

Pillar One: Profit Allocation and Nexus

Strategic Corporates: International Tax



Pillar One aligns taxing rights more closely with local market engagement. A portion of profits of the largest and most profitable groups is allocated to market jurisdictions.



Further reading & resources



- [KPMG Report: OECD/G20 Inclusive Framework Agreement on BEPS 2.0 \(July 2, 2021\)](#)
- [Inclusive Framework's Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy \(July 1, 2021\)](#)
- [KPMG Report: Summary and Initial Analysis of Pillar One Blueprint \(October 12, 2020\)](#)



Inclusive Framework statement

On July 1, 2021, the IF released a statement setting forth the key components for an agreement on a two-pillar solution to address tax challenges arising from the digitalization of the economy.

Pillar One:

- Revisits profit allocation and nexus rules for in-scope groups.
- Effectuates view that a portion of an in-scope groups' **residual profit** (likely to be generated by capital, risk management functions, and/ or intellectual property) should be **taxed in the end market jurisdictions where goods or services are used or consumed**.
- Will apply to **groups with greater than €20 billion in worldwide revenues and profitability before tax of at least 10 percent**. The intention is to reduce the threshold to €10 billion after seven years, contingent on successful implementation.
- Will allocate profits to market jurisdictions irrespective of any physical presence in those jurisdictions.



Market allocations

- **"Amount A"**: New taxing right allocates between 20 percent and 30 percent of profits in excess of 10 percent of revenue to market jurisdictions based on a formula, not the arm's length principle.
- Amount A allocated based on a **revenue-based allocation key** (determined via to be developed sourcing rules). Jurisdictions from which at least €1 million in revenues are earned will receive an allocation (reduced to €250,000 for jurisdictions with GDP less than €40 billion).
- Where the residual profits of an in-scope group are already taxed in a market jurisdiction, a **marketing and distribution profits safe harbor will cap** the residual profits allocated to the market jurisdiction through Amount A.
- Elimination of double taxation and tax certainty measures will apply.
- **"Amount B"**: Standard remuneration for in-country "baseline" **marketing and distribution activities have been deferred** pending further technical work. This work is expected to be completed by the end of 2022.
- Alternative Amount B methodologies may be adopted if supported by evidence.



What businesses need to know

- These changes are multinational in scope and, despite simplification compared to previous proposals, remain technically complex.
- **Digital Services Taxes and other similar measures are to be repealed** under the agreement, but identification and timetable are not yet clear.
- Scope of covered businesses has moved far from the originally targeted highly digitalized business models. **Extractives and regulated financial services are exempt**, but other industries are generally in scope.
- The IF statement provided much certainty with respect to Pillar One, but **many details remain outstanding**. More detailed plans are expected in October 2021. The expectation is that the rules will be finalized in 2022 and take effect beginning in 2023.

Contacts

Melissa Geiger
Global Leader,
Strategic Corporates Tax & Legal
KPMG International

Rodney Lawrence
Head of International Tax
KPMG International

Grant Wardell-Johnson
Global Tax Policy Leader
KPMG International

Manal Corwin
Principal in Charge,
Washington National Tax
KPMG in the US

Aroen Rambhadjan
Head of International Tax — EMA
KPMG in the Netherlands

Dean Rolfe
Head of International Tax — ASPAC
KPMG in Singapore

Armando Lara
Head of International Tax — Central America
KPMG in Mexico

Ericson Amaral
Head of International Tax — South America
KPMG in Brazil

Natasha Vaidanis
Head of International Tax — Africa
KPMG in South Africa

Matthew Herrington
Partner,
International Tax
KPMG in the UK

Brett Weaver
Partner,
International Tax
KPMG in the US

Jesse Eggert
Principal,
Washington National Tax
KPMG in the US

Michael Plowgian
Principal,
Washington National Tax
KPMG in the US

Marcus Heyland
Managing Director,
Washington National Tax
KPMG in the US

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

home.kpmg/socialmedia



© 2021 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit home.kpmg/governance.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Designed by Evalueserve.

Publication name: Pillar One: Profit Allocation and Nexus

Publication number: 137665C-G

Publication date: September 2021