

OECD's Inclusive Framework releases BEPS 2.0 documents and agrees to continue work with target of conclusion by mid-2021

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Executive summary

On 12 October 2020, the Organisation for Economic Co-operation and Development (OECD) and the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) released a series of documents in connection with the ongoing project on addressing the tax challenges arising from the digitalization of the economy (the "BEPS 2.0 project"). The project, which began in earnest in early 2019, consists of two elements: Pillar One focused on developing new nexus and profit allocation rules and Pillar Two focused on developing global minimum tax rules. The documents include detailed reports on the Blueprints on Pillar One and Pillar Two; a lengthy Economic Impact Assessment of the Pillar One and Pillar Two proposals; a Cover Statement by the Inclusive Framework on the work to date and the next steps; a Public Consultation Document requesting comments on the Blueprints on both Pillars; and a report to the G20 Finance Ministers for their 14 October 2020 meeting. The OECD held both an [on-line press conference](#) and a [webcast](#) to update the press and the public on the latest developments in the BEPS 2.0 project.

The documents make clear that the Inclusive Framework will not reach a consensus agreement in 2020, which had been the target,¹ because there are relevant political and technical issues that still need to be resolved. However,

the Inclusive Framework Cover Statement describes the Pillar One and Pillar Two Blueprints as providing a “solid basis for future agreement.” Moreover, the [member jurisdictions of the Inclusive Framework](#) have agreed to keep working “to swiftly address the remaining issues with a view to bringing the process to a successful conclusion by mid-2021.” The Inclusive Framework also welcomes written comments from stakeholders on the Pillar One and Pillar Two Blueprints by 14 December 2020, with virtual [public consultation](#) meetings to be held in mid-January 2021.

Highlights

The new documents on the BEPS 2.0 project published by the OECD on 12 October 2020 include the following:

- ▶ [Cover Statement](#) by the OECD/G20 Inclusive Framework on BEPS on the Reports on the Blueprints of Pillar One and Pillar Two
- ▶ Inclusive Framework [Report](#) on the Pillar One Blueprint
- ▶ Inclusive Framework [Report](#) on the Pillar Two Blueprint
- ▶ [Public Consultation Document](#) on the Reports on the Pillar One and Pillar Two Blueprints
- ▶ OECD Secretariat Economic Impact Assessment [Report](#)
- ▶ Highlights [brochure](#) on BEPS 2.0 project developments
- ▶ Top 10 [Frequently Asked Questions](#) on the BEPS 2.0 project
- ▶ OECD Secretary-General Tax [Report](#) to the G20 Finance Ministers and Central Bank Governors

In connection with the release of these documents, OECD Secretary-General Angel Gurría and Pascal Saint-Amans, Director of the OECD Centre for Tax Policy and Administration, provided an update on developments in the BEPS 2.0 project during an online press conference. In addition, the OECD Secretariat hosted a webcast to provide a more technical update on progress on the BEPS 2.0 project and its other international tax work. A replay of the webcast and the presentation slides can be accessed on the OECD [website](#).

According to the Inclusive Framework Cover Statement, even though substantial progress has been made on the BEPS 2.0 work despite the challenges of the COVID-19 pandemic, key political and technical issues still need to be resolved. This means that the initial timeline for delivering a consensus-based solution by the end of 2020 cannot be met. The Inclusive Framework on BEPS has now agreed to keep working to bring the process to a successful conclusion by mid-2021, specifically noting the need “to resolve technical

issues, develop model draft legislation, guidelines, and international rules and processes as necessary to enable jurisdictions to implement a consensus based solution.”

To that end, the Inclusive Framework released the Reports on the Blueprints on Pillar One and Pillar Two for public consultation and published a public consultation document requesting input on specific aspects of each of the Blueprints. The Blueprints are described as reflecting the convergent views on policy features, principles and parameters of both Pillars and identifying political and technical issues where differences in views among Inclusive Framework member jurisdictions remain to be bridged. Stakeholders are invited to submit written comments on these Blueprints and the particular questions set out in the public consultation document no later than 14 December 2020. Public consultation meetings will be held in mid-January 2021.

The highlights brochure provides a summary of the Blueprints and the Economic Impact Assessment Report. The brochure also includes an overview of the open issues on key features of the Pillar One and Pillar Two solutions that will need to be resolved through political decisions. For Pillar One, these open issues relate to the scope of Amount A, the amount of residual profit to be allocated under the new taxing right, the scope of mandatory binding dispute resolution beyond Amount A, and the scope and application of Amount B. For Pillar Two, political agreement to resolve divergent views will be required on key design features of the subject to tax rule and the GloBE² rules, including carve-outs, blending, rule order, and tax rates.

As part of the work on Pillar One and Pillar Two, the OECD Secretariat prepared and released an Economic Impact Assessment Report, which is specifically identified as not representing the consensus view of the member jurisdictions of the Inclusive Framework. According to the Secretariat’s analysis, full consensus agreement on Pillar One and Pillar Two could increase global corporate income tax revenues by an estimated US\$50-80 billion per year. Taking into account the combined effect of these reforms and the current-law US GILTI³ regime, the total effect could represent US\$60-100 billion in tax revenues per year or up to around 4% of global corporate income tax revenues. The OECD Secretariat notes that in coming to these calculations certain assumptions have been made and the effects of the United States tax reform and introduction of some of the final BEPS project outcomes by jurisdictions have not been taken into account. The effects of the COVID-19 pandemic and related economic downturn also have not been taken into account.

The OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors includes a summary of developments in the BEPS 2.0 project together with an update on other G20 tax deliverables and a progress report on the Global Forum on Transparency and Exchange of Information for Tax Purposes. The Report will be presented to the G20 Finance Ministers and Central Bank Governors for their meeting on 14 October 2020.

Next steps

The views of the G20 Finance Ministers and Central Bank Governors on the developments in the BEPS 2.0 project are expected to be reflected in a communiqué issued following their 14 October meeting. The OECD is hosting a webcast

to report on the Economic Impact Assessment Report on 20 October. The public consultation on the Pillar One and Pillar Two Blueprints will be open for stakeholder input until 14 December 2020 and all written comments received will be made publicly available. Public consultation meetings on the Blueprints will be held in January 2021, and the Inclusive Framework has agreed to work quickly to address remaining issues with respect to both Pillars with a view to reaching a successful conclusion by mid-2021.

Detailed EY Global Tax Alerts on the two Blueprints and the Economic Impact Assessment Report will be released shortly. These reports will also be discussed on the upcoming global Thought Center webcast [Taxation of the digitalized economy: What's next](#) on 28 October 2020.

Endnotes

1. See EY Global Tax Alert, [OECD documents on BEPS 2.0 include new details and identify issues under consideration on Pillar One and Pillar Two](#), dated 7 February 2020.
2. GloBE: Global Anti-Base Erosion.
3. GILTI: Global Intangible Low-Taxed Income.

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