

*Comparing Tax Revenues to Be Raised by  
Developing Countries  
from the OECD and UN Solutions for Taxing the  
Digital Economy*

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**South Centre Tax Initiative**

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## Acknowledgements

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**NERA Economic Consulting**

# Key Aspects of the Study

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Results are:

- **Preliminary**
- First ever revenue estimates of Article 12B
- First ever country-level estimates for Amount A
- Covers total of 84 countries, combined Member States of African Union & South Centre
- **Conservative**
- Revenues from Amount A most likely to be smaller than shown
- Model Rules released by OECD make it clear no. of companies covered & tax they will pay under Amount A will reduce
- <https://taxinitiative.southcentre.int/publications-submissions/>
- Revenues from Article 12B likely to be higher as study uses EUR 750 M threshold
- Article 12B has no revenue threshold

## Key Aspects of the Study

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### Article 12B results:

- Article 12B gross method = DST + tax treaty benefits
- Article 12B net method = simple formula applied to local revenues to determine profits
- Study provides different results for Article 12B 'narrow' and 'broad' scope
- Narrow = 'Pure' ADS companies (para 6 – online ads, search engines, social media)
- Broad = Includes 'hybrid' ADS companies (telecom, finance, e-commerce + trad. retail etc)
- [UN MTC 2021](#)

## Key Aspects of the Study

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Presentation  
will cover:

- Which are the countries who will redistribute Amount A?
- How many companies are covered under Article 12B?
- Where are they headquartered?
- **Revenue estimates for:**
- Global South regions of Africa, Asia and Latin America and Caribbean
- G20 countries that are Members of SC and AU
- Assorted set of countries

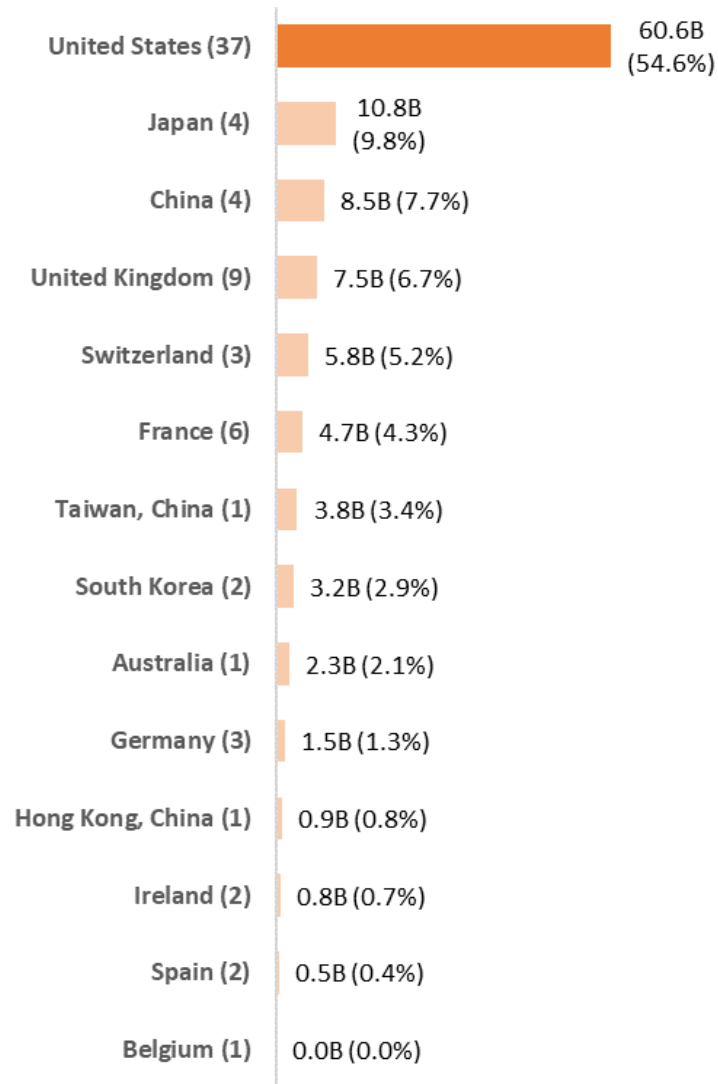
## Who Will Redistribute Amount A? (Sales Threshold at 20B Euro; USD billion)

#	Country	Number of In-Scope		
		MNEs	2020 Total Sales	2020 Total PBT
1	United States	37	2,239	452
2	Japan	4	334	77
3	United Kingdom	9	315	60
4	China*	4	241	58
5	Switzerland	3	201	43
6	France	6	203	39
7	South Korea	2	228	36
8	Taiwan, China	1	45	20
9	Germany	3	134	19
10	Australia	1	43	14
11	Ireland	2	74	11
12	Spain	2	61	7
13	Hong Kong, China	1	34	7
14	Belgium	1	47	2
<b>Total</b>		<b>76</b>	<b>4,201</b>	<b>844</b>

## Who Will Redistribute Amount A? (Sales Threshold at 10B Euro; USD billion)

	In-Scope MNEs	2020 Total Sales	2020 Total PBT
1 United States	70	2,792	554
2 Japan	16	528	108
3 China*	8	321	71
4 United Kingdom	12	370	67
5 Switzerland	7	254	49
6 France	7	218	43
7 South Korea	2	228	36
8 Germany	8	235	34
9 Taiwan, China	1	45	20
10 Ireland	5	118	16
11 Australia	2	59	16
12 India*	2	36	9
13 Denmark	1	19	8
14 Spain	2	61	7
15 Hong Kong, China	1	34	7
16 Russian Federation	1	16	5
17 Netherlands	1	16	5
18 Saudi Arabia	1	16	3
19 United Arab Emirates	1	14	3
20 Norway	1	13	3
21 Brazil*	1	11	3
22 Belgium	1	47	2
23 Finland	1	56	2
24 Chile	1	12	2
25 Sweden	1	13	2
<b>Total</b>	<b>154</b>	<b>5,532</b>	<b>1,073</b>

# Who Will Redistribute Amount A? (Reallocable Residual Profit)





## Recommendation 1 to Developing Countries

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Wait until all these countries, especially USA, have ratified Pillar One, before considering signing.

## How many Companies in scope of Article 12B? (applying arbitrary EUR 750 M threshold)

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Number of Companies	ADS		Total
	ADS	Hybrid ADS	
Public	69	187*	256
Private	15	34	49
Total	84	221	305

## What do these companies mainly do?

#	Business Functions	# of Companies	2020 Total Sales	2020 Total PBT	Average PBT Margin
1	Financial Services	107	1,996	304	15%
2	Online intermediation platform services	19	554	56	10%
3	Telecom Service	41	448	85	19%
4	Software	44	345	94	27%
5	Online search engines	4	197	50	26%
6	B2B Service	30	149	16	11%
7	Digital content services	8	138	21	15%
8	Online gaming	11	103	32	31%
9	Social media platforms	4	91	34	37%
10	Cloud computing services	8	83	7	8%
11	Online advertising services	11	74	6	8%
12	Other E-commerce (non-intermediation platform)	17	74	5	6%
13	Supply of user data	1	2	0	19%
		<b>305</b>	<b>4,254</b>	<b>711</b>	<b>17%</b>

## Where are these companies headquartered?

#	Country	Number of Article		
		12B Companies	2020 Total Sales	2020 Total PBT
1	United States	144	2,794	477
2	Canada	23	457	55
3	China*	15	223	52
4	Japan	14	168	52
5	United Kingdom	13	109	10
6	France	12	54	6
7	Switzerland	2	48	6
8	Bermuda	8	40	7
9	Netherlands	5	35	4
10	Germany	3	32	2
11-43	Rest of the Countries*	66	293	39
		<b>305</b>	<b>4,254</b>	<b>711</b>

## Recommendation 2 to Developing Countries

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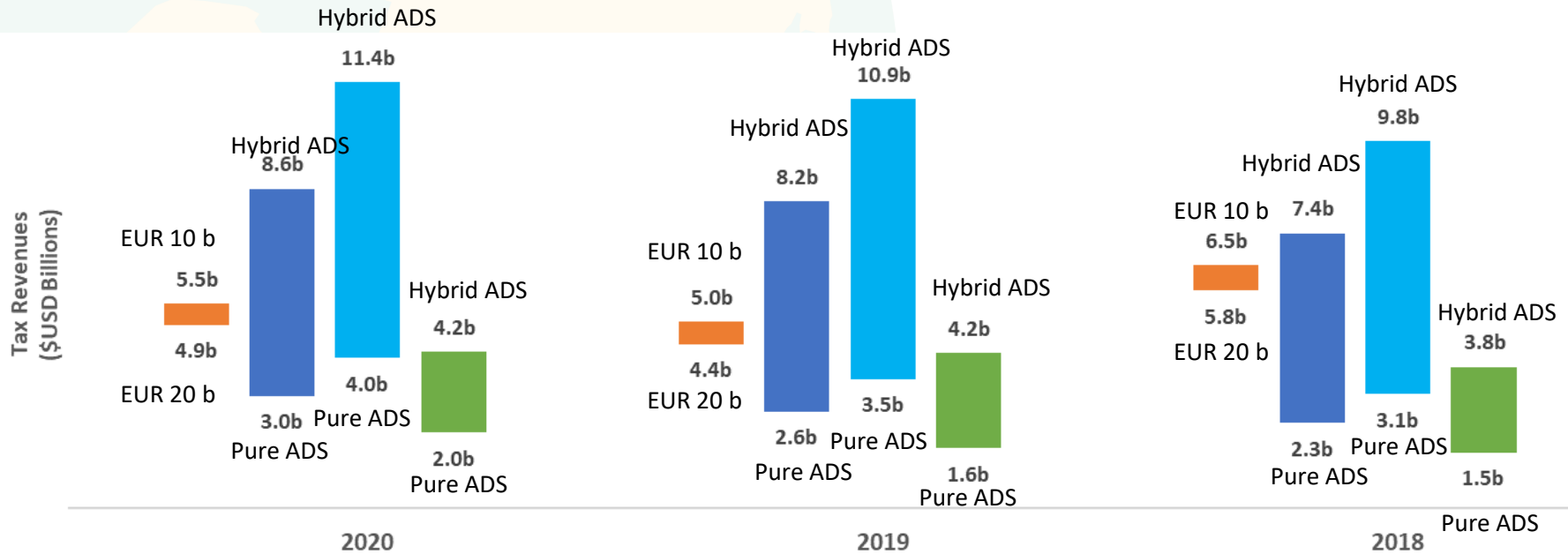
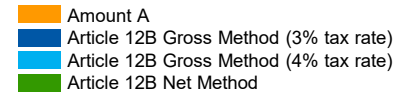
Article 12B is better with a 'broad' scope, including hybrid ADS will increase number of companies covered.

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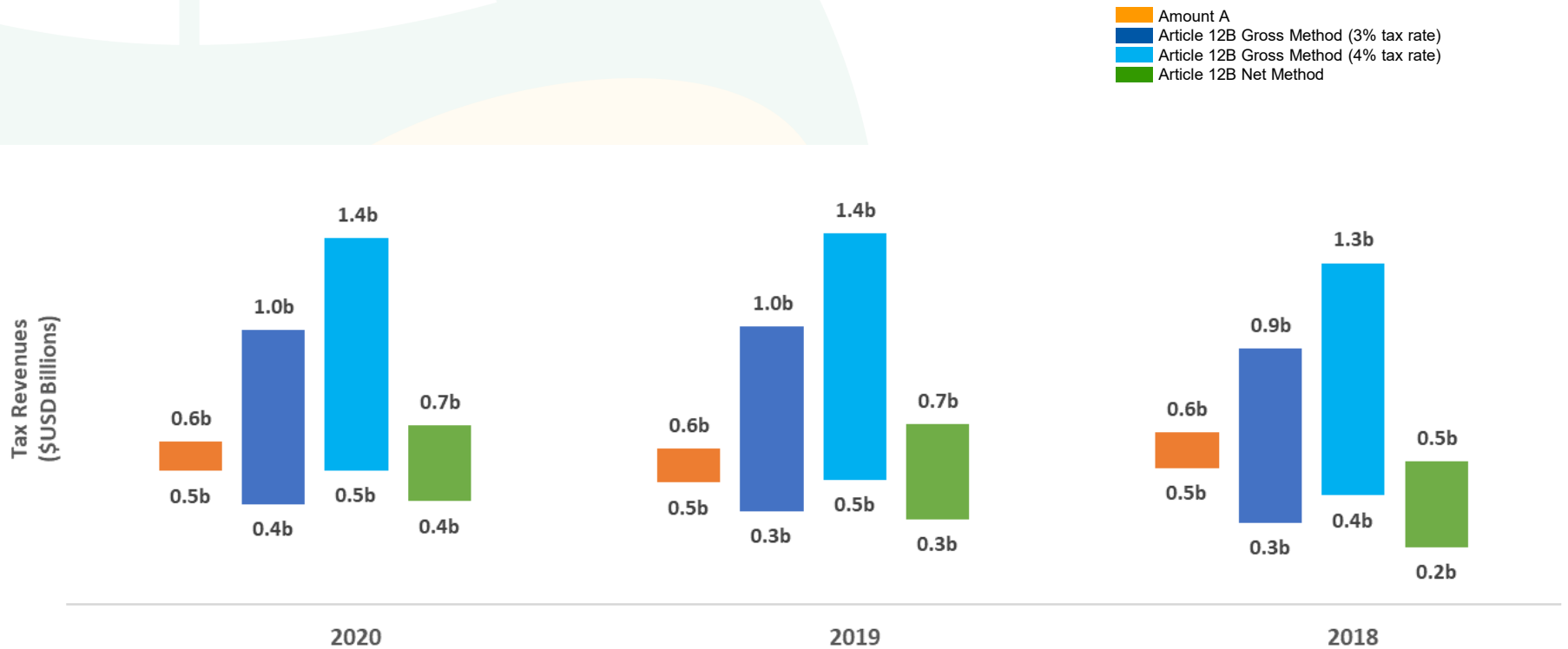


# RESULTS

# Amount A vs. Article 12B for South Centre Member Countries (2018 to 2020)

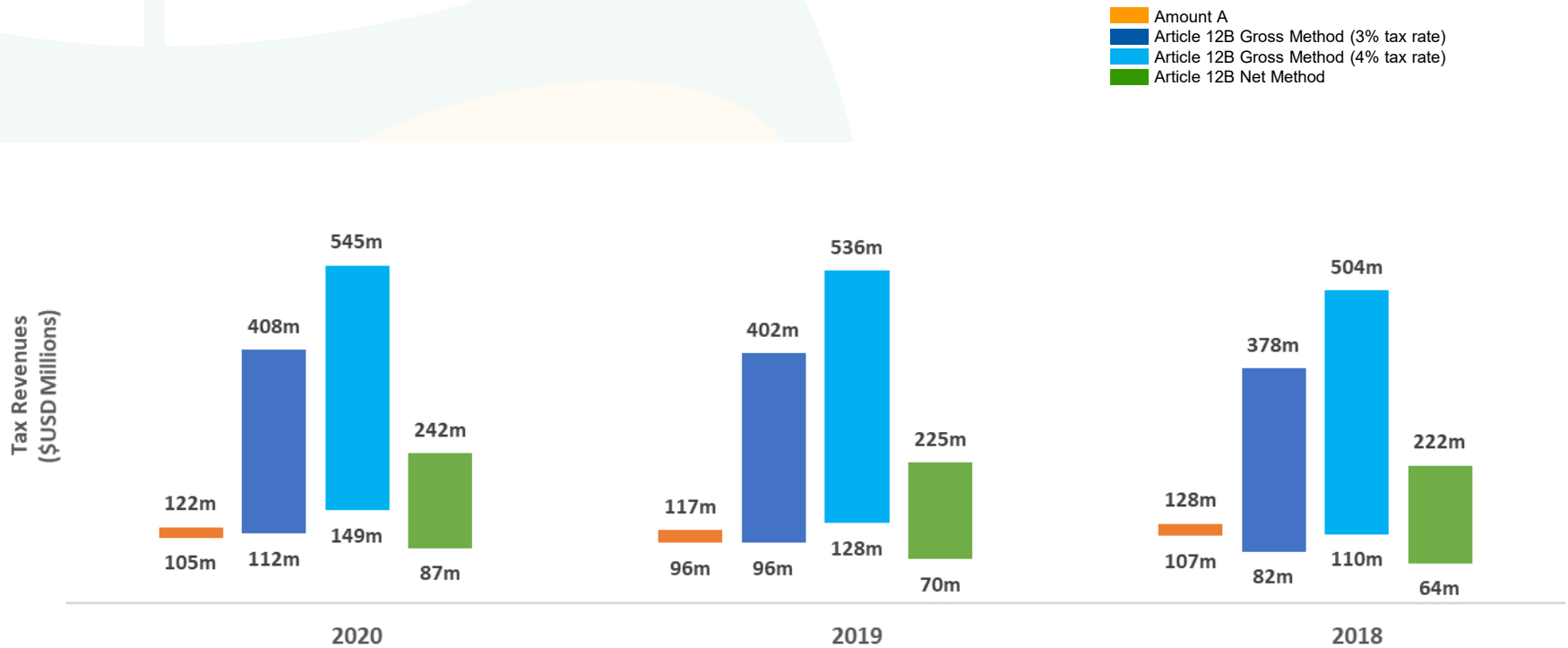


# Amount A vs. Article 12B for African Union Member Countries (2018 to 2020)



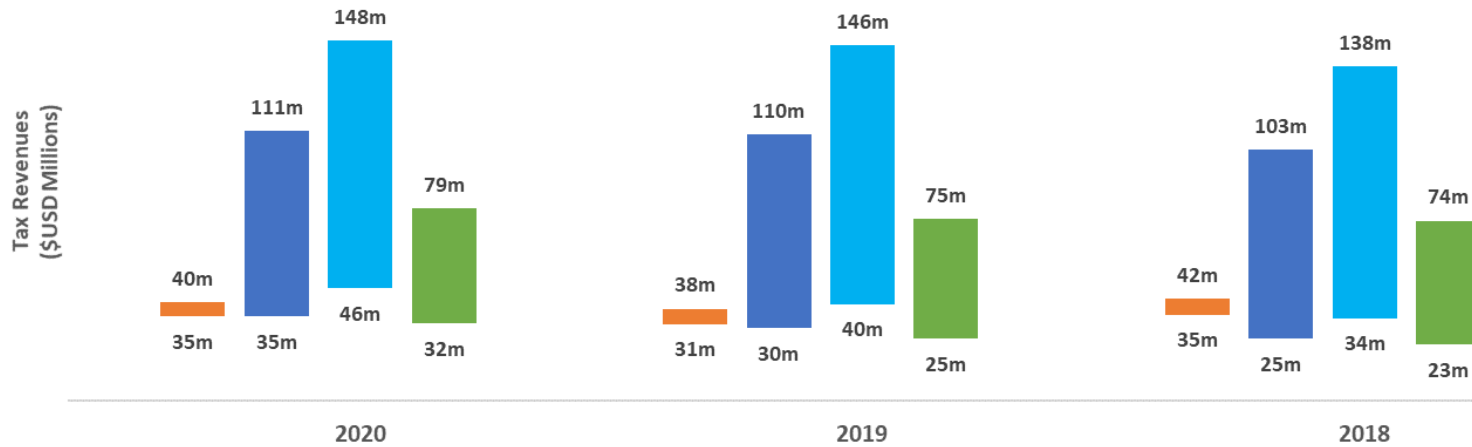


# Sub-Saharan Africa Excl. Nigeria and South Africa (19 Countries)

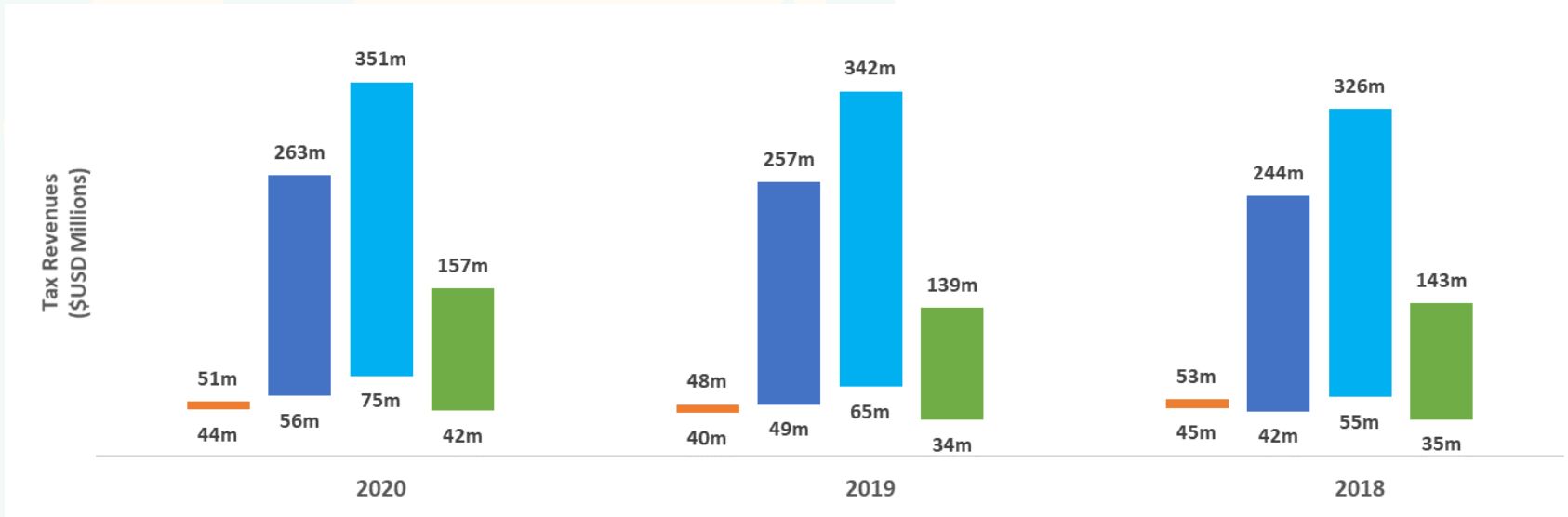
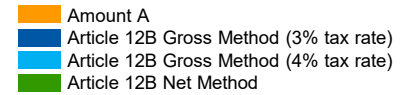


# Central Africa (9 Countries)

- Amount A
- Article 12B Gross Method (3% tax rate)
- Article 12B Gross Method (4% tax rate)
- Article 12B Net Method



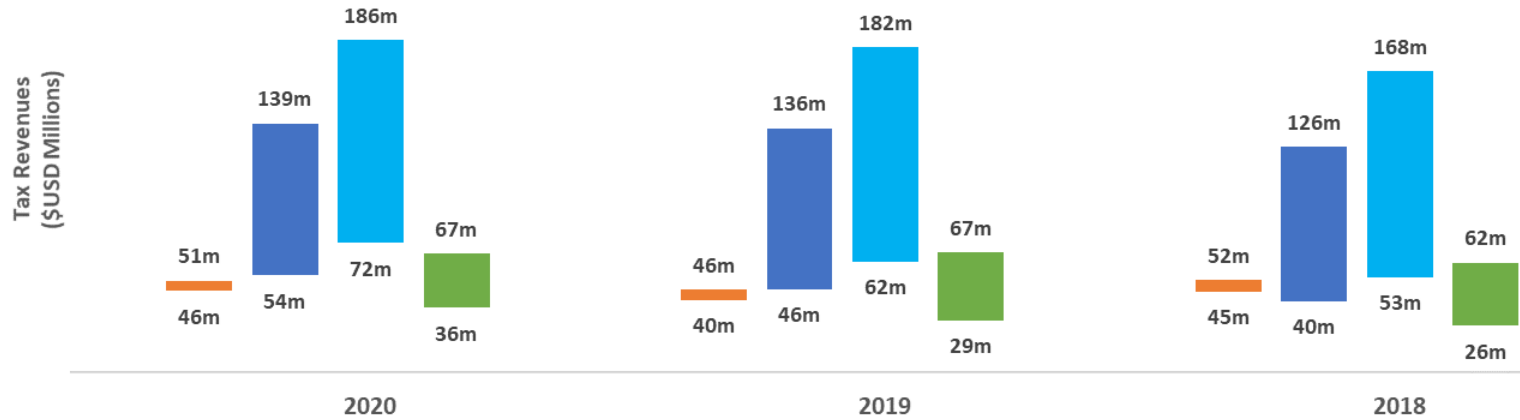
# Western Africa Excl. Nigeria and Senegal (13 Countries)





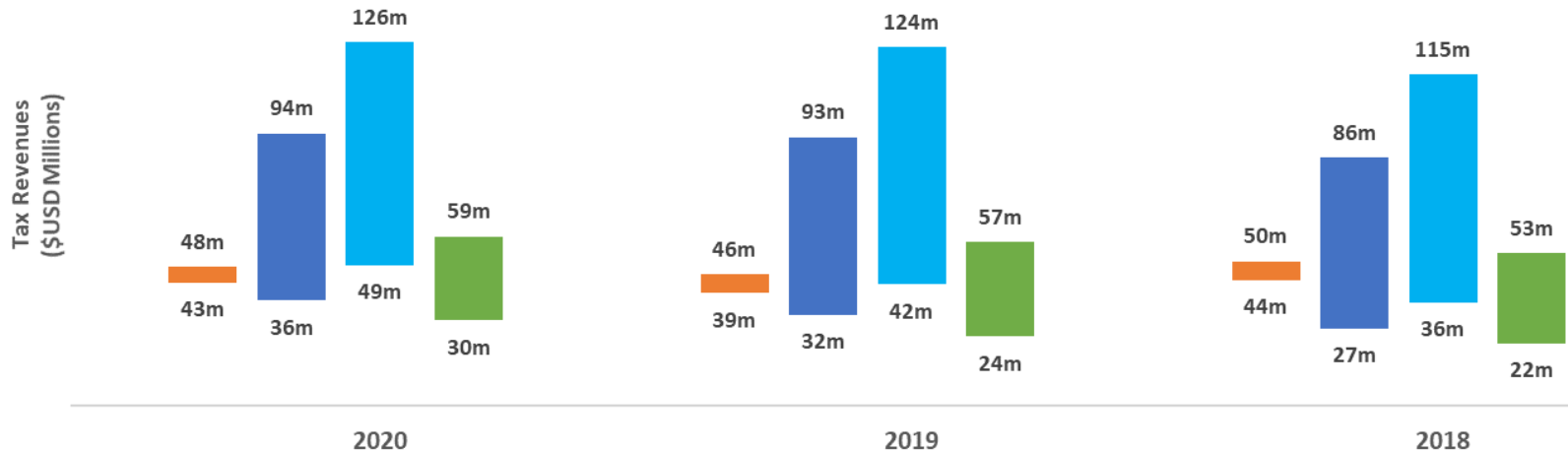
# Northern Africa Excl. Egypt and Morocco (5 Countries)

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- Article 12B Net Method



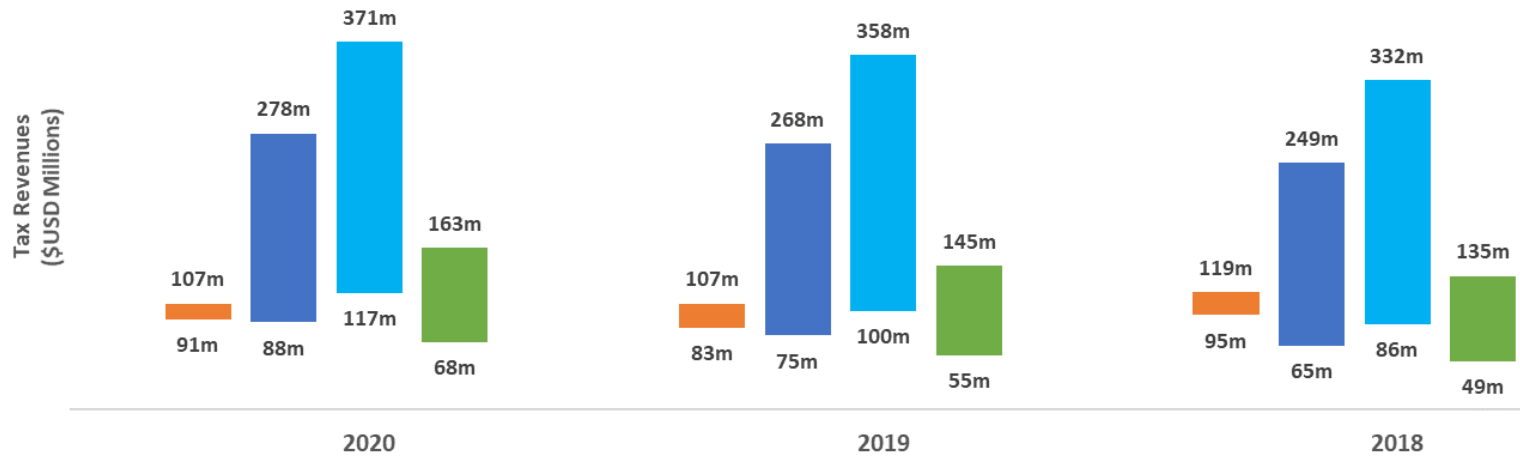
# Southern Africa Excl. South Africa (9 Countries)

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- Article 12B Net Method



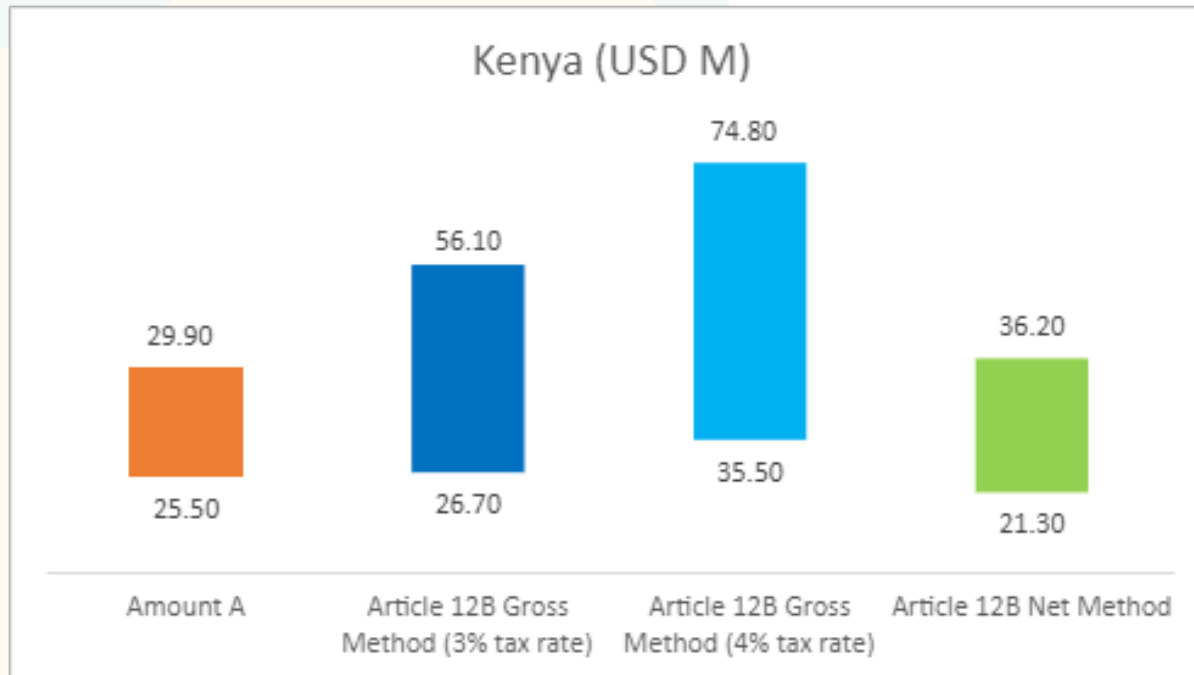
# Nigeria

- Amount A
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# Kenya (2020)

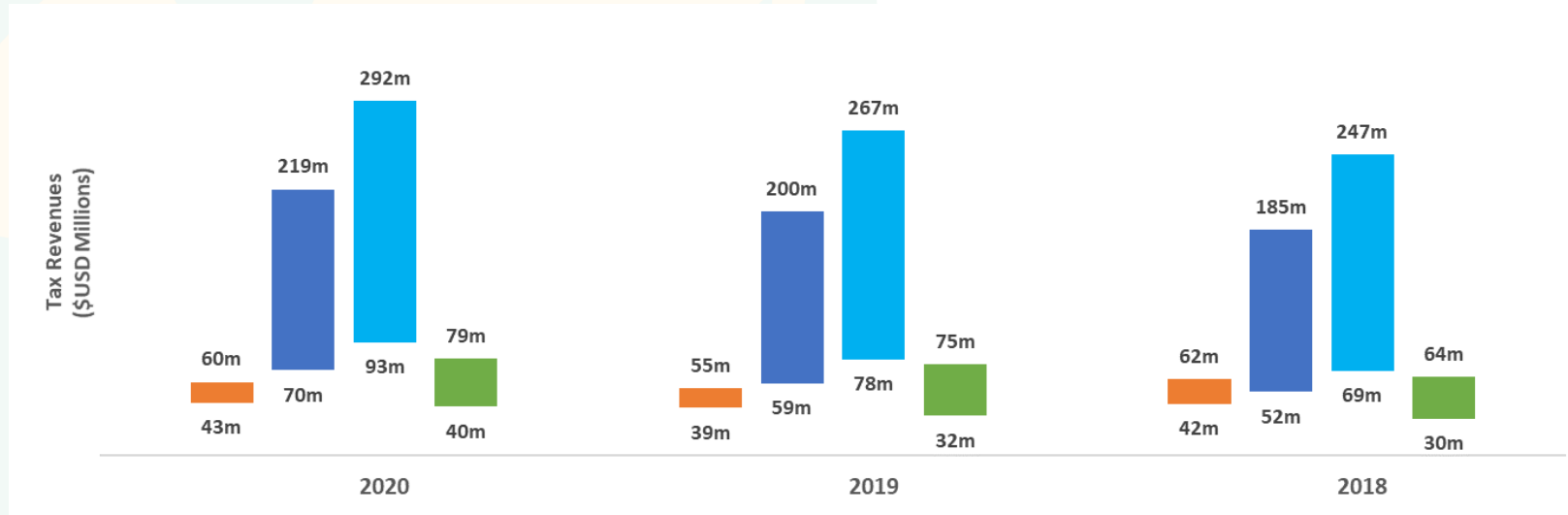
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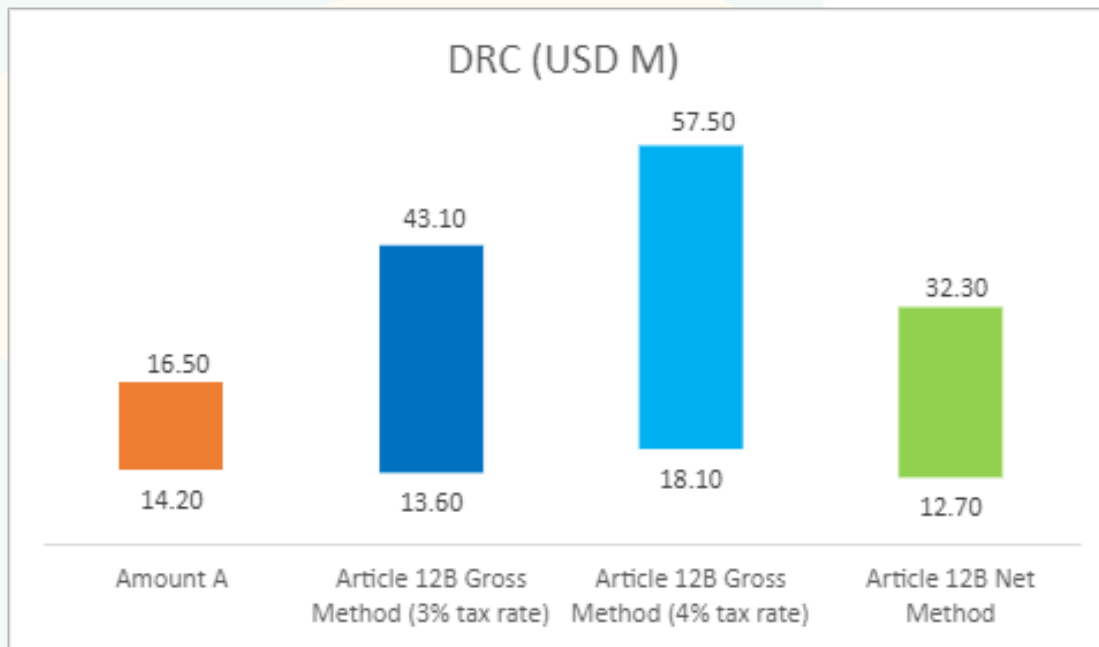
# Egypt

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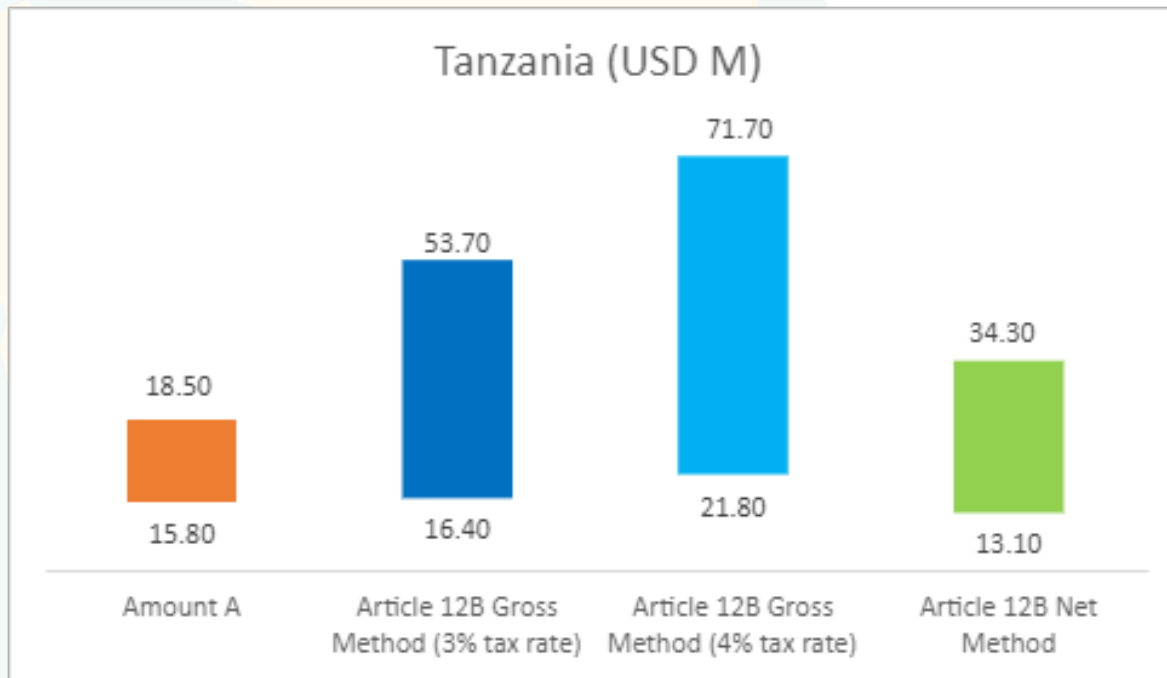
# DR Congo (2020)

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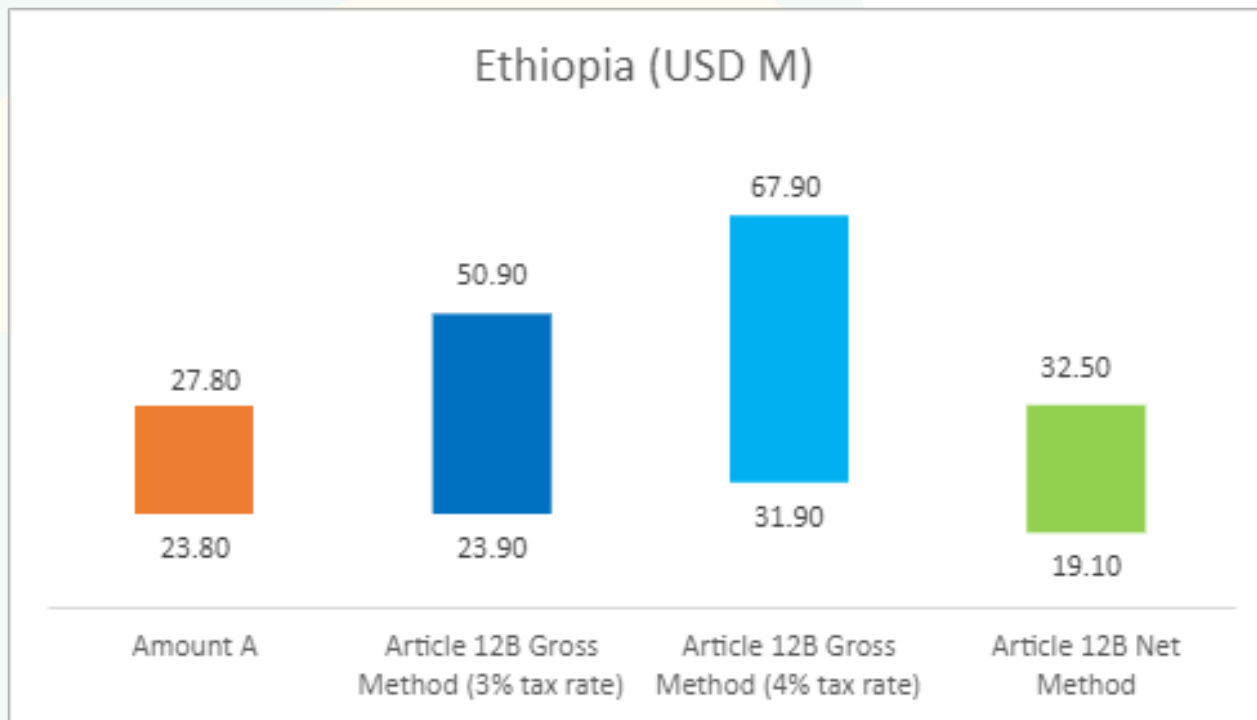
# Tanzania (2020)

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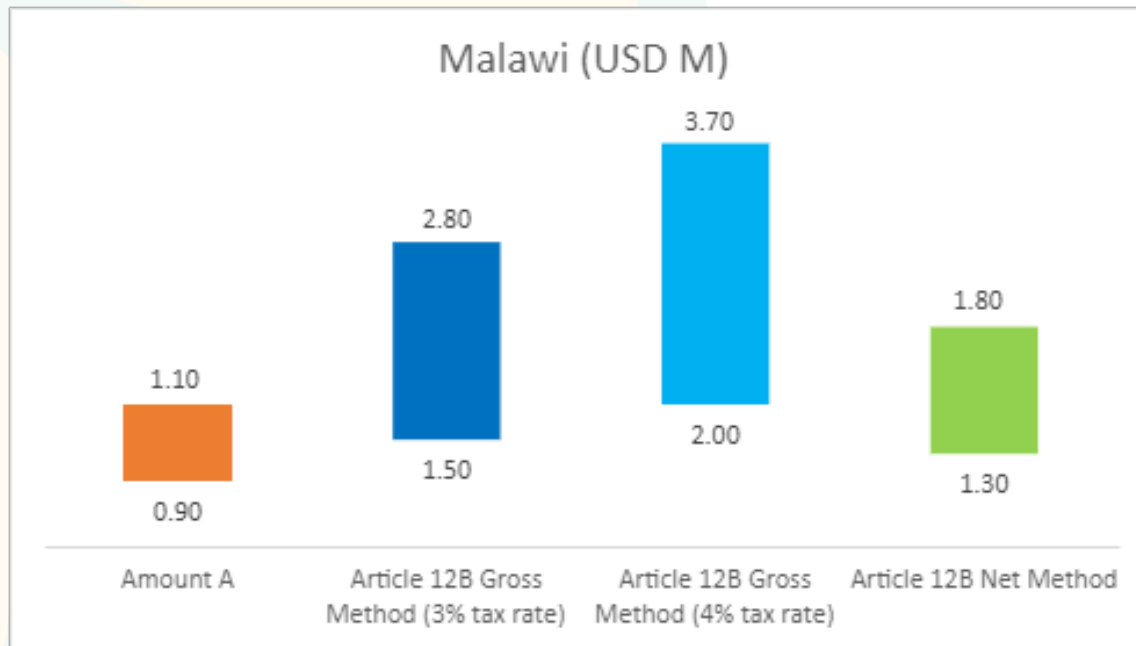
# Ethiopia (2020)

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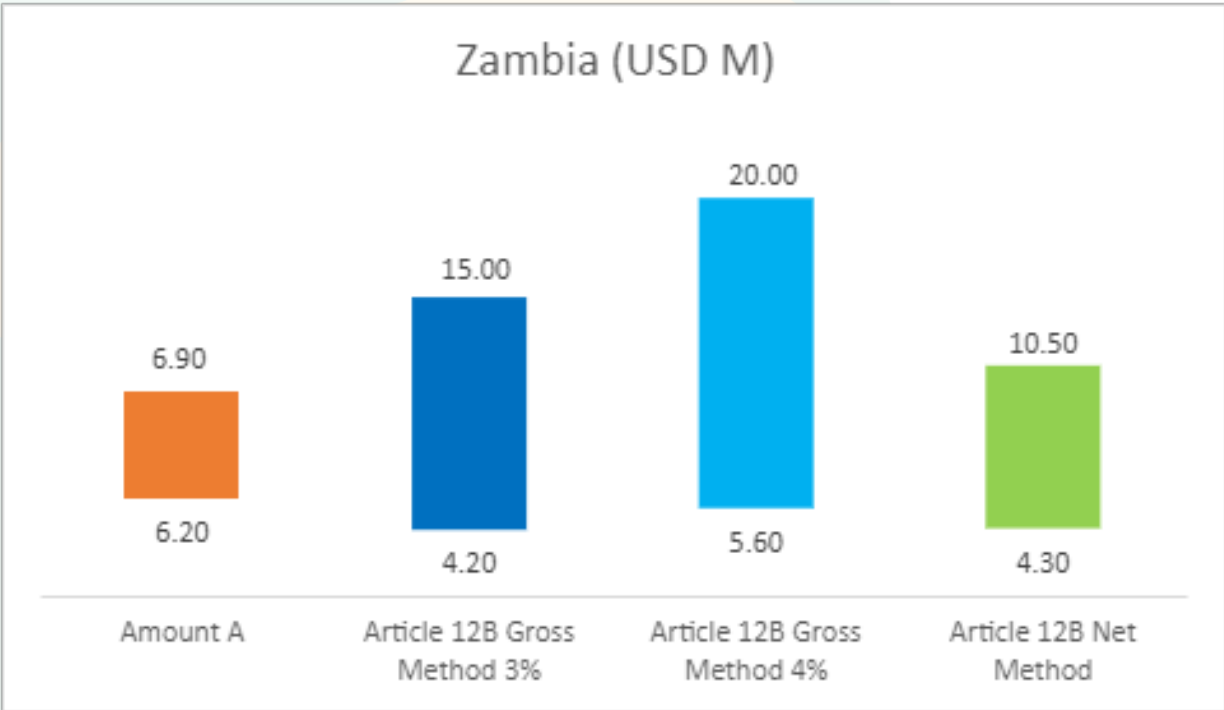
# Malawi (2020)

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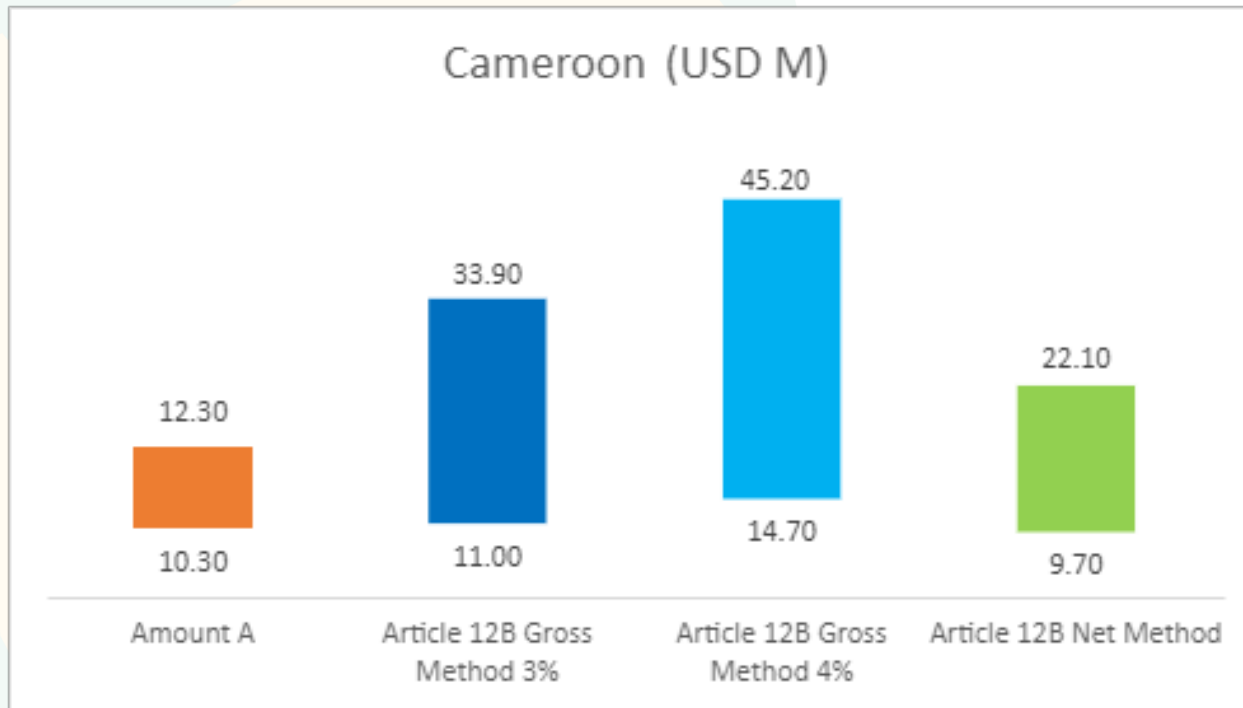
# Zambia (2020)

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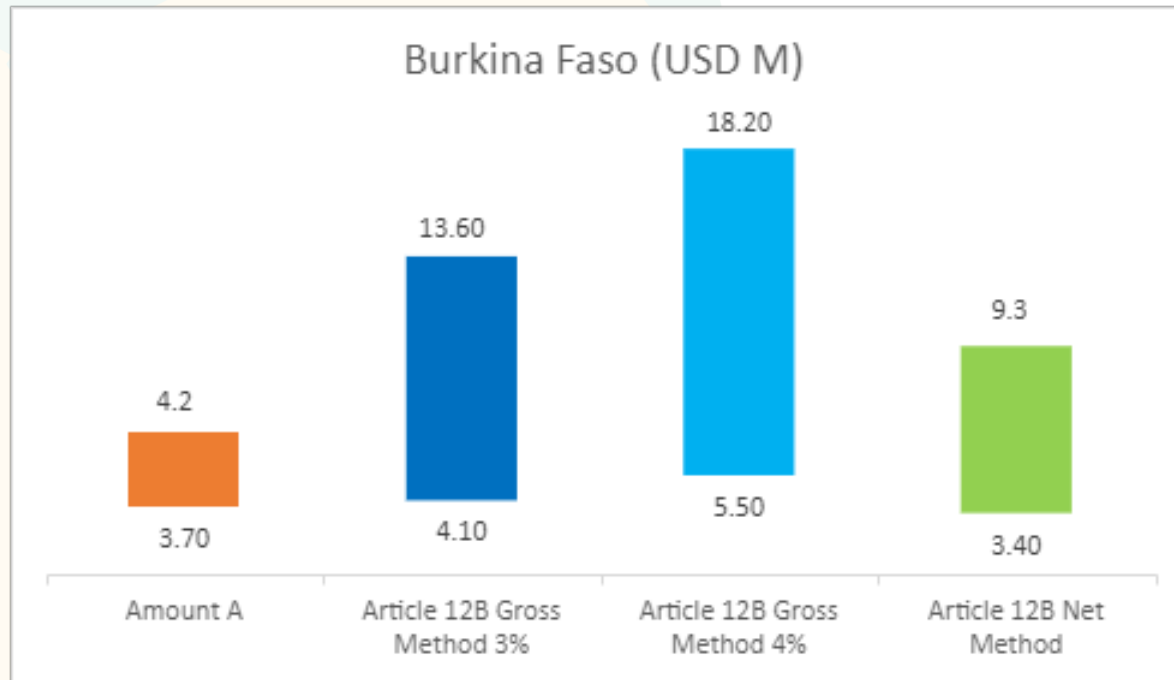
# Cameroon (2020)

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# Burkina Faso (2020)

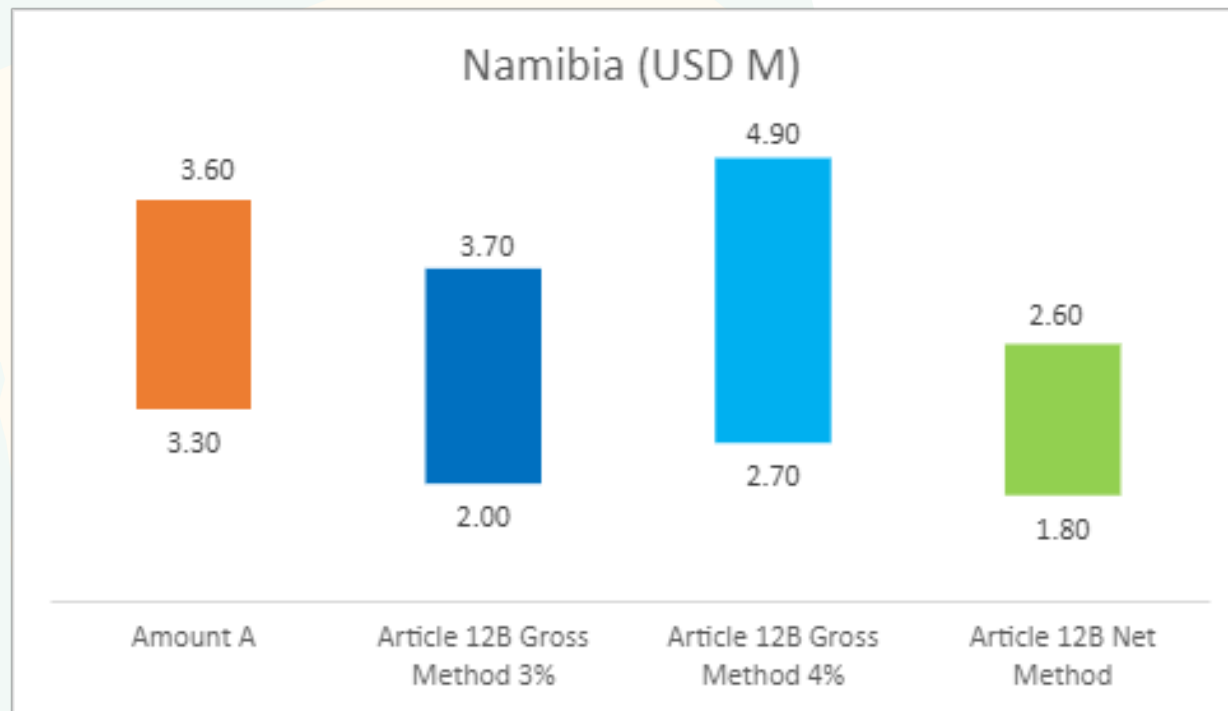
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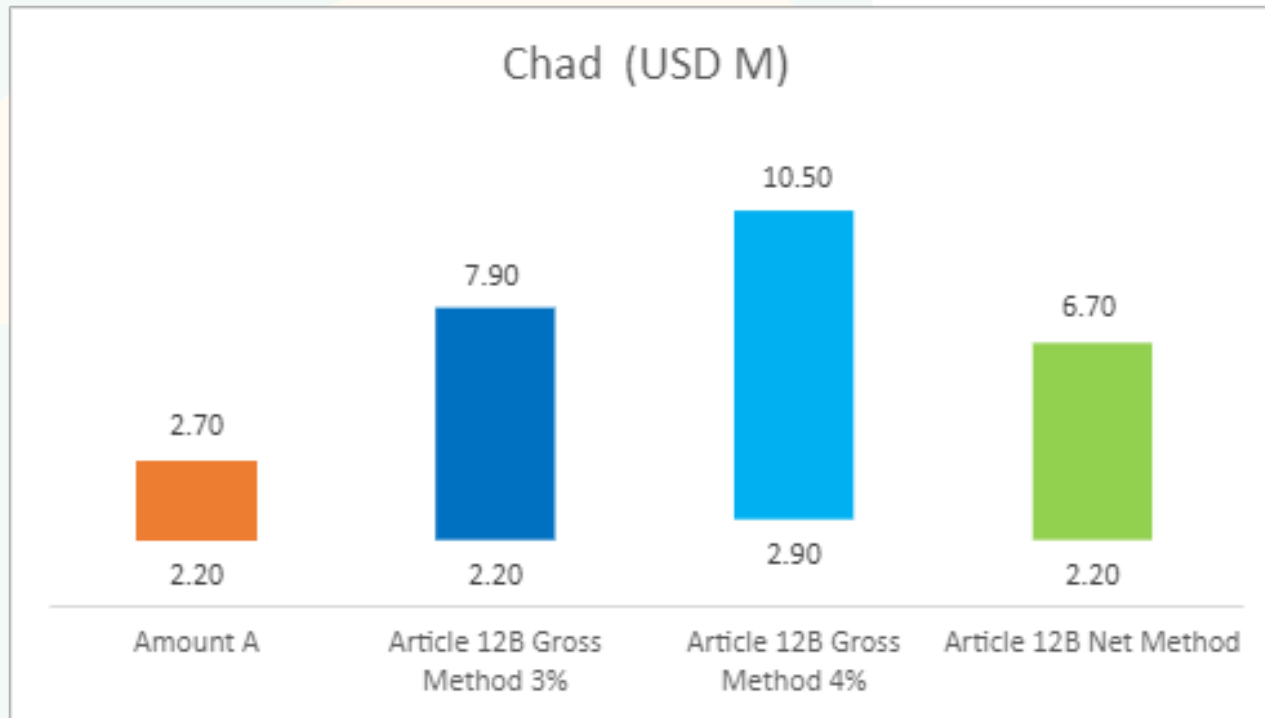
# Namibia (2020)

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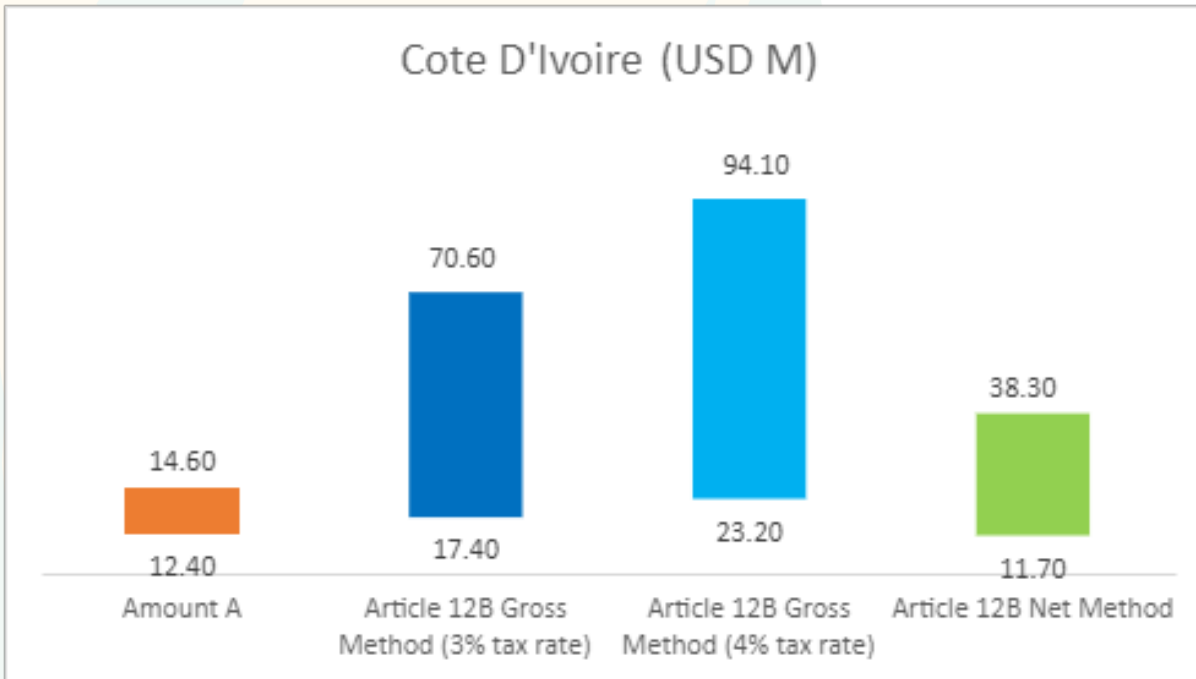
# Chad (2020)

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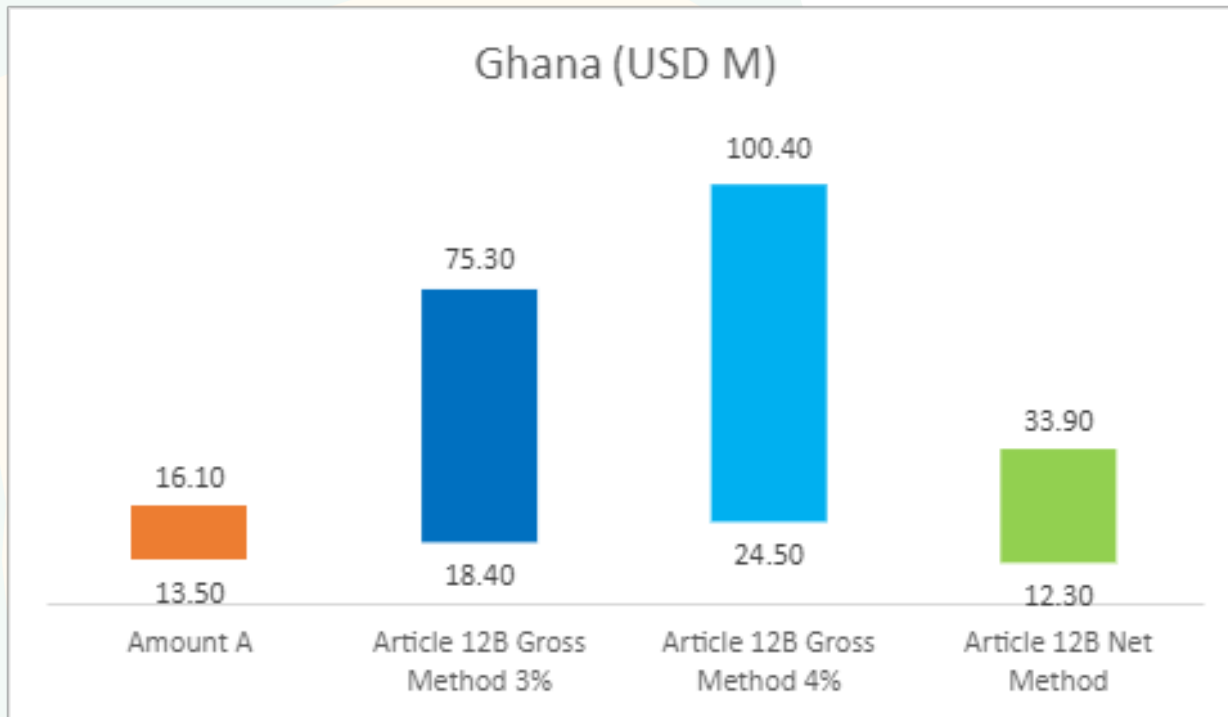
# Cote D'Ivoire (2020)

- Amount A
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- Article 12B Net Method



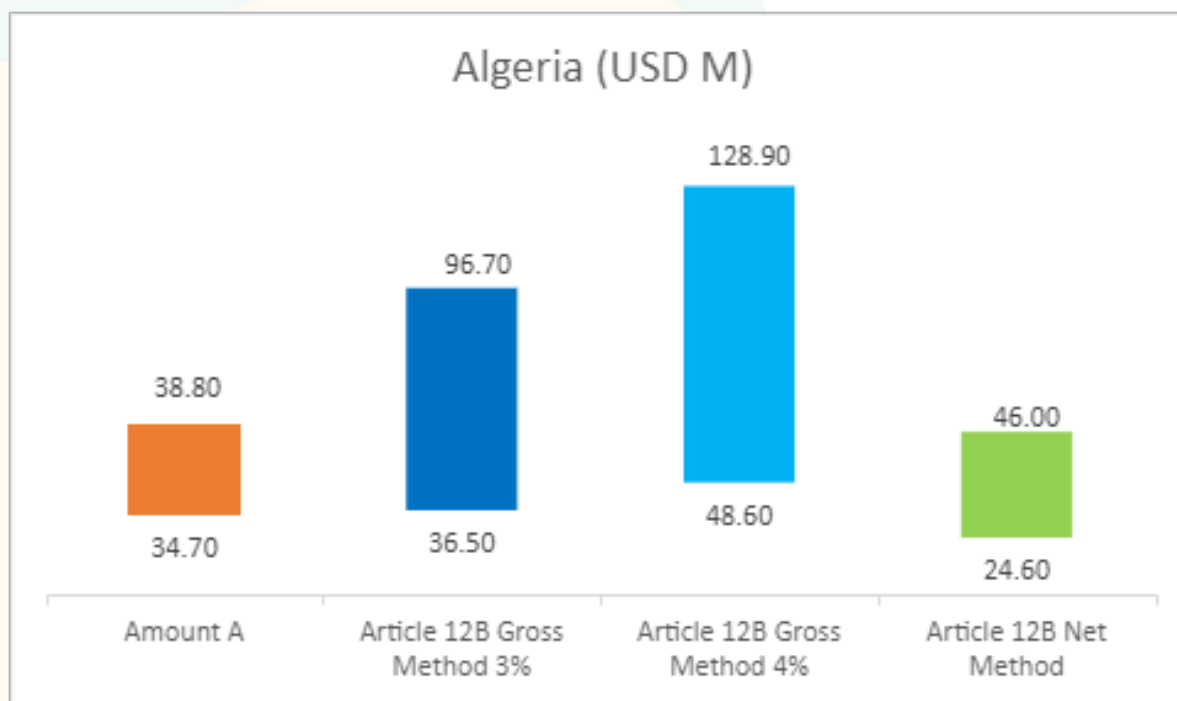
# Ghana (2020)

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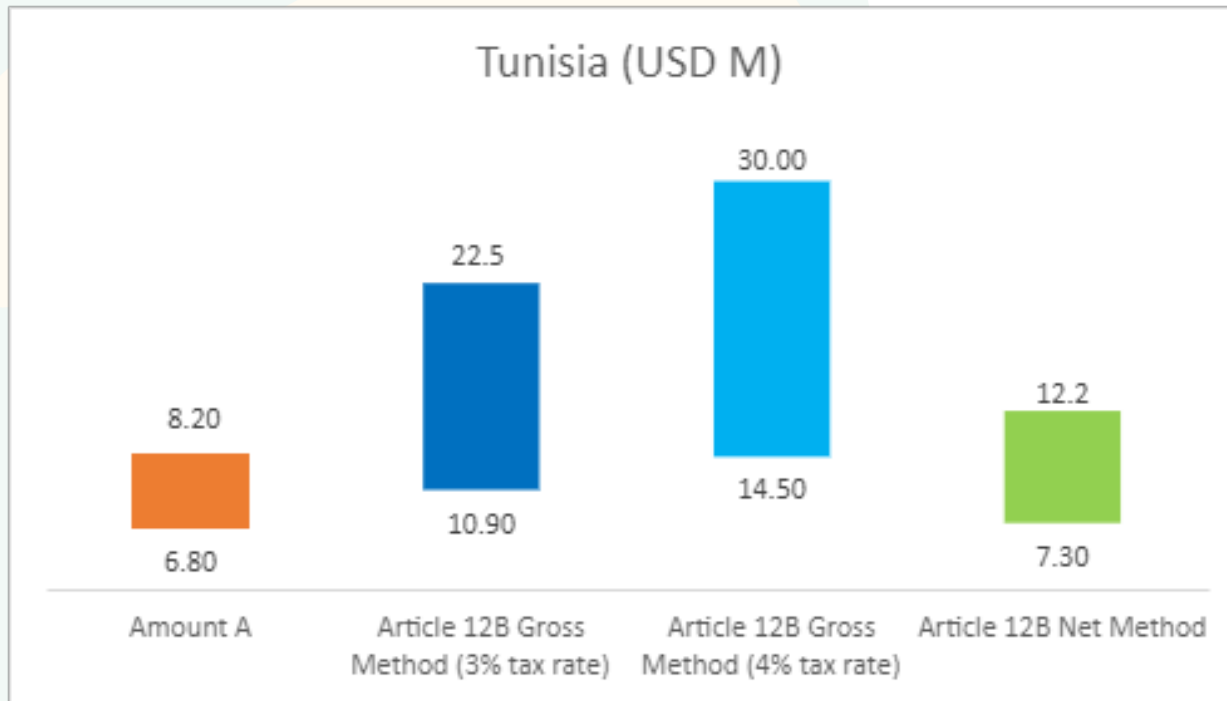
# Algeria (2020)

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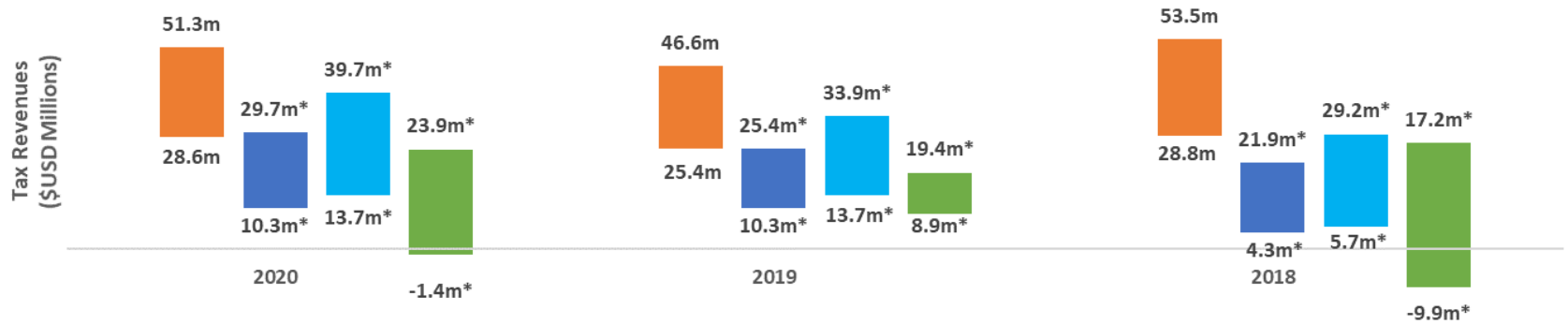
# Tunisia (2020)

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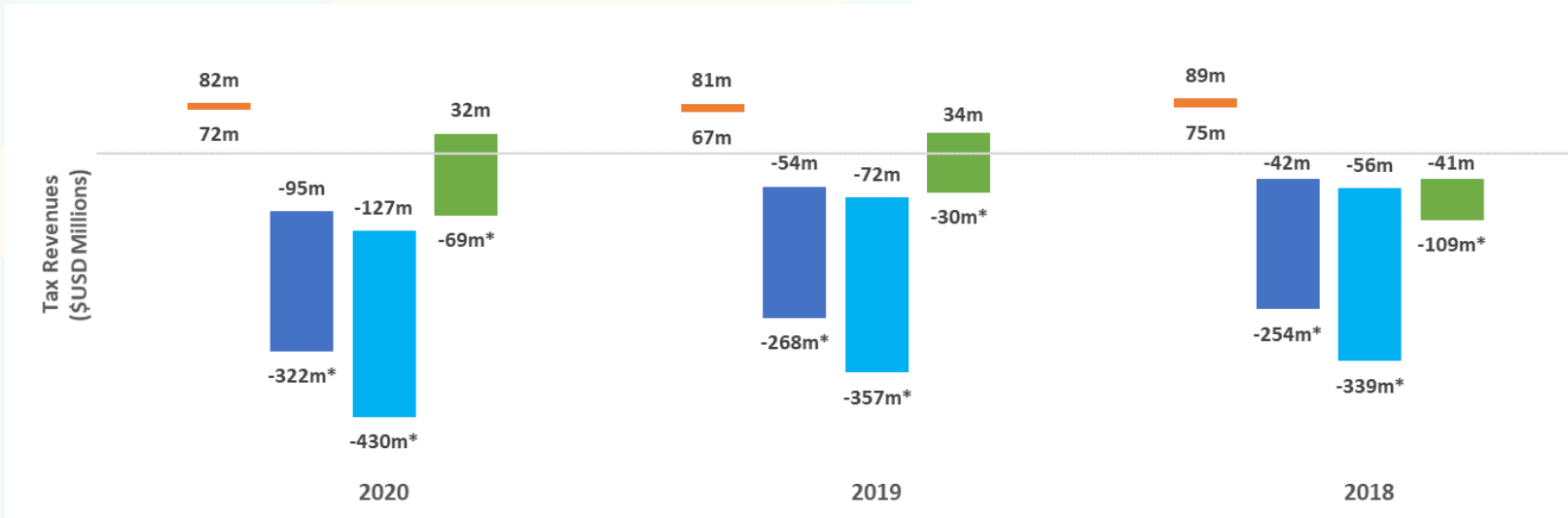
# Morocco

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# South Africa

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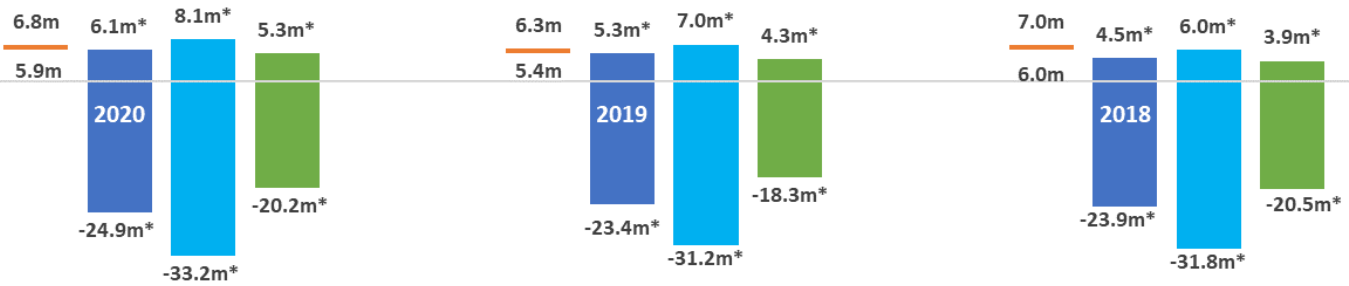




# Senegal

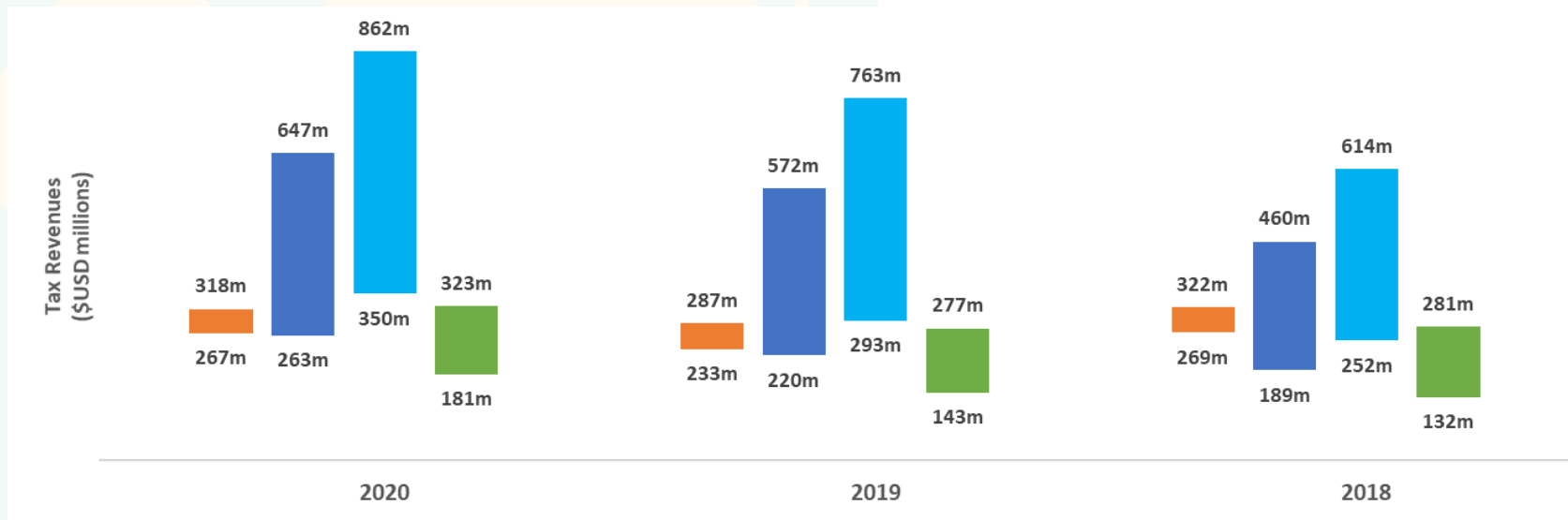
- Amount A
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Tax Revenues  
(\$USD Millions)



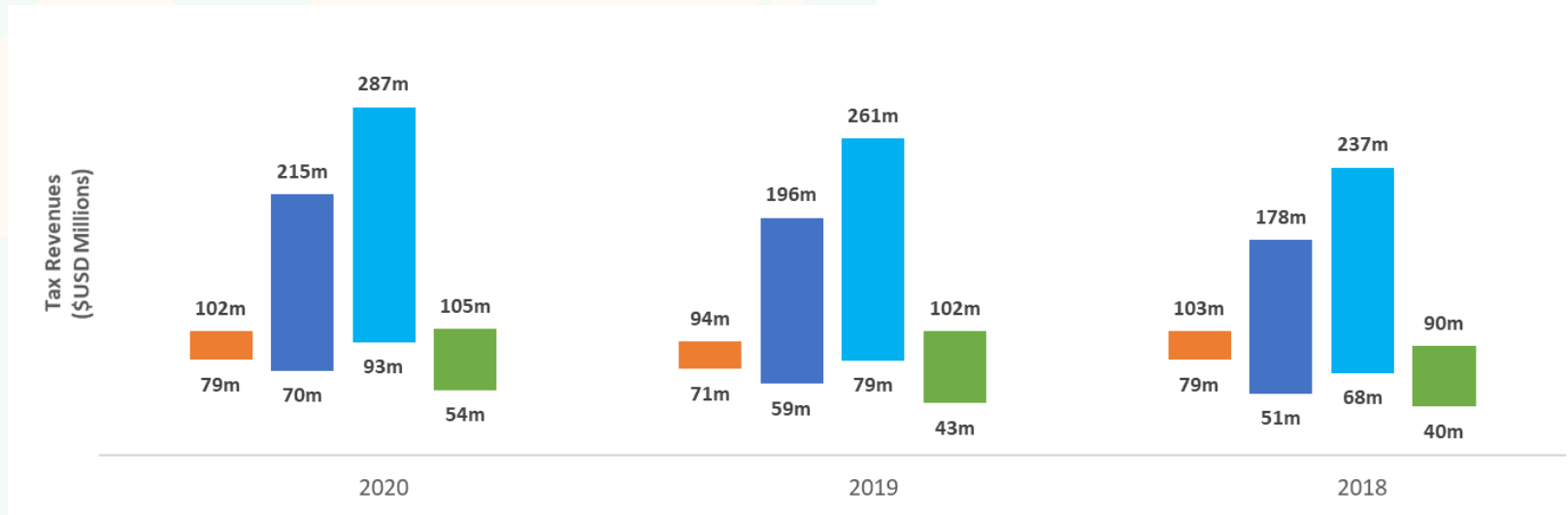
# East Asia & Pacific Excl. China and Indonesia (6 Countries)

- Amount A
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- Article 12B Gross Method (4% tax rate)
- Article 12B Net Method



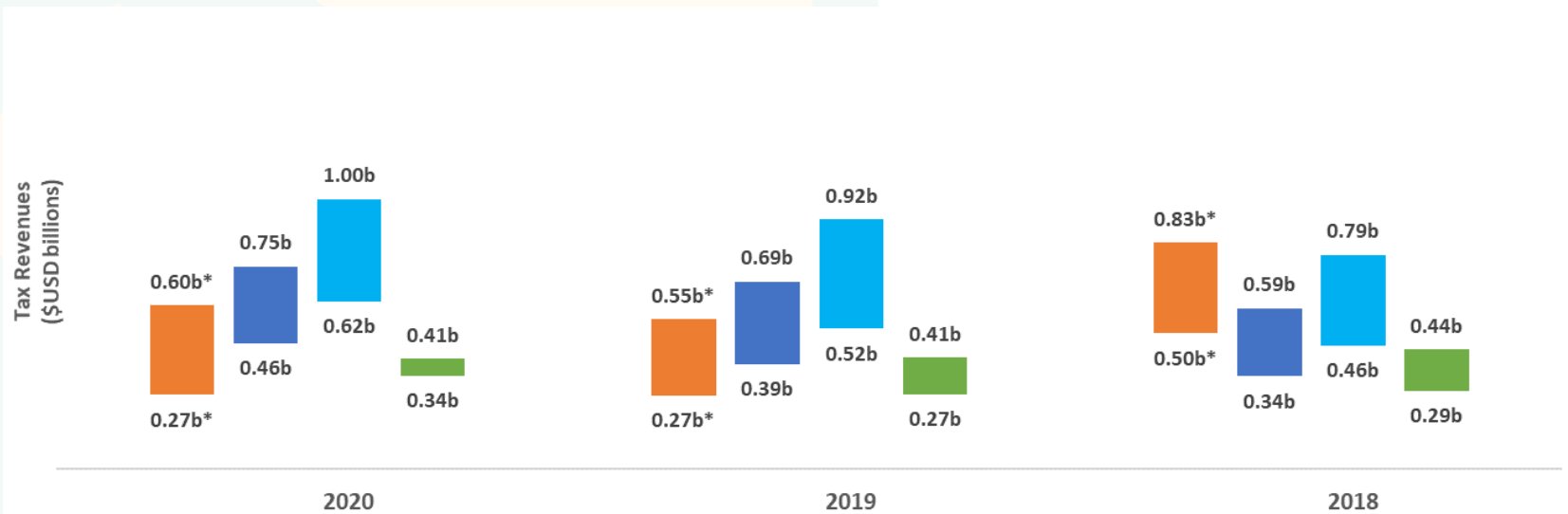
# South Asia Excl. India (2 Countries)

- Amount A
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# India

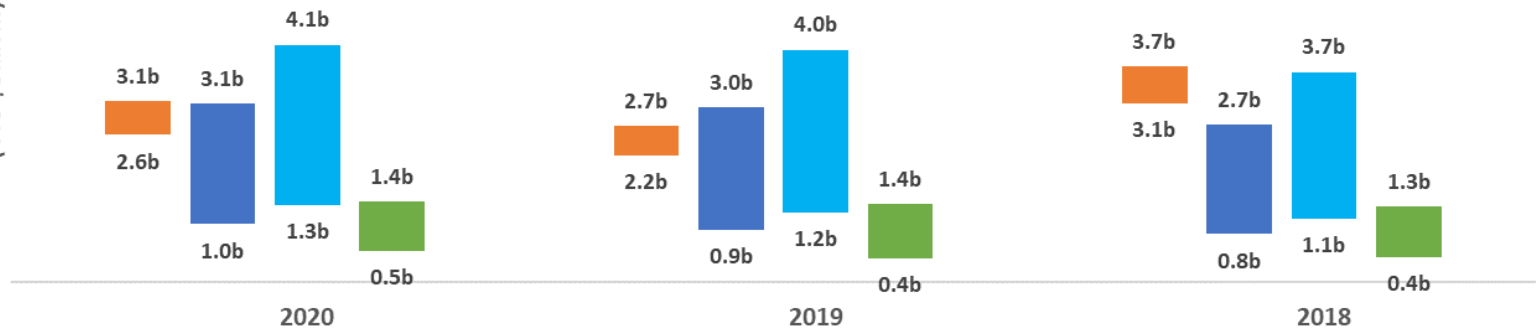
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# China

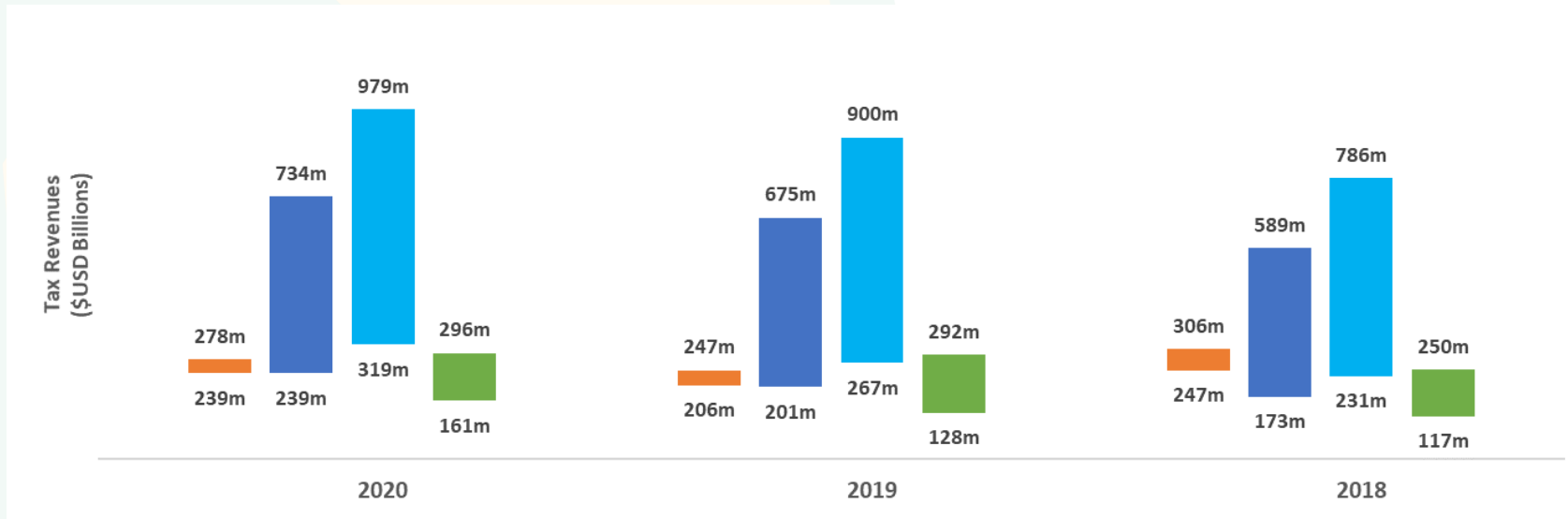
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Tax Revenues  
(USD \$Billions)



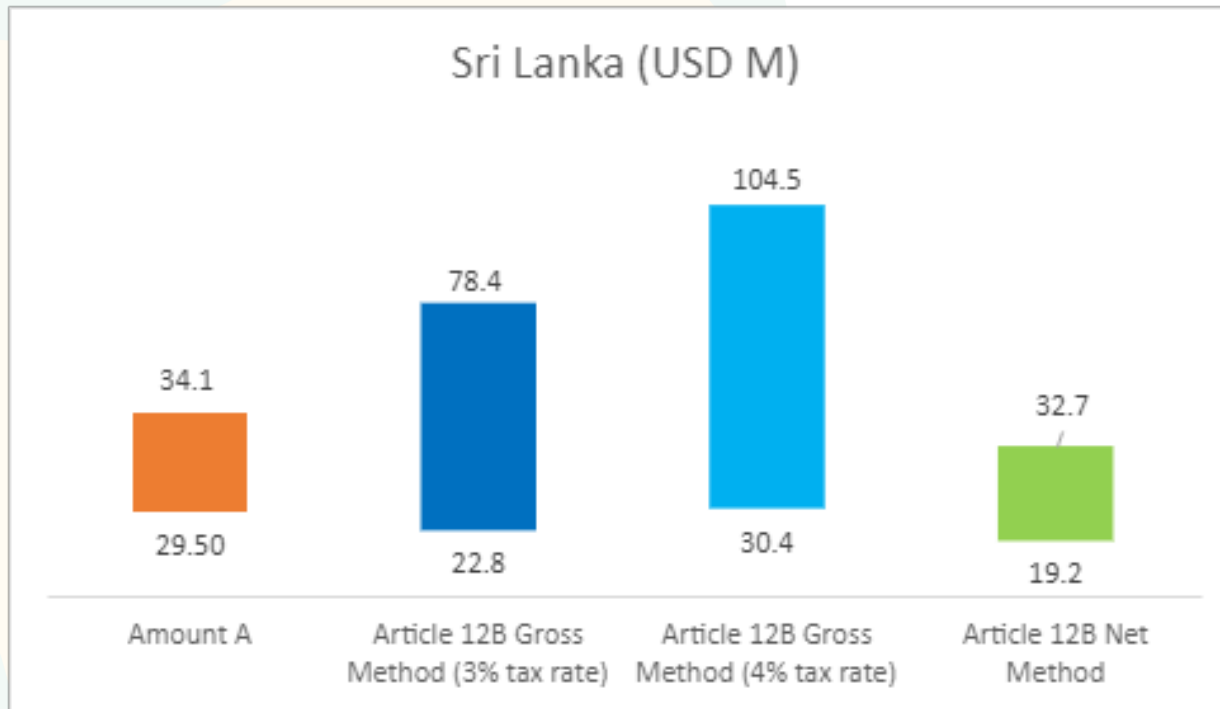
# Indonesia

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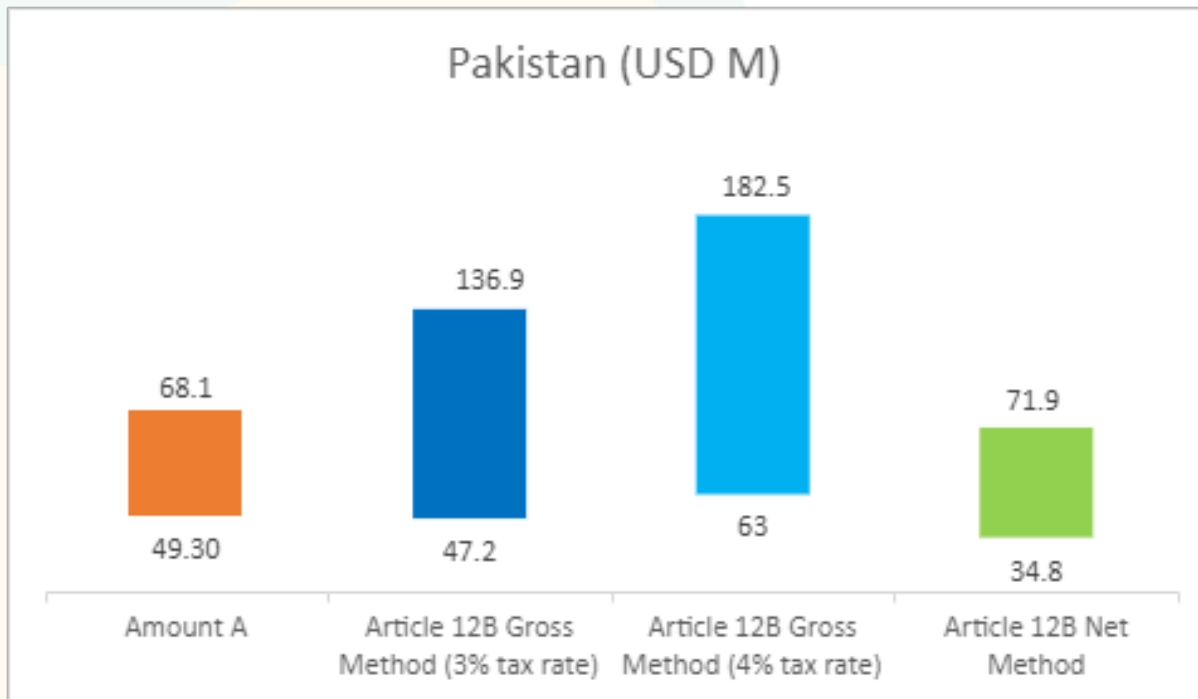
# Sri Lanka (2020)

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# Pakistan (2020)

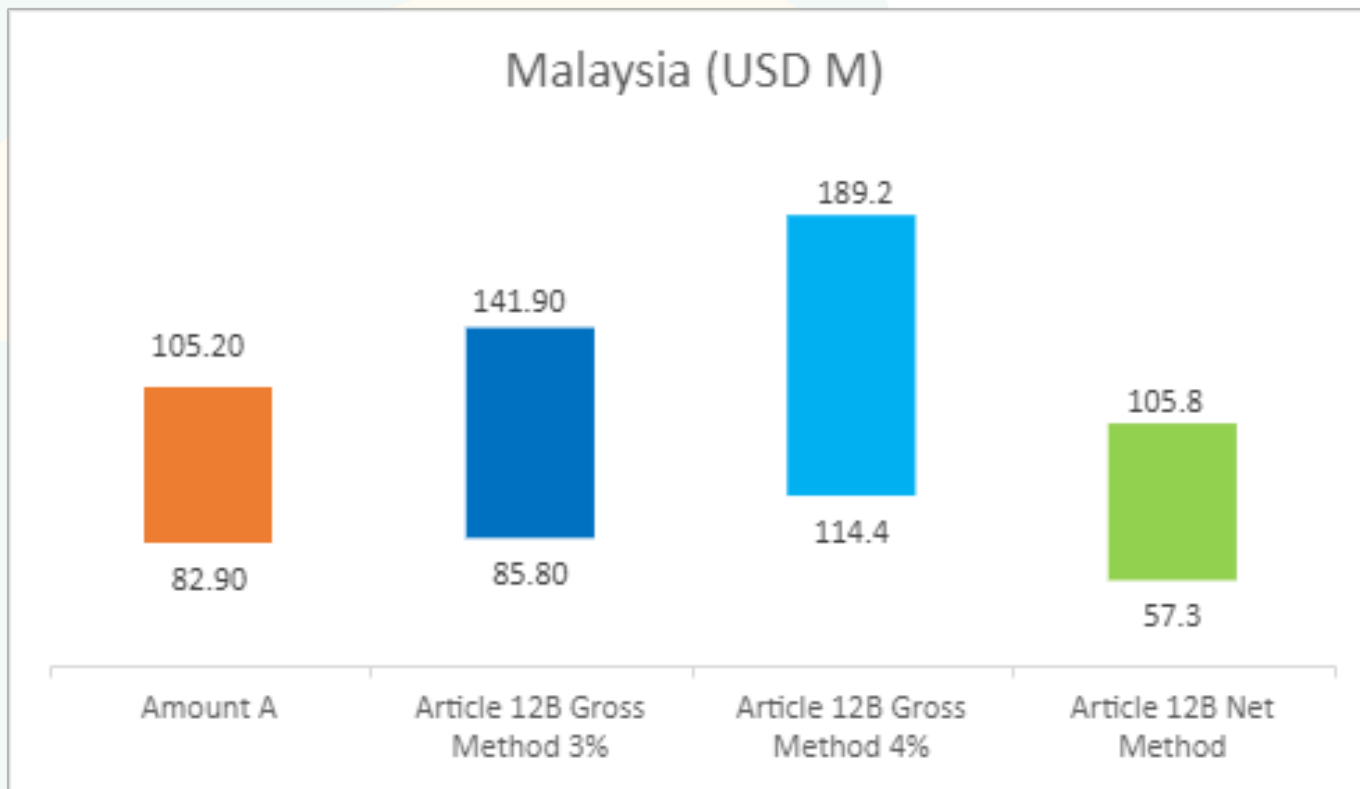
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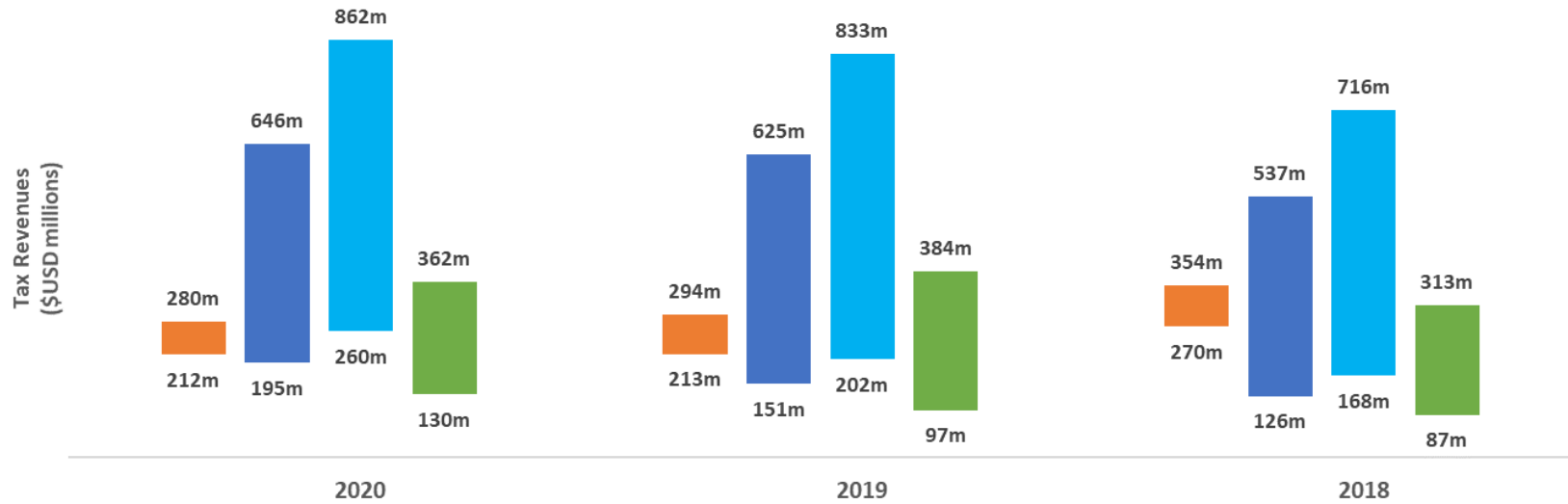
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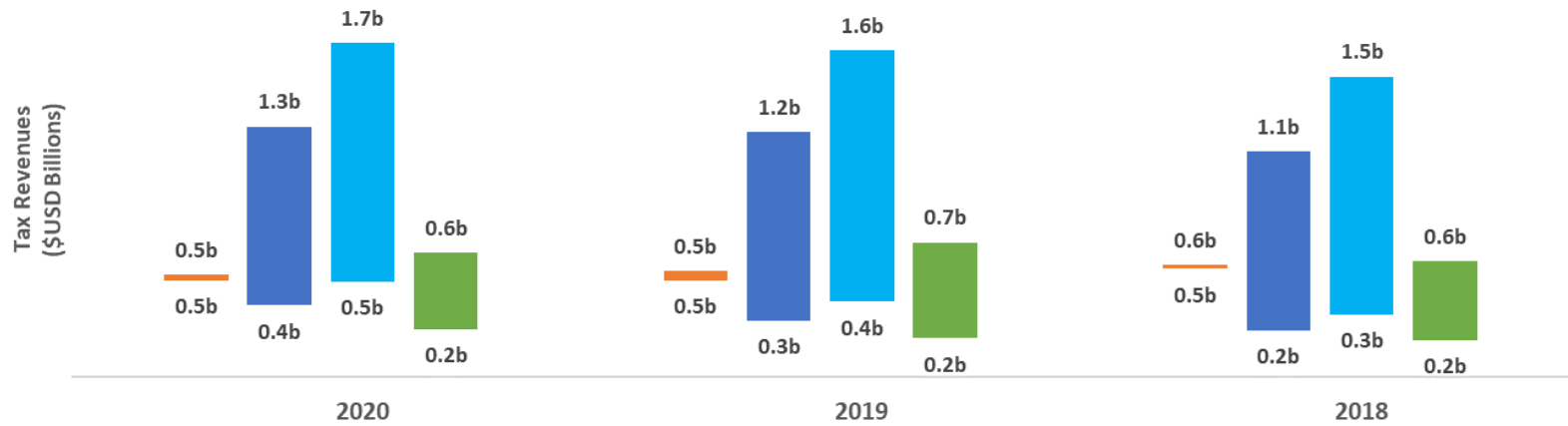
# Latin America and Caribbean Excl. Brazil and Barbados (12 Countries)

- Amount A
- Article 12B Gross Method (3% tax rate)
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- Article 12B Net Method



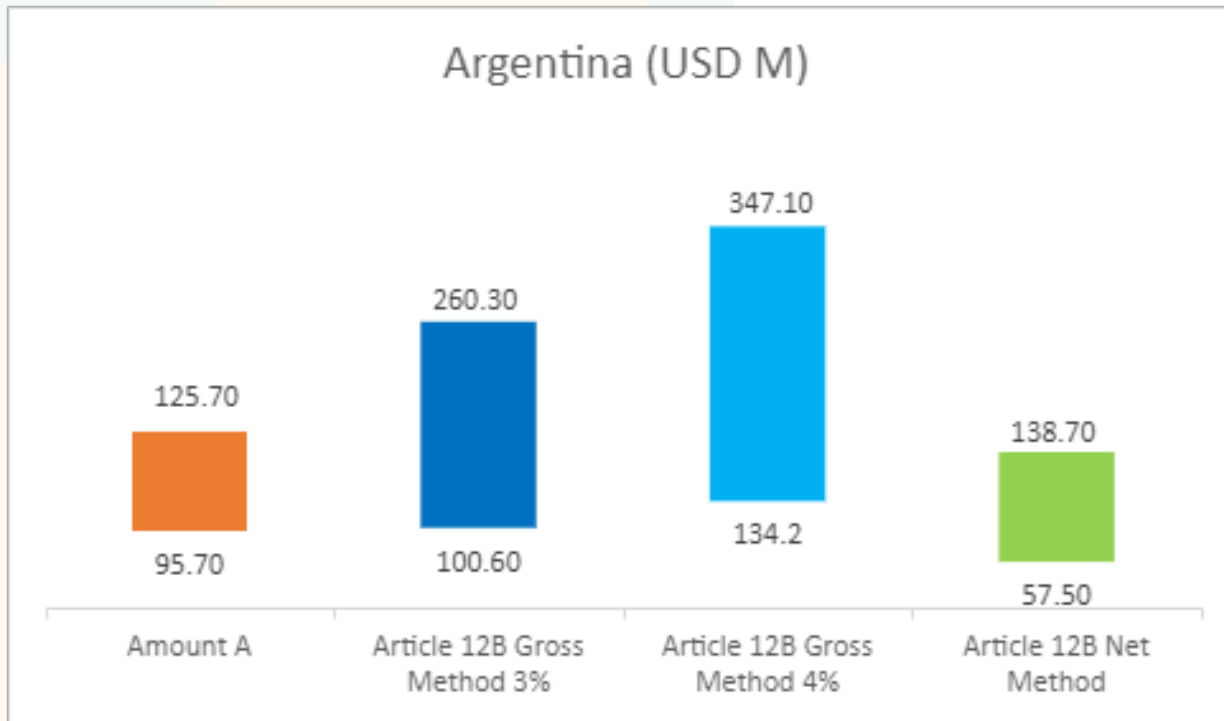
# Brazil

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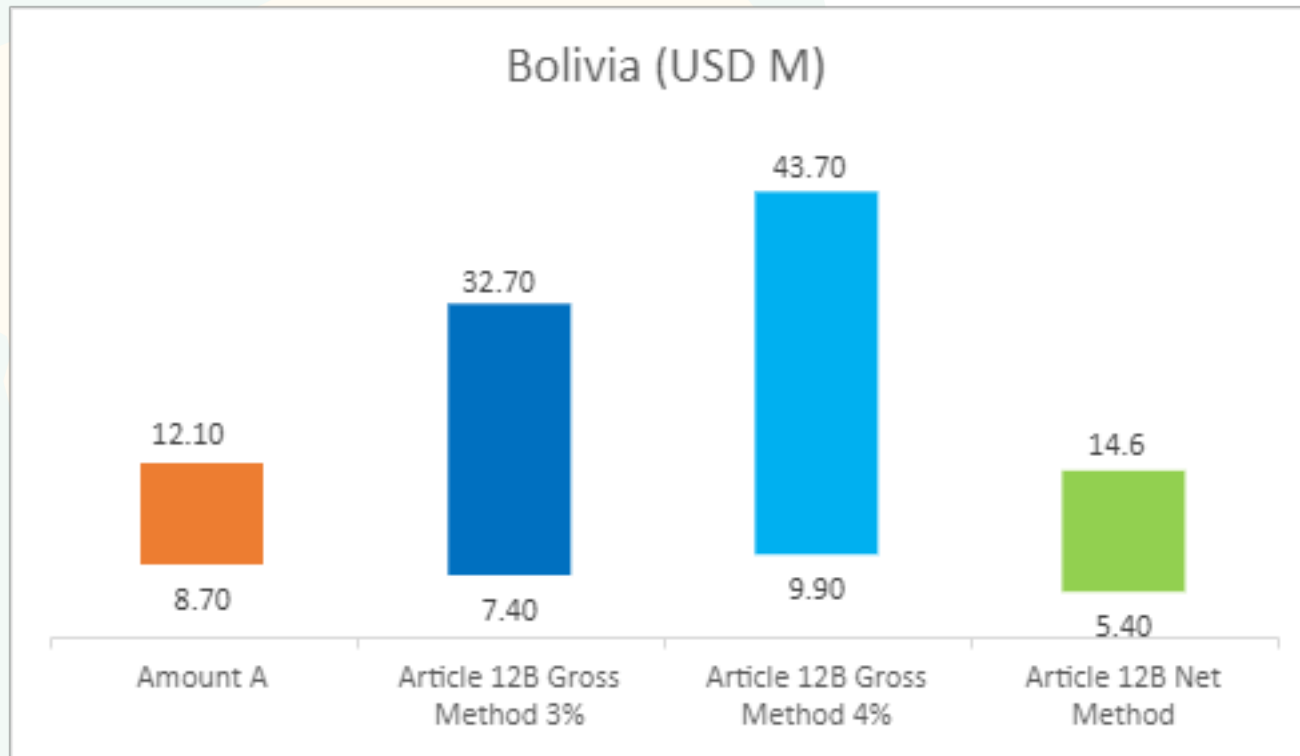
# Argentina (2020)

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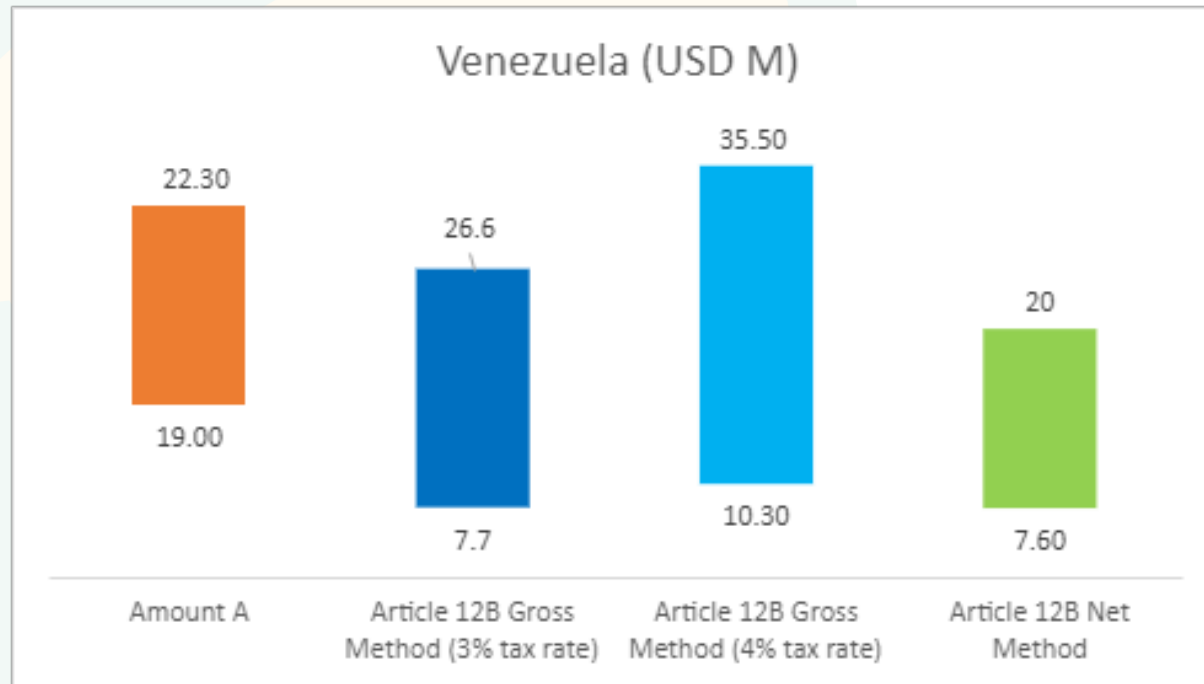
# Bolivia (2020)

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- Article 12B Gross Method (4% tax rate)
- Article 12B Net Method



# Venezuela (2020)

- Amount A
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- Article 12B Gross Method (4% tax rate)
- Article 12B Net Method



## Conclusion and Recommendations

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Overwhelming majority of developing countries gain ~3-4 times revenue from Article 12B gross basis method with 4% rate & broad scope (hybrid ADS)

Gross basis method = DST + tax treaty benefits

OECD solution of Amount A of minimal benefit to developing countries; pales in comparison before UN solution of Article 12B

Developing countries should in any case wait until US, UK, Japan, France, Germany, Switzerland, Ireland & other countries redistributing Amount A ratify Pillar One

## Conclusion and Recommendations

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Developing countries who do not have a tax treaty with countries where companies in-scope of Article 12B & Amount A are HQ'd have an advantage; can & should introduce DSTs or other unilateral measures

If HQ country wants to avoid double taxation on residents, Article 12B provides a fair treaty-based solution

Article 12B net method provides limited revenues; better excluded as an option during treaty negotiations

Para 6 of Article 12B must include 'broad' scope of hybrid ADS companies during treaty negotiations and domestic law to benefit developing countries





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# THANK YOU

Please contact us for more information at:

[Taxcooperation@southcentre.int](mailto:Taxcooperation@southcentre.int)

## THE SOUTH CENTRE

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