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130 Countries Sign Historic Agreement on International Tax Reform

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130 countries signed last week the global agreement on international tax reform, based on a two-pillar solution which allows multinational companies to pay more tax in the countries where they operate as well as a global minimum tax rate.

As estimated by the OECD, a total amount of USD 100 billion of profits per year will be reallocated to the market jurisdictions, under the rules agreed in Pillar One. Companies within scope include the largest MNEs with global turnover above 20 billion euros and profitability above 10% (profit before tax/revenue) with the turnover threshold to be reduced to 10 billion euros over time, subject to conditions. Financial services and extractive industries will be excluded from the agreement. The agreement creates new nexus rules, for a market jurisdiction where the MNE derives minimum 1 million euros in revenue from that jurisdiction. For smaller jurisdictions with GDP lower than 40 billion euros, a minimum of 250 000 euros is required to trigger the new nexus and bring the MNE within scope. In terms of revenue allocation, according to the agreement 20-30% of the residual profit (profit in excess of 10%) will be allocated to market jurisdictions using a revenue-based allocation key. Profitability of the in-scope companies will be determined with reference to financial accounting income, and loss carry-forward will be allowed.

The global minimum corporate income tax under Pillar Two set at 15% will generate USD 150 billion in additional global tax revenues annually. OECD also estimates additional revenue due to the stabilisation of the international tax system after years of uncertainty and patchwork of newly introduced rules concerning the digitalising economy. The global minimum tax is intended to be applied via specific sets of rules:

- Income Inclusion Rule, top-up tax on a parent company concerning the low-taxed income of the subsidiary/ constituent entity;
- Undertaxed Payment Rule, which allows adjustments or denies deduction if the low-tax income of the subsidiary/ constituent entity is not subject to tax under an income-inclusion rule;
- Subject to Tax Clause, a double tax treaty-based rule that allows source jurisdictions to impose source taxation on associated party payments below the minimum rate. These amounts will be creditable as a covered tax for tax treaty purposes.

The effective tax rate will be calculated on a jurisdictional basis using a common definition of covered taxes and a tax base determined by reference to financial accounting income. The rules provide for *de minimis* exemptions and substance carve-out that will exclude income of 5 - 7,5% of the carrying value of tangible assets and payroll. Further technical detail is yet to be discussed, with further updates expected in October 2021.

Commenting the new OECD Secretary-General Mathias Cormann said: "*After years of intense work and negotiations, this historic package will ensure that large multinational companies pay their fair share of tax everywhere. This package does not eliminate tax competition, as it should not, but it does set multilaterally agreed limitations on it. It also accommodates the various interests across the negotiating table, including those of small economies and developing jurisdictions. It is in everyone's interest that we reach a final agreement among all Inclusive Framework Members as scheduled later this year,"* Mr Cormann said.

The international community welcomed the agreement, facilitated by the recent proposals from US President Biden. Countries that refused to sign the agreement include Estonia, Hungary, Ireland, Kenya, Nigeria, Sri Lanka, Barbados, St Vincent & the Grenadines. Peru abstained due to absence of government. Cyprus announced that it will veto the adoption via EU directive. Harmonised EU implementation could be hampered due to the unanimity requirement for tax-related directives at EU level.

New EU VAT Rules Enter Into Force

The new rules concerning the EU VAT regime entered into force on the 1 July, creating a simplified VAT regime for cross-border supplies of goods (B2C) and distance sales. The new rules provide for a system to declare and pay VAT in the EU using the Import One-Stop Shop and also level the playing field between EU businesses and non-EU sellers.

Online sellers, including online marketplaces and platforms can now register in one EU Member State and this will be valid for the declaration and payment of

VAT on all distance sales of goods and cross-border supplies of services to customers within the EU. According to the European Commission, online marketplaces will now benefit from a reduction in red tape of up to 95% by registering with the new One Stop Shop (OSS).

EU Ministers to Discuss Anti-Money Laundering Package 2021

The Council of the European Union, sitting as ECOFIN, will discuss the 2021 package intended to upgrade the existing EU anti-money laundering legislative (AML) framework. Specifically, the new EU AML package will address issues related to EU's AML law transposition at national level, by proposing an AML regulation, a type of EU legislation directly applicable in Member States without need of further transposition required for EU directives. In addition, enhanced supranational supervision at EU level will be introduced, which does not intend to replace national supervision. In scope professions will include the non-financial sector, and strengthened supervision of financial institutions.

Also the meeting will be an opportunity for the Slovenian presidency to present its work programme, and to discuss the outcomes of the Inclusive Framework agreement on international taxation of the digitalising economy.

Registration: CFE Academy Webinar on Tax and Technology

CFE's July 2021 webinar in the CFE Tax Academy Series is the second in a planned series of webinars examining issues relating to tax and technology. The next webinar will take place on 29 July 2021 at 16:00 CEST on the topic of the use of central bank backed digital currency and current taxation practices relation to e-money. More information concerning registration for this event is available here.

The first webinar in the series examined the topic of “Cryptocurrency & Digital Regulation Developments for Tax Advisers”, discussing notable developments in the cryptocurrency and e-assets sphere for tax advisers to be aware of, the Digital Transformation process in the UK, Europe and in Italy, as well as Sustainable Transition and how technology can be of help to it. Speakers’ presentation slides are available at the following link.

OECD: Global Forum Publishes Peer-Review Reports on EOIR

OECD's Global Forum on Tax Transparency has published a new set of peer review reports assessing the legal and regulatory framework against the international standard on transparency and exchange of information on request (EOIR) for Antigua and Barbuda, Argentina, the Russian Federation, South Africa and Ukraine. Key findings and recommendations are available on OECD's dedicated website.

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