



# IMPACT AND DOMESTIC POLICY RESPONSE TO PILLAR TWO

**Thirteenth IMF-Japan High-Level Tax Conference  
for Asian Countries**

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# International tax reforms

## Overview of the Two-Pillar Solution

### Amount A

Allocates new taxing rights to market jurisdictions on the profits of the largest and most profitable MNEs

### Amount B

Provides for a simplified and streamlined approach to the application of the arm's length principle to in-country baseline marketing and distribution activities



### Global Minimum Tax

Creates a global minimum effective corporate tax rate of 15%. Includes: Income Inclusion Rule, UTPR and Qualified Domestic Minimum Top-Up Tax

### Subject-to-Tax Rule

A treaty-based rule that targets risks to source jurisdictions on a defined set of intra-group payments where there are low nominal rates of taxation



# Global Minimum Tax

## Overview

### 15% effective tax rate

- Applied on a jurisdictional basis
- MNE Groups with turnover > EUR 750m

### Based on Financial Accounts

- With adjustments agreed to bring financial accounts into alignment with the local tax base

### Substance-based income exclusion

- Starts at 8% of tangible assets and 10% payroll
- >10 years, 5% of tangible assets and payroll

### Common approach

- Agreed by >135 countries & jurisdictions
- Not required to adopt, but will align with agreed rules & accept adoption by others

### Interlocking rules

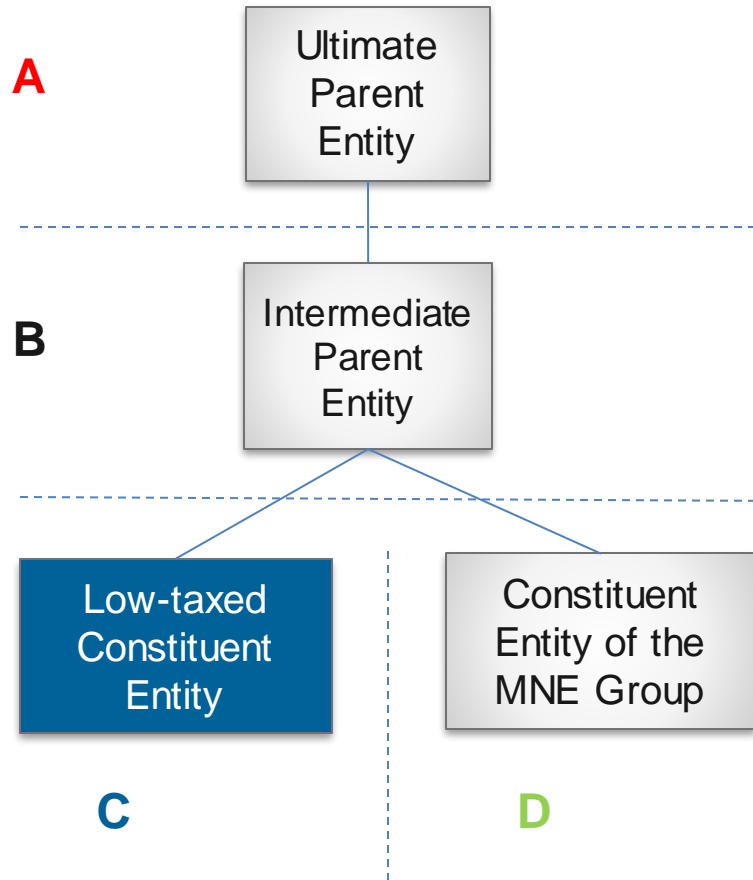
- Income Inclusion Rule
- UTPR
- Qualified Domestic Minimum Top-Up Tax



# Interlocking rules: agreed rule order

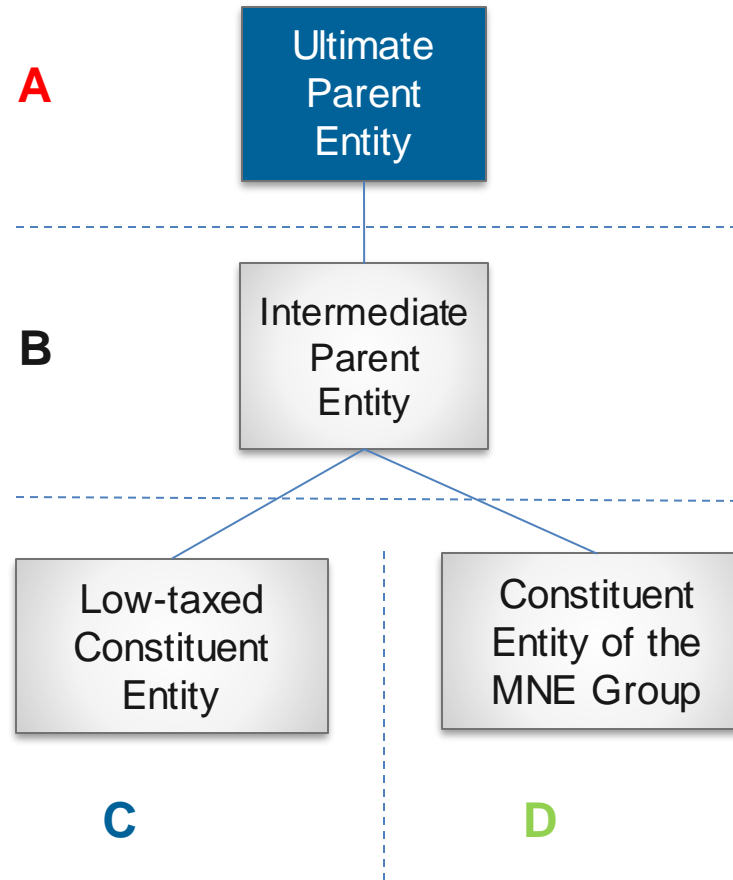
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## Qualified Domestic Top-Up Tax



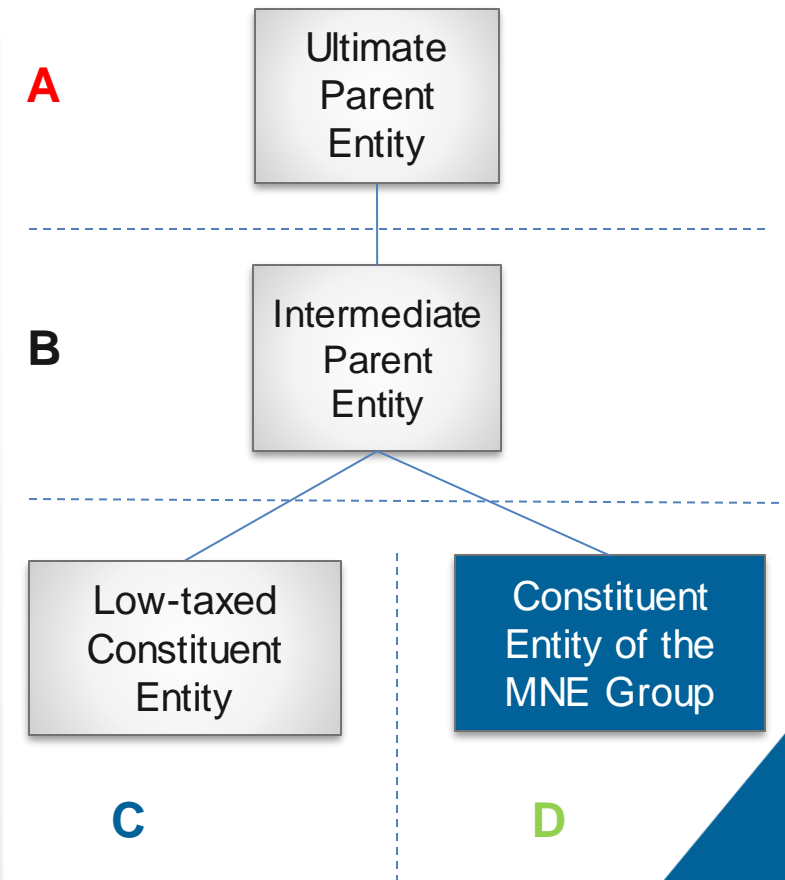
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## Income Inclusion Rule



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## UTPR





# Status of implementation

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- **The Global Minimum Tax is already a reality**
  - **Around 45 jurisdictions** have implemented or will implement the global minimum tax taking effect in 2024 or 2025 (approx. 35 for 2024 only)
  - **About 10 jurisdictions** are taking steps towards implementation at a later stage
  - **Around 60% of large MNEs** (above EUR 750million turnover) will be in-scope **by the end of 2024**
  - **Around 90% of large MNEs** will be in-scope **by 2025 when the UTPR comes into effect**



# Implementation of the GMT in the region

Number	Jurisdiction	Implementation status	IIR	UTPR (2025)	DMTT
<b>Implementation as of 2024</b>					
<b>4</b>	Japan	Enacted legislation	Yes		
	Korea	Enacted legislation	Yes	Yes	
	Vietnam	Enacted legislation	Yes		Yes
	Australia	Draft legislation	Yes	Yes	Yes
<b>Implementation as of 2025</b>					
<b>5</b>	Malaysia	Enacted legislation	Yes		Yes
	New Zealand	Enacted legislation	Yes	Yes	
	Thailand	Draft legislation	Yes	Yes	Yes
	Hong Kong (China)	Stated intention to implement	Yes	Yes	Yes
	Singapore	Stated intention to implement	Yes		Yes
<b>Other concrete steps</b>					
<b>1</b>	Indonesia	Framework legislation in place	TBD	TBD	TBD



# ECONOMIC IMPACT



# Economic and revenue impacts of Pillar Two

## Increased tax revenue

- Increased corporate income tax (CIT) revenues by **USD 155-192 billion** (6.5%-8.1% of global CIT) per year
- Two-thirds directly, one-third indirectly through reduced profit-shifting

## Reduced low-taxed profit

- Global amount of MNE profit taxed below 15% is estimated to fall by **more than two-thirds**
- Remaining low-taxed profit due to SBIE

## Reduced profit-shifting

- Estimated fall in global shifted profits by **around 50%**

## Reduced tax rate differentials

- Reduction in differentials between investment hubs and non-hub jurisdictions **by around 50%**
- This reduces profit-shifting incentives, and can improve global capital allocation





# Jurisdiction-group tax revenue implications

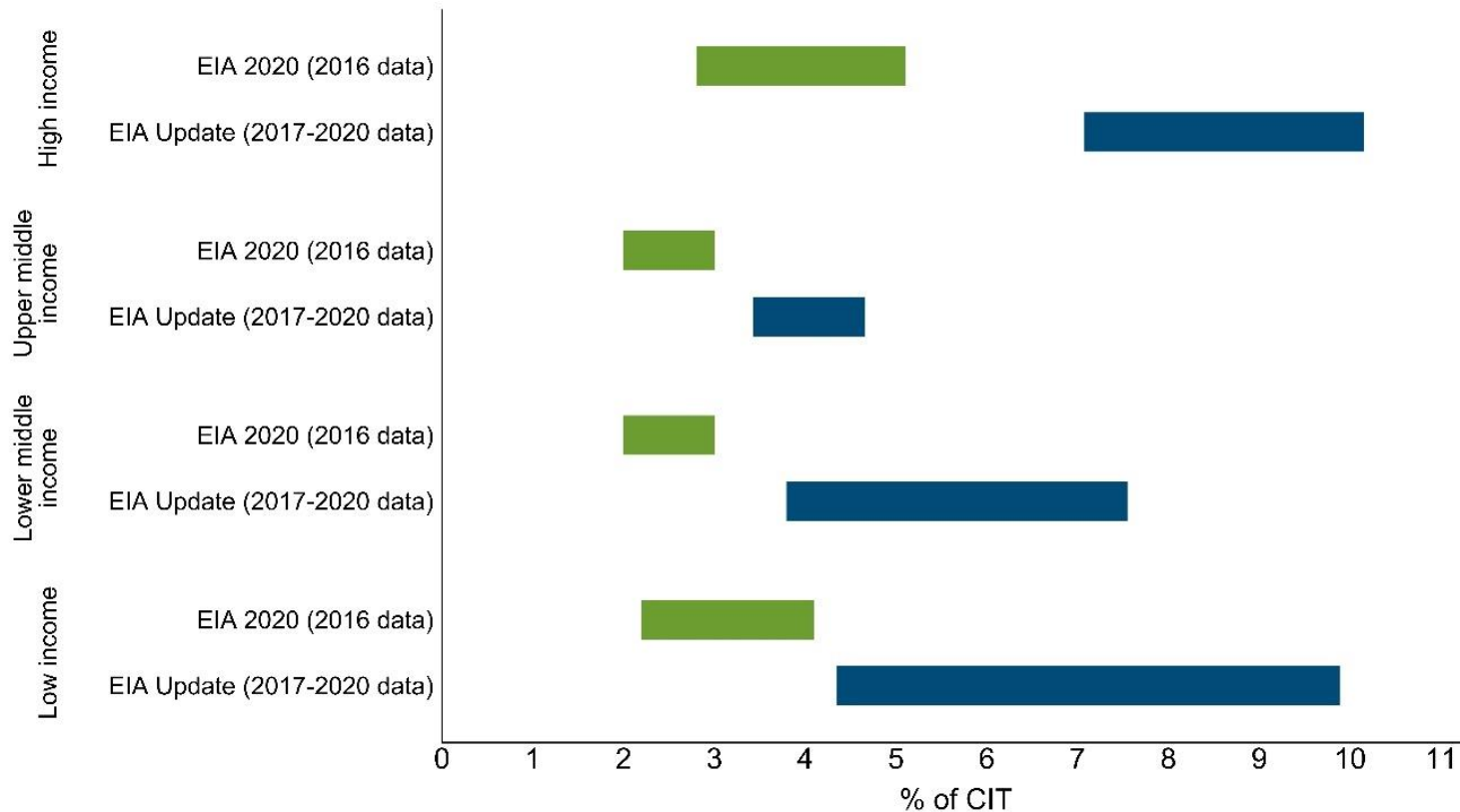
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- Revenue gains are of a similar order of magnitude across most income groups
- Gains are shared widely among jurisdictions because of the location of low-taxed profit
- Revenue gains will depend on implementation decisions of jurisdictions
- UTPR gains for some jurisdictions could be larger than these estimates if some larger countries do not implement the rules



# Increase in tax revenue

## Revenue gains by jurisdiction, % of CIT, compared to EIA 2020



- Revenue gains accrue to all jurisdiction groups
  - Higher gains for high and low-income relative to middle-income countries
  - Investment hubs also gain revenue, though there is a high degree of uncertainty over the scale of these gains
- The distribution of revenue gains across jurisdictions is highly sensitive to the assumptions around implementation

**Note:** The estimates are presented as an average of the 2017-2020 results. Estimates for the EIA Update (2017-2020) are presented for IF member jurisdictions only. Estimates include both direct and indirect revenue gains. The estimates account for the variation in the sensitivity of profit shifting. Estimates are presented based on the 'partial implementation' scenario discussed above. Estimates are presented for the year-one SBIE scenario (10% on payroll and 8% on tangible assets). Estimates are presented net of any lost revenue from CFC regimes modelled. The EIA 2020 results refer to the year 2016 are based on results from OECD (2020), are presented for IF and non-IF member jurisdictions.



## Location of low-taxed profit

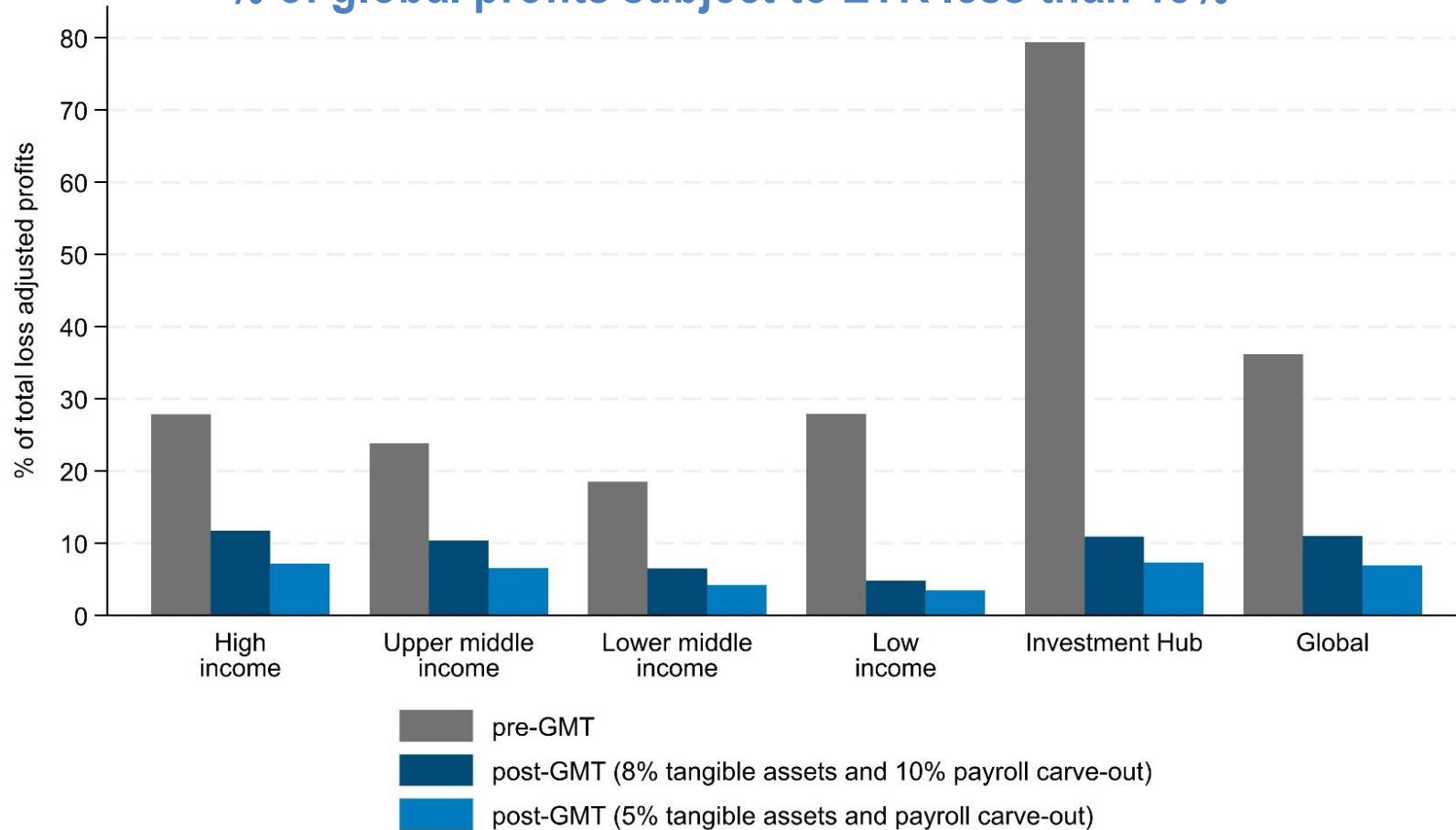
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- **Broad-based revenue gains across jurisdictions stem from the key finding in the first paper of substantial low-taxed profit in high-tax jurisdictions,**
  - Mainly due to tax incentives (e.g. tax holidays, patent boxes)
- **Low-taxed profit (profit with an ETR below 15%) amounts to 36% of the profits of all MNEs above the EUR 750 million turnover threshold globally**
- **About half (53%) of all low-taxed profit globally is located in high-tax jurisdictions; those with an average ETR above 15%**



# Impact on global low-taxed profit

## % of global profits subject to ETR less than 15%



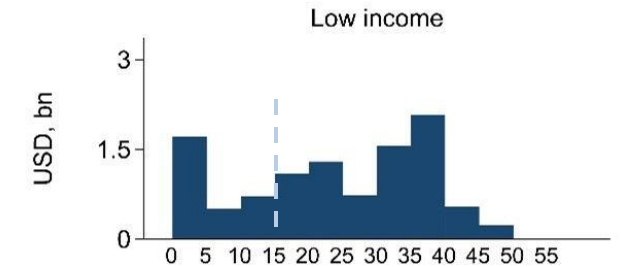
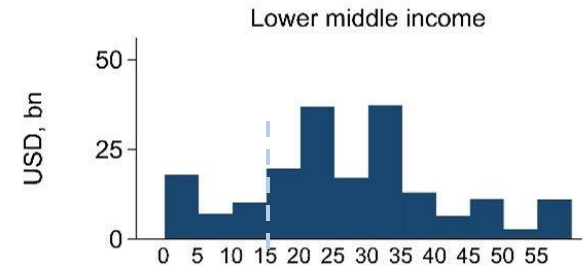
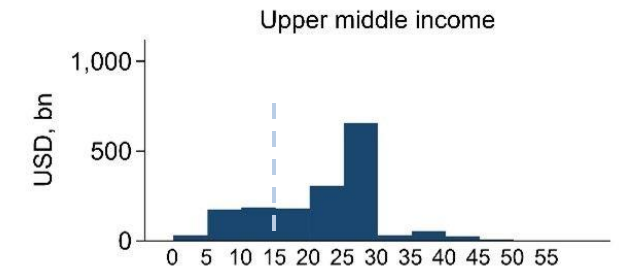
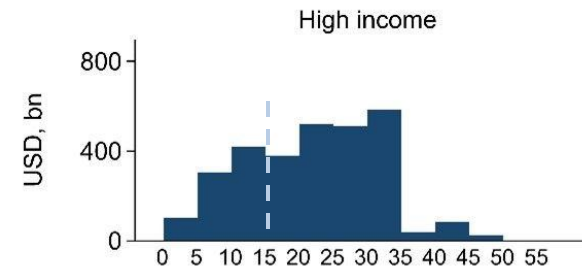
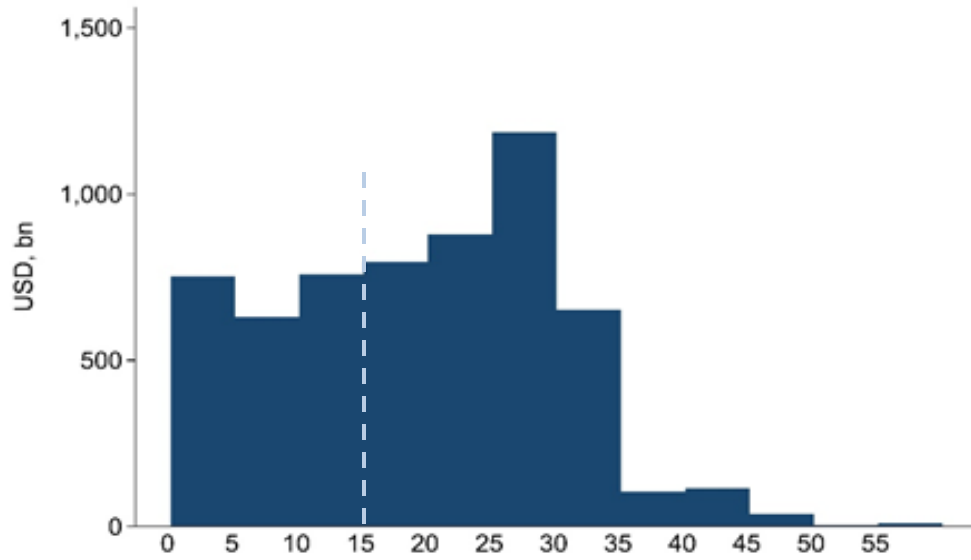
- Overall, reduction in the share of low-taxed MNE profit by 80%, from 36% to 7% of all profit globally after the SBIE transition period
- The effect is largest in investment hubs, where the share of low-taxed profit falls from 79% to 7% after the SBIE transition period

**Note:** The chart refers to the extent to which total profit is low taxed by income groups. Global refers to all jurisdictions. Low taxed profit is defined as those with an ETR (loss-adjusted) lower than 15%. The 'Pre-P2' scenario reflects the current distribution of profit absent any GMT effects. The remaining scenarios reflect the distribution of profit once the GMT has applied to low-taxed profit accounting for the year-one and year-ten SBIE, respectively.

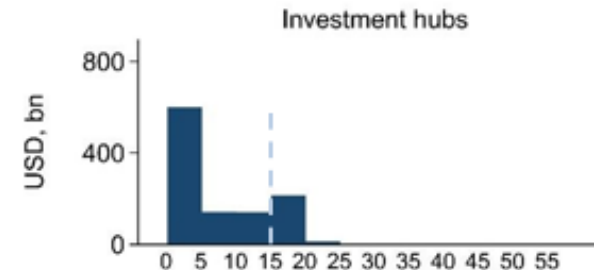


# Taxation of profit globally

## Distribution of profit across ETR groups globally and by ETR group



- Considerable variation in ETRs across all jurisdiction groups
- Concentration of profit in the 25-35% ETR range globally
- Concentration in the 0-5% ETR range (including substantial zero-taxed profit)



**Note:** Distribution of profit of large MNEs across ETR groups, averaged over the period 2017-2020. Bins have a width of five percentage points. The average sum of global profits of large MNEs is USD 5,929 billion per year.



# DOMESTIC POLICY RESPONSE



# Minimum Tax Implementation Handbook

- Released on 11 October 2023
- A tool that provides a high-level entry point into the overall design of global minimum tax and considerations to be taken in assessing implementation options
- Tax policy officials, administration officials and other stakeholders





# Tax Incentives & the Global Minimum Tax

- Global Minimum Tax will be a **‘game-changer’ for tax incentives**
- Where a tax incentive reduces a **firm’s effective tax rate (ETR) below 15%, top-up tax will be due**
- This means that countries need to **review and evaluate their incentives**
- This report outlines **options for action** for policymakers with a **focus on developing countries**







# Time to revisit and reconsider tax incentives

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- **The benefits of using certain tax incentives may change due to the GloBE Rules**
  - No ‘one-size-fits-all’ conclusion
- **Pillar Two should provide impetus for tax reform**
  - Failing to act could mean that countries forego vital tax revenues that will be collected by other countries anyway and could leave them with tax incentives that are ineffective
- **Options will vary by jurisdiction**
  - Reform should be based on jurisdiction-specific analysis, identifying and assessing the tax incentives most likely to be impacted by the GloBE Rules
  - Adopting a “whole-of-government” approach will be important



## Importance of considering tax incentive design

- **Narrowly-targeted incentives** (to certain categories of income or expenditure) may be less affected, as may incentives with ceilings or caps
- **Income-based incentives** may be more strongly affected than expenditure-based incentives, particularly for very profitable investments
- **Expenditure-based tax incentives** targeted to payroll or tangible assets may be more protected by the SBIE
- **Incentives based on timing differences** are less likely to be affected, e.g. expensing or accelerated depreciation (for certain assets) or **extended loss carry-over**
- **Qualified refundable tax credits** may be less affected. However, jurisdictions should consider the revenue consequences of refundable tax incentives



## Practical guidance for countries

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1. **Assess** whether the jurisdiction is at **high, medium or low-risk** of being affected by the Global Minimum Tax
2. **Analyse** the impact of the **Global Minimum Tax on tax incentives** offered
3. **Measure** the **uptake of tax incentives** and **revenue forgone**
4. **Rank** **tax incentives based on the risk of top-up taxes** being paid and revenue forgone to establish reform priorities
5. **Study** the impact of existing **bilateral investment treaties investment agreements** and any fiscal stabilisation arrangements
6. **Evaluate** the **efficiency and effectiveness** of **tax incentives** ex-post



## Possible short-term responses

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- **Care should be exercised** in implementing new incentives or when considering entering into new investment agreements or contracts
- **Qualified Domestic Minimum Top-Up Tax (QDMT)** will be an important option for many countries, but it will unlikely be a substitute for a thorough country-specific re-evaluation of tax incentives
- **Pillar Two Revenues** can support DRM and improve investment climate
  - Revenues will support domestic resource mobilisation (DRM)
  - Additional revenues could be invested in ways that support a more attractive investment environment (e.g. investments in skills development and infrastructure)
- **The OECD stands ready to provide technical assistance to developing and emerging economies as they implement Pillar Two and review their tax incentives**