Amount B of Pillar One: OECD consultation

International Tax   Large Corporate

18 September 2023

The CIOT responded to the OECD's consultation on Pillar One – Amount B.

The OECD published a consultation on Amount B of Pillar One in July 2023. Pillar One is part of the two-pillar solution to reform international tax agreed by the OECD/G20 Inclusive Framework on BEPS to deal with the challenges arising from the digitalisation of the global economy. The two-pillar solution aims to ensure that multinational enterprises (MNEs) pay a fair share of tax wherever they operate and generate profits.

'Pillar One' involves a partial reallocation of taxing rights over the profits of MNEs to the jurisdictions where consumers are located. In particular, Amount B's aim is to simplify and streamline the transfer pricing of baseline marketing and distribution activities in accordance with the arm's length principle.

‘Pillar Two’ intends to ensure that MNEs pay a minimum rate of 15% corporation tax (or their version of it) in every country they operate in. The UK has implemented Pillar Two, introducing the multinational top-up tax and domestic top-up tax in Finance Act 2023 that will have effect in respect of in-scope groups’ accounting periods beginning on or after 31 December 2023.

In our response to the OECD’s consultation on Amount B, we said that it is clear that there has been significant work by the OECD/G20 Inclusive Framework on this aspect of the pillars, and we understand that this work is ongoing. The CIOT supports the principles and the intentions of simplification for Amount B. We understand that the aim is also to increase tax certainty and reduce resource-intensive disputes between taxpayers and tax administrations in respect of the transactions that are within its scope. The framework for Amount B, including the scoping criteria and pricing methodology, set out in the consultation document is moving towards meeting these principles.

We welcomed the fact that the proposals in the consultation document are greatly simplified from those presented in the last public consultation at the start of 2023. In particular, we welcomed the work that has been done to arrive at the pricing matrix, noting that while a business will still need operational transfer pricing expertise, this will reduce the amount of functional analysis that has to be undertaken to identify and categorise transactions and seems sensible.

In taking the work on Amount B forward, we encouraged the Inclusive Framework to continue simplifying the proposals to the greatest extent possible in order to ensure that Amount B provides businesses and tax administrations with a tangible benefit and achieves its objectives. We said that to be of real benefit, Amount B needs to reduce the amount of transfer pricing work that must be undertaken by MNEs and remove a significant amount of activity from transfer pricing disputes.

We noted our continuing concern about the resourcing burden for tax authorities. The pillars introduce a completely new level of complication over and above the various measures that have already been introduced or adopted in recent years because of the BEPS project. In our view, it is not practical to continue to place increased administrative burdens on tax authorities when many are already struggling to maintain service levels because of administering their own jurisdictions’ tax rules.

Our full response can be read at: www.tax.org.uk/ref1183

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