Table 1: Development of Base Erosion and Profit Shifting (BEPS) Work on Digitalization

BEPS Work on Digitalization	**Date**	**Event/Document**
BEPS 1.0 Measures (2013 – 2018)	July 2013	The OECD started to address the tax challenges of digitalization under Action 1 of the Action Plan on BEPS
	October 2015	The OECD published "Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report" • It identifies a number of broader tax challenges raised by digitalization
	March 2018	The Inclusive Framework on BEPS delivered "Tax Challenges Arising from Digitalization - Interim Report 2018" • It sets out agreed direction of work on digitalization and the international tax rules through to 2020
BEPS 2.0 Proposed Measures (2019 – Present)	January 2019	The Inclusive Framework on BEPS delivered "Addressing the Tax Challenges of the Digital Economy - Policy Note" • It outlines at a high level the options (within two pillars) to address the tax challenges of the digitalization of the economy
	February 2019	The Inclusive Framework on BEPS issued a public consultation document "Addressing the Tax Challenges of the Digitalization of the Economy" • It presents the proposals which are framed within two pillars: - Pillar One –revised nexus and profit

		allocation rules - Pillar Two – global anti-base erosion mechanism
	May 2019	The Inclusive Framework on BEPS adopted a "Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalization of the Economy" • It commits to delivering a final report in 2020 and aims at providing a consensus-based long term solution
	June 2019	G20 Leaders endorsed the May 2019 Programme of Work
	October 2019	The Inclusive Framework on BEPS issued a public consultation document: "Secretariat Proposal for a 'Unified Approach' under Pillar One" • It presents a "Unified Approach" to revised nexus and profit allocation rules
	November 2019	The Inclusive Framework on BEPS issued a public consultation document: "Global Anti-Base Erosion Proposal ('GloBE') - Pillar Two" • It focuses on specific technical issues in respect of the GloBE
	January 2020	The Inclusive Framework on BEPS published a package of documents • It endorses the "Unified Approach" under Pillar One on the revised nexus and profit allocation rules • It sets out a revised Programme of Work to develop a consensus-based solution to Pillar One Issues

		• It provides a Progress Note on Pillar Two indicating that work is advancing at a fast pace but that significant work remains
	February 2020	The OECD presented preliminary findings on economic analysis and impact assessment of Pillars One and Two
	July 2020	The Inclusive Framework on BEPS will reach agreement on the key features of a consensus-based solution which would form the basis for a political agreement
	November 2020	The OECD will deliver a report to the G20 Leaders at their November meeting where the report will be endorsed
	December 2020	Target date to reach an agreement on a consensus-based solution
	Beyond 2020	Implementation stage for the new international taxation rules

Figure 1: Key Elements of the Unified Approach under Pillar One

Unified Approach under Pillar One

Scope

- Automated digital services and consumer-facing businesses
- For large multinational enterprises (threshold of group gross revenue larger than EUR750 million is under consideration)
- Possible carve-outs (e.g. financial services, extractive industries)

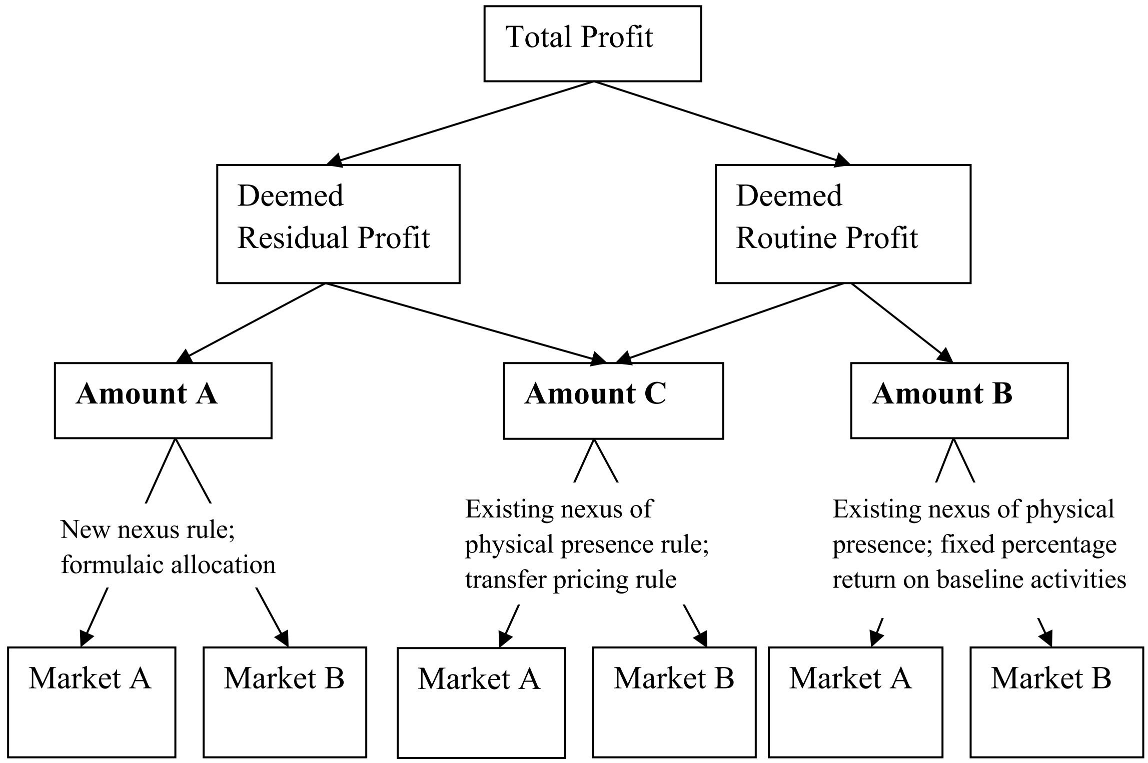
New Nexus Rule

- Not limited by physical presence
- Significant and sustained engagement in a market jurisdiction
- Indicators may include revenue and time thresholds

New Profit Allocation Rule

- Goes beyond and co-exists with the arm's length principle
- A formulary approach
- Model based on 3 separate returns to the market jurisdictions (see Figure 2)

Figure 2: Unified Approach under Pillar One - Profit Allocation Rule



Notes:

1. The profit determination and allocation will be as follows. First, total profit of a business is determined. Second, deemed routine profit is calculated. Third, deemed residual profit is resulted. Fourth, Amount B is computed from deemed routine profit and allocated to various market jurisdictions (i.e., the jurisdictions where a business' consumers and users reside). Fifth, Amount C is determined and allocated to various market and non-market jurisdictions. Last, Amount A is computed from deemed residual profit and allocated to various market jurisdictions.

2. Amount A requires nexus under the new standard that is not dependent on physical presence. It is a formulaically determined amount which represents a portion of the business' "deemed residual profit" to be allocated to market jurisdictions, regardless of whether the business has any physical presences in the market jurisdictions.

3. Amount B requires nexus under the exiting physical presence rule. It is a fixed percentage return for baseline distribution and marketing activities in the market

jurisdiction. Amount B is determined by applying the arm's length principle with adjustments to account for regional, industry and functionality differences.

4. Amount C is an additional return where the in-country functions exceed the baseline distribution and marketing activities compensated by Amount B. It is determined by applying the existing physical presence and transfer pricing rules.

Figure 3: Key Elements of the Global Anti-Base Erosion Proposal (GloBE) under Pillar Two