

Comments of the G-24¹ on the Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy agreed by 134 jurisdictions of the Inclusive Framework on the 1st of July 2021.

Submitted to the OECD Inclusive Framework Secretariat on September 19, 2021

1. G-24 reiterates its appreciation of the efforts by the G20 / OECD Inclusive Framework in working towards a global solution for addressing the tax challenges arising from digitalisation during these challenging times. This Note draws on the G-24's comments sent to the Inclusive Framework in December, 2020 and in May, 2021.
2. As previously indicated, G-24 has always favoured rules that are fair, simple and capable of being implemented effectively by all countries - developed or developing. The solution to be agreed in October should be flexible enough to capture new or emerging business models, as business models are constantly evolving. For ensuring an agreement, it is important that the process is truly inclusive and the concerns of the developing countries and the potential unintended consequences of the new rules are adequately addressed. The solution should take into consideration the capacity constraints of the developing countries. It is imperative that all jurisdictions, especially developing countries, understand what they are committing and agreeing to.
3. Regarding the remaining issues on the design of Amount A of Pillar One of the global solution, G-24 is disappointed that its suggestion for a deemed routine return in case of remote presence (something which was also suggested by African Tax Administration Forum (ATAF)) and a higher share than 30% has not found favour. Given the present position, G-24 strongly suggests that the reallocation percentage should NOT be less than 30% of multinationals' non-routine profits. With a limited number of companies and the nature of the business in scope any share of less than 30% will NOT ensure any meaningful revenue for developing countries- particularly small and emerging economies².
4. Recognising the need for certainty to stabilize the new rules, G-24 supports the inclusion of an elective binding dispute resolution mechanism for issues related to Amount A for developing economies that are eligible for deferral of their BEPS Action 14 peer review, as well as for those having no or low levels of MAP disputes. However,

¹ This note was prepared by the G-24 Working Group on Tax Policy and International Tax Cooperation, and is being submitted on behalf of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24). This note represents the views of member countries, out of which Argentina*, Brazil*, Colombia*, Cote D'Ivoire*, Egypt*, Gabon*, Haiti*, India*, Kenya*, Mexico*, Morocco*, Nigeria*, Pakistan*, Peru*, South Africa*, Sri Lanka*, and Trinidad and Tobago* (www.g24.org) are also members of the BEPS Inclusive Framework.

² Studies done so far on Pillar One proposal show that many developing countries may lose revenue. See for instance IMF (2021) *Digitalisation and Taxation in Asia*, DP/2021/017.

as always G-24 prefers that the rules should focus on dispute prevention rather than on dispute resolution.

5. G-24 is of the view that the proposed appropriate coordination between the application of the new international tax rules and the removal of all Digital Service Taxes and other relevant similar measures on all companies should not be at once; rather removal or standstill of such unilateral measures should be gradual and progressively alongside the implementation of Amount A on such companies. Further, if the developing countries are expected to withdraw unilateral measures due to agreement on Pillars One and Two, then there should be sufficient revenue under Pillar One and a broader STTR.
6. G-24 reiterates its support for the inclusion of the Subject to Tax Rule (STTR) as a minimum standard so as to address the base erosion concerns of the developing countries. STTR has to be a simple transaction based rule that seeks to address the remaining BEPS issues especially where, due to bilateral tax agreements, one country gives the other the right to tax the income and the other jurisdiction fails to tax the income up to the minimum level. G-24 favours this rule, in particular, to apply to payments for services and capital gains regarding which many developing countries are experiencing BEPS risks. Further, in line with our aim for simplicity of the rules, G-24 prefers not having a materiality threshold for triggering the STTR nor a low return exclusion as they will limit the application of the rule, while providing an additional layer of complexity and opportunities to create structures to fall out of the rule.
7. G-24 favours a high minimum effective tax rate under the GloBE rules as well as a high minimum rate on gross revenue under the STTR, allowing jurisdictions to tax back a higher portion of income that has not paid its fair share of taxes elsewhere (in particular, in low tax jurisdictions).
8. G-24 would like to emphasise that without a meaningful share in amount A and a broader subject to tax rule as suggested above, the solution if any, shall be sub-optimal and shall not be sustainable even in the medium run.