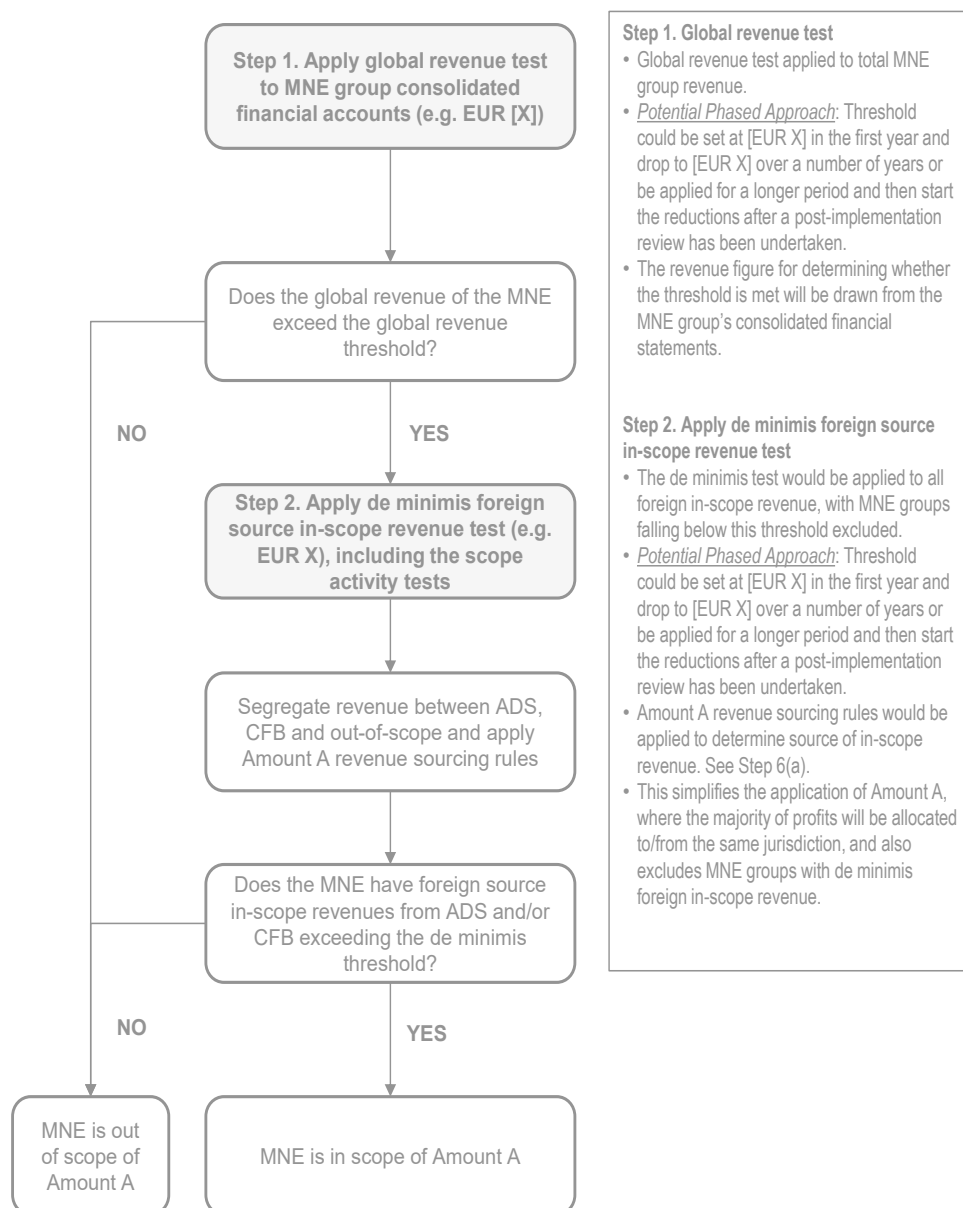


Annex A. Detailed Process Map of Amount A



Application of Amount A

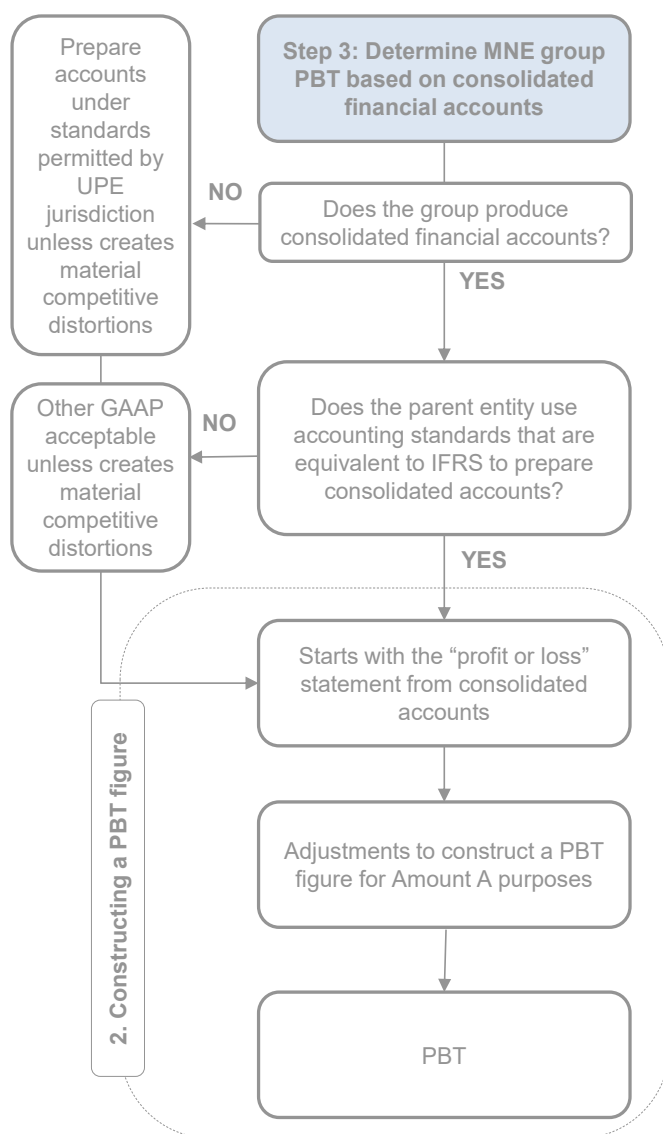
Steps 1-2: Scope tests (revenue and *de minimis*)





Application of Amount A

Step 3: Make required adjustments to consolidated financial accounts



Step 3: Determine MNE group PBT

1. Identify and test consolidated financial accounts

- MNE groups that prepare consolidated financial accounts that produce equivalent or comparable outcomes to consolidated financial accounts prepared under IFRS – including GAAP of Australia, Canada, Hong Kong (China), Japan, New Zealand, the People's Republic of China, the Republic of India, the Republic of Korea, Singapore, and the United States – would use these as the starting point. Other MNE groups are estimated to be less than 10% of groups in scope.
- Privately held MNE groups that do not produce consolidated accounts would be required to prepare consolidated accounts under standards permitted by their UPE jurisdiction, provided that those standards qualify as eligible or, otherwise, do not result in material competitive distortions.
- MNE groups that use GAAP not equivalent to IFRS will be permitted to compute Amount A under that GAAP unless it creates material competitive distortions.

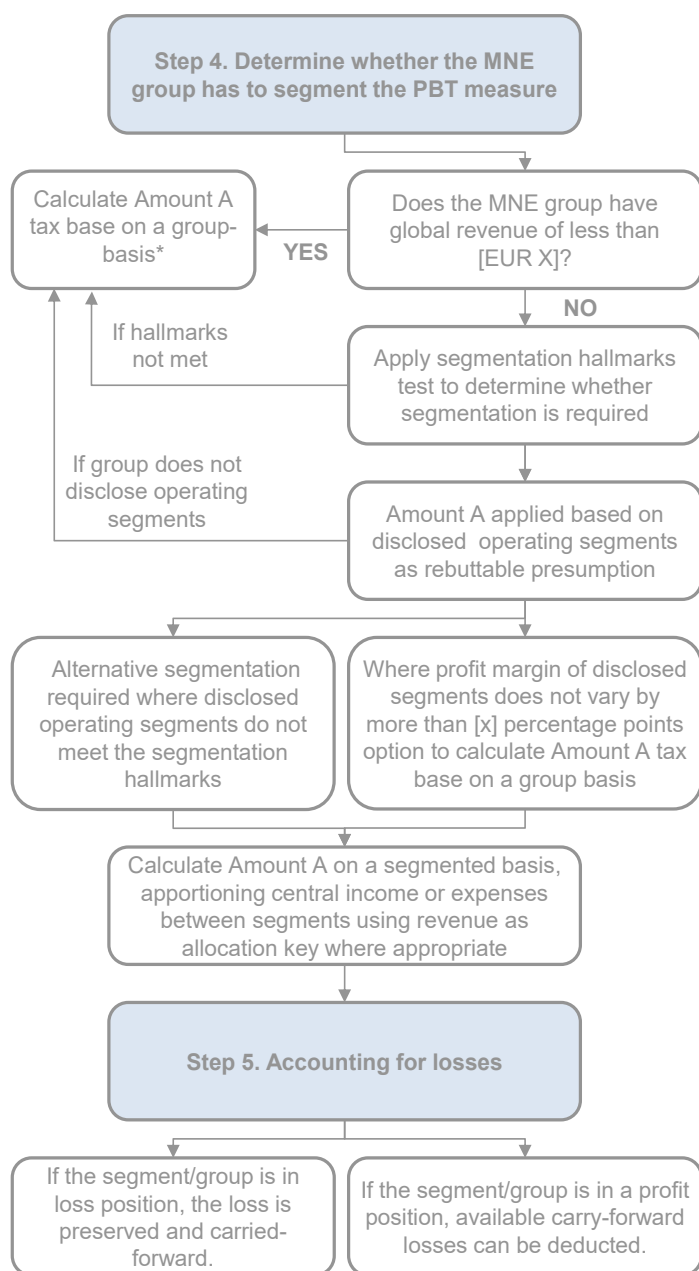
2. Constructing a PBT figure

- Potential book-to-tax adjustments include: (1) income tax expense (2) dividend income and gains or losses arising in connection with shares; and (3) expenses that are typically not deductible or limited for public policy reasons (e.g. fines).



Application of Amount A

Step 4-5: Segmentation and losses



Step 4: Scope of segmentation

- Simplified rules to limit the number of MNE groups that compute Amount A tax base on a segmented basis. This approach is expected to limit the compliance burden created by Amount A and to make the tax certainty process manageable.
- Apply exemption or safe harbour² from segmentation based on global revenue: MNE groups with global revenue of less than [EUR X] would apply Amount A on a group basis. This threshold would be increased to [EUR X] for a five-year transition period.
- MNE groups not eligible for the exemption/safe harbour will apply the segmentation hallmark tests to determine whether they are required to segment their Amount A tax base and on what basis.
- As a rebuttable presumption, MNE groups would be required to apply Amount A on the basis of their disclosed operating segments, except:
 - MNE groups that do not disclose operating segments should apply Amount A on a group basis, and
 - MNE groups can apply Amount A on a group basis where the profit margin of their disclosed segments does not vary by more than [x] percentage points.
- Where Amount A is computed on a segmented basis, an MNE group would be required to apportion central or unallocated costs, using revenue as an allocation key where appropriate.

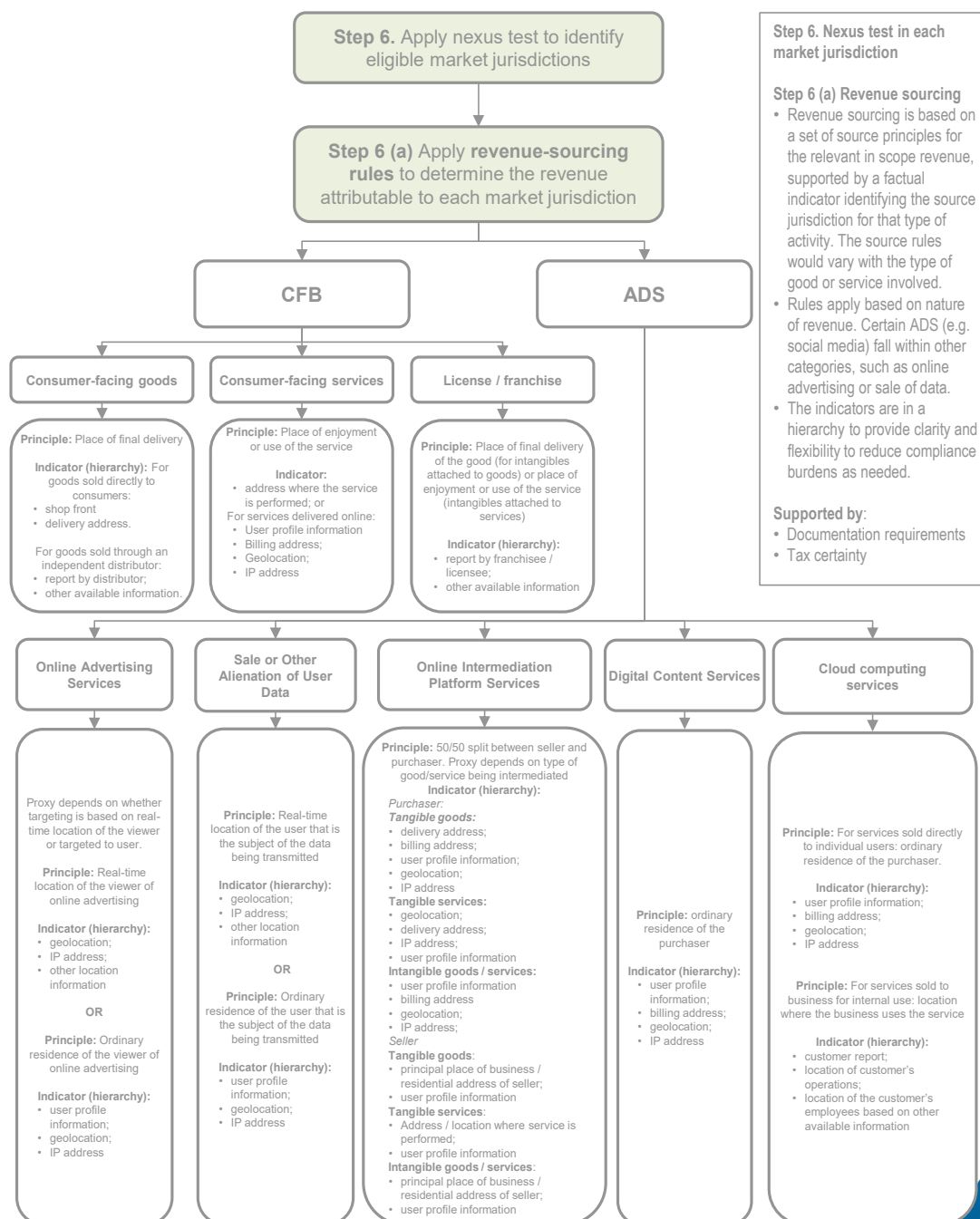
Step 5. Accounting for losses

- If in the current period, the segment/group has a loss, this is calculated and carried-forward to offset against future profits.
- If in the current period, the segment/group has a profit, available carry-forward losses are automatically offset against these profits for the purposes of determining Amount A.
- Loss carry-forward rules could be extended to certain pre-regime losses (i.e. losses incurred by group/segment before the introduction of the new taxing right).



Application of Amount A

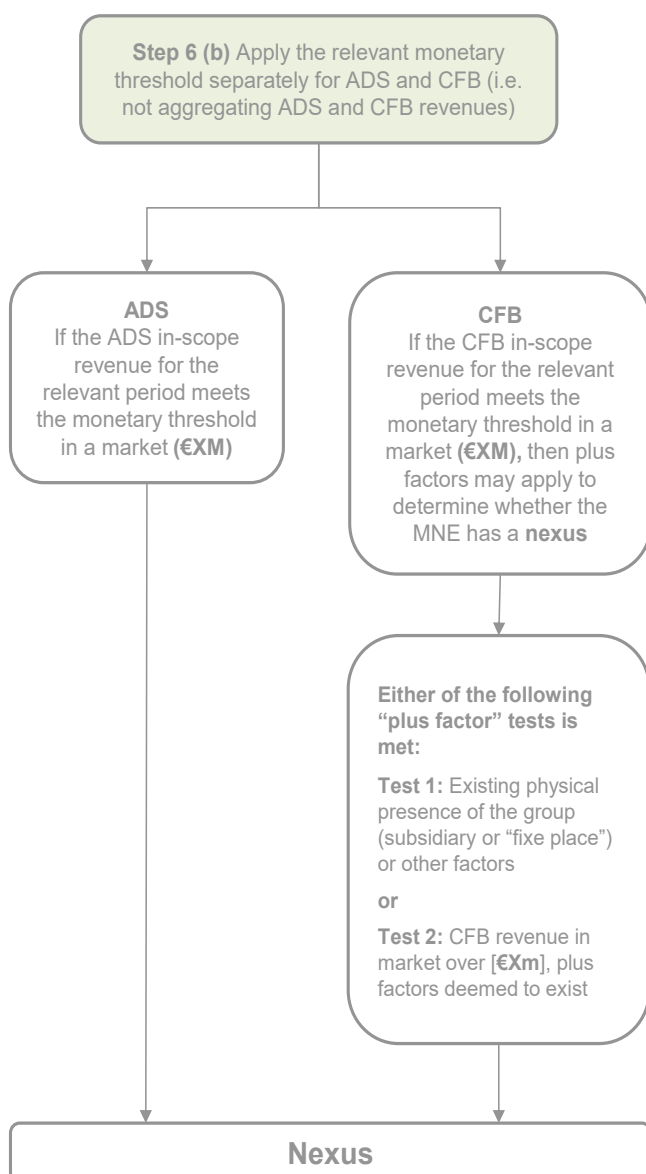
Step 6: Nexus and Revenue Sourcing





Application of Amount A

Step 6: Nexus and Revenue Sourcing (continued)



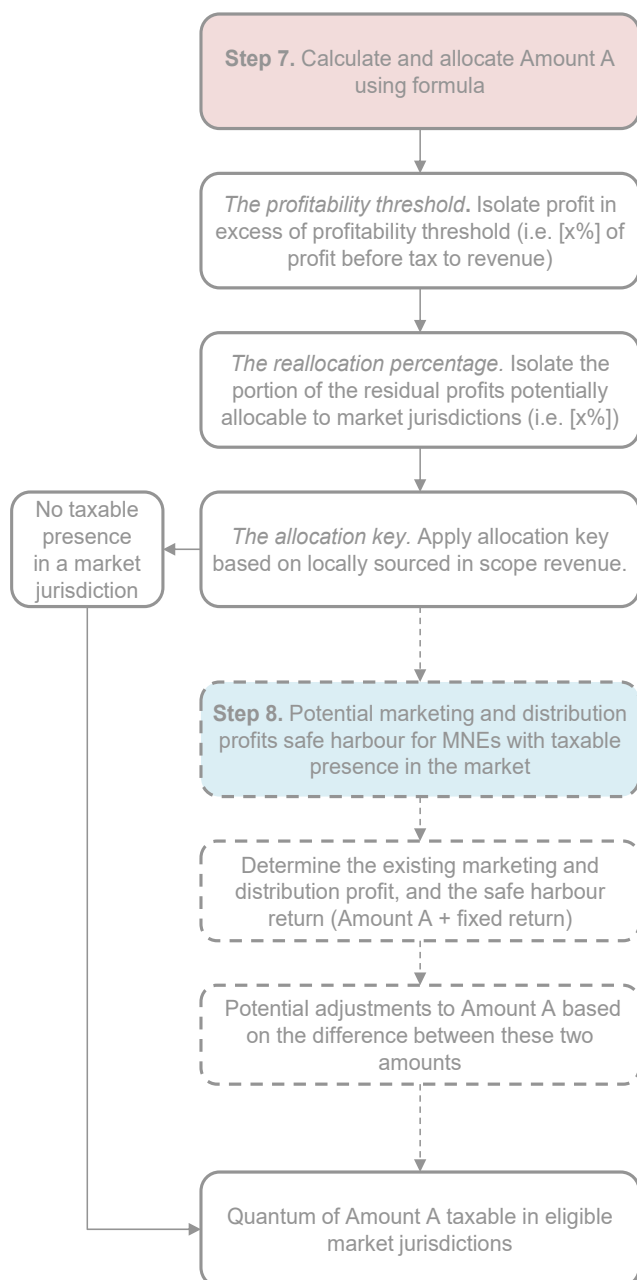
Step 6 (b) Apply the relevant monetary threshold

- The nexus rules will establish whether the MNE group has a significant/active and sustained engagement in a particular market jurisdiction. The primary nexus test (and the only one for automated digital services) will be a revenue threshold.
- If there is a **segmentation**, the nexus rule is likely to follow the segmentation approach.
- Using a temporal requirement spanning only one year would avoid the complexities of a multiyear testing period.
- **For CFB**, the "sales" may not a sufficient factor to establish nexus in a market jurisdiction, and hence that the country-specific revenue thresholds is to be **complemented by "plus factors"** which could be:
 - Physical presence of the MNE group in the form of a subsidiary or a fixed place of business; or
 - Other form of presence of the MNE group in the market jurisdiction.
 - Simplification: a possible way to simplify the administration of the "plus factors" would be to deem these factors to exist once the sales of the MNE group exceed a certain amount in the market jurisdiction.



Application of Amount A

Step 7-8: Calculation and Allocation of Amount A



Step 7. Formulaic allocation of Amount A

- The quantum of Amount A will be calculated through a formula that will apply to the tax base of a group (or segment where relevant), with three steps:
- A *profitability threshold* to isolate the residual profit potentially subject to reallocation. As a simplifying convention, this will be a profit before tax to revenue ratio.
- A *reallocation percentage* to identify the appropriate share of residual profit to be allocated to market jurisdictions under Amount A. This will be a fixed percentage.
- An *allocation key* to distribute the allocable tax base amongst the eligible market jurisdictions (i.e. where nexus is established for Amount A). It will be based on locally sourced in scope revenue.
- The quantum of Amount A could be weighted (through variations to the formula) to account for different degrees of digitalisation between in-scope business activities (so called "digital differentiation"), or to account for variations in profitability between different market jurisdictions (so-called "jurisdictional segmentation").

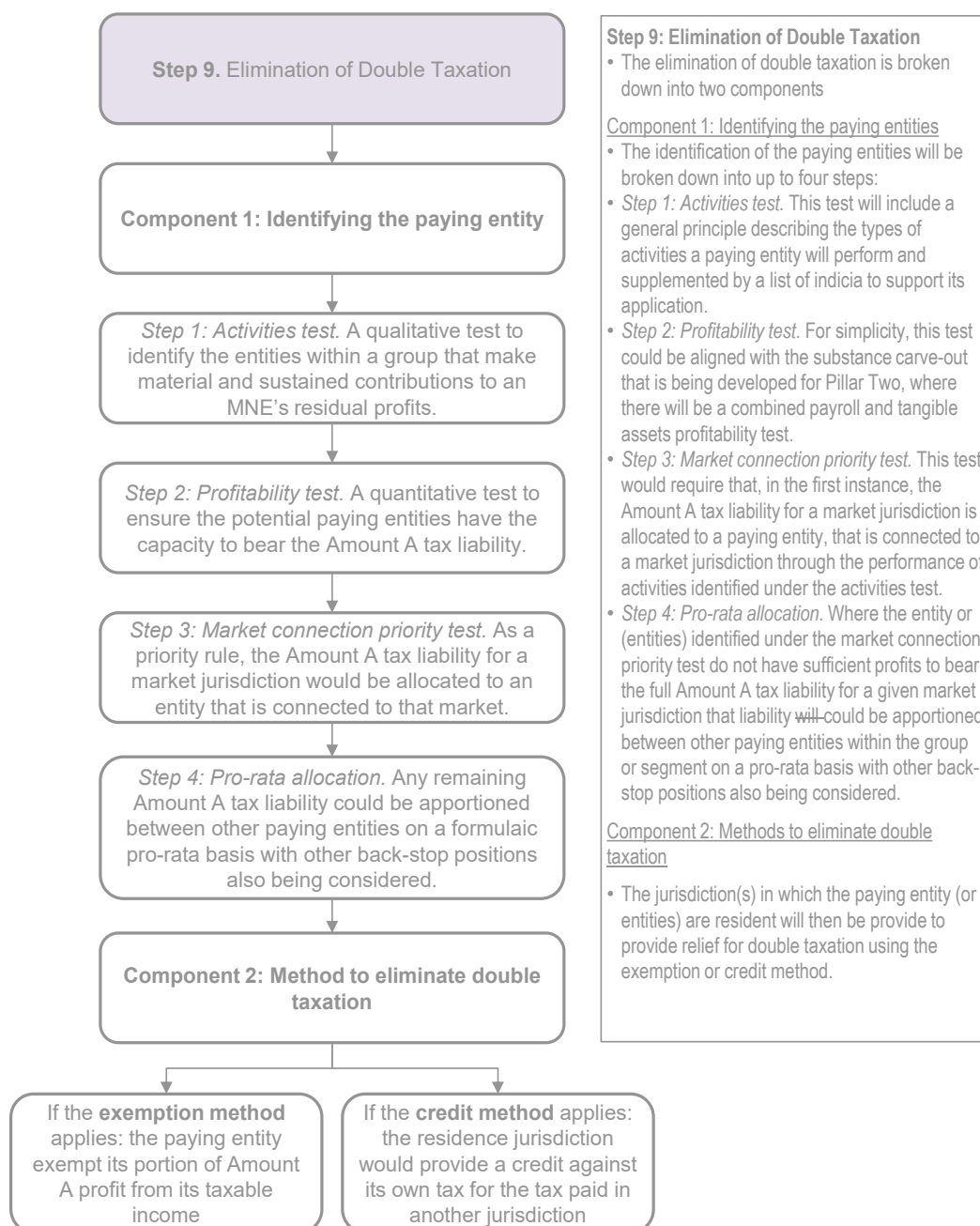
Step 8: Potential marketing and distribution profits safe harbour

- An option under consideration is to provide a safe harbour where an MNE has a taxable presence in a market jurisdiction to deal with some potential double counting issues
- Determine the existing marketing and distribution profits, and determine the safe harbour return, the sum of: (i) Amount A; and (ii) a fixed return for in-country routine marketing and distribution activities.
- Compare the safe harbour return with the existing marketing and distribution profits, to determine a potential cap to the Amount A allocation and hence the quantum of Amount A taxable in eligible market jurisdictions.
- Where the existing marketing and distribution profit exceeds the safe harbour return, there will be no allocation of Amount A to that market jurisdiction.
- NB: Other options are being considered to deal with potential double counting issues.



Application of Amount A

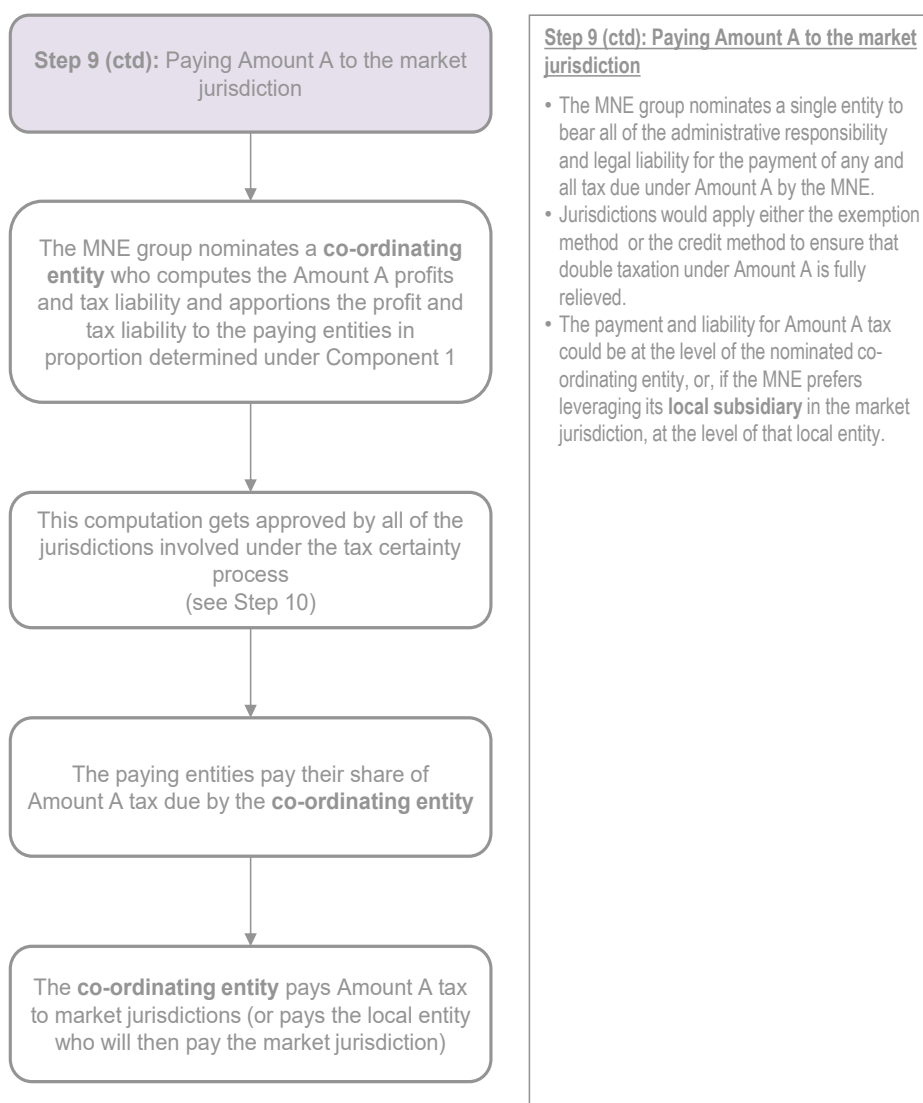
Step 9: Elimination of double taxation





Application of Amount A

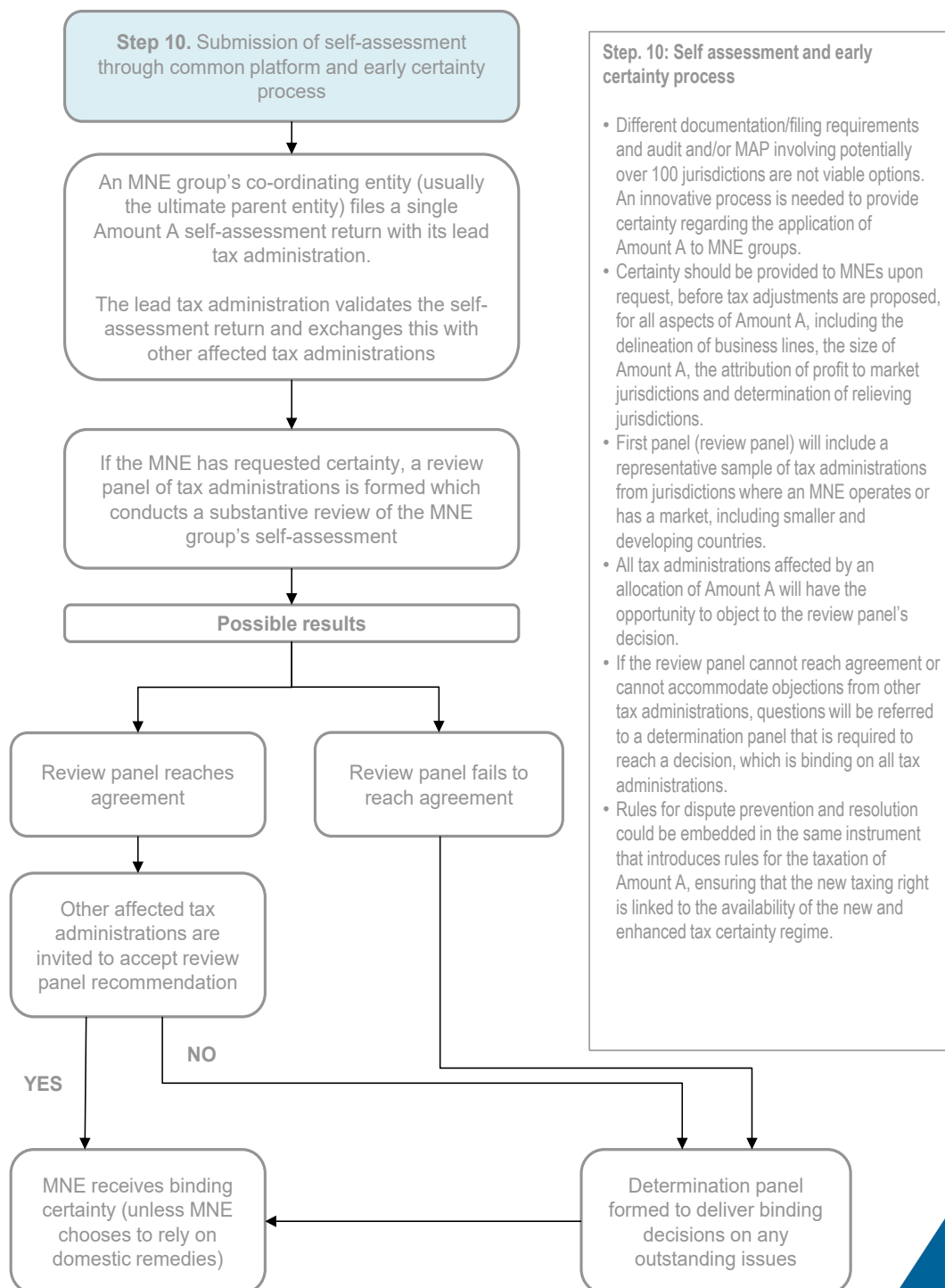
Step 9: Elimination of double taxation (continued)





Application of Amount A

Step 10: Submission of self-assessment through common platform and early certainty process





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