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**MEETING DOCUMENT**

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From:	General Secretariat of the Council
To:	Working Party on Tax Questions (Digital Taxation)
Subject:	OECD presentation

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Delegations will find attached a powerpoint presentation given by the OECD at the Working Party on Tax Questions (Direct Taxation - Digital) on 11 October 2019. The attached presentation contains now a disclaimer in slide 2.



# PILLAR TWO – GLOBE PROPOSAL



# Disclaimer

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This work is released under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD Member countries.



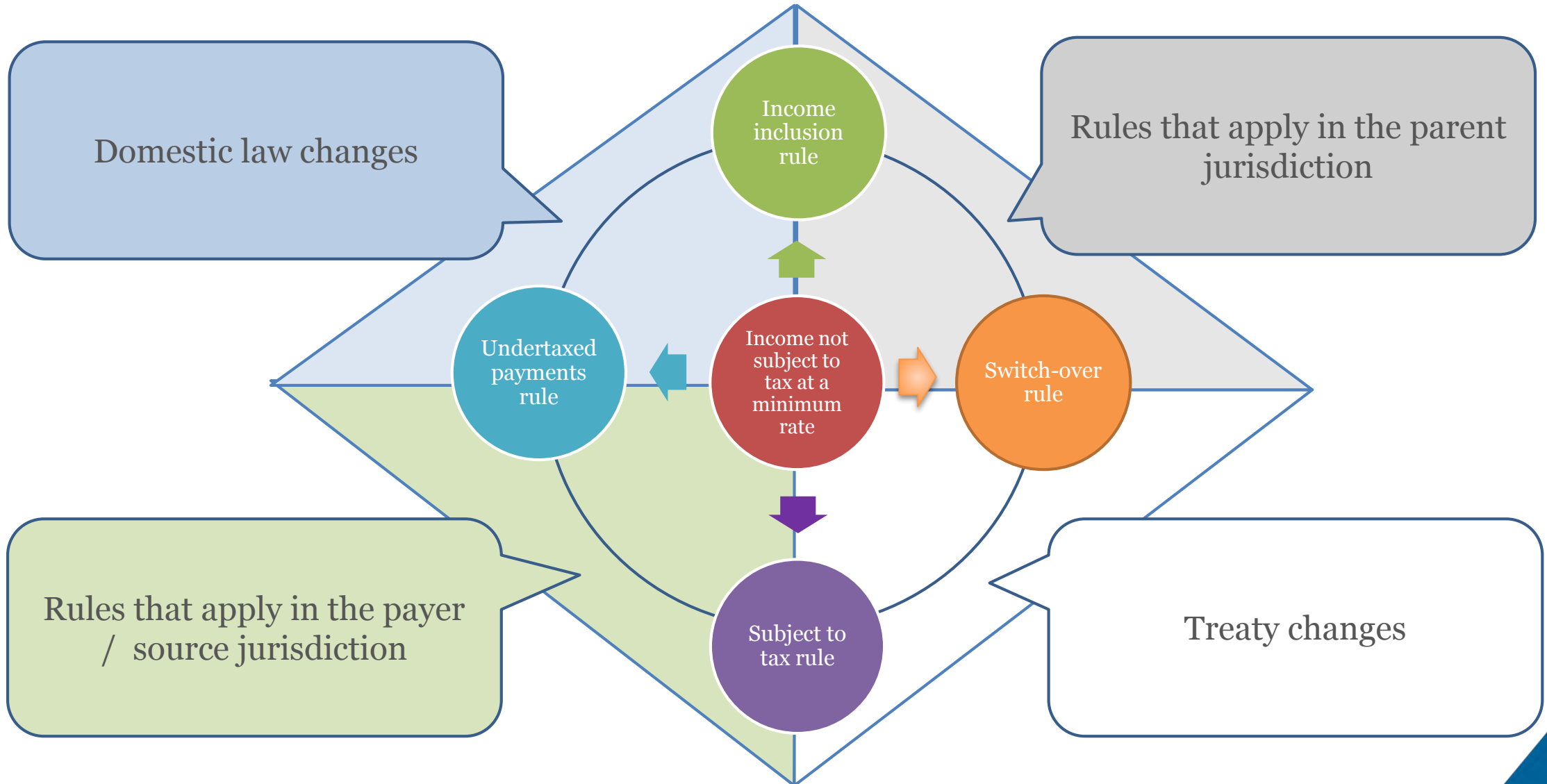
# Rationale

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- Ensuring that all internationally operating businesses pay a minimum level of tax
- Multilateral solution to avoid uncoordinated rules, increased complexity and risk of over-taxation
- Reduce pressure on developing countries to grant tax incentives
- Address remaining BEPS issues
- Address profit shifting risk from intangibles but not ring-fenced to digital economy
- Recent tax policy developments (e.g. GILTI)

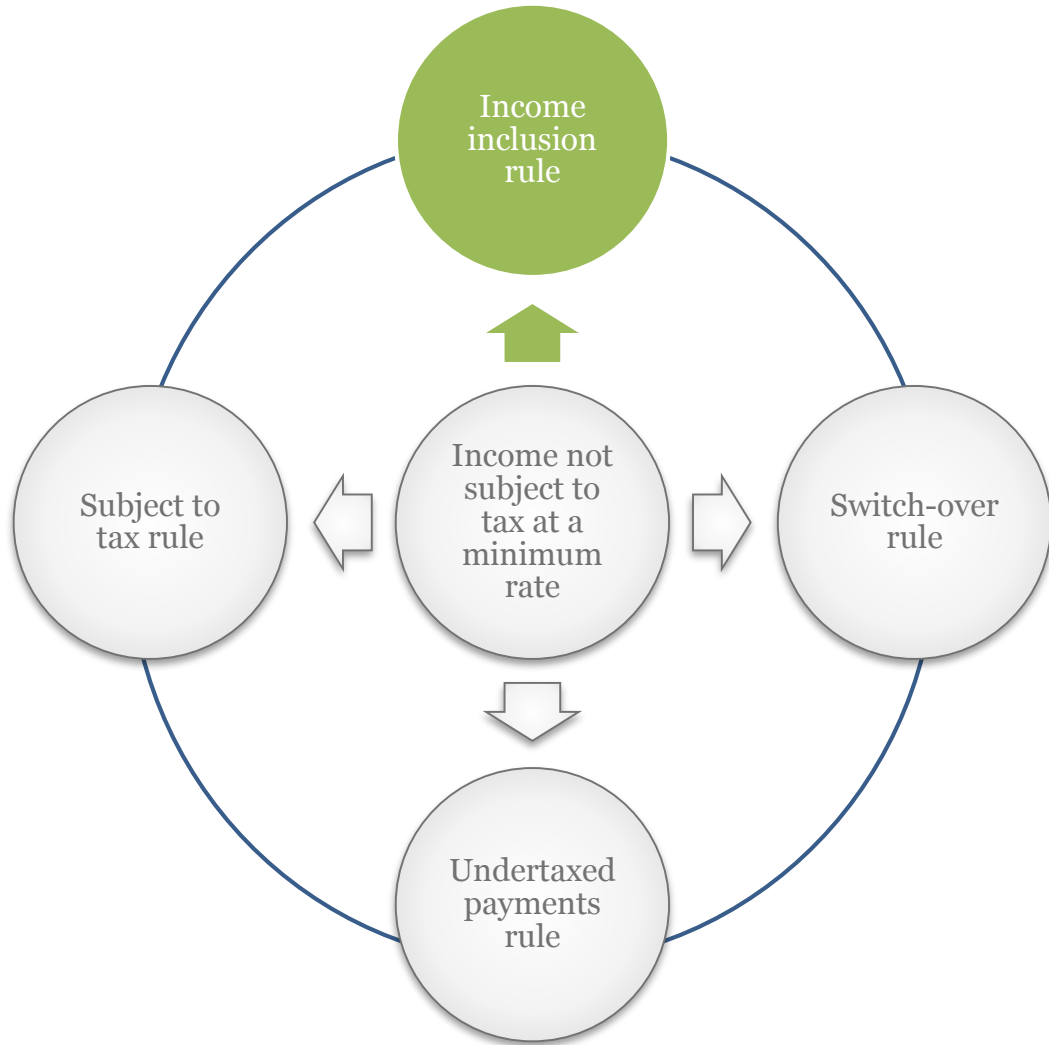


# Overview Pillar 2 – GloBE proposal





# Income inclusion rule

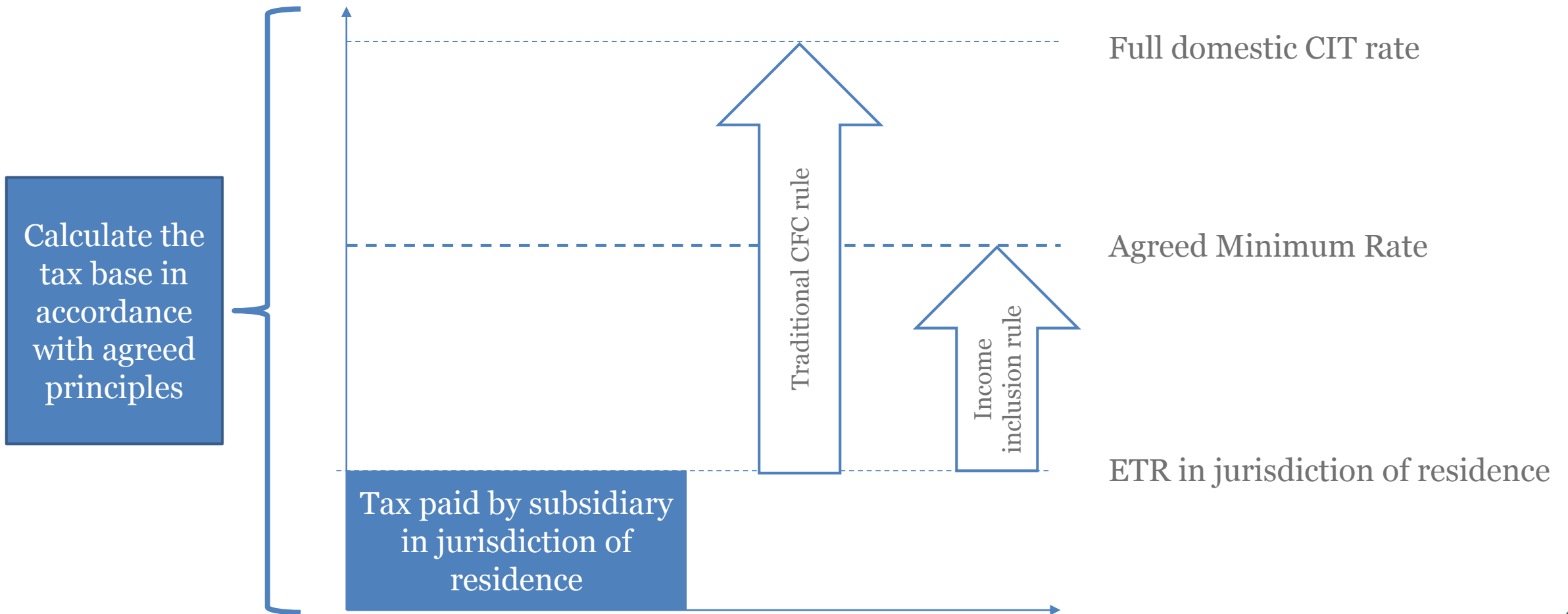


## Income inclusion rule

- Top-up to a minimum rate and use of a fixed percentage
- Effective tax rate test (including simplifications)
- Common tax base
- Blending and carve-outs
- Other technical and design issues



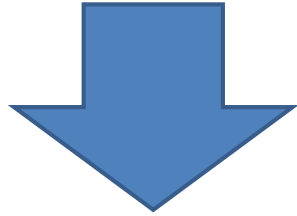
# Top-up to an agreed minimum rate





# Design of effective tax rate test

Effective Tax Rate test has two components



Minimum Rate

Agreed that this will be a fixed percentage



Tax Base

Explore use of financial accounts





# Carve-outs and blending



## Carve-outs and limitations

- Exclusions from the application of the income inclusion rule or adjustments that limit the amount of income included under the rule.



## Blending

- Ability of taxpayers to mix high-tax and low-tax income from different sources to arrive at a blended rate of tax on income thereby limiting the amount of income included under the rule

Overlapping issues and related effects



## 5. Other technical issues

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### Ownership thresholds

- Economic and control tests
- Aggregation of related parties and persons acting together
- Lower ownership threshold increases complexity and risk of double taxation

### Attribution of income and tax

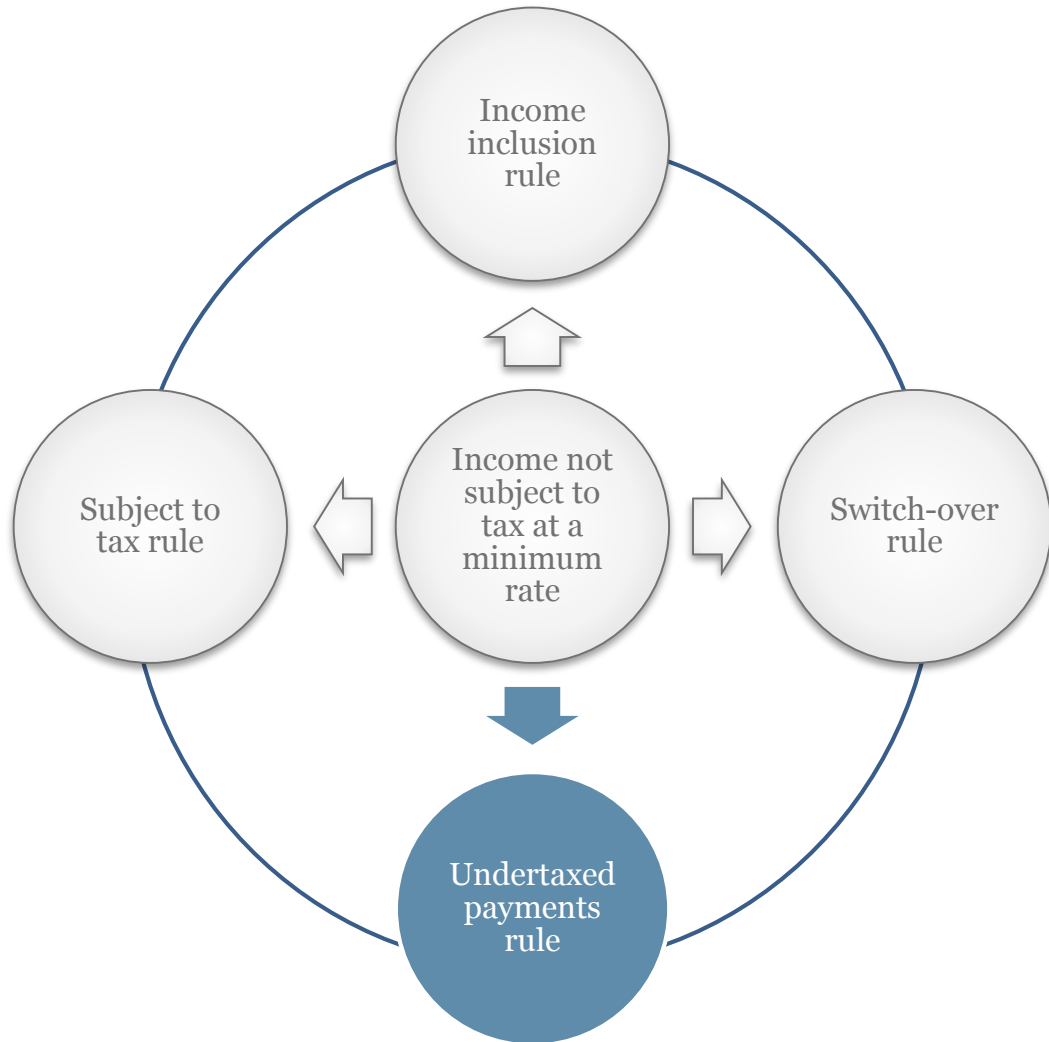
- Consider the rules countries use for CFC purposes
- Basis and timing of attribution of income
- Attribution in the period of transfer

### Calculating investor tax liability

- Schedular or global approaches to including income
- Use of domestic tax reliefs
- Adjustments for previously taxed income.



# Undertaxed payments rule



## Undertaxed payments rule

- Adjustment for payments made to related parties if the payment was not subject to tax at a minimum rate
  - Scope of payments covered
  - Mechanism to address conduit structures
  - Effective tax rate test
  - Measures to address over taxation



# Design principles



Effective in achieving its objectives

Range of low tax outcomes

Scope of payments covered

Anti-conduit measures



Design compatibility



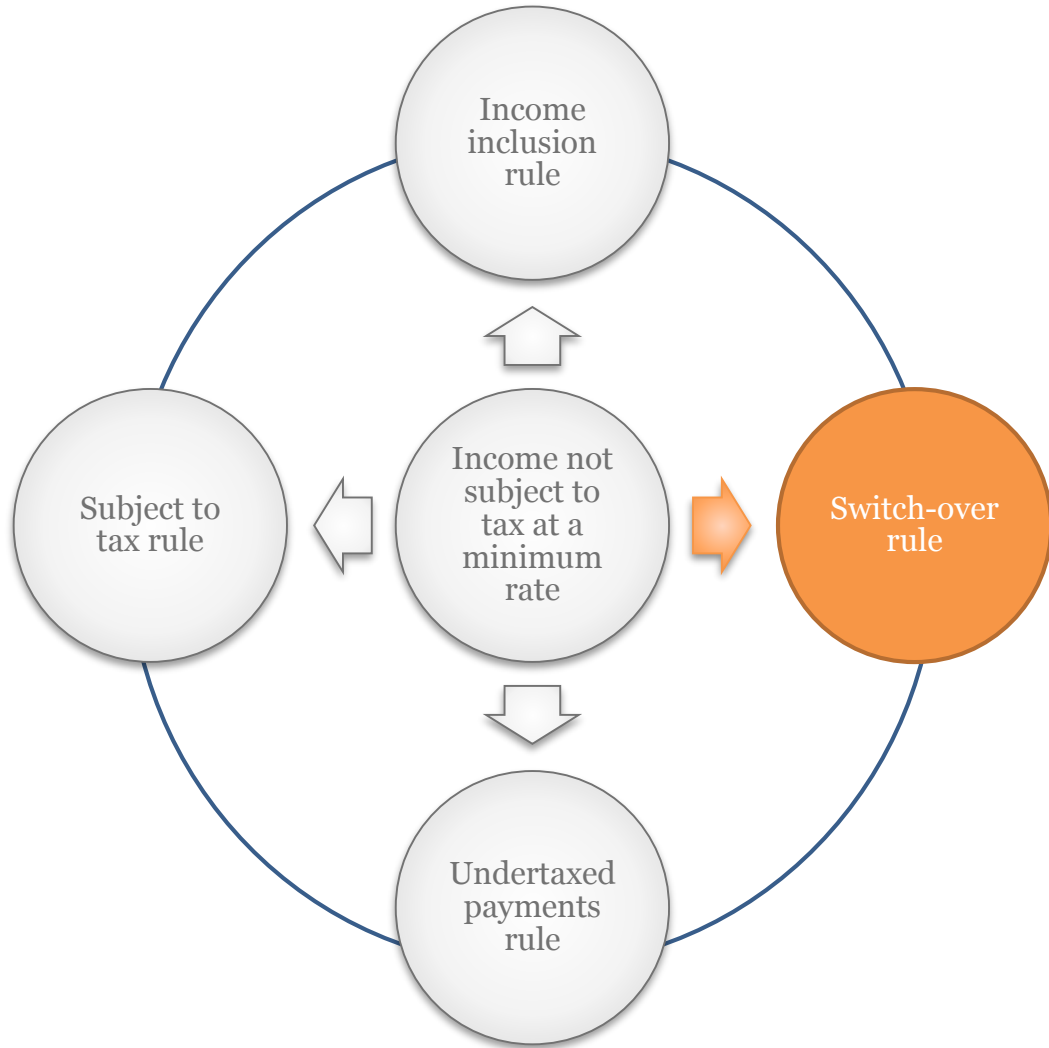
Mitigate risk of over taxation



Minimise compliance and administration costs



# Switch-over rule

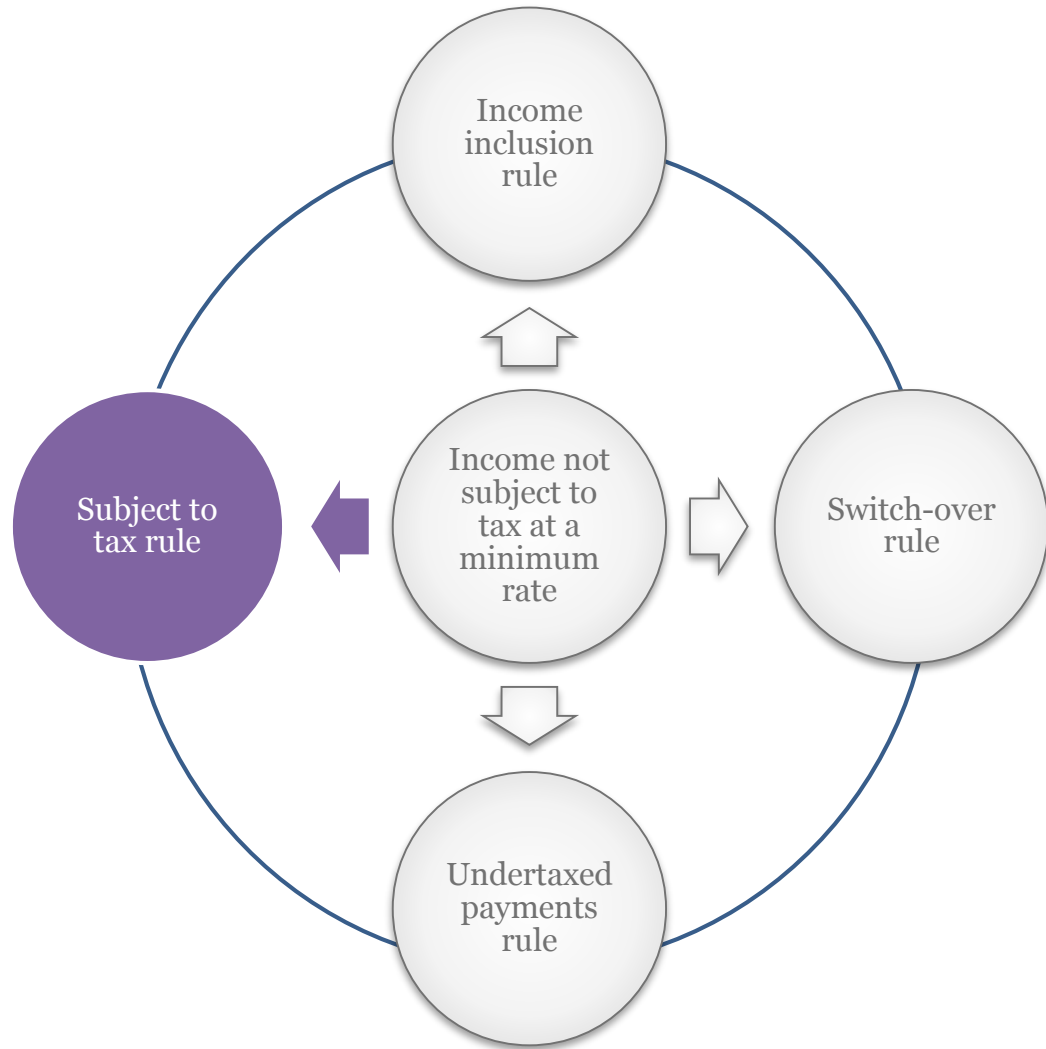


## Switch-over rule

- Allow the state of residence to apply the credit method instead of the exemption method for profits of a PE or derived from immovable property (not part of a PE)
- Where such profits are not subject to an effective rate of tax above a minimum rate



# Subject to tax rule

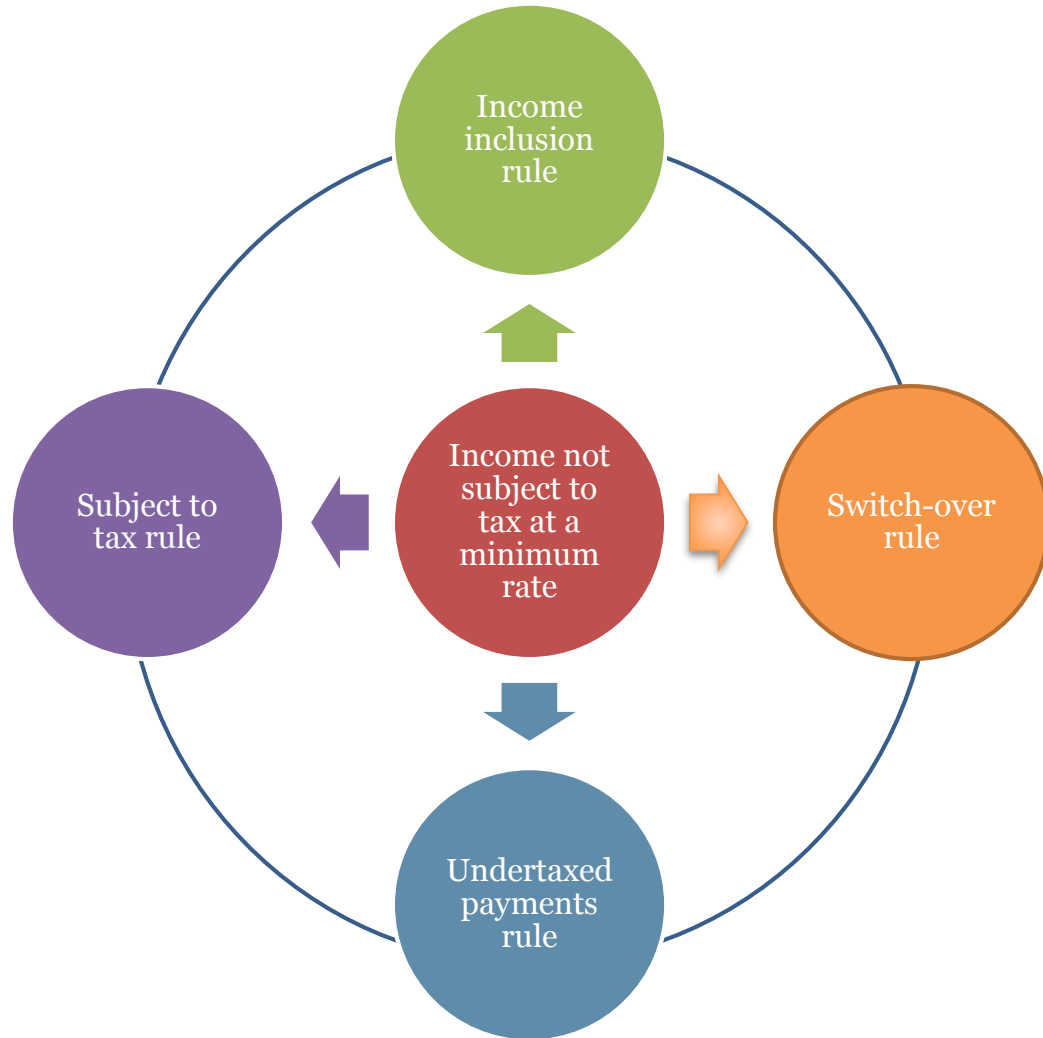


## Subject to tax rule

- Treaty benefits or relief from source taxation may have been only granted at the time of the negotiation of a tax treaty on the assumption that the payment would be taxable in the other jurisdiction
- Subject to tax rule would allow for imposition of source country taxation in the tax treaty, when the income is not subject to a tax at a minimum rate
  - Consider broader policy questions
  - Scope, effective tax rate test and nature of the adjustment to be discussed



# Other elements



## Other Elements

- Simplifications including possible use of carve-outs, limitations
- Compatibility with international obligations including EU fundamental freedoms
- Co-ordination



# Co-ordination, rule order and design

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Programme of Work requires co-ordination between various elements of GloBE proposal to

- minimise the risk of double taxation
- simplify operation of rules
- reduce compliance costs.

Rule-order has an impact on the design of rules.

Interaction of Pillar 1 and Pillar 2 will be explored.





## Next steps

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- Consultation document on particular design issues:
  - Use of financial accounts
  - Blending
  - Carve-outs
- Public Consultation expected to be held in December