

Foreword

The integration of national economies and markets has increased substantially in recent years, putting a strain on the international tax rules, which were designed more than a century ago. Weaknesses in the current rules create opportunities for base erosion and profit shifting (BEPS), requiring bold moves by policy makers to restore confidence in the system and ensure that profits are taxed where economic activities take place and value is created.

Following the release of the report *Addressing Base Erosion and Profit Shifting* in February 2013, OECD and G20 countries adopted a 15-point Action Plan to address BEPS in September 2013. The Action Plan identified 15 actions along three key pillars: introducing coherence in the domestic rules that affect cross-border activities, reinforcing substance requirements in the existing international standards, and improving transparency as well as certainty.

After two years of work, measures in response to the 15 actions were delivered to G20 Leaders in Antalya in November 2015. All the different outputs, including those delivered in an interim form in 2014, were consolidated into a comprehensive package. The BEPS package of measures represents the first substantial renovation of the international tax rules in almost a century.

Implementation is now well underway. The BEPS package was designed to be implemented via changes in domestic law and practices, and in tax treaties. With the negotiation of a multilateral instrument (MLI) having been finalised in 2016 to facilitate the implementation of the treaty related BEPS measures, over 90 jurisdictions are covered by the MLI. The entry into force of the MLI on 1 July 2018 has paved the way for swift implementation of the treaty related measures. OECD and G20 countries also agreed to continue to work together to ensure a consistent and co-ordinated implementation of the BEPS recommendations and to make the project more inclusive. Globalisation requires that global solutions and a global dialogue be established which go beyond OECD and G20 countries.

As a result, the OECD established the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework) in 2016, bringing together all interested and committed countries and jurisdictions on an equal footing in the Committee on Fiscal Affairs and all its subsidiary bodies. The Inclusive Framework, which already has more than 135 members, is monitoring and peer reviewing the implementation of the BEPS minimum standards as well as completing the work on standard setting to address BEPS issues. In addition to its member jurisdictions, other international organisations and regional tax bodies are involved in the work of the Inclusive Framework, which also consults business and civil society on its different work streams.

Addressing the tax challenges arising from the digitalisation of the economy has been a top priority of the BEPS Project and the Inclusive Framework since 2015 with the release of the BEPS Action 1 Report. At the request of the G20, the Inclusive Framework has continued to work on the issue, delivering an interim report in March 2018. In January 2019, members of the Inclusive Framework agreed to examine proposals in two pillars, which could form the basis for a consensus solution to the tax challenges arising from digitalisation. Pillar One is focused on nexus and profit allocation whereas Pillar Two is focused on a global minimum tax intended to address remaining BEPS issues. A programme of work to be conducted on Pillar One and Pillar Two was adopted in May 2019 and later endorsed by the G20 in June 2019. As part of the

programme of work, the OECD Secretariat was mandated to carry out an economic analysis and impact assessment of the Pillar One and Pillar Two proposals. In July 2020, the G20 mandated the Inclusive Framework to produce reports on the Blueprints of Pillar One and Pillar Two by the G20 Finance Ministers meeting in October 2020.

This report presents the OECD Secretariat's economic analysis and impact assessment mandated under the May 2019 programme of work, which has been prepared to support the ongoing discussions by the Inclusive Framework around design questions associated with the Pillar One and Pillar Two proposals. It was produced by the OECD Secretariat in consultation with Inclusive Framework members, Working Party No.2, other international organisations, the academic community and other stakeholders. It does not represent the consensus views of the Inclusive Framework, the Committee on Fiscal Affairs or their subsidiary bodies.



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