Thank you for your letter of 30 November 2021 on behalf of BusinessEurope on the upcoming EU-implementation of the corporate tax reforms, regarding the re-allocation of taxing rights ("Pillar 1") and the minimum effective corporate tax rate ("Pillar 2").

On 8 October 2021, the overwhelming majority of the Inclusive Framework reached political agreement on the key components of both Pillars reforming the international corporate tax framework. I am pleased to learn that BusinessEurope also welcomes this historic agreement. The global solution will provide a stable international corporate tax framework for companies to operate worldwide, ensure a fairer allocation of taxing rights across countries, stop the current race to the bottom in corporate taxation and prevent further trade disputes.

As 137 jurisdictions, including all G20 countries have signed up to the agreement, I am confident that both Pillars will be implemented globally. Also for the Commission, the implementation of the global agreement is one of our priorities in the area of corporate taxation.

On 20 December 2021, the OECD released the Model Rules for domestic implementation of Pillar 2, which were developed by delegates from all Inclusive Framework member jurisdictions and approved by consensus. On 22 December 2021, the Commission proposed a Directive\(^1\) for the implementation of Pillar 2 in the EU, which closely follows the Model Rules.

The main aim of the Directive is to ensure a consistent application of the Model Rules in the Single Market as well as the compatibility of the new framework with the fundamental freedoms of the EU Treaty and the principles of the internal market.

\(^1\) Proposal for a COUNCIL DIRECTIVE on ensuring a global minimum level of taxation for multinational groups in the Union, COM(2021)623 final (22 Dec, 2021).
As mentioned in the Explanatory Memorandum to the Proposal for a Pillar 2 Directive, the Commission has explored how best to accommodate the interaction between ATAD and Pillar 2. As the application of controlled foreign corporation (CFC) tax to regimes could apply in parallel to Pillar 2, no amendment to ATAD is necessary in this regard. This is also consistent with the OECD Model Rules in which taxes arising under a CFC regime will apply first and special rules are provided to allocate these taxes to the relevant low-tax entity for the purposes of computing the jurisdictional effective tax rate.

In order to avoid disproportionate compliance and administrative costs when implementing the Pillar 2 rules, an Implementation Framework will be developed before the end of 2022. The Implementation Framework will cover agreed administrative procedures and include safe harbours and/or other mechanisms. The Commission fully acknowledges the importance of having administrable rules and will actively support the ongoing process led by the Inclusive Framework.

Following the Proposal for a Pillar 2 Directive, the Commission is planning to put forward a new proposal for the annual publication of the effective corporate tax rates of certain large companies with operations in the EU later this year. The effective corporate tax rate provides information regarding the proportion of covered taxes relative to the amount of qualifying income in a jurisdiction (which differs from the information provided in the public CBCR reporting). As these computations are in accordance with the methodology of the Pillar 2 computations, the increase in compliance burden for the annual publication of the effective corporate tax rate should be very limited.

At the same time, being mindful of the digital and green goals for post-pandemic recovery, the Commission will put forward measures that ensure fair and effective taxation, and support productive investment and entrepreneurship. In order to contribute to a robust, efficient and fair tax framework in the EU, the Commission has announced in the Commission Communication on Business Taxation in the 21st Century various measures, including a legislative proposal for Business in Europe Framework for Income Taxation (BEFIT) in 2023 and a legislative proposal for a Debt Equity Bias Reduction Allowance (DEBRA) in 2022. I can assure you that the Commission will continue the work on implementation of the global solution in the EU as well as on our wider agenda on business taxation.

The importance of this topic calls for the constructive participation of stakeholders in the discussions and I very much welcome your willingness to contribute to this work.

Yours sincerely,

Paolo Gentiloni