A ground-breaking tax deal for the digital age

08/10/2021 – Major reform of the international tax system finalised today at the OECD will ensure that Multinational Enterprises (MNEs) will be subject to a minimum 15% tax rate from 2023.

The landmark deal, agreed by 136 countries and jurisdictions representing more than 90% of global GDP, will also reallocate more than USD 125 billion of profits from around 100 of the world's largest and most profitable MNEs to countries worldwide, ensuring that these firms pay a fair share of tax wherever they operate and generate profits.

Following years of intensive negotiations to bring the international tax system into the 21st century, 136 jurisdictions (out of the 140 members of the OECD/G20 Inclusive Framework on BEPS) joined the ***Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy***. It updates and finalises a July political agreement by members of the Inclusive Framework to fundamentally reform international tax rules.

With Estonia, Hungary and Ireland having joined the agreement, it is now supported by all OECD and G20 countries. Four countries – Kenya, Nigeria, Pakistan and Sri Lanka – have not yet joined the agreement.

The two-pillar solution will be delivered to the G20 Finance Ministers meeting in Washington D.C. on 13 October, then to the G20 Leaders Summit in Rome at the end of the month.

The global minimum tax agreement does not seek to eliminate tax competition, but puts multilaterally agreed limitations on it, and will see countries collect around USD 150 billion in new revenues annually. Pillar One will ensure a fairer distribution of profits and taxing rights among countries with respect to the largest and most profitable multinational enterprises. It will re-allocate some taxing rights over MNEs from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there. Specifically, multinational enterprises with global sales above EUR 20 billion and profitability above 10% – that can be considered as the winners of globalisation – will be covered by the new rules, with 25% of profit above the 10% threshold to be reallocated to market jurisdictions.

Under Pillar One, taxing rights on more than USD 125 billion of profit are expected to be reallocated to market jurisdictions each year. Developing country revenue gains are expected to be greater than those in more advanced economies, as a proportion of existing revenues.

Pillar Two introduces a global minimum corporate tax rate set at 15%. The new minimum tax rate will apply to companies with revenue above EUR 750 million and is estimated to generate around USD 150 billion in additional global tax revenues annually. Further benefits will also arise from the stabilisation of the international tax system and the increased tax certainty for taxpayers and tax administrations.

"Today's agreement will make our international tax arrangements fairer and work better," said OECD Secretary-General Mathias Cormann. "This is a major victory for effective and balanced multilateralism. It is a far-reaching agreement which ensures our international tax system is fit for purpose in a digitalised and globalised world economy. We must now work swiftly and diligently to ensure the effective implementation of this major reform," Secretary-General Cormann said.

Countries are aiming to sign a multilateral convention during 2022, with effective implementation in 2023. The convention is already under development and will be the vehicle for implementation of the newly agreed taxing right under Pillar One, as well as for the standstill and removal provisions in relation to all existing Digital Service Taxes and other similar relevant unilateral measures. This will bring more certainty and help ease trade tensions. The OECD will develop model rules for bringing Pillar Two into domestic legislation during 2022, to be effective in 2023.

Developing countries, as members of the Inclusive Framework on an equal footing, have played an active role in the negotiations and the Two-Pillar Solution contains a number of features to ensure that the concerns of low-capacity countries are addressed. The OECD will ensure the rules can be effectively and efficiently administered, also offering comprehensive capacity building support to countries which need it.

Further information on the continuing international tax reform negotiations is also available at: https://oe.cd/bepsaction1.

Media enquiries should be directed to Pascal Saint-Amans (+33 6 26 30 49 23), Director of the OECD Centre for Tax Policy and Administration, or to Lawrence Speer (+33 1 4524 7970) in the OECD Media Office (+33 1 4524 9700).

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Also Available

Shared values: "Building a green and

inclusive future”

06/10/2021 – OECD Ministers have issued a joint statement at the conclusion of this week’s Council meeting at Ministerial level. Under the chairmanship of the United States, with Korea and Luxembourg as vice-chairs, Members met for discussions around the theme “Shared Values: Building a Green and Inclusive Future”.

Read the final statement from the Ministerial meeting.

The Ministerial Council Meeting (MCM) is the OECD’s highest-level forum, attended by ministers of finance, economy, foreign affairs, trade and other government departments from the Organisation’s Member and Partner countries, as well as by representatives of other International Organisations.

During the two-day meeting, Ministers welcomed:

– the Indicator Dashboard to Guide a Strong, Resilient, Green and Inclusive Post-COVID-19 Recovery

– the International Programme for Action on Climate (IPAC) Preliminary Dashboard;

– the Policy Framework for Gender-sensitive Public Governance;

– and the Report on the implementation of the Recommendation of the Council on Integrated Mental Health, Skills and Work Policy.

Additionally, Ministers adopted:

– the OECD’s 60th Anniversary Vision Statement;

– the OECD’s Global Relations Strategy;

– the Recommendation of the Council on Enhancing Access to and Sharing of Data;

– the Recommendation of the Council on Transparency and Procedural Fairness in Competition Law Enforcement;

– the Recommendation for Agile Regulatory Governance to Harness Innovation;

– and the 2021 Ministerial Council Statement.

More detailed information and supporting documents on meeting outcomes and key issues will be available on the Ministerial Council Meeting website at http://www.oecd.org/mcm/.

Additional background is also available across the OECD platform:

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[Climate finance for developing countries reached USD 79.6bn in 2019]

17/09/2021 –

Climate finance for developing countries rose to USD 79.6 billion in 2019 – OECD

Climate finance provided and mobilised by developed countries for developing countries totalled USD 79.6 billion in 2019, up 2% from 78.3 billion in 2018, according to new figures from the OECD.

The small increase was driven by a rise in public climate finance provided by multilateral institutions, while bilateral public climate finance commitments dropped, as did climate finance mobilised from private sources.

[Climate Finance Provided and Mobilised by Developed Countries: Aggregate trends updated with 2019 data] is the OECD's fourth assessment of progress towards the UNFCCC goal of mobilising USD 100 billion per year by 2020 to help developing countries tackle and adapt to climate change.

"Climate finance continued to grow in 2019 but developed countries remain USD 20 billion short of meeting the 2020 goal of mobilising USD 100 billion," **OECD Secretary-General Mathias Cormann said**.

"The limited progress in overall climate finance volumes between 2018 and 2019 is disappointing, particularly ahead of COP26. While appropriately verified data for 2020 will not be available until early next year it is clear that that climate finance will remain well short of its target. More needs to be done. We know that donor countries recognise this, with Canada and Germany now taking forward a delivery plan for mobilising the additional finance required to reach the USD 100bn a year goal."

The report finds that public climate finance from developed countries reached USD 62.9 billion in 2019. Bilateral public climate finance accounted for USD

28.8 billion, down 10% from 2018, and multilateral public climate finance attributed to developed countries accounted for USD 34.1 billion, up by 15% from 2018. The level of private climate finance mobilised was down 4% at USD 14.0 billion in 2019, after USD 14.6 billion in 2018. Climate-related export credits remained small at USD 2.6 billion, accounting for just 3% of total climate finance.

The report also shows that out of the overall climate finance in 2019, 25% went to adaptation (up from 21% in 2018), 64% went to climate change mitigation activities (down from 70% in 2019), and the remainder to crosscutting activities. More than half of total climate finance targeted economic infrastructure – mostly energy and transport – with most of the remainder going to agriculture and social infrastructure, notably water and sanitation.

Asia has been the main beneficiary of climate finance over 2016-19 with 43% of the total on average, followed by Africa (26%) and the Americas (17%). Climate finance for Least Developed Countries rose strongly in 2019 (up 27% on 2018) but funding for Small Island Developing States fell back to 2017 levels (from USD 2.1 billion to 1.5 billion) after a temporary increase in 2018.

This data confirm that SIDS face specific challenges in accessing climate finance. The international community needs to consider financing for climate that is appropriate for the challenges that SIDS face, less fragmented, easier to access, predictable and long-term.

Mr Cormann emphasised that, “It is more urgent than ever that developed countries step up their efforts to deliver finance for climate action in developing countries, particularly to support poor and vulnerable countries to build resilience against the growing impacts of climate change.”

In terms of public finance instruments, public grant financing jumped by 30% from 2018 to reach USD 16.7 billion in 2019, after having remained stable the three previous years. In contrast, the volume of public loans, which had increased significantly up to 2018, fell by 5% in 2019. As a result, the share of grants in overall public climate finance was 27% in 2019, while loans (both concessional and non-concessional) represented 71%.

Note to Editors

At the 15th Conference of Parties (COP15) of the UNFCCC in Copenhagen in 2009, developed countries committed to a collective goal of mobilising USD 100 billion per year by 2020 for climate action in developing countries. The goal was formalised at COP16 in Cancun, and at COP21 in Paris, it was reiterated and extended to 2025.

At the request of donor countries, the OECD produces regular analysis of progress towards this goal based on a robust accounting framework, consistent with the COP24 outcome agreed by all Parties to the Paris Agreement as regards funding sources and financial instruments. The OECD figures capture four distinct components of climate finance provided and mobilised by developed countries: bilateral public climate finance, multilateral public climate finance attributed to developed countries, climate-related officially supported export credits, and private finance mobilised by bilateral and multilateral public climate finance, attributed to developed countries.

Due to time lags in official reporting of the various datasets, data for 2020 will not be available before 2022. At that point, a thorough analysis will be conducted to inform the period to 2025 and assess the extent to which the COVID-19 crisis may have affected climate finance flows. Meanwhile the 2021 update report adds 2019 to the 2013-18 series and adds data for US bilateral public climate finance in 2018. This data was previously unavailable and had been estimated as the average level of US bilateral public climate finance over 2016-17. Actual US bilateral public climate finance in 2018 was USD 0.6 billion lower than this estimate.

The year-on-year time series is consistent from 2013 to 2019 for bilateral and multilateral public climate finance and export credits, however data for private climate finance from 2016 on are not directly comparable with those for 2013-14 due to the application of improved methodology and a resulting gap in the time series in 2015.

For further information journalists are invited to contact Catherine Bremer in the OECD Media Office (+33 1 45 24 80 97).

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Regulatory reform and digital are key

12/08/2021 – The Malaysian economy is on the road to recovery from COVID-19, although risks remain from the ongoing crisis. A return, over time, to pre-pandemic growth rates will require continued reforms to improve the business environment further, and accelerate digitalisation, according to a new OECD report.

The OECD’s third **Economic Survey of Malaysia** says high unemployment in the wake of the crisis poses a challenge, along with weak productivity growth. In the short-term, accelerating the vaccination programme is crucial. Policy support for people and firms should continue until the recovery is well-established. Malaysia should then resume its pre-pandemic efforts to boost productivity by easing regulatory and administrative burdens and accelerating firms’ adoption of digital technologies.

Over the medium-term, a fiscal consolidation strategy will be vital to reduce public debt and prepare for growing health and economic costs from Malaysia's ageing population.

"Malaysia is a business-friendly country, which attracts large flows of foreign direct investment and is well-integrated in global value chains. Nonetheless, further reforms to ease regulation and expand the digital economy will be essential to drive growth in the post-pandemic world and to ensure Malaysia fully benefits from today's digital opportunities," **OECD Secretary-General Mathias Cormann said**, presenting the Survey alongside Malaysia's **Minister in the Prime Minister's Department for Economic Affairs, Mustapa Mohamed**. (Read the full speech).

Malaysia was experiencing solid growth prior to the pandemic. With sales of electronic and health-related goods bouncing back, and policy support propping up domestic demand, the Survey projects GDP growth to rebound to 4.3% in 2021 and 6.1% in 2022, following a drop in economic activity of 5.6% in 2020.

The economic blow from COVID-19 hit small firms and young, self-employed and migrant workers hard. Persisting high unemployment underscores the need to improve social protection and policy support for those not adequately covered, including many independent employees working for online platforms, and the micro-, small- and medium-sized businesses that account for a significant part of Malaysia's economy.

Prior to the pandemic, Malaysia undertook a series of reforms to improve the business environment, including by streamlining regulations and administrative burdens for businesses, and establishing competition authorities. While Malaysia now ranks well compared to its Southeast Asian peers, there is room to reduce barriers to competition further, particularly in the energy and transport sectors, professional services and retail, where the OECD's Product Market Regulation indicators show that regulations and procedures remain restrictive relative to OECD countries.

The Survey also recommends accelerating Malaysia's digital transformation by improving digital infrastructure, developing workers' Internet skills and encouraging small firms – particularly older ones – to adopt new technologies that can stimulate innovation.

See a **Survey Overview** with key findings and charts (this link can be used in media articles).

For further information, journalists are invited to contact the OECD Media Office (+33 1 45 24 97 00).

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Boosting trust and transparency

09/07/2021 – The COVID-19 crisis has demonstrated governments’ ability to respond to a major global crisis with extraordinary flexibility, innovation and determination. However, emerging evidence suggests that much more could have been done in advance to bolster resilience and many actions may have undermined trust and transparency between governments and their citizens, according to a new OECD report.

Government at a Glance 2021 says that one of the biggest lessons of the pandemic is that governments will need to respond to future crises at speed and scale while safeguarding trust and transparency. “Looking forward, we must focus simultaneously on promoting the economic recovery and avoiding democratic decline” said OECD Direector of Public Governance Elsa Pilichowski. “Reinforcing democracy should be one of our highest priorities.”

Countries have introduced thousands of emergency regulations, often on a fast track. Some alleviation of standards is inevitable in an emergency, but must be limited in scope and time to avoid damaging citizen perceptions of the competence, openness, transparency, and fairness of government.

Governments should step up their efforts in three areas to boost trust and transparency and reinforce democracy:

- Tackling misinformation is key. Even with a boost in trust in government sparked by the pandemic in 2020, on average only 51% of people in OECD countries for which data is available trusted their government. There is a risk that some people and groups may be dissociating themselves from traditional democratic processes.
- It is crucial to enhance representation and participation in a fair and transparent manner. Governments must seek to promote inclusion and diversity, support the representation of young people, women and other under-represented groups in public life and policy consultation. Fine-tuning consultation and engagement practices could improve transparency and trust in public institutions, says the report. Governments must also level the playing field in lobbying. Less than half of countries have transparency requirements covering most of the actors that regularly engage in lobbying.
- Strengthening governance must be prioritised to tackle global challenges while harnessing the potential of new technologies. In 2018, only half of OECD countries had a specific government institution tasked with identifying novel, unforeseen or complex crises. To be fit for the future, and secure the foundations of democracy, governments must be ready to act at speed and scale while safeguarding trust and

transparency.

Governments must also learn to spend better, according to *Government at a Glance 2021*. OECD countries are providing large amounts of support to citizens and businesses during this crisis: measures ongoing or announced as of March 2021 represented, roughly, 16.4% of GDP in additional spending or foregone revenues, and up to 10.5% of GDP via other means. Governments will need to review public spending to increase efficiency, ensure that spending priorities match people’s needs, and improve the quality of public services.

The report, the seventh edition of the OECD’s two-yearly overview of public governance, compares OECD and partner countries in areas such as public finance, employment, budgeting, digitalisation and public service delivery. The data can be used to benchmark governments’ performance, track national and international developments over time, and monitor governments’ progress in public sector reform. Read the full report and country notes.

For more information, journalists should contact Spencer Wilson in the OECD Media Office.

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