNDP	United Nations Development Programme
UPE	Ultimate Parent Entity
VAT	Value Added Tax

Executive summary

The international tax policy landscape is continuing to evolve rapidly. This includes more multilaterally agreed common rules and related tools. That has significant implications for international tax co-operation, because common rules and common information reporting and exchange open the door to new approaches in tax administration.

It was against this background that the German G7 Presidency requested a report from the OECD which was submitted by the OECD Secretary-General to the G7 Finance Ministers and Central Bank Governors, in May 2022 ("Tax Co-operation for the 21st Century", hereafter the 2022 Report). The 2022 Report made ten recommendations, which spanned corporate tax, areas beyond corporate tax, and implications for developing countries. Those recommendations are set out below.

Corporate tax
Reliable framework for cross-border investment. Countries should ensure that the framework for international tax co-operation enhances rather than presents an obstacle to cross-border investment.
Tax administration as a common mission. Countries should view the administration of common international tax rules as a joint mission of correctly and consistently applying the same rule, rather than as a potentially adversarial exercise.
Collaborative approach with early and binding resolution. Common rules should be administered using a collaborative approach built on common risk assessments and co-ordinated actions, coupled with early and binding resolution.
Going digital. Effective digital communications channels coupled with one stop shop approaches should be in place to support the administration of the Two-Pillar Solution and common international tax rules more generally. This should cover the engagement with taxpayers as well as the communication between tax administrations, whilst maintaining data privacy and taxpayer confidentiality.
Removing burdens. Against the backdrop of the Two-Pillar Solution and other changes to the international tax landscape, countries should eliminate or modify existing rules and measures addressing essentially similar risks which have become duplicative.
Moving from vision to action. The high-level vision included in this report is intended to provide food for thought and stimulate the discussion. Further work should now be carried out to translate it into action, which may involve changes to domestic rules and procedures as well as relevant international tax rules. The OECD stands ready to do so.
Beyond corporate tax
Moving to real time. Recognising the wider trend towards and benefits of more real-time data availability for both taxpayers and tax administrations, countries should explore avenues for ensuring more timely access to tax-relevant information held abroad, making efficient use of evolving technologies whilst maintaining data privacy and confidentiality.
Moving towards compliance by design. Recognising the growing trend towards and benefits of tax compliance by design to both taxpayers and tax administrations countries should consider embedding such approaches as much as possible in their tax policy design including in their information exchange architecture.

Translating principles into action. Further work should now be carried out to translate these principles into action, which could then lead, for instance, to changes to domestic and international reporting regimes and the development of new IT-tools to support these changes. The OECD stands ready to help in these efforts.

Implications for developing countries

Ensuring full participation by developing countries. Advanced economies should commit to support developing countries, including their regional networks so that they can fully benefit from the policy changes, with a strong focus on capacity-building, especially for the Two-Pillar Solution. This support should be both financial and in providing access to expertise. In this regard, the G7 could lead advanced economies in committing to a major support package for the implementation of the Two-Pillar Solution.

The G7 Finance Ministers and Central Bank Governors in their May 2022 Petersberg Communiqué welcomed the report, and asked the OECD to continue its work in this area and to report back on further developments. Taking forward this mandate, Japan, as president of the G7 in 2023, invited the OECD to prepare a follow-up report, outlining progress and new areas of tax co-operation.

This report is set out in three main sections, reflecting the three key areas for further work from the 2022 Report. First, it analyses how the principles set out in the 2022 Report are being incorporated by the members of the OECD/G20 Inclusive Framework on BEPS into the design of the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, focusing on Amount A and the GloBE Rules. Second, it shows that the principles of the 2022 Report beyond corporate income tax are being translated into action, such as with technology based solutions for effectively collecting and using information for personal income tax purposes. Finally, it notes some of the recent developments in capacity building, as called for by the 2022 Report, and identifies some of the work that remains to be done.

In light of the progress being made, the report identifies potential areas of consideration for the future and immediate next steps for policy makers:

Potential areas of consideration and Next steps

Corporate income tax: Continue to embed the vision set out in the 2022 Report within the administrative framework applicable to the Two-Pillar Solution, and more broadly incorporate it as a central goal of the administration of all multilaterally agreed common tax rules.

Beyond corporate income tax: Embed the principles of real-time information and compliance by design into all new reporting regimes, while also maximising the standardisation of information architecture within data repositories.

Developing countries: G7 countries to use their resources, including financing, expertise and political dialogue, for delivery of capacity building, including:

- To support the widespread implementation of the Pillar Two rules, particularly the Domestic Minimum Top-Up Tax, such as through the OECD's Tax and Development Capacity Building Programme and Global Relations Training Programme;
- Supporting VAT reforms related to e-commerce and digital trade;
- Supporting digitalisation of tax administrations, including through the Forum on Tax Administration, and other international and regional organisations.

Digital solutions: Recognising that international co-operation increasingly relies on effective digital communications tools, the OECD to quickly finalise its work on a secure mechanism for tax administration communications, with the secure mechanism being operational no later than 2024.

1 Corporate tax landscape

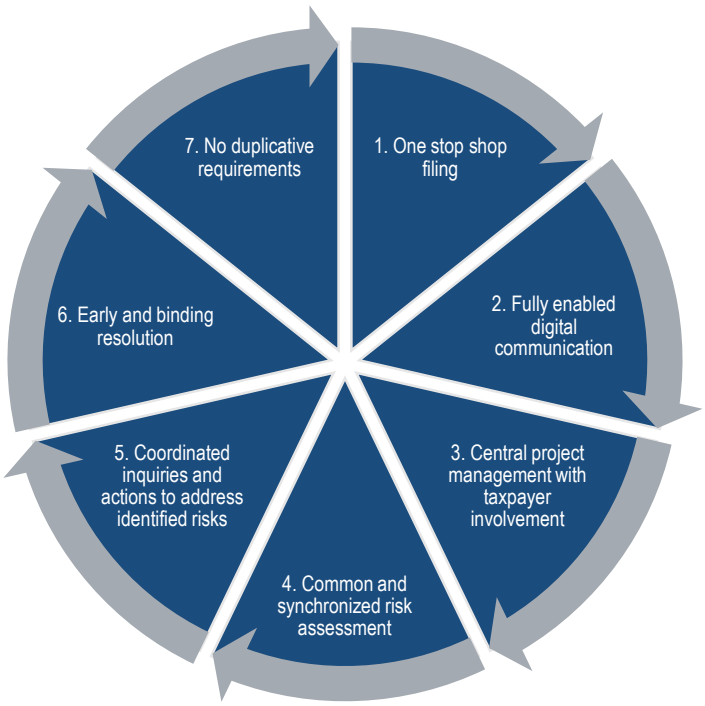
1.1. Update

1. The *Tax Co-operation for the 21st Century* report ("the 2022 Report") (OECD, 2022[1]) discussed a vision for a streamlined, collaborative and digital administration of common international tax rules. The 2022 Report developed a set of principles which underpin this vision (see Figure 1) and give effect to the recommendations of the 2022 Report. This section assesses how the reforms undertaken by the OECD/G20 Inclusive Framework on BEPS on its Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy stack up against those principles. Aspects of those reforms remain under negotiation, and the discussion in this report reflects the approach taken in the most recent relevant public consultation documents, without prejudice to the finalisation of those negotiations.

2. By way of background, Pillar One of that solution includes Amount A, which would re-allocate some taxing rights over multinational enterprises (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. The work on Pillar One continues at speed.[1]

3. Pillar Two includes the Global Anti-Base Erosion Rules (GloBE Rules), which puts a floor on competition over corporate income taxes, through a global minimum tax with a minimum effective rate of 15%. The OECD published "Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) (OECD, 2021[2])", i.e. the GloBE model rules for the Pillar Two aspect of the Two-Pillar Solution in December 2021. By early 2023, more than 40 jurisdictions had already announced (or already commenced legislative action towards) their commitment to implementing the minimum tax, whether as the full set of GloBE Rules, and / or as a Domestic Minimum Top-Up Tax, with most of those already set to commence in 2024. This means that the global minimum tax is a reality, with more jurisdictions likely to follow suit in the coming year. This is an unprecedented change in terms of the breadth of coverage of multinational enterprises, which will be subject to common minimum tax rules, using a common tax base and minimum effective rate, for the first time.[2]

Figure 1. A vision for a simple, collaborative and digital administration of common international tax rules



Source: OECD

1.1.1. The same information and documentation filed once and made available to all affected tax administrations (one stop shop)

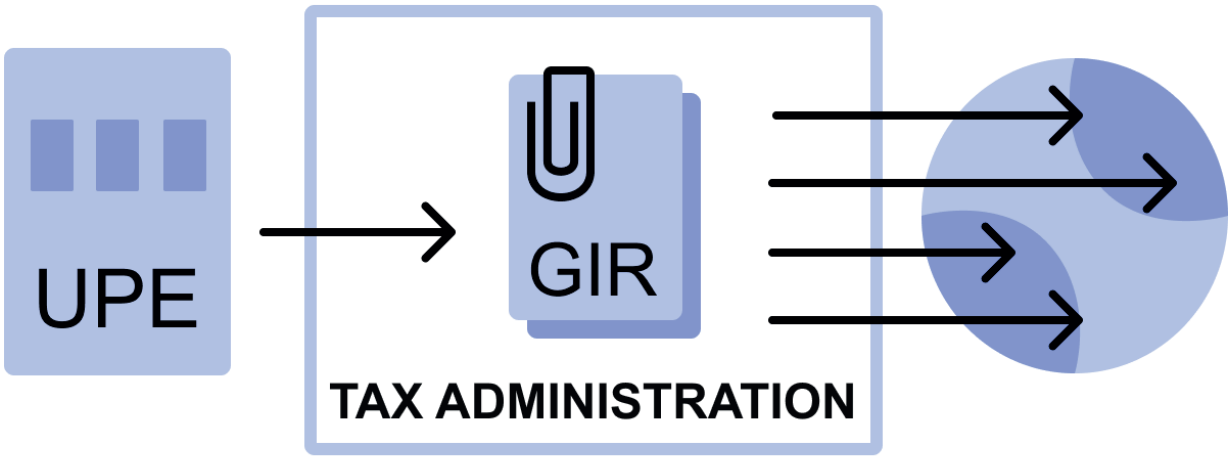
4. The one stop shop principle is that standardised information reporting and single filing reduces the compliance burden on taxpayers while also ensuring there is no information asymmetry between tax administrations with respect to relevant information.

5. The commonality in tax rules brought about by the Pillar Two rules has opened the door to unprecedented opportunity for co-ordinated information returns and compliance action. The GloBE model rules, and the subsequently published commentary, provided for the requirement for the filing of a GloBE Information Return ("GIR"). The GIR is a standardised information return filed by an MNE Group within the scope of the GloBE model rules. The return provides a tax administration with the information it needs to evaluate the correctness of a Constituent Entity's tax liability under the GloBE Rules and to perform an appropriate risk assessment. In December 2022, a public consultation document was released on the GloBE Information Return (OECD, 2022[3]). Once agreed, this will be the common return for all MNE Groups that are in scope of the GloBE Rules, providing for a single, comprehensive return which in turn reduces the burdens of having multiple, differing or duplicative information requirements in each implementing jurisdiction.

6. While the initial filing requirement of each Constituent Entity is a domestic one, this requirement can be met when the Ultimate Parent Entity ("UPE") or Designated Filing Entity files the GIR centrally with a jurisdiction which has a Qualifying Competent Authority Agreement in effect with the jurisdiction of the Constituent Entity. By allowing for a centralised filing which is subsequently shared with the relevant tax administrations, the GloBE Rules ensure that each other tax administration receives the information for the assessment. Allowing for centralised filing also reduces the administrative burden for MNE Groups. By

accepting the GIR and sharing the relevant information with all relevant jurisdictions, the tax administration in the jurisdiction of the UPE or the Designated Filing Entity acts as a one stop shop for the in-scope MNE Group.

Figure 2. One stop shop for the GloBE Information Return



Source: OECD

7. Similar principles underpin the work being finalised on Amount A of Pillar One. In the Progress Report on the Administration and Tax Certainty Aspects of Pillar One (OECD, 2022[4]) (published as part of a public consultation process in October 2022), a one stop shop for the filing of the Amount A Tax Return and Common Documentation Package is provided for. This draws on the key design principles as discussed in the 2022 Report: ensuring all tax administration receive relevant information in a timely and standardised way, to facilitate common approaches to reviewing the correct application of the relevant tax rules, and reduce burdens on taxpayers from otherwise filing different forms with different administrations at different times.

8. The importance of the one-stop shop principle is being embedded elsewhere in efforts on corporate income tax, beyond the Two-Pillar Solution. For example, it is reflected in the OECD Forum on Tax Administration's published reports *Bilateral Advance Pricing Arrangement Manual* (BAPAM) (OECD, 2022[5]) and *Manual on The Handling of Multilateral Mutual Agreement Procedures and Advance Pricing Arrangements* (MoMA) (OECD, 2023[6]). These tools enhance best practices for effective dispute prevention, as a core component of international tax co-operation. The BAPAM lists as one of its "best practices" that taxpayers should submit bilateral APA applications simultaneously to competent authorities and that bilateral APA applications should contain the same information. The MoMA builds on this, noting that in multilateral processes, the same information must be shared with all competent authorities concerned and envisages the possibility of a coordinating competent authority that would serve as the main point of contact with the taxpayer.

1.1.2. Fully-enabled digital communication

9. The principle of fully-enabled digital communication refers to the digitalisation of filing and communication systems. That includes having information that historically was provided in paper-based

formats being filed electronically, as well as using virtual communications tools to allow efficient collaboration within, and between tax administrations. This is important not only to facilitate efficient management of documents and leverage the possibility for IT-based tools in conducting risk assessment, but also as a way of using technology to protect confidentiality of that information. For example, tax administrations have relied on commonly agreed IT-security and encryption policies to leverage digital information exchanges in the realms of the OECD International Compliance Assurance Programme ("ICAP") assessments, as well as to facilitate the automatic information exchanges under the Common Reporting Standard, through the Common Transmission System. The COVID-19 pandemic accelerated the adoption of fully-enabled digital communications to allow tax administrations to collaborate (within the bounds of the relevant legal instruments) in ways that are secure and effective.

10. As noted above, the GloBE Rules provide for the development of a standardised information return, the GIR. The public consultation document on the GIR notes that work is continuing on the development of appropriate mechanisms to allow tax administrations to automatically exchange GloBE information collected, including a framework of bilateral or multilateral competent authority agreements and IT-solutions to support the exchange of information, in particular a dedicated XML schema. The development of a dedicated XML Schema, combined with the centralised filing requirements and automatic exchange of information will allow the filing and exchange of the GIR to be fully digitally-enabled. By having the information in digitally-enabled form, this in turn will facilitate the ability of each relevant tax administration to use more advanced and co-ordinated risk assessment and analysis, such as leveraging analytics software and automated risk assessment technology. Similar infrastructure will provide the basis for the exchange of information in connection with Amount A of Pillar One.

11. While the above bulk information transmissions will be facilitated by the OECD's Common Transmission System, fully virtual meetings will be a foundation on which further co-operation under the Two-Pillar Solution can take place, and are likely to pave the way for much of the international tax co-operation and communications going forward. In light of the comprehensive design of the tax certainty processes for Amount A, and the necessary documentation that will be shared with the relevant jurisdictions, digital communications will be key to ensuring efficiency in the process, recognising that the ambitious resolution timeframes included to reach certainty outcomes mean that paper-based communications will not be feasible. Efficient digital-based communications will also be an essential component to the certainty processes that will involve representative panels with regional diversity conducting the primary detailed reviews for the input of the other parties, along with a large number of MNEs directly involved in discussions seeking tax certainty. These processes emphasise the need for a common tool that allows relevant public and private sector parties to securely engage in confidential real-time follow-up discussions on the basis of the bulk information transmissions that will be facilitated by the Common Transmission System.

12. To fully unlock the potential of digital technology for tax administrations, co-ordinated work is now being undertaken to build a secure communications mechanism to allow both tax administrations, as well as taxpayers, to engage in confidential discussions and securely share documents in a cross-border environment, in a manner that is in accordance with the legal instruments providing for and protecting the confidentiality of the exchanged information. Such a system has the potential to serve many pressing needs of tax administrations. Beyond the uses outlined above in the context of the Two-Pillar Solution, a secure communications mechanism could support many other international activities of tax administrations, such as joint audits among multiple taxpayers, exchange of information upon request processes, and Mutual Agreement Procedure ("MAP") cases – all of which would benefit from a secure communications mechanism. A secure mechanism for inter-tax administration communications could also increase the potential for multilateral international meetings, such as the Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC) or the OECD/UNDP Tax Inspectors Without Borders, to share confidential information that would benefit from enhanced security.

13. However, not all tax administrations have the same functional or technological specifications, for example, where differing IT policies in different organisations lead to an inability to find a common, secure platform. To respond to this challenge, the OECD is undertaking work to determine the options for common solutions that could meet the differing requirements. This would be able to serve as a common platform for all tax administrations (and taxpayers) to communicate and collaborate, and would be accessible by tax administrations in both developed and developing jurisdictions. Work is expected to continue over the course of 2023, and be available for use in 2024.

1.1.3. Collaborative approach with central project management and an active role for the taxpayer

14. Having a collaborative approach with central project management and an active role for the taxpayer is a key principle supporting the vision of the 2022 Report. It refers to having common rules and a common information reporting infrastructure to support a common approach to the administration of rules. The aim of this is to move away from a potentially adversarial approach to one of joint mission. The 2022 Report also suggested a governance framework that gives full ownership and control to participating tax administrations, so that they can establish a common project management function that works on the basis of clearly defined and commonly agreed goals and objectives.

15. This principle is showcased when considering the design elements of Amount A of Pillar One (as discussed in the Progress Report on Amount A of Pillar One, published in July 2022 (OECD, 2022[7])). Given that Amount A is designed to apply a single set of rules to the global revenues and profits of a Group (subject to limited exclusions), having these rules administered unilaterally in each jurisdiction through domestic risk assessment and tax audit would be costly and time consuming for Groups and tax administrations. It would involve extraordinary duplication of the work undertaken in each jurisdiction, even in cases where no adjustments arose, and therefore have significant resource implications. In the event tax administrations reached different views and proposed adjustments to a Group's tax returns, double taxation could arise involving not just two jurisdictions but potentially every jurisdiction to which a Group sources revenue. To resolve the resulting disputes through traditional tools such as MAP would also be complex and time consuming.

16. Therefore, a new, innovative approach is envisaged, drawing on the principles outlined in the 2022 Report, which combines elements of dispute prevention and dispute resolution in a structured, binding process that provides certainty to Groups in a timely manner which is also resource-efficient for tax administrations. To meet this challenge, a tax certainty framework for Amount A was discussed in the *Progress Report on the Administration and Tax Certainty Aspects of Amount A of Pillar One* (published in October 2022) (OECD, 2022[4]). This tax certainty framework for Amount A is built on the premise of tax administrations working together collaboratively, with a key coordinating role envisaged for the Lead Tax Administration (typically the tax administration of the Group's Ultimate Parent Entity).

17. The Tax Certainty Framework described in the report contains three mechanisms to provide certainty over aspects of Amount A, each of which is engaged in voluntarily on the part of Groups. These mechanisms are the Scope Certainty Review (where a Group seeks certainty that it is out-of-scope of the rules for Amount A for a given period), the Advance Certainty Review (a process to provide certainty over an in-scope Group's methodology for applying aspects of the new rules that are specific to Amount A) and the Comprehensive Certainty Review (a process to provide an in-scope Group with binding multilateral certainty over its application of all aspects of the new rules for a Period). In each of these certainty mechanisms, the Lead Tax Administration plays a key role in coordinating the process and engaging with the Group. In addition, when the Group files the Amount A Tax Return and Common Documentation Package with the Lead Tax Administration, it shares the documents with Affected Parties, as per the requirements of the multilateral convention to implement Amount A, including confidentiality requirements. While the certainty processes will be co-ordinated by the Lead Tax Administration, reviews of taxpayers'

requests for certainty will often be performed by a panel. This panel will comprise of representatives of the various Affected Parties that are party to the Convention for Amount A.

18. Where a Scope Certainty Review, Advance Certainty Review, or Comprehensive Certainty Review is performed by a Scope Review Panel or Review Panel (as applicable), this panel is co-ordinated by the Lead Tax Administration. There is an active role for Groups throughout the process. For example, a review may include multilateral meetings or calls involving representatives from the Group. This engagement with the Group is conducted by the Lead Tax Administration. Additionally, to ensure transparency within the applicable certainty process, the Lead Tax Administration will also provide the Group with high level updates as to the progress of the review.

Figure 3. Collaborative approach in tax certainty process for Amount A



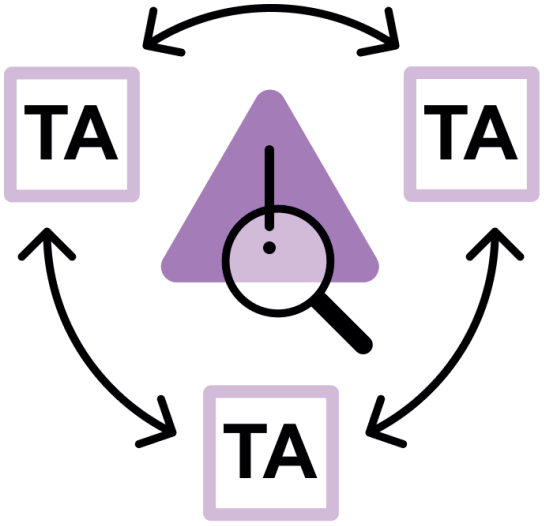
Source: OECD

19. The possibility of offering advance certainty in a collaborative manner is also being considered in the context of the GloBE Rules. This work is in an earlier stage of development, but will explore taking into account the principles in the 2022 report, including recognising the importance of collaborative approaches, central project management to ensure efficient management of the process in a multilateral context, and ensuring an active role for the relevant MNE group.

1.1.4. Common and synchronised risk assessment

20. The 2022 Report notes that where common rules apply, a MNE Group is likely to pose the same risk across multiple jurisdictions. It further notes that a common approach to assessing these risks would mean that tax administrations have a more consistent view as to whether further action is needed in a particular case, or if a transaction can be considered low risk. Co-ordinating risk assessments in a simultaneous or multilateral process gives tax administrations the opportunity to share their views on the level of risk that may be present with each other and also to obtain feedback on their concerns from a group before reaching a conclusion. As noted in the 2022 Report, this has the potential to reduce the resource burden on tax administrations and taxpayers.

Figure 4. Common review process in Amount A



Source: OECD

21. This is a key feature of the certainty process in Amount A of Pillar One. By having a centralised review process (lead by a panel or Lead Tax Administration, as relevant) to undertake the review of the taxpayer's documentation, that review process is given the responsibility to identify issues that present risks, and it does so on behalf of (and with the approval of) the other relevant jurisdictions that are parties to the Amount A Convention. In other words, not only does the panel perform a common and synchronised risk assessment, in doing so the aim is to ensure that there is only one common and synchronised risk assessment for the whole of Amount A.

22. This aspect of the vision of future tax co-operation is also reflected in the public consultation document "*Pillar Two – Tax Certainty for the GloBE Rules*" (published in December 2022) (OECD, 2022[8]). The public consultation discusses how a co-ordinated approach to assessing risks related to the GloBE Rules could result in more consistent outcomes. The document discusses the possibility that a co-ordinated programme similar to and that builds on ICAP could be developed for GloBE purposes.

23. The public consultation document notes how active engagement between the tax administrations and MNE Groups could be beneficial in the context of the GloBE Rules and that creating a comprehensive common framework, including by co-ordinated inquiries could minimise disputes and ensure a co-operative and efficient use of tax administration resources. This builds on the experience in ICAP, which has been that having a common approach has not only led to more certainty and less duplication for tax administrations and MNE Groups, but has also facilitated peer learning between tax administrations. This is leading to more consistent approaches to conducting risk assessment. These types of collateral benefits from common and synchronised risk assessment will be all the more relevant, as many jurisdictions embark on assessing the brand new GloBE Rules, and generating significant opportunity for mutual learning and overall improvement of outcomes.

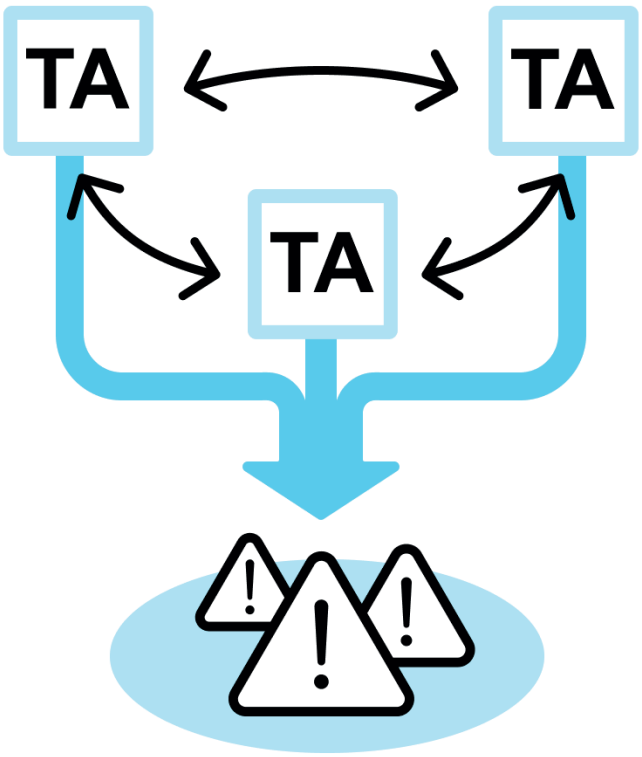
1.1.5. Co-ordinated inquiries and actions to address identified risks

24. While a common and synchronised risk assessment, as discussed above, is an important goal of the vision of collaborative and digital administration of common international tax rules, it needs to be

considered alongside co-ordinated responses to identified risks. Tax administrations may consider co-ordinating actions when risks are identified to avoid making concurrent additional information requests and taking diverging views regarding the same case.

25. This aspect of the 2022 Report is reflected in the Progress Report on the Administration and Tax Certainty Aspects of Pillar One. The draft rules envisage a process that provides certainty through a review process that acts as a proxy for audit, that is undertaken multilaterally and in a co-ordinated manner during key years i.e. the Comprehensive Certainty Review. This is done through the creation of a Review Panel, a panel of tax administrations that would work together to determine the computation and allocation of Amount A and elimination of double taxation for an MNE Group within a prescribed timeframe. The panel centralises the co-ordination of inquiries and actions to address identified risks, as part of the same process that reviews the documentation, performs the common and synchronised risk assessment, takes action to address the risks, and conclude the issues with a view to providing one binding certainty outcome.

Figure 5. Co-ordinated inquires for the Two-Pillar Solution



Source: OECD

26. With respect to Pillar Two, as noted in the public consultation document on the GIR, further work is under consideration to develop administrative mechanisms to facilitate further co-ordination and consistent application of the GloBE Rules. For instance, a co-ordinated framework for further information requests in respect of risks identified based on the information in the GIR could be developed, again drawing on the principles of the 2022 Report to reduce burdens and facilitate streamlined, co-operative and co-ordinated approaches. The possibility of conducting simultaneous audits under the Convention on Mutual Administrative Assistance in Tax Matters to provide tax certainty has also been considered in the context of the GloBE Rules in the public consultation document “Pillar Two – Tax Certainty for the GloBE Rules” (published in December 2022) (OECD, 2022[8]).

1.1.6. Early and binding resolution

27. As noted in the 2022 report, despite all efforts being made to prevent disputes, there will be situations where tax administrations will not take the same position with respect to a given case. Mandatory and binding dispute resolution mechanisms ensure that disputes are resolved within a certain timeframe, providing certainty to both taxpayers and tax authorities.

28. This aspect of the vision of future Tax Co-operation is reflected in the Progress Report on the Administration and Tax Certainty Aspects of Pillar One. The Tax Certainty Framework for Amount A, through the three aspects of the Scope Certainty Process, Advance Certainty Process, and Comprehensive Certainty Process, provides timely and binding certainty for taxpayers. The process ensures that tax administrations in all relevant jurisdictions will accept the same approach by a Group to the calculation and allocation of Amount A and the elimination of double taxation, with no need for domestic audits with respect to the Amount A obligations, and no risk of unrelieved double taxation. Additionally, the Tax Certainty Framework for Amount A includes a provision to enable resolution of disputes by escalating issues to a Determination Panel, where agreement to conclude a Scope Certainty, Advance Certainty or Comprehensive Certainty process by the Review Panel has not been possible. It is proposed in the draft rules set out in the Progress Report that the Determination Panel shall resolve all of the issues submitted to it at a particular time and deliver its decisions as a single compilation, within an agreed timeline of these issues being submitted. This is an ambitious approach, that takes seriously the call for early and binding resolution as laid out in the 2022 Report, and does not leave any risk of having unresolved issues endure.

29. There is a complementary tax certainty process proposed in the Tax Certainty for Issues Related to Amount A part of the Progress Report. It includes provisions which set out a mandatory and binding mechanism that will be used to resolve issues including transfer pricing and permanent establishment profit attribution disputes that Competent Authorities are unable to resolve through MAP within two years of the presentation of the MAP case to the Competent Authorities.[3] This is a wide ranging certainty process, acknowledging the fact that disputes under existing corporate income tax law can spill over into Amount A, and as such, leaving such issues unresolved can undermine the proper functioning of Amount A. In building this complementary framework for dispute resolution, the approach provides stabilisation of the international tax system, and brings an end-point to the uncertainty and costs that arise when disputes continue for very long periods.

30. In addition, several options for resolution of disputes in the interpretation or application of the GloBE Rules have been discussed in the public consultation document “Pillar Two – Tax Certainty for the GloBE Rules” (published in December 2022) (OECD, 2022[8]). Since the GloBE Rules are implemented under domestic law through mirroring legislation, innovative solutions for dispute resolution in this area are being considered. These options range from:

- relying on the equivalent of Article 25(3) of the OECD Model Tax Convention or UN Model Tax Convention, which provide wide-ranging scope to parties to consult together for the elimination of double taxation, even in cases not provided for in an applicable Convention;
- the possibility of using reciprocal domestic law provisions allowing tax authorities to accept and resolve MAP cases even in the absence of a treaty, which would use the Model GloBE Rules, Commentary and Agreed Administrative Guidance as a common standard;
- the possibility of joint / simultaneous audits as discussed in section 3.1.5, enhanced to provide for early and co-ordinated tax certainty on interpretation or application questions surrounding the GloBE Rules; and
- the consideration of a Multilateral Convention to allow the resolution of GloBE disputes.

1.1.7. No duplicative requirements

31. The 2022 Report noted the disadvantages of duplicative rules and measures, such as complexity, burdens on taxpayers, inefficient use of tax administration resources in reviewing compliance with unnecessary rules, and wider ranging impacts on the investment climate. In looking at this issue for the future, the 2022 Report recommended that when countries introduce or adopt new rules or filing requirements, an impact assessment should be performed to determine which existing rules and obligations would no longer seem needed, could be refocused, revised, simplified or standardised. It added that to the extent duplicative rules or filing requirements are identified in such an impact assessment, countries should assess the possibility to eliminate or adapt the duplicative rules or filing requirements.

32. An element of this recommendation is already embedded in of the design of Amount A of Pillar One. A key term of the agreement is that the introduction of new rules which allow market jurisdictions to tax the digitalising economy brings with it the obligation to remove alternative measures that try to achieve a similar goal, such as digital services taxes. This is an example of where having a common global solution paves the way to remove the patchwork of unilateral domestic measures, which add to complexity and compliance costs.

33. As the focus of the work in the last year has been to finalise the substantive new obligations that comprise the Two-Pillar Solution, the consideration of duplicative requirements together with a focus on administrative simplification is now moving to the foreground.

1.2. Conclusion

34. The 2022 Report outlined a vision for a streamlined, collaborative, and digital administration of common international tax rules, underpinned by a series of key principles. This chapter takes stock of how the Inclusive Framework is seeking to ensure that the Two-Pillar Solution takes these principles into account as much as possible. It shows that the Two-Pillar Solution incorporates many of those principles, although there is more work to do to finalise those rules and enact the common administration and dispute resolution features, and as a subsequent step, to then take stock of duplicative requirements. In implementing the principles of the 2022 Report, the design of the Two-Pillar Solution demonstrates the proof of concept of the potential for international tax co-operation when it is embedded in the rule design itself. By having common rules, common information, leveraging digital communications, and embedding co-ordination, collaboration and certainty as key principles in the rule design, the risk of duplicative costs and duplicative outcomes is reduced. This paves the way for more co-ordinated, multilateral rule design, because it can be administered in effective ways – and gives effect to the principle of tax administration as a common mission. Not only is this more efficient for tax administrations but it is necessary, acknowledging the underlying complexity of some aspects of the Two-Pillar Solution itself. While those complexities are a function of having a set of rules that apply globally and across all industries, it means that effective, co-ordinated, streamlined administration are essential to making the rules work.

35. This demonstrates the potential for tax policy makers to embed approaches to integrated and co-ordinated tax administration into the design of rules. It also requires sensitivity to burdens on taxpayers and tax administrations, meaning that policy design choices should consider streamlined, non-duplicative requirements, should build in the scope for international collaboration in compliance, and recognise that this is needed to ensure that tax systems are also conducive to investment and growth.

Potential areas of consideration for the future
Corporate income tax: Continue to embed the vision set out in the 2022 Report within the administrative framework applicable to the Two-Pillar Solution, and more broadly incorporate it as a central goal of the administration of all multilaterally agreed common tax rules.
Digital solutions: Recognising that international co-operation increasingly relies on effective digital communications tools, the OECD to quickly finalise its work on a secure mechanism for tax administration communications, with the secure mechanism being operational no later than 2024.

Notes

[1] Pillar One includes both Amount A and Amount B. Amount B relates to the simplification and streamlining of the application of the arm's length principle in transfer pricing rules concerning baseline marketing and distribution functions. This is a critical aspect of Pillar One but is not the focus of this report.

[2] Pillar Two includes both the GloBE Rules, and the Subject to Tax Rule (STTR). The STTR is a critical aspect of Pillar Two but is not the focus of this report.

[3] Note that certain developing countries have the option to elect into this process.

2 Beyond corporate tax

2.1. Update

36. The 2022 Report discussed the increasing importance of Exchange of Information to tax administrations and the trend to increasingly move from accessing third-party information periodically to more targeted, direct, and real-time access to data. The report outlined a vision for how the international information exchange architecture could evolve. The paragraphs below provide an update on a recent evolution in this architecture, the Crypto-Asset Reporting Framework ("CARF").

2.1.1. CARF

37. The 2022 Report noted that the OECD was developing a new global tax transparency framework designed to ensure the collection and exchange of information on transactions in Crypto-Assets, as well as conducting a first review of the Standard for Automatic Exchange of Financial Account Information for Tax Purposes (the Common Reporting Standard or CRS). This work resulted in the publication of the "*Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard*" in October 2022 (OECD, 2022[9]). This publication contains the rules and commentary of the Crypto-Asset Reporting Framework and a set of amendments to the CRS that can be transposed into domestic law, as approved by the OECD Committee on Fiscal Affairs in August 2022.

38. This new reporting framework was prompted by the fact that certain characteristics of the Crypto-Asset sector have reduced tax administrations' visibility on tax-relevant Crypto-Asset activities, increasing the difficulty of verifying whether associated tax liabilities are appropriately reported and assessed. In particular, the Crypto-Asset market is characterised by a shift away from traditional financial intermediaries, the typical information providers in third-party tax reporting regimes, such as the CRS, to a new set of intermediaries and other service providers which only recently became subject to financial regulation and are frequently not yet subject to tax reporting requirements with respect to their users. Furthermore, because the CRS applies to traditional financial assets, Crypto-Assets will in most instances not fall within its scope. Finally, the ability of individuals to transfer Crypto-Assets from wallets held with service providers to wallets unaffiliated with any service provider and transfer such Crypto-Assets across jurisdictions, presents the risk that Crypto-Assets could be used for illicit activities or to evade tax obligations. A new tax reporting framework was therefore needed to obtain visibility on Crypto-Assets.

39. Recognising the importance of addressing the above-mentioned tax compliance risks with respect to Crypto-Assets, the OECD developed the CARF, fulfilling a mandate from the G20. The CARF provides for the reporting of tax information on certain transactions in Crypto-Assets in a standardised manner, with a view to automatically exchanging such information with the jurisdictions of residence of taxpayers on an annual basis. The CARF thereby covers a wide range of Crypto-Assets not currently within the scope of the CRS.

40. The CARF consists of rules and commentary which set out: i) the Crypto-Assets that are in scope; ii) the Entities and individuals subject to data collection and reporting requirements; iii) the transactions subject to reporting, as well as the information to be reported in respect of such transactions; and iv) the

due diligence procedures to identify the relevant individuals and entities, and to determine the relevant tax jurisdictions for reporting and exchange purposes.

41. As noted above, the report also included amendments to the CRS to ensure that indirect investments in Crypto-Assets through derivatives and investment vehicles are now covered, as well as other updates to the CRS made based on lessons learned following its implementation by countries around the world.

42. Work to develop an implementation package to ensure the consistent domestic and international application and effective implementation of the CARF, as well as the amended CRS, is nearing completion.

43. By exchanging information with their international partners via the CARF, tax administrations will be able to access third-party data on their taxpayers' activities relating to Crypto-Assets from a range of foreign data sources (such as providers facilitating exchanges between Crypto-Assets). This additional transparency will likely reduce the attractiveness of tax evasion via Crypto-Assets, allowing tax administrations to improve taxpayer compliance with respect to this sector. The CARF is therefore an example of how tax co-operation is responding to important developments in the financial sector and implementing changes based on lessons learned over time, thereby upholding the tax transparency gains made in recent years.

2.1.2. Advances on other cross-border information exchange initiatives

44. Beyond the CRS and CARF, the OECD has continued to expand the tools and common approaches to other exchange of information on cross-border issues. This includes the Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy (OECD, 2020[10]). These Model Rules were developed in light of the rapid growth of the digital economy, especially the sharing and gig economy. This work recognises that the activities facilitated by platforms that operate in the sharing and gig economy may not always be visible to tax authorities, and may not be self-reported by taxpayers.

45. The Model Rules, which have also been translated into an EU directive, require digital platforms to collect information on the income realised by those offering accommodation, transport and personal services through platforms and to report the information to tax authorities (as well as a further optional module for the sale of goods and rental transport). This provides several benefits. It helps taxpayers to be compliant with their tax obligations. It also helps to reduce compliance burdens on the platforms, by having a single, common set of information reporting obligations. Finally, it responds to the evolving economy, by ensuring a level-playing field between platforms and with traditional businesses, as well as leveraging the benefits of activities that were previously carried out in the informal cash economy now being identifiable because they take place on digital platforms.

46. The Model Rules are now being implemented in a number of jurisdictions. Since November 2022, 25 jurisdictions have already signed the Multilateral Competent Authority Agreement to facilitate the international exchange of information on the basis of the Model Rules (OECD, 2023[11]).

47. In addition, jurisdictions around the world remain committed to ensuring the effective enforcement of the CRS. To assist, the OECD released in 2018 the Model Mandatory Disclosure Rules on Common Reporting Standard Avoidance Arrangements and Opaque Offshore Structures (OECD, 2018[12]). As one part of their strategy in this regard, since November 2022, 17 jurisdictions have signed the Multilateral Competent Authority Agreement to facilitate the international exchange of information on the basis of the Model Rules (OECD, 2023[13]).

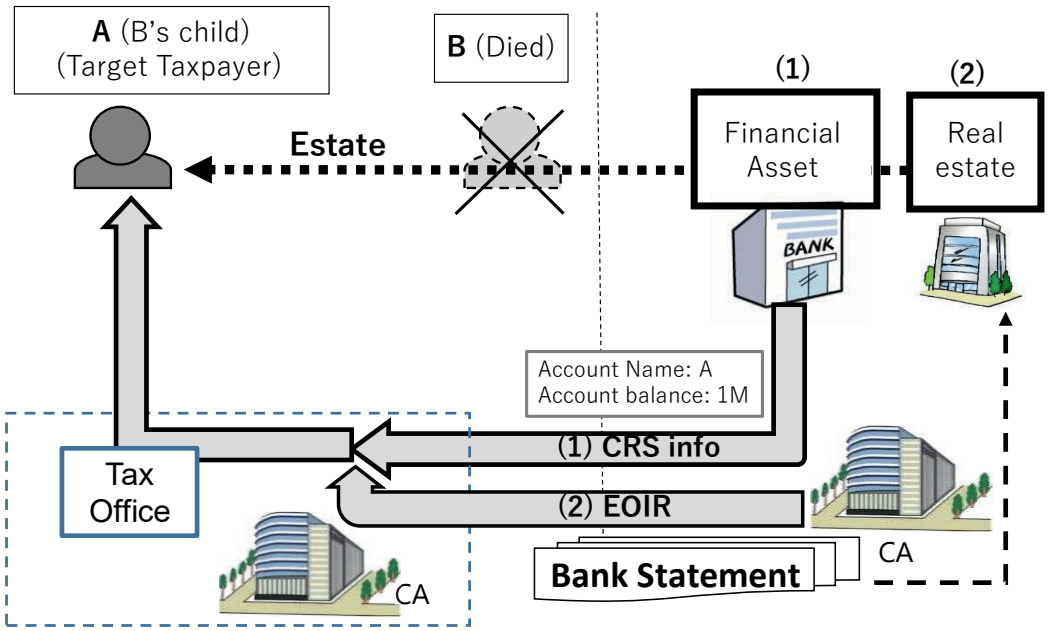
2.2. What's New

48. Jurisdictions continue to make progress in the effective use of information, in particular the CRS, recognising that these information reporting frameworks not only have a deterrent effect, but are of great value in identifying and pursuing inquiries, audits and investigations.

2.2.1. Case study on how Japan's National Tax Agency is using CRS

49. The National Tax Agency (NTA) of Japan uses data received from other jurisdictions through the CRS to facilitate compliance risk management projects. CRS data is cross-checked with other internal data points (for example, the records of cross-border money transfers, taxpayers filing information, and supporting documents such as foreign asset statements). An example of how the NTA uses CRS data is included in Figure 6 below.

Figure 6. National Tax Agency use of CRS data when examining an inheritance tax return



Source: NTA, 2022

50. In the above example, an NTA tax auditor used CRS information as part of a review of an inheritance tax return. Person B in the above figure was a relative of Person A and had offshore financial assets. When Person B passed away, Person A inherited these assets.

51. Person A filed an inheritance tax return but Person A did not disclose the offshore financial assets. Person A anticipated that a tax auditor would not have been aware of these offshore assets since they were held outside of Japan. However, the tax auditor cross-checked the inheritance tax return with CRS information. The auditor realised that the offshore financial assets had not been included in the tax return and the tax auditor flagged this case for field audit.

52. In the process of the field audit, Person A did not disclose any documents relating to the offshore financial assets, although CRS information indicated that Person A should have offshore financial assets which may have been left to Person A by the deceased. The tax auditor determined that Exchange of Information on Request could help the tax auditor access more information on these assets. The NTA's competent authority then communicated with its EOI partner to obtain bank statement information. The

partner jurisdiction shared the relevant information. This bank statement noted that Person A had financial assets in the bank as well as real estate assets, which was new information to the auditor.

53. The field audit ultimately led to the taxpayer paying the inheritance tax on the previously non-disclosed assets as well as the associated penalties. In this case the CRS information was a trigger to begin an investigation into the taxpayer's wider financial position.

2.2.2. Case study on how the National Tax and Customs Administration of Hungary is using CRS data

54. The National Tax and Customs Administration (NTCA) of Hungary uses data received from other jurisdictions through the CRS to facilitate compliance risk management projects. CRS data is primarily used as part of the NTCA's "supportive procedures" programme. After receiving CRS data and identifying the relevant taxpayers, there is a risk assessment process. In this process, the received CRS data and the taxpayers' tax returns are compared. Where a discrepancy exists between the information received on exchange and a taxpayer's tax return, a notice is sent to the taxpayer asking them to explain the anomaly and they are invited to file an updated tax return. Participation in this process is voluntary for the taxpayer. However, where they participate in the programme, a taxpayer will not face sanctions.

55. The NTCA measures the results of the supportive procedures programme. A case is defined as successful where a discrepancy between the CRS data and the tax return is settled (i.e. where an updated tax return is filed), or where it emerges that the anomaly was an error. The success rate of the programme is 60%.

2.2.3. Connected Systems

56. Over the last 20 years, the data available to tax administrations has grown exponentially. Not only has this happened domestically, but an increasing number of frameworks have been developed to facilitate cross border collaboration. For example, the international Exchange of Information on Request standard allows tax authorities to request information on accounting records, bank accounts and on legal and beneficial ownership of assets, for enforcing the provisions of a tax treaty or its domestic tax laws. Furthermore, the Common Reporting Standard, CARF, Model Rules for digital platforms and Model Rules for mandatory disclosure described above facilitate the collection of a predefined set of information from intermediaries with respect to information held abroad and to automatically exchange this information on an annual basis.

57. In addition to the data exchanged from cross border collaboration, tax administrations have increased access to data from a range of sources domestically such as e-invoices, connected devices such as electronic cash registers, and other government agencies. Furthermore, tax administrations are now able to collect unstructured datasets from sources such as social media which can add a new dimension to a tax administration's ability to understand patterns of taxpayer behaviour. Access to this wealth of data has been facilitated by the increasing use of technology by tax administrations. This has opened up game changing opportunities to:

- Identify and tackle non-compliance, thus increasing the deterrent effect, and
- provide new services to taxpayers to make compliance easier.

58. Big data has been central to this work, with the 2022 edition of the OECD's Tax Administration series reporting that almost 90% of participating tax administrations are using big data analysis tools (OECD, 2022[14]), such as analytical dashboards, rules based automatic compliance checks, predictive data modelling and algorithms, to deliver more complex risk assessment. This is helping to uncover new connections between taxpayers and undeclared assets and income allowing for more effective risk targeting. The OECD Tax Administration 2022 also highlights that over 80% of participating tax

administrations reported using third party data to pre-fill tax returns in some way showing how exchanged data can be used to help taxpayers complete their tax return. The OECD report *Advanced Analytics for Tax Administration: Putting data to work* (OECD, 2016[15]) also highlighted how tax administrations are using analytics to support compliance and service delivery.

59. As noted in the 2022 Report, this new data capability is opening up the possibility of moving from receiving third-party information periodically to more a targeted and real-time basis. This is particularly common in e-invoicing and a number of jurisdictions (including Argentina, Brazil, Croatia, Czech Republic, India, Italy and Türkiye) have already introduced real-time invoice reporting for VAT purposes, requiring businesses to report sales transactions electronically to their tax authority as transactions occur. In some instances, software is relied upon to integrate the business' accounting system with that of the tax administration, resulting in faster and more accurate compliance. The OECD reports *Tax Administration 2022* (OECD, 2022[14]), and *Tax Administration 3.0 and Electronic Invoicing* (OECD, 2022[16]) highlight how tax administrations are implementing these systems.

60. These present policies and solutions have been highly successful. However, as technology progresses and the digital transformation of a wider society continues, there are opportunities to consider how to continue to advance and make the most efficient use of this information, and to inform future policy choices as to what kinds of new information is needed, and in what form, and how it can be more seamlessly linked to tax collection efforts.

61. The integrated data vision explored in the OECD Forum on Tax Administration 3.0 report (OECD, 2020[17]) is that by designing the data collection, reporting and exchange elements into the existing processes of taxpayers and businesses, with the data moving automatically through machine-to-machine based processes, including potentially in real-time, tax compliance can increasingly be designed in. Through this, burdens can be reduced for businesses and taxpayers, and tax certainty increased, as there are opportunities for more real time views of a taxpayer's status and real time payments. This is a vision of connected systems and compliance by design, and options for progressing this vision are currently being explored by FTA members.

2.3. Conclusion

62. As noted previously, the 2022 Report outlined a vision for how the international information exchange architecture could evolve. There are common themes in how that evolution is taking place: (i) evaluating changes in the economy, business models and taxpayer behaviour, to adapt and ensure tax administrations are obtaining the information they need; (ii) evaluating the most effective formats to receive information to enable its use, including standardised digitalised formats, real-time exchanges, and building in design features to ensure the best quality of the information that will be reported from the outset; (iii) collaborating with gatekeepers of information to ensure mutual reductions in burdens and high quality information exchange; (iv) making greater use of technology solutions to streamline the gathering and use of information by tax administrations.

63. These features are relevant to policy makers as they consider the next steps in tax transparency and matters beyond corporate tax. For example, recognising the evolving technology tools and the way they can improve access to information and reduce costs, and the ways that common standards pave the way for common solutions, there may be other advances that can be made. For example, there may be ways to maximise standardised formats and technical solutions to automate searches of existing ownership information and data repositories that are publicly available, to reduce more costly and time consuming investigations. There may be ways to draw on the design principles that could also be of relevance beyond corporate tax. For example, standardised documentation and the ensuing potential for common international risk assessment approaches could also be of relevance to certain cases of personal

income tax (such as highly mobile workers, or crypto-assets), or for VAT and other taxes which have a cross-border element.

Potential areas of consideration for the future
Beyond corporate income tax: Embed the principles of real-time information and compliance by design into all new reporting regimes, while also maximising the standardisation of information architecture within data repositories.

3 Implications for developing countries

3.1. Update

64. For many years, work has been ongoing to better address the needs of developing countries as well as providing capacity building. The seriousness of this issue is well known, and remains a central part of the international tax agenda, as recognised in the UN Sustainable Development Goals, Addis Ababa Action Agenda, and the consistent calls of the G7 and G20.

3.1.1. Benefits of the Two-Pillar Solution

65. The rules of the Two-Pillar Solution have been significantly shaped by the views and needs of developing countries, resulting in the potential for meaningful benefits from the Two-Pillars to accrue to developing countries.

66. Economic impact assessment work has been carried out to identify the potential revenue gains from the Two-Pillar Solution. With respect to Amount A of Pillar One, the primary goal is the reallocation of taxing rights. An estimated USD 200 billion of profit (2021) or USD 132 billion on average over the period 2017-21 will be allocated under the new system. While revenue gains are not the primary goal of Pillar One, the OECD estimates that there will be an annual global revenue gain, of USD 13-36 billion (2021) or USD 12-25 billion per year on average over the period 2017-21. These economic impact assessments could vary depending on the detailed design of the rules, which are still under discussion. While not all developing countries are the same, on average low and middle income jurisdictions gain more than high income jurisdictions, as a share of existing CIT revenues (almost 3% of CIT revenues for low-income jurisdictions compared to approximately 1% for high-income jurisdictions). This is because under the existing system developing countries tend to have little taxing rights over residual profits of the in-scope MNEs, which Pillar One will address. The revenue gains are expected to grow over time, on the basis of the planned expansion of scope by reducing the revenue threshold for Groups to be in scope of the rules.

67. Several changes to the Amount A rules that have been negotiated over the last years have significantly contributed to the expected revenue benefits for developing countries. This includes the comprehensive scope, even where those large Groups do not have their supply chains or profits in developing countries under the current tax rules. There are special revenue sourcing rules that provide additional revenue from finished goods to developing countries (referred to as the “tail-end revenue”). Generally, developing countries will not be required to provide relief of double taxation; benefit from a lower nexus test which provides for the taxing right to apply in smaller economies; and will benefit from a de minimis rule in the “marketing and distribution profits safe harbour” to keep their Amount A allocation protected from offsetting adjustments; and the extractives industry (of particular relevance to a number of developing countries) has been excluded. OECD analysis indicates that the combination of the comprehensive scope, tail-end revenue, protection from relieving double taxation, lower nexus threshold,

and de minimis rule in the marketing and distribution profits safe harbour represent a doubling of the tax base increase for low and middle income countries compared to a scenario without these provisions.

68. With respect to Pillar Two, OECD analysis estimates annual global revenue gains of up to USD 220 billion (for 2018). More widely, there are estimated benefits in terms of behavioural changes from MNEs, as well as from the related reforms that countries may take in response to the global minimum tax (such as reform of inefficient tax incentives). In addition, the GloBE Rules are designed in a way that allows for the primary taxing right to be exercised by source countries. This is through the provision for a Qualified Domestic Minimum Top-up Tax. This gives source countries the first right to apply the top-up tax to the subsidiaries of MNE Groups that are located in their country, and applies before any CFC rules, the Income Inclusion Rule, or the UTPR, often referred to as the Undertaxed Profits Rule. Therefore developing countries have the opportunity to assert their taxing rights and collect revenue on low-taxed groups located in their jurisdiction. As the GloBE Rules work as a co-ordinated global effort this provides further impetus for developing countries to implement a Domestic Minimum Top-Up Tax without fear of being uncompetitive and losing investment, because MNE Groups will expect to pay the tax one way or another. This further gives developing countries an opportunity to engage in wider consideration of policy reform, particularly in connection with tax incentives.

69. The Two-Pillar Solution also provides opportunities for peer learning and co-operation in the aspects of implementation and review, as described in Chapter 1 of this report. That can provide incidental benefits for developing countries, as they work alongside other tax administrations.

3.2. What's new

3.2.1. New pilot programme exploring how tax incentives will be impacted by Pillar Two

70. The global minimum tax rules have been agreed and are being implemented worldwide. Supporting developing countries to analyse the impact of these rules and understand how they need to react is a high priority. With USD 220 billion in additional tax set to be collected, developing countries need to make sure they are in a position to collect their share. The OECD Secretariat has launched a series of nine pilot programmes to help countries with this work and assist them in developing appropriate policy and legislative responses. Experts will assist developing countries understand how their corporate income tax system compares to the GloBE tax base, analyse tax incentives to understand who is eligible and how the design interacts with the global minimum tax rules and understand MNE activity to see what impact the GloBE Rules will have in their jurisdiction. The pilots will provide insight into the issues developing countries face and the learning obtained can be the basis for rolling out wider support to Inclusive Framework members in the future.

71. Furthermore, work on this topic will continue in the Platform for Collaboration on Tax ("PCT"), which is a joint effort of the International Monetary Fund, the United Nations, the World Bank Group and the OECD. Part of the PCT's workplan includes an update of the toolkit on tax incentives to take into account the impact of the global minimum tax.

3.2.2. Capacity building to support the Two-Pillar Solution

72. Plans are in place for capacity building on Amount A and the GloBE Rules. The Two-Pillar Solution presents challenges for all countries; but those challenges are more pronounced in developing countries where capacity and resources are more stretched.

73. There are three parts to the life cycle of implementing these new reforms, and in respect of which capacity building can be provided.

74. First is awareness raising so that political decision makers faced with multiple initiatives and competing demands have the necessary information to take appropriate decisions. Developing countries can be supported in this regard through regional tax organisations, development banks, and political bodies such as the G20, Association of Southeast Asian Nations (ASEAN) and African Union, as well as through the initiatives of the Inclusive Framework (such as the pilot projects noted above, and the ongoing work on economic impact assessments). The OECD has produced a series of webinars on specific topics relevant to the Two-Pillar Solution, including general overview modules as well as more detailed, in-depth courses. These have been supplemented with live Q&A sessions with experts in some cases. A series of multilateral training events is also planned throughout the year.

75. Second is support in implementation of the rules. The rules for the two pillars are detailed and include some complicated concepts. Support can be provided to technical personnel in developing countries (including policy makers, legislators and tax administrations responsible for administration) to understand the rules, through training, model legislation, handbooks, guidance, and bespoke advice in reviewing draft legislation. This is also the approach used in respect of the pilot programmes described above. For example, ATAF has published a Suggested Approach (ATAF, n.d.[18]) containing model legislation for its members to use in implementing a Domestic Minimum Top-up Tax, and will support its members to implement the rules into their domestic system. Many agencies have also made commitments to capacity building efforts on the two pillars. For example, the UK tax administration, HMRC, is launching a Knowledge Sharing Network to support implementation of the Two-Pillar Solution under the auspices of the Forum on Tax Administration's Capacity Building Network. This will be hosted largely on the Knowledge Sharing Platform for Tax Administrations, a global online resource for sharing knowledge and expertise in tax administration which the Canada Revenue Agency continues to enhance. The Asian Development Bank has launched an Asia-Pacific Tax Hub and is working on both a Helpdesk to support the implementation of the Two-Pillar Solution, as well as toolkits on implementation of the global minimum tax and Amount A.

76. Finally, there is support in administration of the rules, including ensuring smooth access by developing countries to the relevant data necessary to administer the rules. In the case of both the GloBE Rules and Amount A, many of the rules are mechanical in nature, meaning there is scope for joint international collaboration between tax administrations to share resources and conduct co-ordinated, and perhaps even partly automated risk assessments. In addition, the design of the Amount A Tax Certainty Process (described in Chapter 1) will largely rely on the MNE Group and the Lead Tax Administration, supported by a representative and diverse panel to conduct the review of the Amount A documentation. The mix of tax administrations on panels will enable tax administrations to learn from each other and develop new skills. Additionally, the design of the process ensures that there are ways that burdens can be shared to a certain extent. At the same time, it is recognised that the panels need to be representative in order to be effective. Capacity building for developing countries to participate in that process will also be relevant, and could be considered with the help of regional tax organisations. For example, recognising the relationships and connections that regional tax organisations have in their respective regions, it may be possible to identify regional pools of experts that could serve on the panels for the tax certainty process.

77. Capacity building on these three aspects – awareness raising, legislative support and administration – will be key to ensuring that developing countries can access the benefits of the Two Pillar solution as soon as possible.

3.2.3. Tax challenges beyond the pillars

78. There are other priorities for developing countries beyond the Two-Pillar Solution. The broader digitalisation challenges as well as the assistance being provided to meet them are discussed below. These priorities (among others such as environmental tax, personal income tax, and taxation of extractives) have been identified by a number of organisations, including the IMF, ATAF, and the PCT.[1]

VAT on e-commerce and digital trade

79. VAT is often the main source of revenues for developing countries (on average in 2020, representing 28% of total tax take in Latin America and the Caribbean, 23% in Asia-Pacific, and 29% in Africa) (OECD, 2022[19]). Safeguarding these crucially important revenues in economies that are increasingly being transformed by digitalisation and globalisation is a priority for many developing economies. The strong growth of e-commerce and digital trade has created significant challenges for VAT systems. Traditional VAT rules often lack effective provisions to impose VAT on digital sales, especially when these are made by offshore online vendors. This can cause increasingly important VAT revenue losses and unfair competitive pressure on domestic businesses that cannot compete against the continuously rising volumes of online sales on which no or an inappropriately low amount of VAT is levied. Action is therefore required to safeguard the revenues necessary to finance sustainable development and to strengthen domestic resource mobilisation after the COVID-19 crisis, as well as to minimise competitive distortion between foreign online sellers and local physical stores.

80. In response, the OECD delivered a comprehensive internationally agreed policy framework for addressing the VAT challenges of the digital economy, reflecting broad consensus on effective and efficient solutions among tax authorities worldwide. These solutions have already been implemented in over 90 jurisdictions, with considerable success in terms of VAT revenues collected and in protecting brick-and-mortar stores against unfair competition from online vendors. There is growing demand for these solutions from developing countries, which may lack the capacity to implement them rapidly and effectively.

81. In response to the rising number of requests for technical assistance on VAT and e-commerce, the OECD launched a comprehensive and ambitious capacity building programme. Three regional VAT Digital Toolkits have been produced, in partnership with the World Bank Group and regional organisations, respectively for Latin America and the Caribbean (with CIAT and IDB), for Asia Pacific (with ADB), and for Africa (with ATAF). These toolkits provide detailed guidance for the design and implementation of a comprehensive VAT strategy directed at e-commerce and digital trade, based on internationally agreed principles and taking into account specific regional circumstances and challenges. In parallel, a programme for the delivery of bespoke technical assistance has been launched to assist interested developing economies in addressing the VAT challenges of e-commerce and digital trade growth. Bilateral technical assistance was provided to more than 20 developing countries in 2022 and this work will be continued and further expanded in 2023.

82. Given the significance of VAT as a key source of revenue for developing countries further work in this area will enable developing economies to maximise the potential of their VAT systems for domestic resource mobilisation purposes. In this context the work done by the OECD, IMF as well as regional organisations that assist developing economies with the design and operation of their VAT systems remains highly relevant.

The digitalisation of tax administration

83. The update of tax administration for the digital age will be vital for the delivery of services for taxpayers, and revenues for governments. The opportunity for developing countries to ‘leapfrog’ from paper-based systems to advanced technology-based systems is significant, as it can increase revenue and expand the tax base, result in more efficient use of resources, as well as enable the completion of more risk assessments, using more sophisticated tools. These issues were explored in the OECD 2021 report Supporting the Digitalisation of Developing Country Tax Administrations (OECD, 2021[20]).

84. Digitalisation also creates the opportunity to take advantage of advances in tax co-operation, such as electronic invoicing and more efficient third-party reporting, paving the way toward more efficient and connected systems. It can also facilitate investment, as it improves the ease of doing business. However, there are many challenges associated with the digitalisation of administration, including having the experts

needed to provide capacity building. Tools such as the Tax Administration Diagnostic Assessment Tool (TADAT)[2] and the FTA Digital Transformation Maturity Model (OECD, 2022[21]) can play a key role in this regard. Regional organisations such as ATAF, as well as the Tax Inspectors Without Borders program, are expanding their support in this area.

Information Security Management

85. Information Security Management (ISM) is a key area of work for many developing countries as they venture into new areas of tax co-operation, notably automatic exchange of information (AEOI) for tax purposes including the Common Reporting Standard (CRS) and Country-by-Country Reporting (CbCR). Countries are expected to keep the information received under AEOI confidential and properly safeguarded, and to use it strictly in line with agreed purposes. In relation to CRS exchanges, jurisdictions are required to be cleared under the Global Forum on Transparency and Exchange of Information for Tax Purposes' (Global Forum) "confidentiality and data safeguards" (CDS) peer review before they can exchange.

86. With this context in mind, the Global Forum Secretariat has put in place a programme of capacity building aimed at supporting developing country tax administrations to improve their ISM frameworks where needed, and to prepare for their CDS peer review. This support is part of the broader strategy "Unleashing the potential of AEOI for developing countries – 2021 Strategy" (OECD, 2021[22]) aimed at facilitating developing countries' participation in AEOI. The strategy and methodology involve a step-by-step, modular approach whereby developing countries are assisted on the needed modalities of AEOI implementation (e.g. legislation, treaties, ISM and AEOI-IT systems) according to practicable and effective timelines. Over 10 developing countries were assisted in improving their ISM and thereby successfully underwent the CDS peer review. Over 20 other jurisdictions are currently engaged in the ISM programme and making strides towards undergoing the review. 35 developing economies have passed their CDS peer review and are exchanging automatically. This AEOI support is available to countries wishing to implement the CRS, CbCR, or both.

3.3. Conclusion

87. This report, together with the 2022 Report, shows that tax policy and tax administration is increasingly focussed on issues related to the digitalising of the economy. That includes policy reforms such as the Two-Pillar Solution, the CARF, the move to more real-time information collection and connected systems, and guidelines on VAT for e-commerce and digital trade, as well as the ways in which tax administrations are increasingly benefiting from digital solutions and tools. That trend will continue, with changes in technology both driving and enabling reforms and administration for the long term.

88. However, in developing countries with lower capacities to implement reforms and enable comprehensive digitalisation of their tax administrations, there is a risk that the gap between advanced economies and lower capacity economies could widen. Capacity building on all aspects of the digitalised economy, and delivering simplification where possible will be needed.

89. The demand for assistance is huge, but the supply of expertise and resources is not meeting that demand. Support for the implementation of Pillar Two is urgent, particularly with respect to the GloBE Rules, where countries are likely to forgo the opportunity to collect revenues from 2024 if no change is made.

90. In addition, recognising the breadth of issues where developing countries are making demands – beyond corporate income tax – such as VAT and digitalisation of tax administrations, capacity building will need to be multi-faceted to ensure that there are lasting outcomes that can assist in meeting the Sustainable Development Goals.

Conclusions and next steps

Developing countries: G7 countries to use their resources, including financing, expertise and political dialogue, for delivery of capacity building, including:

- To support the widespread implementation of the Pillar Two rules, particularly the Domestic Minimum Top-Up Tax, such as through the OECD's Tax and Development Capacity Building Programme and Global Relations Training Programme;
- Supporting VAT reforms related to e-commerce and digital trade;
- Supporting digitalisation of tax administrations, including through the Forum on Tax Administration, and other international and regional organisations.

Notes

[1] See for example, IMF, International Corporate Tax Reform, February 2023, available at https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/06/International-Corporate-Tax-Reform-529240; African Tax Administration Forum (ATAF), African Tax Outlook, 2021 available at https://events.ataftax.org/index.php?page=documents&func=view&document_id=155; Platform for Collaboration on Tax (PCT), First Global Conference Report, 2018 available at https://www.tax-platform.org/sites/pct/files/publications/130559-WP-ReportFinalMar.pdf.

[2] https://www.tadat.org/home.

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2023 Progress Report on Tax Co-operation for the 21st Century

OECD REPORT FOR THE G7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS, MAY 2023, JAPAN

This report reflects on the implications of the evolving international tax policy landscape for international tax co-operation and provides an update on a report published in May 2022, *Tax Co-operation for the 21st Century*. It analyses how the principles set out in the 2022 Report are being incorporated by the members of the OECD/G20 Inclusive Framework on BEPS into the design of the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, focusing on Amount A and the GloBE Rules. In addition, it shows that the principles of the 2022 Report beyond corporate income tax are being translated into action, such as with technology-based solutions for effectively collecting and using information for personal income tax purposes. Finally, it notes some of the recent developments in capacity building, as called for by the 2022 Report, and identifies some of the work that remains to be done to ensure that there are lasting outcomes that can assist in meeting the Sustainable Development Goals. The report provides potential areas of consideration and next steps to continue efforts to enhance international co-operation in the context of increasingly co-ordinated international rules.

This report was prepared by the OECD to inform the discussions at the May 2023 meeting of G7 Finance Ministers and Central Bank Governors, at the request of the G7 Japanese Presidency.



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