

Tax Alert

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Latest updates on BEPS 2.0 from the World Economic Forum

The aim of implementing a historic “two-pillar” tax agreement involving 137 countries by 2023 was always an ambitious target.

Comments by Organisation for Economic Cooperation and Development (OECD) Secretary-General Mathias Cormann at the World Economic Forum in Davos on Tuesday, 24 May, suggest that the implementation of Pillar One of the global tax agreement is likely to be deferred until 2024. Pillar One concerns the reallocation of new taxing rights over a portion of the profits of the largest, most profitable multinationals to market jurisdictions.

This does not mean that the delay will necessarily extend to Pillar Two (which sets a global minimum tax rate of at least 15%). Secretary-General Cormann noted that it is now up to individual jurisdictions to implement the Pillar 2 Model Rules in their legislation and that the process is out of the OECD’s hands. Some leading countries like the UK, Australia, Germany and Japan are understood to have an interest in continued adherence to the 2023 implementation target. That said, implementation timetables by adopting jurisdictions remain to be seen given the absence of official effective date announcements so far.

Status of Pillar One

Negotiations for the two pillars of the OECD’s landmark Inclusive Framework (IF) proposals have been taking place concurrently. But the implementation of Pillar One is progressing slowly.

Readers may recall the IF statement in October 2021 which set a 2023 fiscal year implementation target for Pillar One. Pillar One was supposed to be introduced via a Multilateral Convention (MLC) which was to be ready for consultation in the summer of 2022. Given that many details for Pillar One are yet to be agreed upon, it appears that this ambitious goal will now not be achieved. Secretary-General Cormann also said there were “difficult discussions under way” and that the Pillar One rules would come into force no sooner

than 2024. But he expressed high hopes that key elements of Pillar One would be agreed at the G20 Finance Ministers’ meeting in July this year, followed by a draft MLC to be finalised by the end of the year.

It remains to be seen if this will have any impact on the Digital Services Tax (DST) standstill and rollback, agreed to in the October 2021 IF statement, especially since a number of jurisdictions (India, Denmark, Canada, New Zealand, to name a few) have said they may push ahead with DSTs if there were further delays.

In summary, the development of Pillar One rules is progressing but at a slower pace than originally proposed by the OECD.





Pillar Two

With an eye on post-pandemic budget repair, some individual EU members may want to forge ahead with Pillar Two in 2023, especially given the release of the global anti-base erosion (GloBE) model legislation and EU Draft Directive in December 2021 and the associated commentary in March 2022. The OECD reference to a two-pillar solution (i.e., Pillar One and Pillar Two as a package) may conceivably cause some implementation challenges by delaying the adoption of Pillar Two in some jurisdictions if Pillar One is pushed back. If the EU moves forward with their proposed

Directive in the near term, this will likely trigger the adoption of the Pillar Two rules in many other locations sooner rather than later.

The Biden Administration in the US has repeatedly expressed its intention to implement the BEPS package, but it remains unclear whether they will succeed in navigating legislation through Congress to make existing US rules consistent with GloBE — including amendments to the global intangible low-taxed income (GILTI) and base erosion and anti-abuse tax (BEAT) rules and the implementation of a Qualified Domestic Minimum Top-up Tax. Even if the US is unable to make these changes,

this does not necessarily mean that other countries will refrain from moving ahead with GloBE implementation.

On the plus side, this could provide much-needed breathing room for the wider business community to adopt these rules and accommodate any systems changes required to comply with new reporting and tax payment obligations.

If you would like to discuss the above or about BEPS 2.0 in general, please contact your local KPMG representative. You may also reach out to [Dean Rolfe](#), Head of International Tax, Asia Pacific.

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