

Pillar One: Profit Allocation and Nexus



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Pillar One aligns taxing rights more closely with local market engagement. If multinational consensus on this is not achieved, unilateral digital taxation measures may continue to proliferate.

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Further reading & resources

[KPMG report Pillar One](#)

[KPMG report taxation of the digitalised economy](#)

[KPMG UK digitalised economy portal page](#)

[KPMG BEPS 2.0 Model](#)

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The Unified Approach

- [Pillar One](#) is a set of proposals to revisit tax allocation rules in a changed economy.
- The intention is that a portion of multinationals' **residual profit** (likely to be generated by capital, risk management functions, and/or intellectual property) should be **taxed in the jurisdiction where revenue is sourced**.
- Applies to **Automated Digital Services** (ADS) businesses and **Consumer-Facing Businesses** (CFB). The scope is intended to be broad and covers businesses that are able to profit from **significant and sustained interaction with customers and users** in the market.
- Links taxing rights in respect of these businesses to their **sources of revenue**, which need not depend on physical presence in the jurisdiction.



Market engagement allocation

- **“Amount A”**: New taxing right allocates high value profits based on a formula, not necessarily the arm's length position.
- Covers profits earned from activities with an **automated digital** (mainly online) character or **goods / services commonly sold to consumers** (as well as associated IP licences). Specific inclusions and exclusions are proposed.
- Amount A allocated based on **local revenues** (determined via sourcing rules) with double taxation elimination measures.
- **“Amount B”**: Standard arm's length remuneration for “baseline” **routine marketing and distribution** activities.
- Alternative Amount B methodologies may be adopted if supported by evidence.



What businesses need to know

- These changes are multinational in scope and technically complex. The effects are likely to be **far-reaching** for many businesses, and the effects **are not yet certain**.
- Scope of covered businesses is not yet final, but it will **not be limited to highly digitalised business models**.
- Much of the detail remains to be agreed including **scale thresholds**, how the proposals are intended to apply to **CFB**, how the **Nexus** and **revenue sourcing** rules will operate, and the **US proposal** that departure from the arm's length principle should be on a **safe harbour basis**.
- A period of **open consultation** on the proposals will now follow until 14 December 2020. The OECD has published its global **impact analysis**; potentially affected businesses should consider what these changes could mean for their ETRs.