ECONOMIC IMPACT ASSESSMENT OF THE TWO-PILLAR SOLUTION

REVENUE ESTIMATES FOR PILLAR ONE & PILLAR TWO

Webinar

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OECD
BETTER POLICIES FOR BETTER LIVES

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Background

- In October 2020, the OECD released an Economic Impact Assessment (EIA 2020) examining the revenue and investment impacts of the Two-Pillar solution

- The design of both pillars has changed significantly since the release of EIA 2020

- This presentation includes updated revenue estimates, based on the latest data and design features, for the two pillars:

  - **Pillar One**: Revised estimates at the global and jurisdiction-group level

  - **Pillar Two**: Revised global estimates, with ongoing work on estimates at the jurisdiction-group level

- Overall, the results suggest additional revenue gains for both pillars

MAIN RESULTS

Overview of main findings

Overall: Revenue gains have increased, with higher revenue gains accruing to low, middle and high income jurisdictions under Pillar One

Pillar One: Revenue gains have increased and rise over time

- Estimated annual global revenue gains of **USD 13-36 bn** (2021) or **USD 12-25 bn** per year on average over the period 2017-2021

- Taxing rights on an estimated **USD 200 bn** of profit to be allocated under Amount A (2021) or **USD 132 bn** on average over the period 2017-2021

- Low and middle income jurisdictions gain more than high income jurisdictions, as a share of existing CIT revenues, while investment hubs face increased revenue losses on average

Pillar Two: Estimated annual global revenue gains of **USD 220 bn** for 2018

- Ongoing work on jurisdiction-group results

Factors accounting for the increase in revenues

- Most of the changes in the revenue estimates compared to EIA 2020 result from:

  – **Design changes**, with respect to both pillars

  – **More recent and better data**, with higher levels of in-scope profit (Pillar One) and low-taxed profit (Pillar Two)

  – **Changes in modelling**, with improved estimation approaches

Many new design features benefit low-income jurisdictions

Pillar One

- **Special nexus thresholds** secure Amount A allocation for smaller jurisdictions, which are often low-income

- **Tail-end revenue provisions** in the revenue sourcing rules for consumer-facing businesses provide additional Amount A revenue for low-income jurisdictions

- **De minimis rules** (e.g., for elimination of double taxation (EoDT)) ensure that smaller jurisdictions are unlikely to surrender taxing rights

Pillar Two

- **Revised UTPR allocation key**, which includes employees, results in modest gains for low-income jurisdictions

- **Qualified Domestic Minimum Top-Up Taxes (QDMTTs)** (modelling work still ongoing), will allow affiliate jurisdictions to collect top-up tax in priority to the application of the GloBE Rules in other jurisdictions

DATA & METHODOLOGY

Economic Impact Assessment: Timeline

- **October 2020**: OECD Economic Impact Assessment (EIA 2020)

  - Detailed assessment of the revenue and investment impacts of Pillars One and Two based on the Blueprints published by the Inclusive Framework on BEPS (IF)

  - The design of both pillars has changed significantly since the EIA 2020

- **October 2021**: Updated global figures released at the time of the global agreement

- **Today:** Updated revenue estimates, based on the latest data and design features

  - **Pillar One**: Revised estimates at the global and jurisdiction-group level

  - **Pillar Two**: Global figures, with ongoing work on estimates at the jurisdiction-group level

Main caveats

- All estimates remain preliminary and work is ongoing

- The methodology relies on a number of simplifying assumptions, for example on the design of the pillars and the way MNEs and governments may react

- Though most parameters of the pillars are now agreed, some key features remain undecided and some assumptions on outstanding issues have been made. Results will ultimately depend on design and parameters to be decided by the IF

- The data underlying the analysis is the best available to the Secretariat, but they have limitations in terms of coverage, granularity, consistency and timeliness

- Data still largely pre-dates the COVID-19 crisis, the 2022 global increase in inflation, and the ongoing implementation of some aspects of (and behavioural reactions to) BEPS measures and the US Tax Cuts and Jobs Act

Data used and design features modelled

Data & Methodology	Pillar One	Pillar Two
• Similar approach to EIA 2020	• Based on the Amount A Progress Report (PR)	• Based on Pillar Two Model Rules
• 2017 and 2018 anonymised and aggregated CbCR Data (with projections for 2019/20/21 for Pillar One)	• Revised scope: New data matrices for all in-scope MNEs	• Revised UTPR allocation key
	• Revenue sourcing	• Revised Substance Based Income Exclusion (SBIE)
• With more extensive CbCR data (82% of profit covered versus 63% in EIA 2020)	• De Minimis thresholds	• Consistent application of GloBE rules across all jurisdictions
	• Tiered approach to EoDT	• Better examination of low-taxed profit in high tax jurisdictions (in progress)
• Additional use of Orbis data	• Revised nexus rules	
• Other improvements to data quality	• Loss/averaging rules	• Does not account for the Subject to Tax Rule (STTR) or for QDMTTs (in progress)
• New approach to data validation	• Marketing and Distribution Safe Harbour (MDSH)	
	• Does not account for Withholding Taxes (WHTs), due to data limitations	

Data sources

Profit Matrix

- **Use**: estimation of P1 MNE-level matrices & estimation of P2 low-taxed profit

- **Key sources**: CbCR, Orbis, FDI data, macroeconomic extrapolations

Turnover Matrix

- **Use**: extrapolations in asset & employee matrices

- **Key sources**: CbCR, Orbis, AMNE

Asset Matrix

- **Use**: estimation of P1 EoDT & MDSH (with MNE-level data on depreciation) & P2 SBIE

- **Key sources**: CbCR, Orbis, extrapolations based on turnover matrix

Employee Matrix

- **Use**: extrapolations in payroll matrix & UTPR

- **Key sources**: CbCR, Orbis, AMNE, extrapolations based on turnover matrix

Payroll Matrix

- **Use**: P1 EoDT & MDSH (MNE-level payroll data) & P2 SBIE

- **Key sources**: Orbis, BEA, AMNE, extrapolations based on employee matrix, BEA & ILO wage data

- This analysis is based on five matrices (addition of employee matrix for UTPR relative to EIA 2020)

- More extensive anonymised and aggregated CbCR data (86% of profit in 2018 covered versus 63% in EIA 2020)

- Wider use of CbCR, including ETRs and employee data for payroll matrix

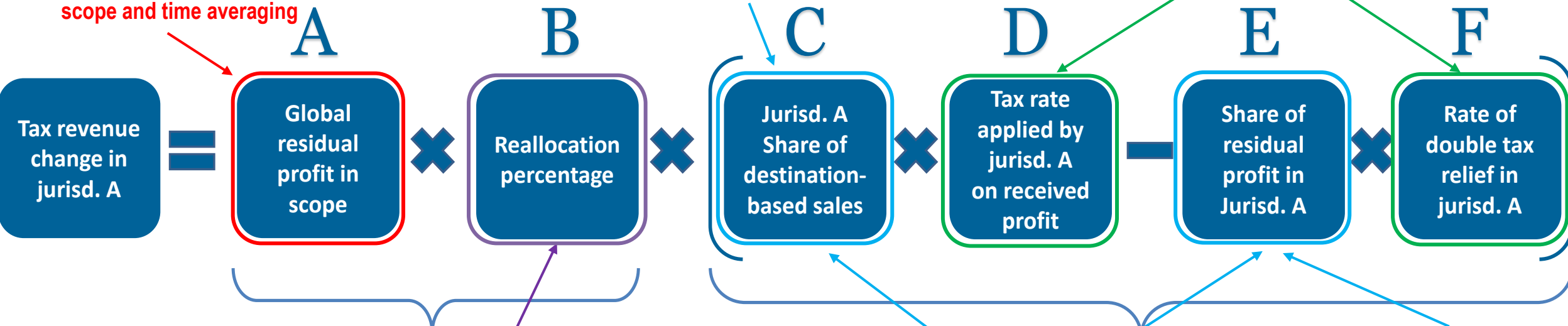- Detailed information on data sources in Annex

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PILLAR ONE METHODOLOGY

Methodological overview

In-scope residual profit adjusted using consolidated MNE-level data and revised scoping rules including broader sectoral scope and time averaging

Accounting for special purpose nexus rules, revenue sourcing rules, and the marketing and distribution safe harbour (MDSH)

Using updated STRs and improved ETR estimates

$$\text{Tax revenue change in jurisd. A} = \underbrace{\overset{A}{\boxed{\text{Global residual profit in scope}}} \times \overset{B}{\boxed{\text{Reallocation percentage}}}}_{\text{Global numbers common to all jurisdictions}} \times \underbrace{\left(\overset{C}{\boxed{\substack{\text{Jurisd. A}\\\text{Share of destination-based sales}}}} \times \overset{D}{\boxed{\substack{\text{Tax rate applied by jurisd. A on received profit}}}} - \overset{E}{\boxed{\substack{\text{Share of residual profit in Jurisd. A}}}} \times \overset{F}{\boxed{\substack{\text{Rate of double tax relief in jurisd. A}}}} \right)}_{\text{Jurisdiction-specific numbers}}$$

Global numbers common to all jurisdictions

Jurisdiction-specific numbers

Reallocation percentage increased to 25%

- Location of residual profit and sales are based on MNE-level analysis reflecting the revised scope with between 82 and 108 MNE groups in-scope 2017-2021
- Jurisdiction-specific numbers are aggregated using MNE-level results

Accounting for revised approach to the elimination of double taxation (EoDT)

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Revised scope and revised modelling approach

- EIA 2020 relied on aggregate data e.g., anonymised and aggregated CbCR data to build jurisdiction-by-jurisdiction matrices

- Revised scope means that 82-108 MNEs are in scope (2017-21).

  - Aggregate data is unlikely to be representative of in-scope MNEs

- New methodological approach: build MNE-level matrices for sales, profit, depreciation and payroll

- MNE-level matrices are built by combining unconsolidated and consolidated MNE data where available and extrapolations based on industry data and jurisdiction-level matrices

- New MNE-by-MNE approach is needed to analyse the revised approach to EoDT, profit allocation, MDSH and other policy design features

- Additional methodological details are included in the Annex

MNE-level matrices methodology

- Annual Reports (e.g., the US 10K form) are used to fill MNE-level matrices to the extent possible

- Some MNEs have confidentially provided CbCR data to the Secretariat

- For some MNE groups AR data is not fully disaggregated across all jurisdictions of affiliate – i.e., only regional totals are provided in areas where there is less activity

- Wherever required, industry shares are used to distribute regional totals across jurisdictions of affiliate

- All MNE-level matrices are rescaled (if needed) to match consolidated group-level financials

- This approach entails extensive new data collection as well as benchmarking against external sources

Annual Reports (ARs) typically provide data by UPE jurisdiction, other main jurisdictions of activity and regional totals

Some columns can be filled with MNEs CbCR data provided confidentially to the Secretariat by some MNEs

Columns without in-scope MNEs are now irrelevant

Jurisdiction of ultimate parent entity (UPE)

Jurisdiction of affiliate	US	China	Croatia	... (>200 jurisd.)
	US Group #1	US Group #2	China Group #1		... (~100 MNE Groups)
US	Profit of Group #1 in the US	Profit of Group #2 in the US	.	0	.
France	Profit of Group #1 in France	.	.	0	.
Nigeria	Profit of Group #1 in Nigeria	.	.	0	.
Bahamas	.	.	.	0	.
... (>200 jurisd.)	.	.	.	.	.

ORBIS consolidated financial account data used to determine the column totals

Industry-weighted baseline matrices used to estimate shares within regional groups

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Validation exercise

Issue: Limited firm-level data available to the Secretariat

Approach

- To verify the accuracy of results, jurisdiction-group level matrices (similar to those in Annex 5.D of the EIA 2020) have been shared for feedback with selected jurisdictions with in-scope MNEs who have carried out their own analysis

- Jurisdictions were asked to validate the shares of relief being provided due to the new tiered EoDT approach as well as the impact of the de minimis threshold

- Several jurisdictions were able to assist in different ways due to differing confidentiality standards – no MNE-level data (e.g. CbCR or other data) have been shared with the OECD by the assisting jurisdictions

Results

- Overall, the exercise confirmed the broad allocation of activities of in-scope MNEs and the modelling of EoDT, including the de minimis thresholds

- However, the validation exercise suggested the data originally included in the matrices shared had underestimated the share of profit in investment hubs, and the extent to which investment hubs had high-profitability entities – this likely resulted from within-country averaging in the aggregated data used

- Additional adjustments have been made to better align the data to external benchmarks

Time series extension

Issue: Key challenge with existing Pillar One estimates is lack of comprehensive recent data

- 2019-2021 consolidated data is generally available, but 2018 CbCR data is the most recently available for the unconsolidated matrices

Approach

- MNE-jurisdiction-level matrices are estimated for 2017 and 2018

- The 2018 geographic distribution of economic activity (sales, profit, payroll and depreciation) is projected forward through to 2021 and scaled to match yearly consolidated account values for each MNE group

- At the consolidated level, profit and sales are imputed for 3 out of 75 in-scope MNEs in 2020 (<4% of residual profit) and 11 out of 108 in-scope MNEs in 2021 (<6% of residual profit)

- Pillar One is calculated with new scope, averaging, revised EoDT approach and MDSH

Result: This approach overcomes the usual data time lag limitations and creates the most up-to-date assessment possible – with some assumptions – to account for the growth of in-scope profit

Pillar One design features

- **Scope:** USD 20 bn global revenue test, 10% return on revenues profitability test, financial services & extractives exclusions

- **Losses & averaging:** Includes prior period test and average test

- **Revenue sourcing**

  – Including MNE-by-MNE revenue sourcing rules (e.g. special rules for B2B services)

  – Tail-end revenue provisions for low-income jurisdictions

- **Nexus:** Lower nexus threshold for jurisdictions with GDP below EUR 40 bn

- **EoDT:** Tiered approach based on Return on Depreciation and Payroll (RoDP) and de minimis provisions

- **MDSH:** Revised quantitative approach based on RoDP modelled with a range of parameters

- No accounting for **WHTs**

- Further details in the Annex

PILLAR ONE KEY RESULTS

Key results: Pillar One (i)

- **Pillar One revenue gains have increased and rise over time**

  - More than **USD 200 bn** in taxing rights are allocated to market jurisdictions in 2021, or an average of USD 132 bn (over the period 2017-2021) which is up from USD 125 bn in earlier estimates for 2016

  - Tax revenue gains of **USD 21-36 bn** (FY 2021) or an **average of USD 12-25 bn per year** (over the period 2017-2021), which is up from USD 5-12 bn in EIA 2020

  - Results due to increases in profit of in-scope MNEs and design changes (e.g. EoDT)

- **Revenue gains accrue to low, middle and high income jurisdictions**

  - Low and middle income and smaller jurisdictions benefit from lower nexus thresholds, de minimis rules and tail-end revenue provisions

  - Most high income jurisdictions gain taxing rights, but a small number of high income jurisdictions with in-scope MNEs may see limited gains or small losses

Key results: Pillar One (ii)

- **Estimated losses have modestly increased in investment hubs**

  - Largely due to the revised approach to the EoDT, which requires that highest-profitability entities relieve double taxation first

  - This concentrates the surrender of taxing rights amongst investment hubs

  - These impacts are only partially offset by the MDSH, although the extent of this will depend on the final design

- **Any slowing in global economic growth could result in lower Pillar One revenue gains**

  - While very high levels of profitability are observed among MNEs in-scope of Pillar One in 2021, there is significant uncertainty about whether these high levels of profitability will be maintained

Evolution of in-scope MNEs
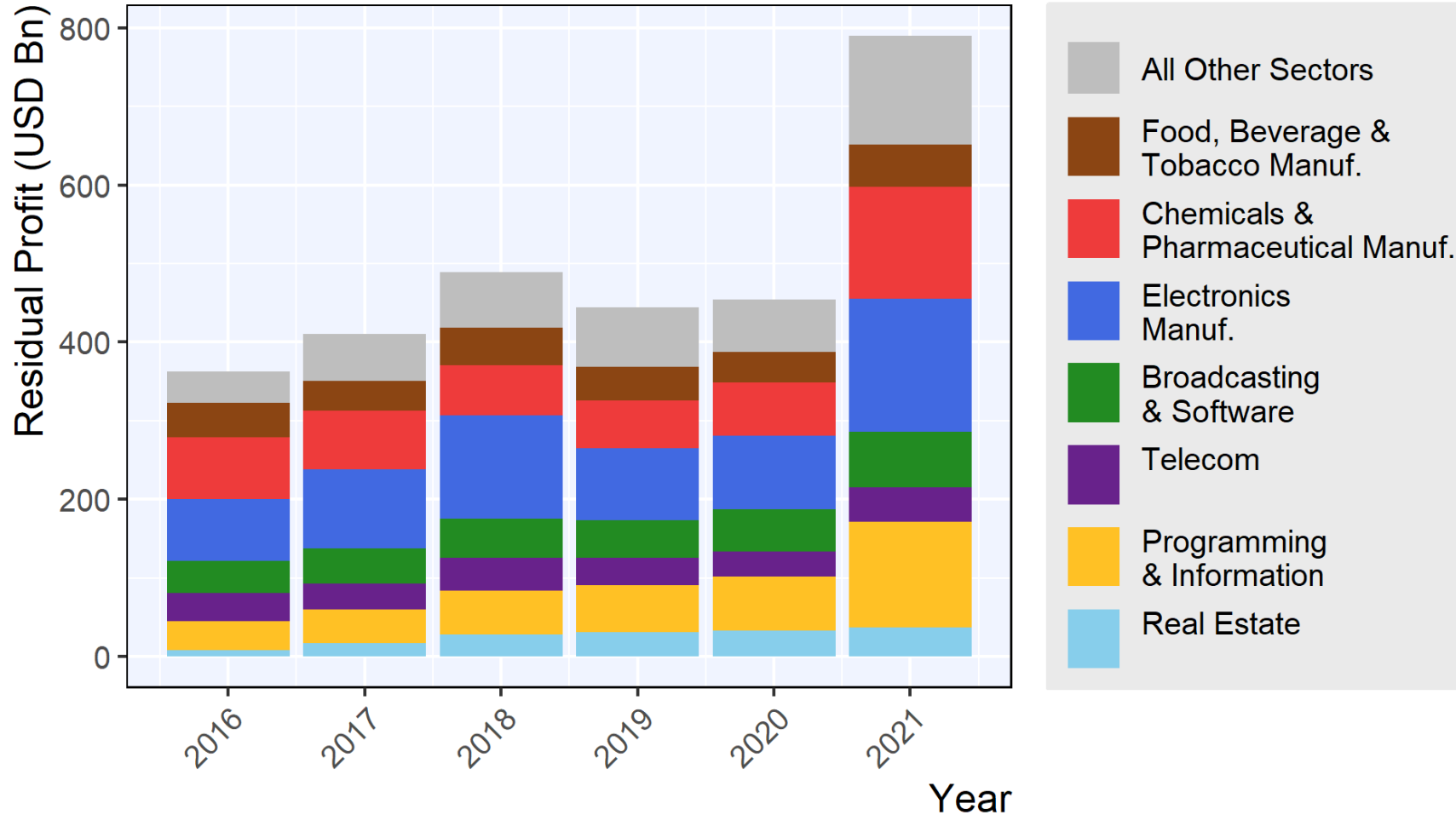## For years 2016-2021: Number of MNEs and amount of residual profit

- In-scope residual profit rises gradually over time from **USD 363 bn** in 2016 to **USD 454 bn** in 2020, with a sharp increase in 2021 to **USD 790 bn**

- Based on preliminary checks of 2022 financials of the largest in-scope MNEs, the trend of growing levels of residual profit in 2021 continues at least into 2022

Note: These estimates assume the new scope as well as the most-up-to-date losses and averaging rules.

Global residual profit by sector
2017-2021

Residual Profit (USD Bn) by Year (2016–2021)

Legend:
- All Other Sectors
- Food, Beverage & Tobacco Manuf.
- Chemicals & Pharmaceutical Manuf.
- Electronics Manuf.
- Broadcasting & Software
- Telecom
- Programming & Information
- Real Estate

- Digital MNEs are concentrated in the telecom, broadcast and software, and programming and information, and electronics manufacturing (e.g., cellphones, semiconductors) sectors, which together comprise 52% of total residual profit in 2021

- Other key sectors include pharmaceuticals and food, beverage and tobacco

Note: NACE Industry Codes: Food, Beverage & Tobacco, Manuf = C10-12, Chemicals & Pharmaceutical Manuf = C20-21, Electronics Manuf = C26, Broadcasting & Software = J58-60, Telecom = J61, Programming & Information = J62-63, Real Estate = L

Pillar One: Global net revenue gains
For years 2016-2021
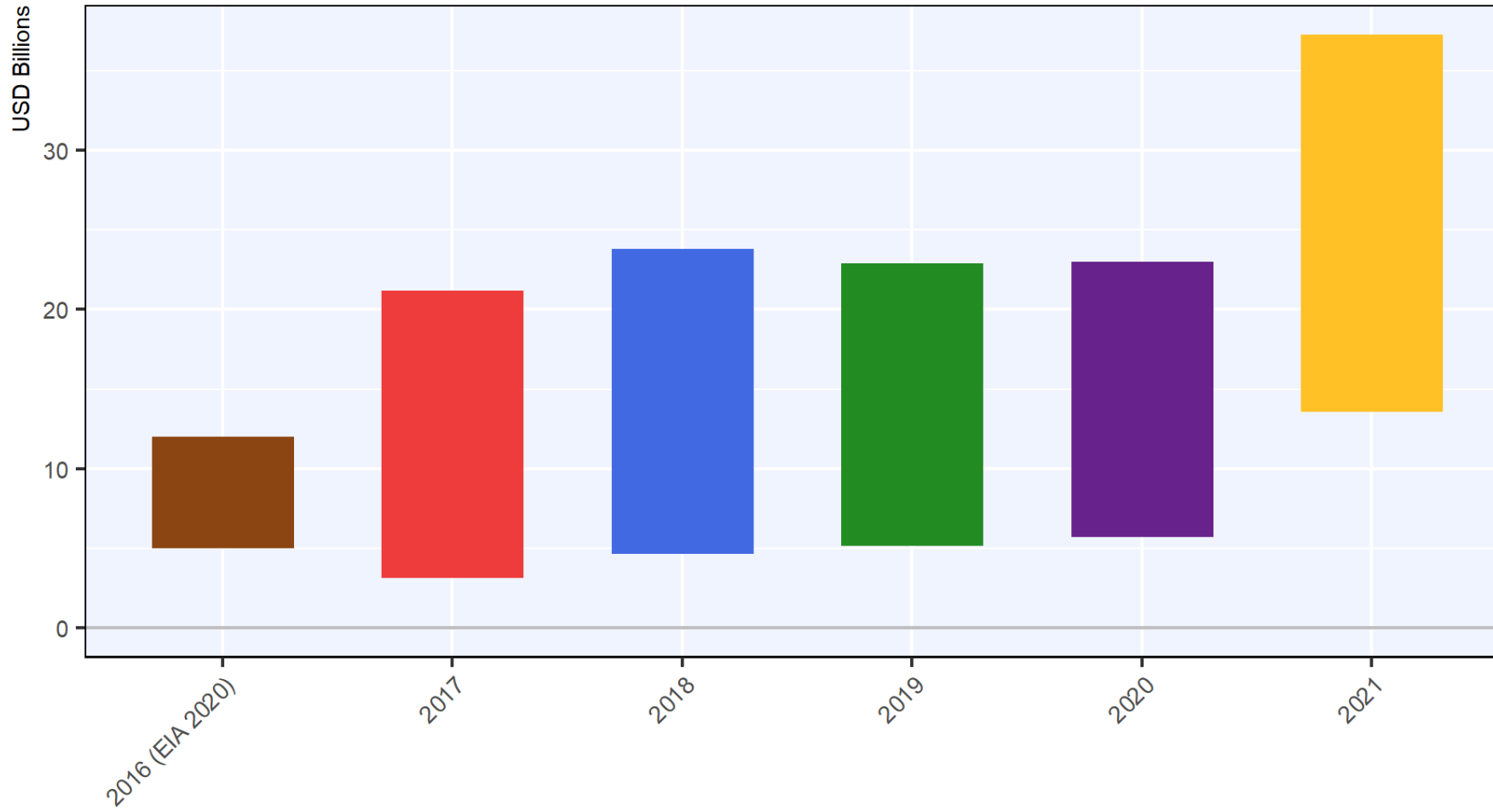
- The reallocation of taxing rights from low-tax to high-tax jurisdictions results in global revenue gains

- These gains rise over time with the growth of Pillar One in-scope profit

Note: 2016 (EIA 2020) assumes a scope of ADS and CFB, as well as a pro-rata approach to EoDT, and no MDSH. The other estimates assume the new scope, the revised tier approach to EoDT, and incorporate a range of MDSH scenarios from 25% to 100% offset within the range of the error bars. The results for 2019, 2020 and 2021 assume the same global distribution of profit, sales, payroll and assets as in 2018. Withholding taxes are not modelled due to data constraints.
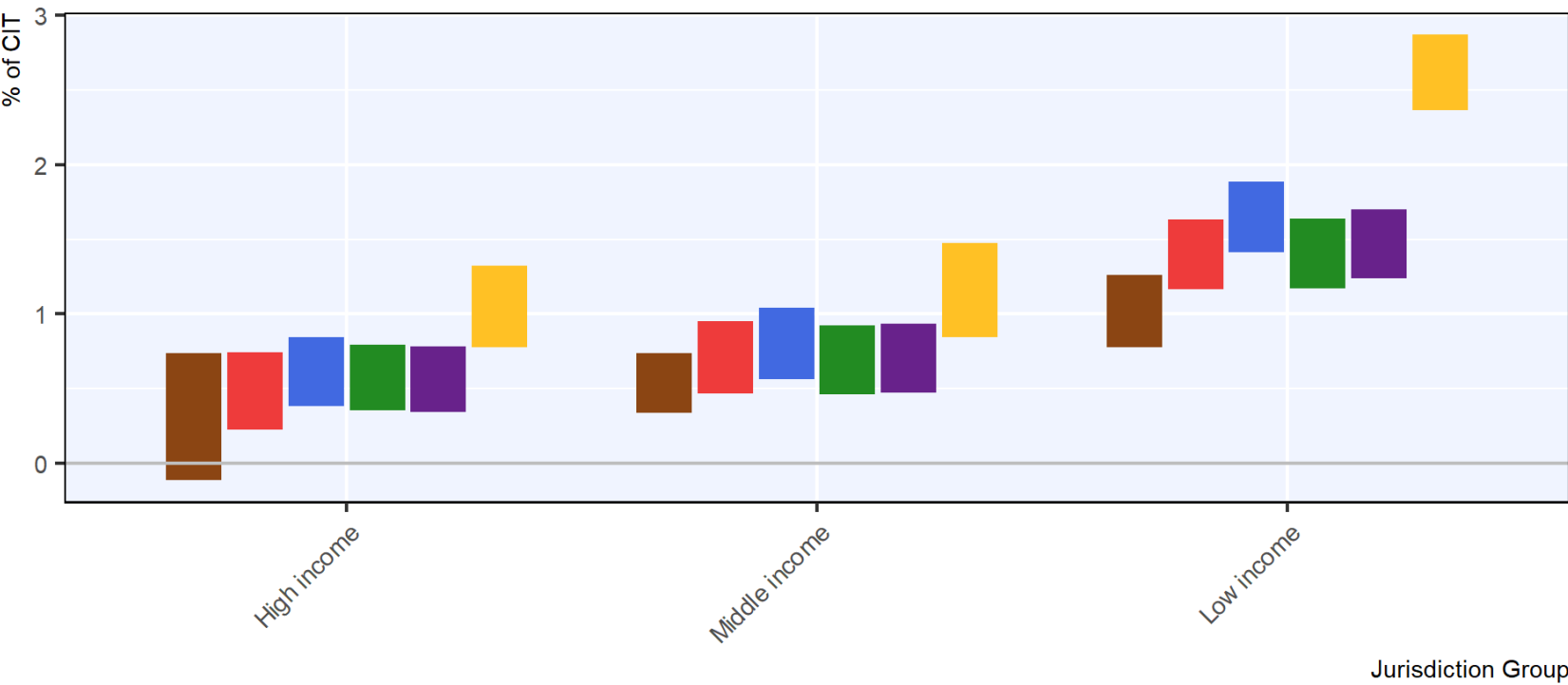
Pillar One: Jurisdiction-group results
For years 2016-2021: Excluding Investment Hubs

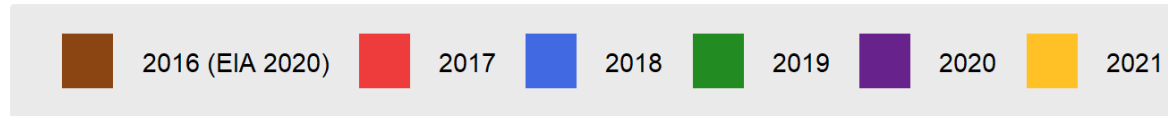Legend: 2016 (EIA 2020), 2017, 2018, 2019, 2020, 2021

- Pillar One revenue impacts are positive for most jurisdictions

- Increased gains driven by growth of in-scope profit

- Higher revenue gains for low- and middle-income jurisdictions driven by design features such as EoDT, nexus, tail-end revenues

Note: 2016 (EIA 2020) assumes a scope of ADS and CFB, as well as a pro-rata approach to EoDT, and no MDSH. The other estimates assume the new scope, the revised tier approach to EoDT, and incorporate a range of MDSH scenarios from 25% to 100% offset within the range of the error bars. The results for 2019, 2020 and 2021 assume the same global distribution of profit, sales, payroll and assets as in 2018. Withholding taxes are not modelled due to data constraints.

Pillar One: Jurisdiction-group results
For years 2016-2021: Including investment hubs

Legend: 2016 (EIA 2020) · 2017 · 2018 · 2019 · 2020 · 2021

P1

y-axis: % of CIT

x-axis categories: High income, Middle income, Low income, Investment Hub

- Investment hubs tend to lose tax base and tax revenue
- Zero-tax investment hubs lose tax base, but not tax revenue in this model
- This effect is intensified by the revised approach to EoDT which concentrates relief in investment hubs
- Impact of EoDT partially offset by the MDSH

Note: 2016 (EIA 2020) assumes a scope of ADS and CFB, as well as a pro-rata approach to EoDT, and no MDSH. The other estimates assume the new scope, the revised tier approach to EoDT, and incorporate a range of MDSH scenarios from 25% to 100% offset within the range of the error bars. The results for 2019, 2020 and 2021 assume the same global distribution of profit, sales, payroll and assets as in 2018. Withholding taxes are not modelled due to data constraints.
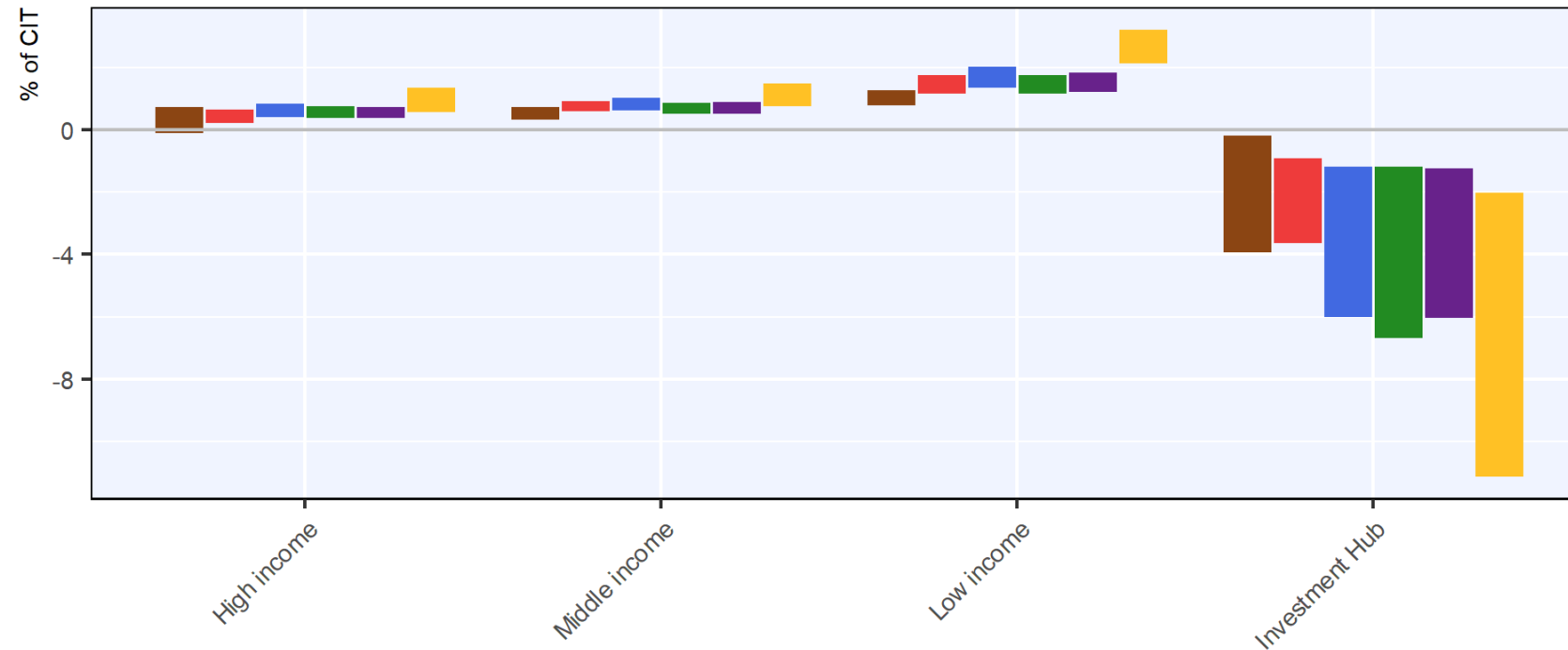
PILLAR TWO METHODOLOGY

Methodological overview

Revenue gain for Jurisd. A = **Global low-taxed profit** × **Effect of substance-based income exclusion** × (**Minimum tax rate** − **Current effective rate on low-taxed profit**) × **Share of revenues from minimum tax accruing to Jurisd. A**

Baseline of 15% will be modelled

ETR updated with latest data

Top-up tax

- Amount of low-taxed profit updated with latest data including revised list of low-taxed jurisdictions
- Consistent implementation of the GloBE rules across jurisdictions

Substance-based income exclusion parameters revised to reflect October 2021 Agreement

- Allocation of revenues based on the value of tangible assets and number of employees
- Revenue allocation and jurisdiction-specific results will depend strongly on MNE & jurisdiction behavioural responses (ongoing work)
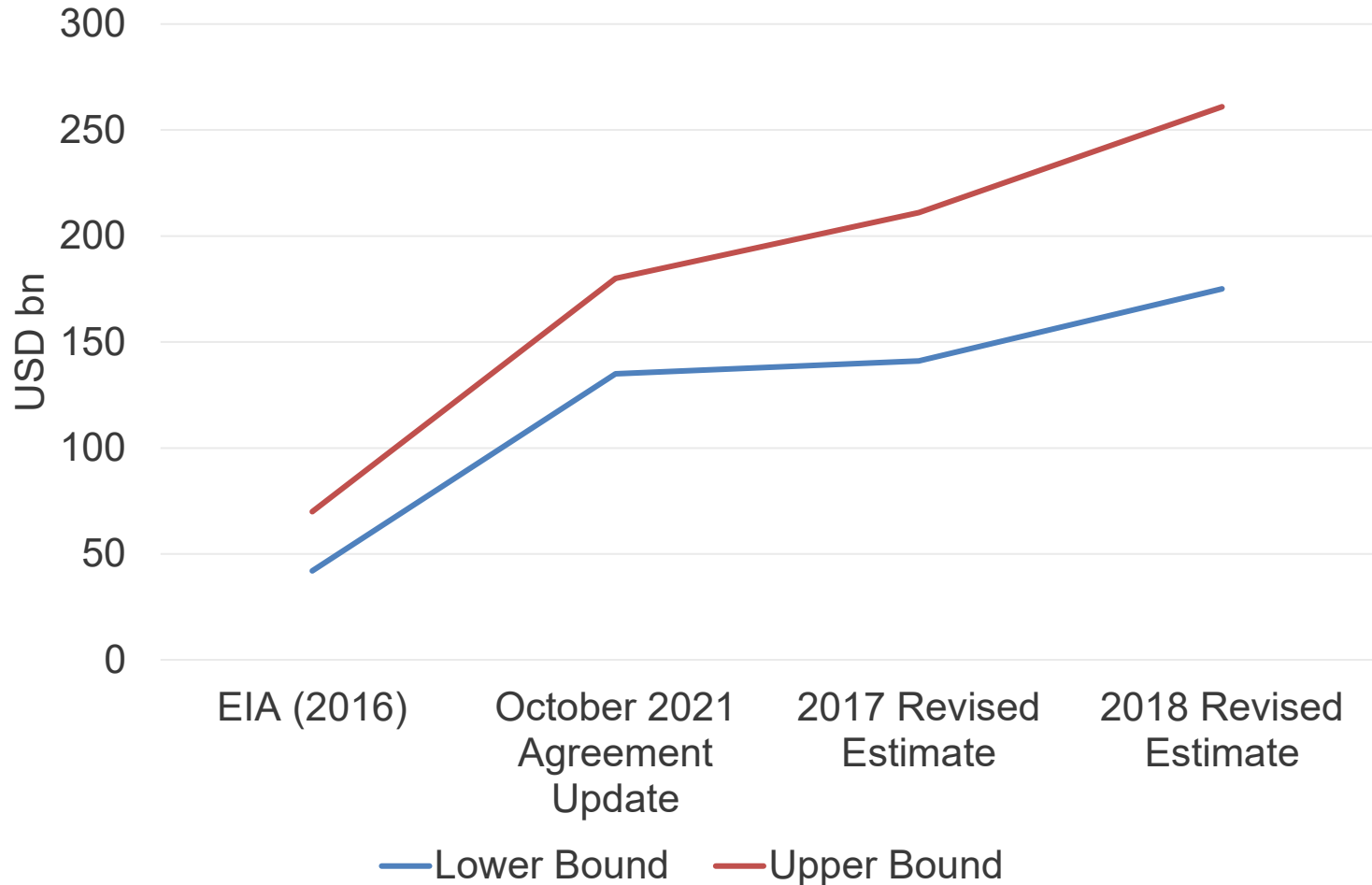
PILLAR TWO KEY RESULTS

Pillar Two: Global results
For years 2016-2018

- Pillar Two revenue gains have increased
  - 2017 data: estimated gains of **USD 141 bn** to **USD 211 bn**, with a central estimate of **USD 175 bn**
  - 2018 data: estimated gains of **USD 175 bn** to **USD 261 bn**, with a central estimate of **USD 220 bn**
- Compared to previous estimate of around USD 150 bn (October 2021)

Key results: Pillar Two

- **Changes in the revenue gains result from several factors**

  - **Better data on global low-taxed profit**, due to the expansion of anonymised and aggregated CbCR data coverage

  - **Increase in low-taxed profit over time** in both investment hubs and non-hub jurisdictions

  - New modelling assumes **consistent application of GloBE rules** across all jurisdictions

- Accounting for pockets of low-taxed profit may result in higher revenue gains for jurisdictions where firms are facing low ETRs

Key results: Pillar Two
Ongoing work

- Global revenue gains modelled, but jurisdiction impacts will depend on behavioural responses of jurisdictions (e.g. QDMTTs)

- Currently only **low-tax profit in low-tax jurisdictions** is modelled

- There is growing evidence that a high share of **low-tax profit is located in high-tax jurisdictions**

  – Tax incentives are likely to be a key factor

- **Additional modelling to assess the location of low-taxed profit and the impact of QDMTTs is required**

  – Important to improve the accuracy of jurisdiction-specific results

  – Broad QDMTT introduction will shift potential revenue gains from UPE jurisdictions to affiliate jurisdictions where low-tax profits are currently located

  – However, there are significant data limitations

NEXT STEPS

Outreach and next steps

- Ongoing work is being carried out to model the impact of Pillar Two at the jurisdiction-group level, including the impact of QDMTTs

- Secretariat will continue to assist jurisdictions in understanding the provisions of the Two-Pillar Solution as they evolve

- Results remain preliminary and a full economic impact analysis as well as a detailed methodology will be released in the coming months.

- Comments and feedback welcome: ctp.contact@oecd.org

- Presentation available on event page: https://oe.cd/eia

TECHNICAL ANNEX

Data sources for jurisdictional profit matrix

Data Source	EIA 2020 – 2016		New Analysis – 2017		New Analysis – 2018	
	% of cells	% of total profit	% of cells	% of total profit	% of cells	% of total profit
CbCR	2	63	7	85	8	86
Orbis	3	10	3	4	3	4
Extrapolations	95	27	89	11	89	10
Total	**100**	**100**	**100**	**100**	**100**	**100**

Note: This table corresponds to the section on profits in Table 5.6 from EIA 2020. CbCR data includes information imputed based on CbCR data from other years.

Profit matrix
Preliminary results

The profit matrix 2018					
		Jurisdiction of ultimate parent			
	USD billion	High income	Middle income	Low income	Investment Hubs	Total
Jurisdiction of affiliate	High income (66 jurisd.)	4672.5 (+31%)	151.3 (+236%)	0.1 (+94%)	260.4 (+50%)	**5084.4 (+34%)**
	Middle income (101)	455.0 (+27%)	1715.4 (+109%)	0.1 (-26%)	306.3 (+85%)	**2476.7 (+85%)**
	Low income (32)	2.6 (+80%)	1.9 (+30%)	2.6 (-28%)	0.2 (+13%)	**7.3 (+10%)**
	Investment Hubs (23)	984.6 (+51%)	139.6 (+101%)	0.0 (-42%)	505.9 (+61%)	**1630.1 (+58%)**
	Total	**6114.6 (+33%)**	**2008.2 (+115%)**	**2.8 (-26%)**	**1072.9 (+64%)**	**9198.5 (+49%)**

Note: Brackets show percentage changes from EIA 2020 matrix using 2016 data. Number of jurisdictions in each group are in brackets in the left-hand column. Jurisdiction groupings are based on World Bank classifications and have been updated compared to the EIA 2020. Investment hubs are defined as jurisdictions with a total inward FDI position above 150% of GDP. Results are preliminary.

Tangible asset matrix
Preliminary results

The tangible asset matrix 2018					
		Jurisdiction of ultimate parent			
	USD billion	High income	Middle income	Low income	Investment Hubs	Total
Jurisdiction of affiliate	High income (66 jurisd.)	13938.6 (+20%)	405.8 (+27%)	15.7 (+118%)	809.2 (+31%)	**15169.3 (+21%)**
	Middle income (101)	1246.2 (-4%)	9876.4 (+134%)	9.6 (+73%)	1144.7 (+53%)	**12276.9 (+95%)**
	Low income (32)	22.1 (-7%)	16.0 (+23%)	6.4 (-69%)	9.8 (+103%)	**54.3 (-13%)**
	Investment Hubs (23)	649.9 (48%)	406.6 (+490%)	1.7 (+54%)	842.7 (+100%)	**1900.9 (+104%)**
	Total	**15856.8 (+19%)**	**10704.8 (+131%)**	**33.4 (-4%)**	**2806.4 (+56%)**	**29401.4 (+48%)**

Note: Brackets show percentage changes from EIA 2020 matrix using 2016 data. Number of jurisdictions in each group are in brackets in the left-hand column. Jurisdiction groupings are based on World Bank classifications and have been updated compared to the EIA 2020. Investment hubs are defined as jurisdictions with a total inward FDI position above 150% of GDP. Results are preliminary.

Payroll matrix
Preliminary results

The payroll matrix 2018					
		Jurisdiction of ultimate parent			
	USD billion	High income	Middle income	Low income	Investment Hubs	Total
Jurisdiction of affiliate	High income (66 jurisd.)	5320.2 (-24%)	187.8 (+20%)	6.0 (+72%)	419.6 (-12%)	**5933.6 (-22%)**
	Middle income (101)	411.6 (-15%)	818.0 (-44%)	2.0 (+20%)	170.8 (-6%)	**1402.4 (-34%)**
	Low income (32)	2.4 (-71%)	1.1 (-69%)	0.6 (-92%)	0.4 (-78%)	**4.5 (-79%)**
	Investment Hubs (23)	179.9 (-20%)	22.5 (+24%)	0.4 (-2%)	176.9 (+4%)	**379.7 (-8%)**
Total		**5914.1 (-23%)**	**1029.3 (-37%)**	**9.1 (-32%)**	**767.6 (-8%)**	**7720.1 (-24%)**

Note: Brackets show percentage changes from EIA 2020 matrix using 2016 data. Number of jurisdictions in each group are in brackets in the left-hand column. Jurisdiction groupings are based on World Bank classifications and have been updated compared to the EIA 2020. Investment hubs are defined as jurisdictions with a total inward FDI position above 150% of GDP. Results are preliminary.

Data sources used to build MNE-level matrices

Data Sources of MNE-level Matrices by Variable									
		Percentage of Total				Percentage of Cells			
		Turnover	Profit	Assets	Payroll	Turnover	Profit	Assets	Payroll
Data Sources	Jurisdictional data from financial statements	51%	26%	52%	21%	1%	1%	1%	1%
	Regional data from financial statements	42%	31%	21%	15%	92%	59%	77%	28%
	Consolidated MNE-level data	7%	43%	26%	64%	7%	41%	22%	72%

- Jurisdictional data from financial statements (FS) is always preferred if available
- If only regional data is available in FS, it is combined with destination shares from industry-weighted baseline matrices
- If no FS data is available, consolidated MNE-level data is combined with destination shares from industry-weighted aggregate matrices

Modelling steps used to build MNE-level matrices

Step 1: Update baseline matrices from 2016 to 2017 & 2018, including expanded use of CbCR & Orbis data, and **collection of unconsolidated and consolidated data** for in-scope MNE groups from 2016-2021

Step 2: Build MNE-level matrices by combining consolidated group level data with MNE-specific jurisdiction-level weights estimated using Annual Reports (ARs), CbCRs and industry-weighted baseline matrices

Step 3: Apply revised policy changes at the MNE level, including tax base rules to calculate Amount A, rules for EoDT, special purpose nexus, revenue sourcing and profit allocation rules including the MDSH

Step 4: Estimate net overall revenue effects by aggregating MNE-level results to jurisdictions, jurisdiction-groups and globally, taking revised scoping rules into account

Pillar One: Main assumptions on policy parameters (i)

Scope (PR Article 1)

- Estimates based on scope of:

  – a global revenue threshold of EUR 20 bn in the period (*the revenue test*), and

  – a profitability threshold of 10% return on revenues in the period (*the profitability test*) and

- In-scope groups based on averaging and prior period tests

  – When the group was not in scope in the two consecutive periods immediately preceding the period, a profitability greater than 10% in two or more of the four periods immediately preceding the period is required to be in-scope (*the prior period test*)

  – A profitability greater than 10% on average across the period and the four periods immediately preceding the period is required to be in-scope (*the average test*)

- Financial services and extractives excluded

- No accounting for segmented businesses that may be in scope

Pillar One: Main assumptions on policy parameters (ii)

Business type	Number of MNEs (FY 2021)	Allocation key used in modelling
Finished goods B2C (incl. B2C Services)	45	MNE specific* / Final consumption expenditure
Finished goods - B2B	10	Final consumption expenditure
Components	20	GDP
Location specific services	10	MNE specific* / Final consumption expenditure
Transport services	2	MNE specific* / GDP (excl. non-markets)
B2B Services	9	GDP
Real estate	6	MNE specific* / GDP
ADS	4	MNE specific* / FCE x internet usage

*MNE-specific allocation keys are based on destination-specific sales from annual reports & 10Ks, combined with aggregate data on final consumption expenditure. In individual cases, revenues of in-scope MNEs are assigned to a single jurisdiction.

Nexus and revenue sourcing (PR Articles 3 & 4)

- **Revenue sourcing:** based on MNE business types using firm-level information and macro proxies (e.g., advertising services sourced to the location of the viewer)

- **Nexus threshold**: EUR 1m or EUR 250k depending on jurisdictional GDP (EUR 40 bn threshold)

- **Tail-end revenue**: 2.5% allocated to low and lower-middle income jurisdictions for finished goods producers

Allocation of profit (Article 6)

- 25% of residual profit (profit in excess of 10%) allocated to market jurisdictions

MDSH (Article 6)

- Given ongoing work on the precise design of the MDSH, a range of options are included within the margins of error presented

- All options would be based on the higher of (i) an RoDP threshold equivalent to 10% RoR, and (ii) an absolute 40% RoDP threshold, as outlined in Article 6.5 of the PR

- A variety of MDSH parameters are modeled

  - An offset parameter ("Y%" in the PR) of between 25% and 100%

  - A deduction of offset profit from elimination profit of between 25% and 100% (i.e., a multiple of between 1 and 4)

  - Either no de minimis provisions or a de minimis of EUR 50m

- All options are chosen on a without prejudice basis

EoDT (Articles 8-9)

- Residual profit is calculated using RoDP equivalent to 10% RoR at the consolidated level

- EoDT is determined based on a tiered approach (Article 9 in the PR):
  - Tier 1: 1500% of MNE group-level RoDP
  - Tier 2: 150% of MNE group-level RoDP
  - Tier 3: 40% RoDP (in absolute terms)
  - Tier 4: MNE group-level RoDP equivalent to 10% RoR

- De minimis thresholds (Article 8):
  - Jurisdictions with less than EUR 50m are excluded from EoDT
  - The smallest number of jurisdictions containing 95% of global MNE profit is included in EoDT