

OECD SECRETARY-GENERAL TAX REPORT TO G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

G20 India, October 2023



G20 

OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors

G20 India, October 2023



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Please cite this publication as:

OECD (2023), *OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors: India, October 2023*, OECD, Paris, <https://www.oecd.org/tax/oecd-secretary-general-tax-report-g20-finance-ministers-india-october-2023.pdf>.

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Ahead of the final meeting of G20 Finance Ministers and Central Bank Governors under the Indian G20 Presidency, let me take this opportunity to congratulate India on spearheading another successful year in international tax reform; addressing tax avoidance, tackling tax evasion, preventing tax crimes and other financial crimes, advancing tax transparency and focusing on development and capacity building. The steadfast leadership of the G20 and the continuing commitment and enormous efforts of the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework) and the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) show that, despite differences and compromises, multilateral dialogue works and can deliver results to tackle shared challenges requiring shared solutions.

Two-Pillar International Tax Package

Following the historic *Outcome Statement* agreed on 11 July 2023 by 138 members of the Inclusive Framework,¹ the Inclusive Framework has now released a text of the Multilateral Convention (MLC) to implement Amount A of Pillar One.

This release evidences progress towards longstanding calls by G20 Leaders and G20 Finance Ministers and Central Bank Governors to swiftly resolve the pending issues relating to the MLC with a view towards preparing the MLC for signature.

Two-Pillar International Tax Package	
Pillar One: modernising and stabilising the international tax system and putting an end to trade tensions	Pillar Two: global minimum tax - helping countries to protect their tax base and limiting tax competition on corporate income tax
Amount A: reallocation of taxing rights over 25% of the residual profit of the largest and most profitable MNEs to the jurisdictions where the customers and users of those MNEs are located	Global Anti-Base Erosion Model Rules (GloBE Rules) apply a global minimum tax of 15% on all MNEs with annual revenue over 750 million euros.
Amount B: simplified and streamlined approach to the application of the arm's length principle	Subject-To-Tax Rule (STTR) a treaty-based rule designed to help developing Inclusive Framework members to protect their tax base, in cases where jurisdictions apply a nominal corporate income tax rate below 9% to interest, royalties and a defined set of other payments including all intra-group services.

Multilateral Convention on Amount A of Pillar One

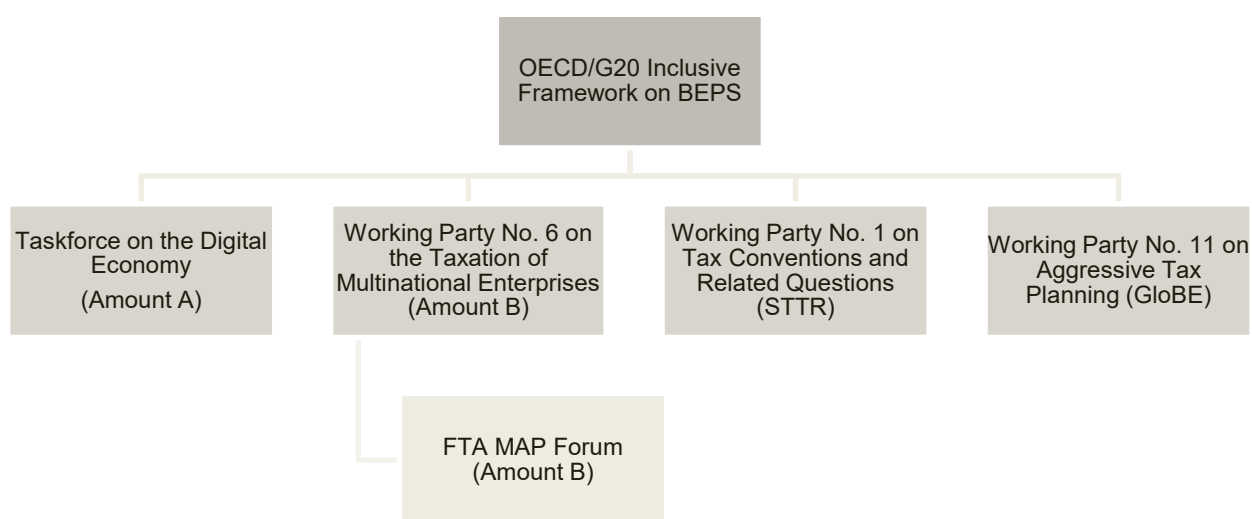
The objective of the MLC is to memorialise a coordinated agreement to reallocate taxing rights with respect to a portion of the profits of multinational companies in excess of 10% of revenues – often referred to as 'excess profits' or 'residual profits' (Amount A of Pillar One). The text of the MLC released by the Inclusive Framework's technical working group on Amount A of Pillar One, the Taskforce on the Digital Economy (TFDE) (see Figure 1), reflects the consensus achieved so far among Inclusive Framework members on the technical architecture of Amount A. Different views from a small number of jurisdictions, on a handful

¹ OECD (2023), *Outcome Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy – 11 July 2023*, OECD, Paris, <https://www.oecd.org/tax/beps/outcome-statement-on-the-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2023.htm>.

of specific items, are reflected in footnotes in the MLC. The Explanatory Statement (ES) released simultaneously provides clarification on how each provision is intended to apply. It reflects the agreed understanding of the negotiators with respect to the MLC and is intended to form part of the context of the MLC as that term is used in customary international law for interpretation purposes. The MLC is also accompanied by an Understanding on the Application of Certainty (UAC) which contains further details on how aspects of the Amount A tax certainty framework will operate in practice.

The three documents – the text of an MLC, the ES and the UAC, together with a cover note – comprise the MLC package (see Annex A).

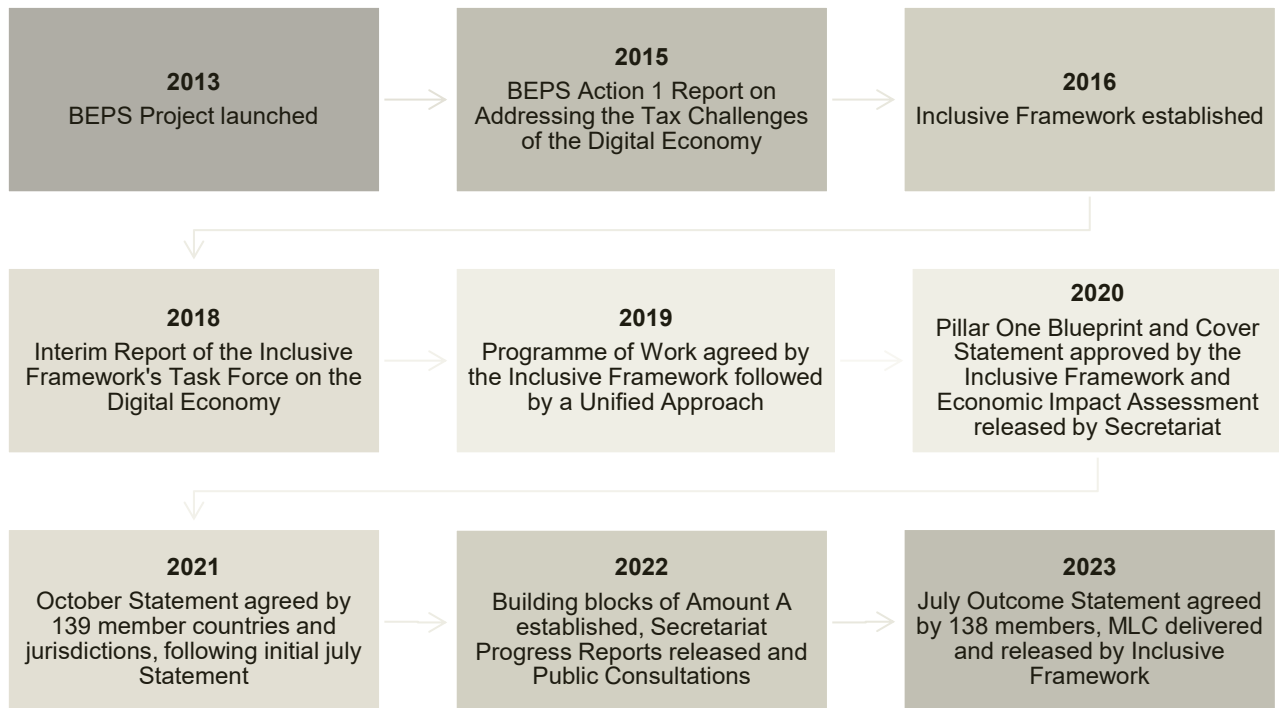
Figure 1. Key working parties carrying out the technical work on the Two-Pillar Solution



Source: OECD

The release of the text of an MLC is the culmination of a decade of work since the BEPS Project began and complements the results delivered and the efforts of over 140 countries and jurisdictions across all aspects of the Two-Pillar international tax package since the landmark *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* was agreed on 8 October 2021 (see Figure 2).

Figure 2. Timeline leading to the release of a text of a Multilateral Convention on Amount A



Source: OECD

Next Steps on the Multilateral Convention on Amount A of Pillar One

Following the 11 July Outcome Statement, the release of the MLC package on 11 October was agreed to:

- ensure greater transparency on the work carried out and technical provisions agreed to date;
- facilitate members of the Inclusive Framework engaging in internal processes necessary (where needed) to enable swift adoption by the TFDE;
- facilitate resolution of remaining differences by the Inclusive Framework.

To enter into force, the MLC needs to be ratified by at least 30 jurisdictions including the headquarters' jurisdictions of at least 60% of multinational enterprises (MNEs) currently expected to be within Amount A's scope. Upon entry into effect, the MLC will enhance stability and certainty in the international tax system, including by:

- ❖ Establishing a taxing right for market jurisdictions over a portion of the excess profit of the largest and most profitable MNEs operating in their market (Amount A), with a corresponding obligation to relieve double taxation;
- ❖ Providing tax certainty to MNEs within the scope of Amount A, with respect to both Amount A disputes and certain other tax disputes on existing rules; and
- ❖ Preventing the imposition of digital services taxes (DSTs) and other similar measures on all companies, whether or not they are within scope for Amount A.

Most of the work relating to the MLC has been carried out in the TFDE, which sits under the Inclusive Framework and alongside the other Working Parties that work on the Two-Pillar Solution, as set out in Figure 1. The TFDE will continue to work on the MLC and other aspects of the implementation of Amount A of Pillar One in the forthcoming weeks and months as consultations are underway.

Amount B

The Inclusive Framework continues to progress the work on Amount B of Pillar One. The public consultation process on Amount B from July 2023 closed in September. The process has provided helpful insights from stakeholders and the Inclusive Framework is now considering that feedback to further develop the framework for the simplified and streamlined application of the arm's length principle to in-country baseline marketing and distribution activities. Amount B holds particular significance for low-capacity countries. Moreover, it is expected to reduce disputes, enhance tax certainty, and promote more efficient utilisation of resources for both taxpayers and tax administrations.

Pillar Two Global Minimum Tax

Global Anti-Base Erosion Model Rules

The Global Anti-Base Erosion Model Rules (GloBE Rules) ensure large multinational enterprise pay a minimum level of tax on the income arising in each of the jurisdictions where they operate. The GloBE rules are intended to be implemented as part of a common approach and to be brought into domestic legislation as from 2024.

To help administrations and taxpayers with these changes, I am pleased to deliver the new Implementation Handbook on the GloBE Rules, as requested by the Indian G20 Presidency, for your October meeting (see Annex B). The Implementation Handbook provides an overview of the key provisions of the global minimum tax and considerations to be taken into account by tax policy and administration officials and other stakeholders in assessing their implementation options. A key consideration in preparing the Implementation Handbook has been the needs and capacity of developing countries and ensuring that all Inclusive Framework members are able to benefit from the GloBE rules. The Handbook also responds to the Indian Presidency's request to ensure that interested countries have all the tools they need to implement the global minimum tax ahead of 2024.

To date, around 55 jurisdictions have taken steps towards implementing the GloBE rules. As a result of Pillar Two, several jurisdictions are opting to bring in an entirely new corporate income tax regime for the first time.

Subject to Tax Rule

Since I last reported to you, the Inclusive Framework formally adopted the new *Multilateral Convention to Facilitate the Implementation of the Pillar Two Subject to Tax Rule* (STTR MLI).²

The Subject to Tax Rule (STTR) will enable developing countries to tax certain intra-group payments, in instances where these payments are subject to a nominal corporate income tax rate below 9%. The STTR allows source jurisdictions – those in which covered income arises – to impose a tax where they otherwise would be unable to do so under the provisions of tax treaties.

² For further information on the STTR MLI, visit: <https://oe.cd/sttr-mlj>.

The STTR MLI protects the right of developing countries to ensure multinational enterprises pay a minimum level of tax on a broad range of cross-border intra-group payments, including for services. The STTR MLI opened for signature on 2 October 2023 and will allow countries to efficiently implement the STTR in existing bilateral tax treaties. More than 70 developing Inclusive Framework members are entitled to request inclusion of the STTR in their treaties with Inclusive Framework Members that apply corporate income tax rates below 9% to covered payments.

The Subject to Tax Rule enables developing countries to 'tax back' in instances where payments sourced in their jurisdiction are not taxed at a minimum rate in a partner jurisdiction.

Capacity Building

As outlined in the latest *G20/OECD Roadmap on Developing Countries and International Taxation Update* delivered to you in July 2023, as the international tax system continues

TIWB Programmes complement the broader efforts of the international community to strengthen co-operation on tax matters and contribute to the domestic resource mobilisation efforts of developing countries.

to evolve and become ever more inter-connected, it is in every countries' interest to continue to invest in the success of the OECD/G20 Inclusive Framework on BEPS and in the engagement of developing countries in its work.³ Capacity building on the Two Pillars remains a key priority for the Inclusive Framework, and the Secretariat continues to provide bespoke programmes to support countries in implementing tax reforms.

Our work on capacity building goes well beyond the Two Pillars. Tax Inspectors Without Borders (TIWB), a joint initiative of the OECD and the United Nations Development Program (UNDP), now spans 59 jurisdictions, with 66 completed and 60 current programmes. To date, a total of USD 2.07 billion in additional tax collected and USD 4.94 billion in additional tax assessed are attributed to TIWB programmes across Africa,

Asia and the Pacific, Eastern Europe, and Latin America and the Caribbean.

BEPS Project Implementation

The work on the Two Pillars is a continuation of a broader initiative – the OECD/G20 BEPS Project – launched a decade years ago to coordinate efforts to reform international tax rules and standards relating to corporate income tax to address base erosion and profit shifting, increase transparency to facilitate and improve enforcement, and modernise the system to address the digitalisation of the global economy.



Since I last reported to you, the Inclusive Framework approved the seventh annual Progress Report of the OECD/G20 Inclusive Framework on BEPS outlining the key progress over the past year (see Annex C) including on the BEPS minimum standards.

³ OECD (2023), *G20/OECD Roadmap on Developing Countries and International Taxation Update 2023: OECD Report to the G20 Finance Ministers and Central Bank Governors*, OECD Publishing, Paris, <https://doi.org/10.1787/4fc33451-en>.

Action 5 Harmful Tax Practices

Action 6 Tax Treaty Abuse

Action 13 Country-by- Country (CbC) Reporting

Action 14 Mutual Agreement Procedure

BEPS minimum standards

Action 5 on Harmful Tax Practices

- Since the beginning of the BEPS Action 5 peer reviews, the Forum on Harmful Tax Practices (FHTP) has reviewed 319 preferential regimes and the substance legislation of 12 no tax or only nominal tax jurisdictions.
- Almost 50 000 exchanges of information have taken place to date in respect of the 23 000 tax rulings that have been identified.
- The results show that 73 jurisdictions are fully in line with the BEPS Action 5 minimum standard, with the remaining 58 jurisdictions receiving a total of 61 recommendations to improve their legal or operational framework to identify the relevant tax rulings and exchange this information.

Action 6 on Tax Treaty Abuse

- Most Inclusive Framework members are relying on the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (BEPS MLI) to implement Action 6.
- To date, the BEPS MLI now covers 101 jurisdictions and around 1 900 bilateral tax treaties that will be modified once the BEPS MLI is ratified by all signatories.
- As of 27 September, around 1 200 treaties concluded among the 85 jurisdictions which have ratified, accepted or approved the BEPS Convention have already been modified by the BEPS Convention. Around 700 additional treaties will be modified once the BEPS Convention will have been ratified by all Signatories.

Action 13 on Country-by-Country (CbC) Reporting

- Tangible progress has been made Action 13 with over 110 jurisdictions having now introduced legislation to impose a filing obligation on MNE groups, covering almost all MNEs with consolidated group revenue at or above the EUR 750 million threshold. More than 3 300 bilateral relationships for CbC exchanges are now in place between 89 jurisdictions.
- However, developing countries continue to face significant challenges and still unable to access CbC reports filed abroad or do not have the required framework in place. Initiatives are underway to address this challenge and foster access to and use of CbC reports by developing countries in the coming years.

Action 14 on Mutual Agreement Procedure

- Tax certainty remains one of the most important concerns for business and Action 14 is critical to ensuring that tax disputes are resolved in a timely, effective and efficient manner.
- In January 2023, following discussions on the review of the Assessment Methodology and the MAP Statistics Reporting Framework, the Inclusive Framework agreed a new Assessment Methodology for continuing the Action 14 peer review process.
- The review is now progressing in accordance with the Action 14 peer review assessment schedule.

Tax Transparency

In 2022, information on over 123 million financial accounts worldwide, covering total assets of above EUR 12 trillion, was exchanged automatically.

The leadership of the G20 has been instrumental in efforts to end bank secrecy, tackle tax evasion and foster international tax transparency, and has led to enduring and fundamental changes to the international tax architecture. With close to 170 members - more than half of which are developing jurisdictions - the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) continues to monitor, under the mandate provided by the G20 since 2009, the effective implementation of the Exchange of Information on Request (EOIR) and the Automatic Exchange of Financial Account Information (AEOI) Standards. The Global Forum also pursues an ambitious technical assistance programme to ensure all its members participate and benefit from exchange of information (EOI). EOI is part of the necessary tools to increase domestic revenue mobilisation. Since 2009, close to EUR 126 billion of additional revenues have been identified by governments, through voluntary disclosure programmes and similar initiatives and offshore tax investigations (including EUR 41 billion by developing countries).

Notwithstanding substantial progress, further work is needed to foster transparency and exchange of information for tax purposes and to ensure that all interested jurisdictions can reap the benefits of enhanced transparency.

Taking these circumstances into account, the Indian G20 Presidency requested three key reports during the past year, furnished to you ahead of your last meeting:

- Facilitating the Use of Tax-Treaty-Exchanged Information for Non-Tax Purposes;⁴
- Update on the implementation of the 2021 Strategy on Unleashing the Potential of Automatic Exchange of Information for Developing Countries;⁵
- Enhancing International Tax Transparency on Real Estate.⁶

In addition to this work, the implementation of the Crypto-Asset Reporting Framework (CARF) is now getting underway to ensure that the transformations realised in international tax transparency are not undermined by new technologies. At the September 2023 Delhi Summit, G20 Leaders called for the swift implementation of the CARF and recently agreed amendments to the common

We ask the Global Forum on Transparency and Exchange of Information for Tax Purposes ("Global Forum") to identify an appropriate and coordinated timeline to commence exchanges by relevant jurisdictions, noting the aspiration of a significant number of these jurisdictions to start CARF exchanges by 2027 and to report to our future meetings on the progress of its work.

⁴ OECD (2023), *Facilitating the Use of Tax-Treaty-Exchanged Information for Non-Tax Purposes: A contribution to a whole of government approach to tackling illicit financial flows*, Global Forum on Transparency and Exchange of Information for Tax Purposes, OECD, Paris, <https://www.oecd.org/tax/transparency/documents/facilitating-the-use-of-treaty-exchanged-tax-information-for-non-tax-purposes.pdf>

⁵ OECD (2023), *Update on the implementation of the 2021 Strategy on Unleashing the Potential of Automatic Exchange of Information for Developing Countries*, Global Forum on Transparency and Exchange of Information for Tax Purposes, OECD, Paris, www.oecd.org/tax/transparency/documents/update-on-implementation-of-2021-aeoi-strategy-for-developing-countries.pdf

⁶ OECD (2023), *Enhancing International Tax Transparency on Real Estate: OECD Report to G20 Finance Ministers and Central Bank Governors*, OECD Publishing, Paris, <https://doi.org/10.1787/37292361-en>.

reporting standard (CRS).⁷ Since then, the Global Forum has established a group of interested members to take forward the work in relation to the CARF and is commencing discussions on the amended CRS in its AEOI Peer Review Group, with a view to their widespread implementation. I look forward to continuing to report back to you on this important work.

Tax and Crime

The OECD Task Force on Tax Crimes and Other Crimes (TFTC) was established in 2011 with a unique mandate to support "whole of government" approaches to combatting tax crime and other financial crimes through standard setting, sharing of best practices, and capacity building. The TFTC brings together all OECD member countries, major G20 economies and several other jurisdictions including developing countries.

The work of the TFTC was highlighted by the Indian Presidency at the *G20 High-Level Tax Symposium on Combatting Tax Evasion, Corruption and Money Laundering* in Gandhinagar, India, on 16 July 2023. The Symposium provided an opportunity for G20 Finance Ministers and Central Bank Governors to reflect on the links between tax and serious economic crime, and how to improve detection and investigation capabilities, including through enhanced mechanisms for cross-border information sharing.



G20 High-Level Tax Symposium on Combatting Tax Evasion, Corruption and Money Laundering

At the same time as the Symposium took place in Gandhinagar in July 2023, the OECD and the Indian G20 Presidency launched a new pilot programme of the **OECD Academy for Tax and Financial Crime Investigation** for investigators from the South Asian region. The first training sessions under the new pilot programme took place in Delhi, India, on 18-27 July 2023.

The OECD Academy for Tax and Financial Crime Investigation has become the world's largest capacity building initiative on fighting tax crime and other financial crimes.

With an International Centre in Italy and regional centres in Argentina, Japan and Kenya, the Academy has provided training to over 2,700 government officials from 170 jurisdictions on the best techniques to combat serious financial crime.

Tax and Inequality

Shortly after your last meeting (on 17-18 July 2023), on 28 July 2023, Ministers and senior officials from sixteen Latin American and Caribbean countries agreed to work together on key tax priorities for the region, including considering the progressivity of international tax system and on the design of instruments relating to income and wealth, at the first *Latin American and Caribbean Summit for an Inclusive, Sustainable and Equitable Global Tax Order* in Cartagena, Colombia.⁸ In the context of weak global growth, persistent core

⁷ For further information on the CRS, see <https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/>.

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https://www.minhacienda.gov.co/webcenter/portal/TributacionIncluyente/pages_TributacionIncluyente/latinamerican_caribbeantaxation

inflation, tighter labour markets and persistent risks to energy and food markets, governments need to prepare for spending pressures by designing and implementing adaptive fiscal plans.⁹ For some countries, and regions, this could include reconsidering how the tax system can address inequality and progressivity.

Building on longstanding work in this field, in August 2023, the OECD released a new working paper on *The taxation of labour vs. capital income: A focus on high earners*,¹⁰ which presents novel analysis comparing in a consistent way the tax treatment of labour and capital income across OECD countries, through stylised effective tax rates (ETRs). This new work shows that dividend income and capital gains are generally subject to lower ETRs than wage income at the personal level, and that differential tax treatment of labour and capital income can affect the efficiency and equity of tax systems.

Global Mobility

Building on increasing calls to consider global mobility, on 27 September 2023 Inclusive Framework members gathered in Paris with external stakeholders from business and academia to discuss international tax challenges associated with the increased mobility of individuals. Panels focused on global mobility of workers, and the global mobility of a wider population of individuals including high net worth individuals, pensioners and digital nomads. Following this initial exchange of perspectives, the Inclusive Framework and Working Party 1 (see Figure 1) may now consider further work in this area.

⁹ OECD (2023), *OECD Economic Outlook, Interim Report September 2023: Confronting Inflation and Low Growth*, OECD Publishing, Paris, <https://doi.org/10.1787/1f628002-en>.

¹⁰ Hourani, D., et al. (2023), "The taxation of labour vs. capital income: A focus on high earners", *OECD Taxation Working Papers*, No. 65, OECD Publishing, Paris, <https://doi.org/10.1787/04f8d936-en>.

Annex A. Package on Multilateral Convention to Implement Amount A of Pillar One

This package consists of:

- Text of the Multilateral Convention to Implement Amount A of Pillar One
- Explanatory Statement to the Multilateral Convention to Implement Amount A of Pillar One
- Understanding on the Application of Certainty for Amount A of Pillar On

[Available to download here.](#)

Annex B. Minimum Tax Implementation Handbook (Pillar Two)

[Available to download here.](#)

Annex C. OECD/G20 Inclusive Framework on BEPS: Progress Report September 2022- September 2023

[Available to download here.](#)

OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors

G20 India, October 2023

This report sets out the latest developments in international tax reform since July 2023, including on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy and recent progress achieved. It also covers progress made on tax transparency, as well as updates on the implementation of the BEPS minimum standards, tackling tax and crime, tax and inequality, and global mobility. This report was prepared by the OECD ahead of the fourth meeting of G20 Finance Ministers and Central Bank Governors held under the Indian G20 Presidency from 12-13 October 2023, in Marrakech, Morocco.



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