



Global Agreement on Corporate Taxation: Frequently asked questions

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What did discussions on international tax reform focus on?

Members of the Organization for Economic Co-operation and Development (OECD) / G20 / Inclusive Framework worked on a global consensus-based solution to reform the international corporate tax framework. The discussion focused on two broad work streams: **Pillar One**, the partial re-allocation of taxing rights, and **Pillar Two**, the minimum effective taxation of profits of Multinational Enterprises (MNEs).

Pillar One aims to adapt the international rules on how the taxation of corporate profits of the largest and most profitable MNEs is shared amongst countries, to reflect the changing nature of business models, including the ability of companies to do business without a physical presence.

Pillar Two will set a floor to excessive tax competition. It aims to ensure that multinational businesses are subject to a minimum effective level of tax on all of their profits each year.

How does this fit with EU goals?

The international tax reform at OECD-level is complementary to the EU's tax agenda, which offers solutions that Europe needs in order to support its Single Market and accelerate the post-COVID-19 recovery.

In May 2021, the European Commission published the [Communication on Business Taxation for the 21st Century](#). The Communication set out a long-term vision to provide a fair and sustainable business environment and EU tax system, building on the progress made and the principles agreed in the global discussions. It also sets out a tax agenda for the next two years, with targeted measures that promote productive investment and entrepreneurship and ensure effective taxation.

Pillar One

Which companies fall under the scope of Pillar One?

Pillar One aims to capture the largest and most profitable multinational enterprises (MNEs) regardless of industry classification or business model. Therefore, the companies in scope are large MNEs with a global turnover of above EUR 20 billion and profitability (profits divided by turnover) of above 10%.

In seven years, should the implementation of the rules proceed successfully, the turnover would be reduced to EUR 10 billion, which would increase the number of MNEs concerned.

The extractive industry and Regulated Financial Services are excluded from the scope of Pillar 1.

What is the scale of activity needed in a market jurisdiction to trigger a reallocation?

The Pillar One mechanism envisages a redistribution of a share of excess profits of MNEs to market jurisdictions where consumers or users are located. According to the agreement, jurisdictions will receive a part of the reallocated profits if the MNEs involved derive at least EUR 1 million in revenue from that jurisdiction. For smaller jurisdictions, with a GDP lower than EUR 40 billion, the amount of revenue derived will be set at EUR 250,000.

What share of the profits will be allocated to relevant market jurisdiction?

The share of profits to be reallocated to market jurisdictions will be between 20% and 30% of the 'residual profits' of companies in scope, which would be defined as profits above 10% return on sales. These would be allocated based on a particular formula. For example, if a company has a EUR 40 billion annual turnover and EUR 10 billion annual profit. This company would be in scope, as the profitability is at 25%. The EUR 10 billion annual profit are thus EUR 4 billion "normal" profits and EUR 6 billion "residual profits". Of those EUR 6 billion residual profits, a certain share (of at least 20%, or at least EUR 1.2 billion) would get redistributed.

What happens if the residual profits of MNEs are already taxed in a market jurisdiction?

Where the residual profits of an MNE are already taxed in a market jurisdiction, a safe harbour will cap the residual profits reallocated to that jurisdiction.

What happens to existing Digital Service Taxes?

Appropriate coordination will be provided between the application of the new international tax rules and the removal of national Digital Service Taxes and other relevant similar measures.

Pillar Two

What will be the global minimum effective tax rate?

The global minimum effective tax rate will be at least 15%.

Which companies fall under the scope of Pillar Two?

Unlike Pillar One, Pillar Two has no profitability threshold. It would apply to all multinational groups exceeding a threshold of EUR 750 million of combined financial revenues. This means all large multinational enterprises would be covered by the measures on minimum effective taxation. Moreover, countries are free to apply a top-up tax to a parent entity as a response to the low taxation of a constituent entity even if they do not meet the EUR 750 million threshold.

Which companies are exempted from the rules?

Government entities, international organisations, non-profit organisations, pension funds or investment funds that are parent companies of an MNE Group do not fall under the scope of Pillar Two.

What happens to subsidiaries present in lower-taxed areas?

Under Pillar Two, countries will impose a top-up tax - the so-called Income Inclusion Rule - on the parent entity of a multinational enterprise resident in their territory to make up for the low taxation of certain subsidiaries of the same group, which are located in another country. If multinational enterprises are headquartered in countries that do not impose top-up tax on the parent company, their low-taxed subsidiaries will still effectively lose their tax advantages due to the so-called Undertaxed Payments Rule (UTPR), which denies deductions or requires an equivalent adjustment to the extent the low tax income is not subject to a top-up tax.

Is the OECD agreement compulsory for all members?

Once agreed and translated into a multilateral convention, the application of Pillar 1 will be mandatory for participating countries.

On Pillar 2, the agreed rules will be a '**common approach**'. This would mean that Inclusive Framework members are not required to adopt the rules, but if they choose to do so, they will have to implement and administer the rules in a way that is consistent with the agreed outcomes under Pillar 2. It also means that Inclusive Framework members will have to accept that other members apply the rules, which in practice implies that multinational enterprises with subsidiaries in countries that operate a rate below the agreed minimum will not avoid bearing the consequences of Pillar 2.

How will this be implemented in the European Union?

As a closely integrated European Union with a Single Market, it will be important to ensure that the global agreement is implemented in a consistent way across our Member States. Moreover, for Pillar Two, it will be essential to ensure its implementation is compatible with the Treaties and existing EU legislation.

Therefore, the Commission will table a Directive for the implementation of Pillar 2 in the EU. The Commission will also consider whether there is a need to table a Directive for the implementation of Pillar One.

What happens next? When will the new rules start being applied?

The OECD/G20 Inclusive Framework will take a final decision on the remaining issues and will agree an implementation plan by October. Once there is a consensus-based global agreement on both Pillars, the Commission will move swiftly to propose measures for their implementation in the EU, in line with the EU's tax agenda and the needs of the Single Market.

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