Pillar One Blueprint

A revolution in profit allocation with formulaic attribution to customer locations

Why Pillar One is important

Pillar One aims at reallocating more income to markets via a simple formula delivering the so-called Amount A.

Amount A will be earmarked where the customers of the MNE are located. This implies that more taxing rights will be granted to user/ customer jurisdictions, with nexus independent of physical presence.

The formulaic nature of Amount A represents a departure from the arm's length principle (ALP), for the part of profit in excess of the agreed 10% baseline.

The scope of amount A is determined on the basis of the size and the profitability of a multinational group:

- Consolidated turnover above EUR 20bn, possibly decreasing to EUR 10bn in the future AND
- Consolidated profit before tax over turnover above 10%
- Extractives, regulated financial services and maritime transport are excluded

Signatory countries propose an ambitious implementation timeline with Pillar 1 entering into force in 2023.

The main issues still to be decided

Technical and diplomatic work will continue, with the most important features needing clarification before the October G20 meeting:

- Identification of surrendering entities (double tax relief)
- Notion of a safe harbour approach
- Mechanisms to prevent and resolve disputes
- Amount B (fixed return for baseline marketing and distribution functions)

What we can do to help

Monitoring developments

- PwC's global and national experts are working together to provide best in class insights and updates on the technical/ political developments.

Engagement

- Businesses likely to be significantly impacted by undecided policy choices may need PwC advice on how best to engage with stakeholders and contribute to the project.

Commercial implications: PwC modelling and impact assessment

- Group structure
- Deals

Compliance

- Are you aware of the possible new compliance costs derived from the new requirements, especially where a new taxable presence is imposed by the new rules?
- Have you thought about the significant increase in compliance obligations, and need for associated resource and support?

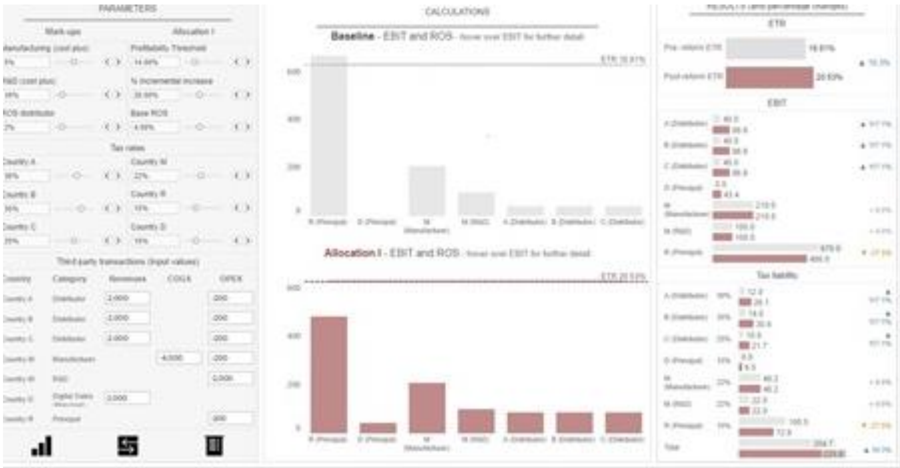
Communications and stakeholder management

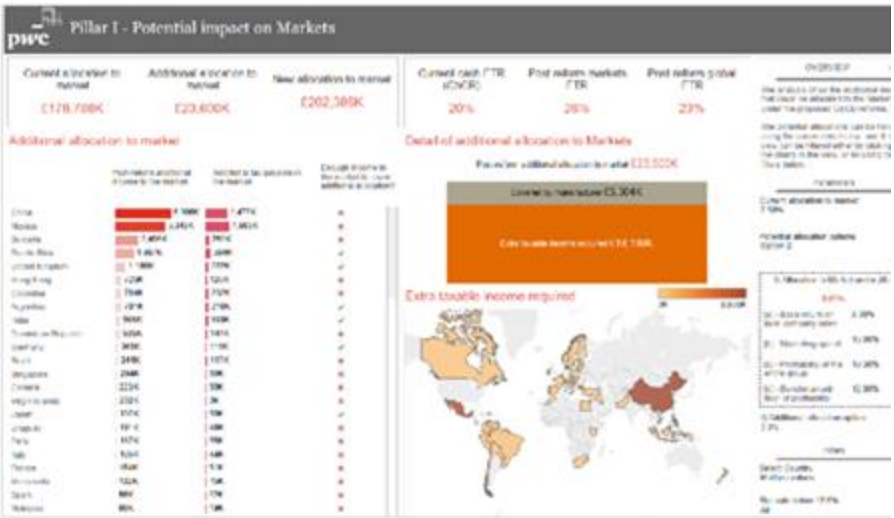
- Tax teams can be upskilled by PwC to discuss the impact on ongoing projects.
- The C-suite and investors can be fully briefed with guidance from PwC.
- With the current attention of the general public on tax matters, PwC can help with briefing stakeholders in advance of any media coverage and flag potential risks and steps that need to be taken.

Modelling the impact of Pillar One

Our high level analysis provides indications of the potential reallocation of profits under Pillar One reforms and any additional tax liability that could be payable.

Pillar 1 modelling





The Pillar One components

Amount A

Formulaic allocation of profit in excess of an agreed baseline, distributed across countries where customers are located, regardless of where the business' physical activities are located.

Amount B

Fixed return for a baseline marketing and distribution functions - to be defined. Fixed return should be in line with ALP.

Although Amount B would be a key component of Pillar One, it is unclear whether it will be fully part of a possible agreement or whether, it will apply only in some jurisdictions (e.g., lower income countries).

Tax certainty

Separate procedures for Amount A and beyond that.

Some key issues - Amount A

Scope – All industries in scope, with the exception of the extractive sector, financial services and maritime transport.

Thresholds – based on global turnover and profitability.

Nexus - Based purely on sales :

- EUR 1 million
- EUR 250,000 for smaller countries (GDP below EUR 40bn)

Calculation - simple formula

- 25%* (PBT – 10% * turnover)

Some key issues - Amount B

Baseline activities – Exact scope to be determined

Remuneration – To be discussed, including if, potentially differentiated for certain industries and/or geographies

Tax certainty

- Amount A self-assessment return, request for tax certainty and review panel process.
- Beyond Amount A improved dispute prevention, MAP, voluntary mediation and mandatory binding dispute resolution.

Key contacts

Ian Dykes
M+44 (0)7803149718
E: ian.dykes@pwc.com

Aamer Rafiq
M: +44 (0)7771 527309
E: aamer.rafiq@pwc.com

Charlotte Richardson
M: +44 (0)7775 606317
E: charlotte.d.richardson@pwc.com

Giorgia Maffini
M: +44 (0)7483 378124
E: giorgia.maffini@pwc.com

Phil Greenfield
M: +44 (0)7973 414521
E: philip.greenfield@pwc.com