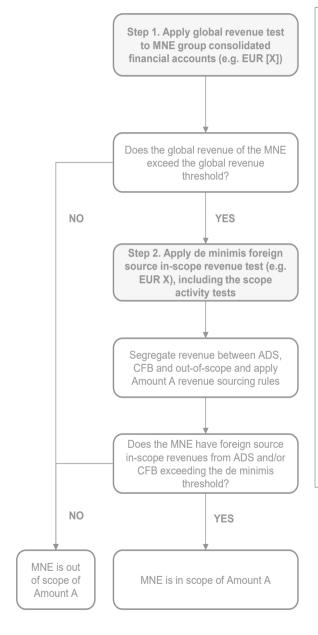
Annex A. Detailed Process Map of Amount A



Application of Amount A

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



Step 1. Global revenue test

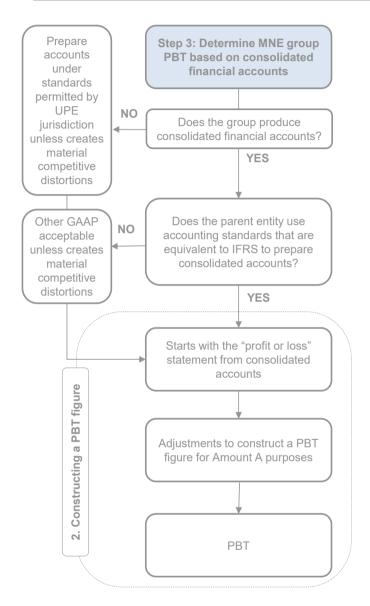
- Global revenue test applied to total MNE group revenue.
- <u>Potential Phased Approach</u>: Threshold could be set at [EUR X] in the first year and drop to [EUR X] over a number of years or be applied for a longer period and then start the reductions after a post-implementation review has been undertaken.
- The revenue figure for determining whether the threshold is met will be drawn from the MNE group's consolidated financial statements.

Step 2. Apply de minimis foreign source in-scope revenue test

- The de minimis test would be applied to all foreign in-scope revenue, with MNE groups falling below this threshold excluded.
- <u>Potential Phased Approach</u>: Threshold could be set at [EUR X] in the first year and drop to [EUR X] over a number of years or be applied for a longer period and then start the reductions after a post-implementation review has been undertaken.
- Amount A revenue sourcing rules would be applied to determine source of in-scope revenue. See Step 6(a).
- This simplifies the application of Amount A, where the majority of profits will be allocated to/from the same jurisdiction, and also excludes MNE groups with de minimis foreign in-scope revenue.



Step 3: Make required adjustments to consolidated financial accounts



Step 3: Determine MNE group PBT

Identify and test consolidated financial accounts

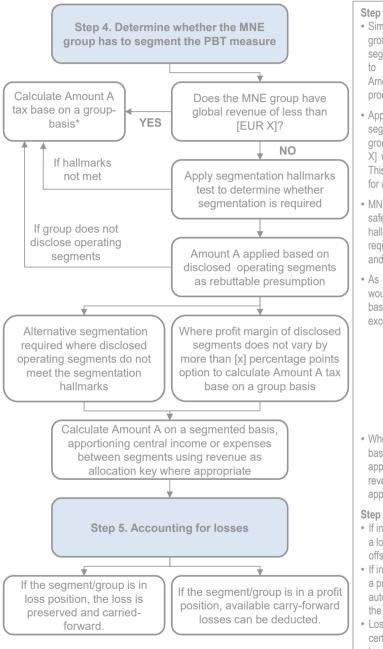
- MNE groups that prepare consolidated financial accounts that produce equivalent or comparable outcomes to consolidated financial accounts prepared under IFRS – including GAAP of Australia, Canada, Hong Kong (China), Japan, New Zealand, the People's Republic of China, the Republic of India, the Republic 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



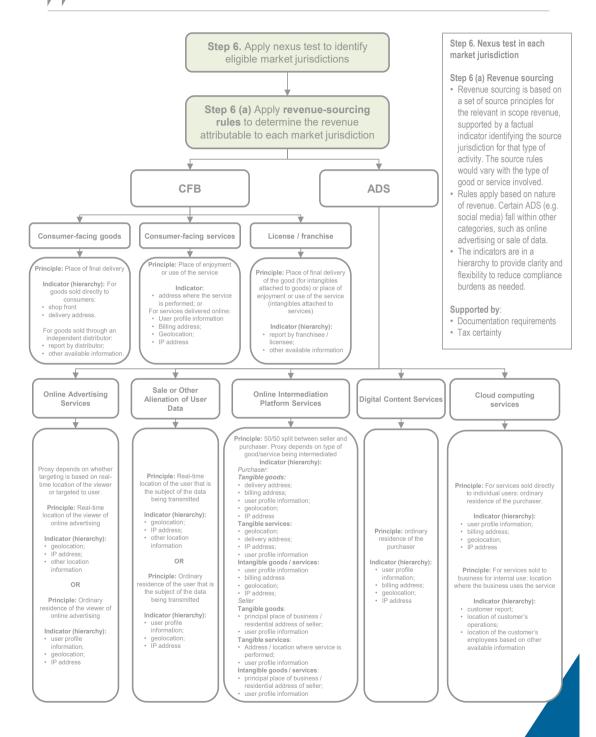
Step 4: Scope of segmentation

- 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 harbour* 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 do 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.

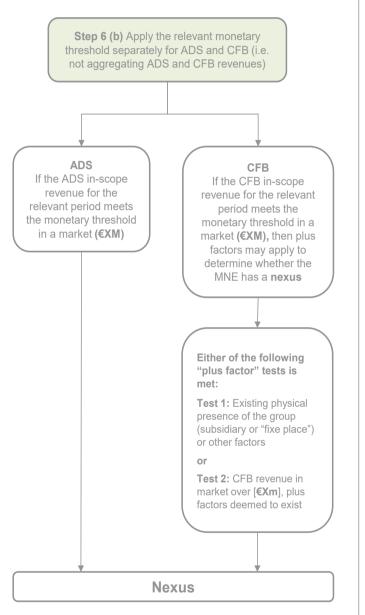
Step 5. Accounting for losses

- 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



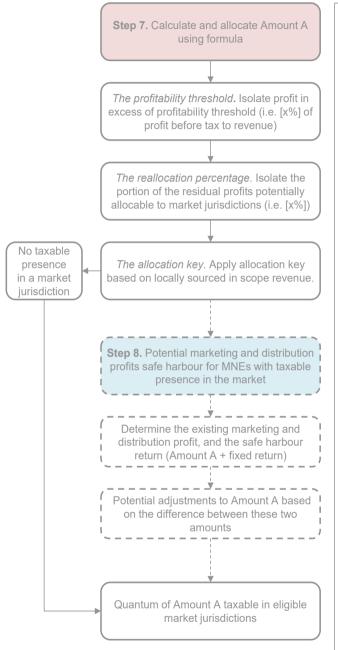
Step 6: Nexus and Revenue Sourcing (continued)



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.



Step 9: Elimination of double taxation

Step 9. Elimination of Double Taxation

Component 1: Identifying the paying entity

Step 1: Activities test. A qualitative test to identify the entities within a group that make material and sustained contributions to an MNE's residual profits.

Step 2: Profitability test. A quantitative test to ensure the potential paying entities have the capacity to bear the Amount A tax liability.

Step 3: Market connection priority test. As a priority rule, the Amount A tax liability for a market jurisdiction would be allocated to an entity that is connected to that market.

Step 4: Pro-rata allocation. Any remaining Amount A tax liability could be apportioned between other paying entities on a formulaic pro-rata basis with other back-stop positions also being considered.

Component 2: Method to eliminate double taxation

Step 9: Elimination of Double Taxation

 The elimination of double taxation is broken down into two components

Component 1: Identifying the paying entities

- The identification of the paying entities will be broken down into up to four steps:
- Step 1: Activities test. This test will include a general principle describing the types of activities a paying entity will perform and supplemented by a list of indicia to support its application.
- Step 2: Profitability test. For simplicity, this test could be aligned with the substance carve-out that is being developed for Pillar Two, where there will be a combined payroll and tangible assets profitability test.
- Step 3: Market connection priority test. This test
 would require that, in the first instance, the
 Amount A tax liability for a market jurisdiction is
 allocated to a paying entity, that is connected to
 a market jurisdiction through the performance of
 activities identified under the activities test.
- Step 4: Pro-rata allocation. Where the entity or (entities) identified under the market connection priority test do not have sufficient profits to bear the full Amount A tax liability for a given market jurisdiction that liability will-could be apportioned between other paying entities within the group or segment on a pro-rata basis with other backstop positions also being considered.

Component 2: Methods to eliminate double taxation

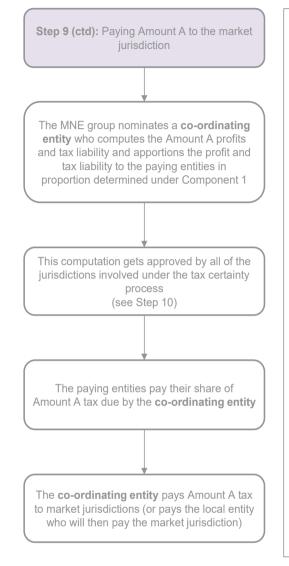
 The jurisdiction(s) in which the paying entity (or entities) are resident will then be provide to provide relief for double taxation using the exemption or credit method.

If the exemption method applies: the paying entity exempt its portion of Amount A profit from its taxable income If the **credit method** applies: the residence jurisdiction would provide a credit against its own tax for the tax paid in another jurisdiction

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Application of Amount A

Step 9: Elimination of double taxation (continued)

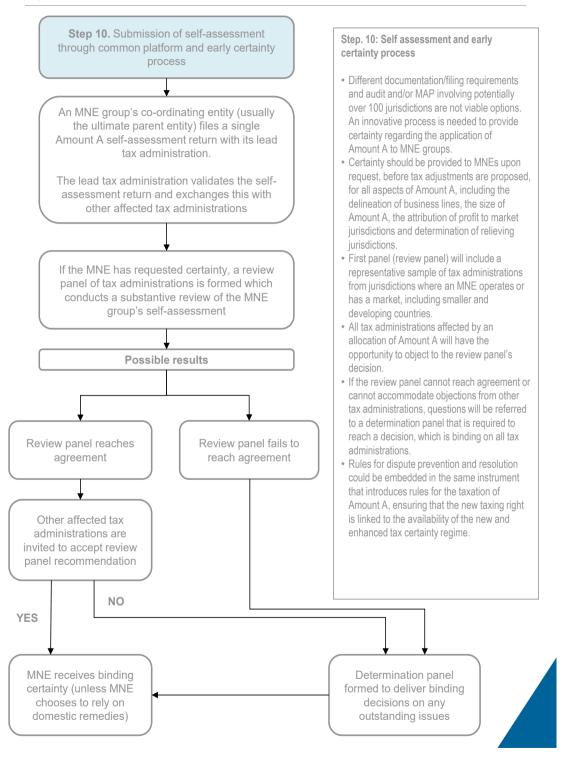


Step 9 (ctd): Paying Amount A to the market jurisdiction

- The MNE group nominates a single entity to bear all of the administrative responsibility and legal liability for the payment of any and all tax due under Amount A by the MNE.
- Jurisdictions would apply either the exemption method or the credit method to ensure that double taxation under Amount A is fully relieved.
- The payment and liability for Amount A tax could be at the level of the nominated coordinating entity, or, if the MNE prefers leveraging its local subsidiary in the market jurisdiction, at the level of that local entity.



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





From:

Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint

Inclusive Framework on BEPS

Access the complete publication at:

https://doi.org/10.1787/beba0634-en

Please cite this chapter as:

OECD (2020), "Detailed Process Map of Amount A", in *Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint: Inclusive Framework on BEPS*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/0f1fc44f-en

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