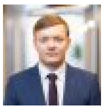
# Progress with agreement on Pillars One and Two 2/33/21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We have recently written about the OECD Inclusive Framework proposals for taxing the digitalised economy that will help OECD members find a common basis for agreeing on taxation of global enterprises that is acceptable to all OECD members and jurisdictions. Despite the large number of participating members (139 members and jurisdictions pursuing different interests and representing various sizes of economy), all stakeholders understand the significance of this reform and are interested in agreeing on the urgent issues and implementing the common taxation of the digitalised economy as soon as possible. This article explores the ambitious goals of this agreement and the deadlines for concluding and implementing it, which are even more ambitious.

Although the early stages of drafting the agreement saw substantial differences of opinion and even disagreements between OECD members, a lot of work has gone into improving the proposals so that a substantial majority of members have now agreed to join the proposed reform for taxing the digitalised economy. Following the OECD Inclusive Framework meeting in late June 2021 and the G20 finance ministers' meeting in July about joining the proposals, 132 members out of 139 have joined after 9 July, together representing over 90% of the global GDP. This agreement on international tax reform will provide a new framework, and the members having already joined it include Latvia and the other Baltic states. There is still a small group of seven countries likely to join once the outstanding issues have been discussed and more compromises reached. It is important to emphasise that none of the G7 countries are among those still waiting to join, so those seven members are unlikely to slow down progress with the proposals. All the outstanding issues and elements for the members to agree on, including the international tax reform implementation plan, are to be resolved and approved by October 2021.

## The structure and key benefits of the global agreement

As we have written earlier, the OECD Inclusive Framework proposals for taxing the digitalised economy consist of two pillars. Without going into detail, this is what the two pillars are about:

- Pillar One will determine a fairer allocation of global enterprises' profits to the countries concerned and their opportunities to tax those companies according to where they actually earn their income (countries and jurisdictions).
- Pillar Two will minimise the competition between the countries for corporate income tax by introducing a global minimum tax burden they can use to protect their tax base. This pillar will not eliminate international tax competition but will apply globally accepted restrictions on taxing rights.

Pillars One and Two are expected to be able to generate the required tax revenues. Pillar One is expected to make it possible to tax over USD 100 trillion in corporate profits annually reallocated to the market jurisdictions. Under Pillar Two, the global minimum corporate tax rate of 15% is expected to annually generate USD 150 trillion in tax revenues.

While the majority of OECD members have already joined the two-pillar solution, they need to wait for the others to join and agree on the outstanding key issues around developing and implementing the plan with Pillars One and Two. Next, the OECD Inclusive Framework proposals are to be finalised in October 2021, an implementation plan will be drawn up with rules and guidelines in 2022, and implementation of the proposals will begin in 2023, which involves taxing profits that global enterprises make from 2023 onwards.