



Pillar One: Profit allocation and nexus

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.

More insights



- [KPMG Report: OECD/G20 Inclusive Framework Agreement on BEPS 2.0 \(October 9, 2021\) Inclusive Framework's Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy \(October 8, 2021\)](#)
- [KPMG Report: OECD/G20 Inclusive Framework Agreement on BEPS 2.0 \(July 2, 2021\) Inclusive Framework's Statement on a Two-Pillar Solution \(July 1, 2021\)](#)



Inclusive Framework statement

On October 8, 2021, the Inclusive Framework (IF) released an updated statement setting forth the key components for an agreement on a two-pillar solution to address the tax challenges arising from the digitalization of the economy.

Pillar One:

- Revisits profit allocation and nexus rules for in-scope groups
- Effectuates the view that a portion of an in-scope group's **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 a profitability before tax margin of at least 10 percent** calculated using an averaging mechanism (the intention is to reduce the revenue 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 25 percent of profits in excess of 10 percent of revenue to market jurisdictions based on a formula, not the arm's-length principle.
- The **allocation key** is based on the revenue that is sourced (via to-be-developed sourcing rules) to each jurisdiction, but only jurisdictions that are allocated at least €1 million in revenue would receive an allocation (reduced to €250,000 for jurisdictions with GDP less than €40 billion).
- When the residual profits of a group are already taxed in a market jurisdiction, a **marketing and distribution profits safe harbor** (which may also apply to a broader set of activities) will **cap** the residual profits allocated to the market jurisdiction.
- Measures to eliminate double taxation and to provide tax certainty are being developed.

Amount B:

- The development of standard remuneration for in-country "baseline" marketing and distribution activities has been deferred pending further technical work, which is expected to be completed by the end of 2022.



What businesses should know

- These changes may affect groups around the globe, and despite simplification compared to previous proposals, remain technically complex.
- **Digital services taxes and other similar measures would be repealed** under the agreement (and there is a moratorium on new measures), 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 more certainty with respect to Pillar One, but **many details remain outstanding**.
- The IF aims to finalize a new multilateral convention to implement Pillar One in early 2022, which would be open for signature in mid-2022 and **take effect beginning in 2023**.

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