OUTCOME STATEMENT

SOUTH CENTRE-WATAF JOINT SPECIAL TECHNICAL SESSION ON THE OECD TWO PILLAR SOLUTION

(JULY 4-5 2023)

The South Centre and the West African Tax Administration Forum (WATAF) successfully organised a two-day special session ("session") in Abuja, Nigeria, from 4-5 July, 2023, aimed at enhancing the understanding of WATAF and South Centre member countries on the draft rules of the OECD Two Pillar solution to taxation of the digitalised economy. The session brought together officials responsible for tax policy, legislation, and administration, along with experts representing African and Latin American countries in the OECD Inclusive Framework Steering Group.

The session began with Ms. Aisha Isa of IBFD-CSAT providing an outline of the OECD Two Pillar Solution to Taxation of the Digitalised Economy. She highlighted the historical background and development of the OECD Pillar 1 (Amount A and Amount B) and Pillar 2 (Global Anti-Base Erosion (GloBE) and STTR), emphasising the objective of delivering fairer and more coherent outcomes in cross-border trade and investments.

Mr. Kehinde Kajesomo of FIRS delivered a presentation on understanding the draft Pillar 1 rules, focusing on Amount A. He provided a detailed explanation of the 12 building blocks of Amount A, addressing the scoping rule, implementation, and the implications for participating jurisdictions.

Mr. Ferdinand Akhademe, also from FIRS, discussed the implications of Amount B on transfer pricing, highlighting how Amount B under Pillar 1 provides more certainty and reduces transfer pricing disputes through a fixed return for baseline marketing and distribution activities.

Mr. Matthew Gbonjubola of FIRS led the panel discussion on the implications of Pillar 1 for participating jurisdictions. Moderated by Mr. Babatunde Oladapo, Executive Secretary, WATAF, the discussion covered a range of topics, including complexity, political considerations, economic impact assessment, and potential effects of the Pillar 1 rules. The panel discussion also featured prominently Mr. Kehinde Kajesomo of the FIRS, Nigeria and Ms. Claudia Vargas Cifuentes, Member, IF Steering Group from Colombia (who participated on remote basis).

The second panel discussion on Day 2 was moderated by Mrs. Tochukwu Sandra Onyemata featuring Mr. Carlos Protto, Member, IF Steering Group from Argentina (who participated on remote basis), Mr. Emmanuel Eze from ICRICT and Ms. Aisha Isa from the IBFD. The discussion focused on analysis of the potential impact of the draft rules, identification of challenges and opportunities arising from the implementation and case studies and examples illustrating the implications on participants' jurisdiction-specific concerns and considerations.
The session on Day 2 also featured presentations on the draft pillar 2 rules. Mr. Kehinde Kajesomo provided insights into the **Subject-To-Tax Rule (STTR)**, emphasising their applicability to intra-group payments from source states with low nominal tax rates in the state of the payee. He highlighted the benefits of STTR for developing countries with lower administrative capacities. Mr. Emmanuel Eze of ICRICT thereafter gave an overview of the GLoBE rule under Pillar 2 explaining the Income Inclusion Rule (IIR) and the Undertaxed Profit Rule (UTPR) that target the payment of a global minimum tax of 15% by multinational enterprises (MNEs) with a global turnover above EUR 750 million.

The final panel discussion featured discussion on Perspectives from the Steering Group of the Inclusive Framework. Mr. Carlos Protto and Mr. Kehinde Kajesomo gave their views, while Mr. Dan-Asabe Ozayashi spoke from the perspective of the areas requiring capacity building among member countries.

Observations from the discussions highlighted several key points. The final Amount A rules have reduced the number of potentially covered entities, and out-of-scope companies are not subject to tax using new nexus rules. Withholding Tax (WHT) and Marketing and Distribution Safe Harbour (MDSH) adjustments can reduce the allocation of Amount A to developing countries. In all likelihood, the GLoBE minimum tax rate may be treated as a ceiling rather than a starting point. Some countries have already started implementing the GLoBE rules, giving them an advantage over new entrants.

Key takeaways from the workshop included the need for careful cost-benefit analysis of Amount A, the importance of waiting for developed countries to implement Pillar 1, and the consideration of alternative minimum taxes. The workshop emphasised the importance of capacity building and active participation in global tax discussions for developing countries.

Based on the discussions, several recommendations were put forward. Jurisdictions were advised to conduct cost-benefit analyses of Amount A, GLoBE rules, and take into account the potential benefits of STTR for developing countries respectively. The capacity building of staff in international tax was considered extremely crucial. It was suggested that developing countries should sign up to the STTR MLI after contrasting it with the UN version of the STTR, review their existing tax treaties, and consider policy options to respond to GLoBE Rules, such as introducing alternate minimum tax or a Qualified Domestic Minimum Top-up Tax (QDMTT). Active participation in UN Committee of Experts and IF at the OECD was also considered as very important.

The workshop concluded with a commitment to ongoing collaboration and a call for action to address the challenges and opportunities presented by the draft rules on the taxation of the digitalised economy.