G20/OECD Roadmap on Developing Countries and International Taxation

OECD REPORT FOR THE G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

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Foreword

Prepared at the request of the G20, this OECD report provides an update on progress made by developing countries in benefiting from the new international tax rules and how capacity building can help. It takes stock of progress since the report *Developing Countries and the OECD/G20 Inclusive Framework on BEPS* was presented to the G20 Finance Ministers and Central Bank Governors in October 2021. Since then, developing countries have faced worsening fiscal positions, with many still recovering from the economic impact of the COVID-19 pandemic, and now facing fuel and food price shocks. Maximising revenues will become increasingly vital for many developing countries and international taxation is an obvious focus given their comparatively high reliance on corporate income tax, and the large role Multinational Enterprises (MNEs) occupy in the corporate tax base.

In this challenging context, and as international taxation remains of critical importance to most developing countries, this latest report also proposes a Roadmap to guide and accelerate support for the implementation of the international tax rules. With G20 support, a Roadmap of actions can help ensure developing countries are able to both contribute to, and participate in the continuing evolution of the international tax system**.** The Roadmap does not seek to cover all the possible actions that developing countries may wish to take, but rather focuses on those actions that the G20 (and others) can take. With several of the 'quick wins' from the recommendations in last year's report already implemented, this report highlights the necessity for sustained actions over several years to respond to developing countries' needs.

As multilateralism continues to be tested globally, the G20 can consolidate the significant progress made in creating a new international architecture on tax. It is in the interests of all countries, including G20 members, to invest in the success of the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework). To that end, a key indicator for success of the Inclusive Framework will be evidence that developing countries are able to realise the benefits of participation.

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Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda on Financing for Development
ADB	Asian Development Bank
AEOI	Automatic Exchange of Information
ATAF	African Tax Administration Forum
BEPS	Base Erosion and Profit Shifting
BURS	Botswana Unified Revenue Service
CARICOM	Caribbean Community
CbC	Country-by-Country
CIAT	Inter-American Center of Tax Administrations
CIT	Corporate Income Tax
COFP	Council for Finance and Planning
DRM	Domestic Resource Mobilisation
ETR	Effective Tax Rate
FHTP	Forum on Harmful Tax Practices
FTA	Forum on Tax Administration
Global Forum	Global Forum on Transparency and Exchange of Information for Tax Purposes
GloBE	Global Anti-Base Erosion
GST	Goods and Services Tax
IFCMA	Inclusive Forum on Carbon Mitigation Approaches
IGF	Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development

IMF	International Monetary Fund
Inclusive Framework	OECD/G20 Inclusive Framework on BEPS
KSP_{TA}	Knowledge Sharing Platform for Tax Administrations
MAAC	Multilateral Convention on Mutual Administrative Assistance in Tax Matters
MAP	Mutual Agreement Procedure
MCAA	Multilateral Competent Authority Agreement
MLI or Multilateral Instrument	Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting
MLC	Multilateral Convention
MNF	Multinational Entreprise
OECD	Organisation for Economic Co-operation and Development
PCT	Platform for Collaboration on Tax
PE	Permanent Establishment
SDG	Sustainable Development Goal
STTR	Subject to Tax Rule
TADAT	Tax Administration Diagnostic Assessment Tool
TIWB	Tax Inspectors Without Borders
TREAT	Tax Risk Evaluation and Assessment Tool
VAT	Value Added Tax
WBG	World Bank Group
ZRA	Zambia Revenue Authority

Executive summary

International tax co-operation is a vital component of development; providing tools, standards and support to effectively tax globalised economies. The Addis Ababa Action Agenda on Financing for Development (AAAA) recognised this need, with a commitment to 'scale up international tax co-operation' and an emphasis on 'the importance of inclusive co-operation and dialogue among national tax authorities on international tax matters' (see paragraphs 27-29 of the AAAA).

The OECD/G20 Inclusive Framework on BEPS (Inclusive Framework), is central to international tax co-operation, with 141 members who monitor the implementation and contribute to the development of measures to combat Base Erosion and Profit Shifting (BEPS). While membership is on an equal footing, developing countries with more limited capacities, resources and experience, as well as competing priorities, face a range of challenges. As such, it is important to ensure that the Inclusive Framework is succeeding in integrating developing countries; and providing tools, standards and support that deliver meaningful Domestic Resource Mobilisation (DRM) results.

In recognition of this, in 2021 the G20 requested a stocktake of developing countries' experience and progress in the first five years of the Inclusive Framework. The report *Developing Countries and the OECD/G20 Inclusive Framework on BEPS,* was presented to the G20 Finance Ministers and Central Bank Governors in October 2021, and made a number of recommendations to improve progress. Following the request of the G20 Finance Ministers and Central Bank Governors to further explore the recommendations from the 2021 Report and identify areas for further support, this report:

1. Takes stock of progress by developing countries in implementing the BEPS agenda since the 2021 Report;
2. Provides an update on progress on the recommendations identified in the 2021 Report; and
3. Sets out key priorities for further engagement with developing countries and provides a Roadmap to guide actions by interested G20 members and other stakeholders to further those goals.

Responding to the overarching recommendation in the 2021 Report for regular high-level political dialogue, two ministerial meetings have been held. Ministers at these meetings stressed the need for developing countries to be able to benefit from their participation in multilateral forums, and the vital role that capacity building support plays in unlocking those benefits.

Developing countries are continuing to join the Inclusive Framework. Over one-third of its membership is comprised of low or middle income countries that are not members of the OECD or G20, and are not considered financial centres. Developing countries that have joined continue to make progress on implementing the BEPS Actions, though challenges remain.

Developing countries have made good progress in eliminating harmful tax practices, and most have benefitted from receiving information on tax rulings from other countries. Developing countries are continuing to sign and ratify the Multilateral Instrument (MLI) to amend their tax treaties to prevent treaty abuse; over half of developing country Inclusive Framework members have now signed the MLI, though only just over a quarter have ratified it.

Country-by-country (CbC) reporting continues to be a challenge. Two more developing countries now have access to CbC reports filed abroad, making five in total, but the vast majority do not. Tackling this challenge was identified as a priority at both ministerial meetings on tax and development held since the 2021 Report, and requires further examination of both the potential of reinvigorated capacity building, as well as the scope to introduce flexibility into the rules.

Progress has been more rapid in some other areas, such as the implementation of VAT standards on e-commerce, though even in these areas the more capacity-constrained countries will require significant technical assistance.

Capacity building must intensify to meet the needs of developing countries, as new international standards resulting from the Two-Pillar Solution to address the tax challenges of the digitalising economy evolve. As demand increases, ensuring the provision and sustainability of capacity building becomes increasingly challenging, especially in areas where expertise is in short supply. The Tax Inspectors Without Borders (TIWB) initiative provides an effective way to facilitate the provision of expertise to work directly with tax administrations. With TIWB programmes already enabling the collection of an additional USD 1.7bn in additional tax revenues, there is potential to further expand the model to support the capacity building needs associated with implementing the Two-Pillar Solution.

There have also been major developments in the governance of the Inclusive Framework, with the establishment of a co-chair to help amplify the voices of developing countries. Relationships between the Inclusive Framework and regional tax organisations and development banks are being strengthened with more frequent and systematic events, as well as the establishment of new regional initiatives.

The Inclusive Forum on Carbon Mitigation Approaches (IFCMA) provides a new forum for multilateral dialogue. The 2021 Report noted some areas where multilateral dialogue beyond BEPS could benefit developing countries. One notable development since then is the announcement of the IFCMA which will provide a forum to collate better data and share information and best practices about the comparative effectiveness of different carbon mitigation approaches, to help inform better policy decisions in the move to net zero emissions.

While there has been continued progress by developing countries, and some response to the recommendations in the 2021 Report, there remains much to be done. Following the request in February 2022 from the G20 Finance Ministers and Central Bank Governors for further exploration of the recommendations in the 2021 Report, this report provides a Roadmap for the G20, other stakeholders and development partners to further support and implement those recommendations.

Taken together, the actions proposed in this Roadmap provide a guide for interested G20 countries and other stakeholders to help support developing countries in their efforts to make the best use of the international tax system to help realise the Sustainable Development Goals (SDGs), and to ensure that the Inclusive Framework’s strong coalition of countries continues to advance together and converge on the design and implementation of the global tax rules.

The key priorities from this Roadmap for interested G20 members, other stakeholders and development partners are to:

- **Support developing countries to assess the potential benefits of implementing the remaining BEPS Actions, and provide assistance accordingly**.
- **Facilitate faster progress on securing developing country access to CbC reports,** through increasing and intensifying support to developing countries that are close to meeting the requirements, and reviewing how the standard for CbC reporting can maximise accessibility for developing countries and protect the confidentiality and appropriate use of sensitive information.
- **Start putting in place the resources and expertise to provide the additional capacity building needed to implement the Two-Pillar Solution.** In some areas, especially the GloBE

rules and their interaction with domestic regimes, such as tax incentives, work can start immediately. In other areas, plans can be formulated now, to enable the support that will be needed as developing countries go through the legal and practical implementation of new standards.

- **Commission further work to assess opportunities for tax policy to support the achievement of the SDGs.** This should seek to identify the range of resources that already exist, as well as prioritising further needs, including supporting countries in building up their tax policy analysis capacity, and where further multilateral dialogue is needed.
- **Commission further work on how the G20 can collaborate with all jurisdictions, especially developing countries, to support efforts to digitalise tax administration**. This should consolidate existing knowledge and experience of countries as well as the OECD and its partners, regional tax organisations and the Forum on Tax Administration (FTA) with the aim of supporting developing countries to capitalise on advances in technology to drive transformative change in the efficiency and effectiveness of tax administration.

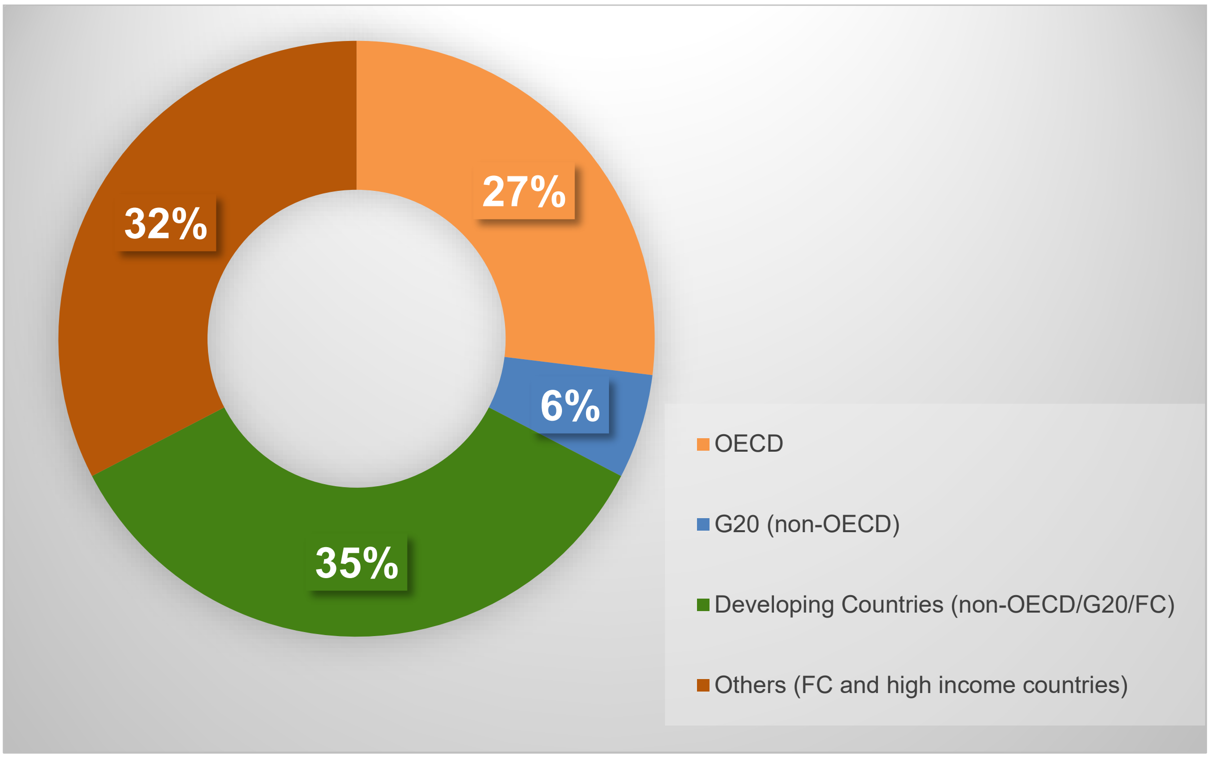
1 Progress on developing countries' engagement in the OECD/G20 Inclusive Framework on BEPS

This chapter provides an update on the progress made through the participation of developing countries in the Inclusive Framework. The 2021 Report included a stocktake on progress as at 1 June 2021. This report now provides an update as at 1 June 2022. It starts with an overview of the Inclusive Framework membership, followed by an examination of the extent to which developing country members of the Inclusive Framework have implemented the BEPS actions, focusing on developments occurring in the past year. It examines progress on the BEPS minimum standards and then moves through the remaining BEPS Actions that have been prioritised by developing countries. The analysis considers not only the benefits accruing to developing countries but also the remaining barriers they face.

1.1. Developing Countries and the OECD/G20 Inclusive Framework on BEPS

The Inclusive Framework is now 141 members strong, with Togo having joined in August 2021 and Mauritania in November 2021. Forty-nine, or over one-third (35%) of the members are low or middle income countries that are not members of the OECD or G20 and are not considered to be financial centres (see Figure 1.1.).

Figure 1.1. 141 Members of the OECD/G20 Inclusive Framework on BEPS

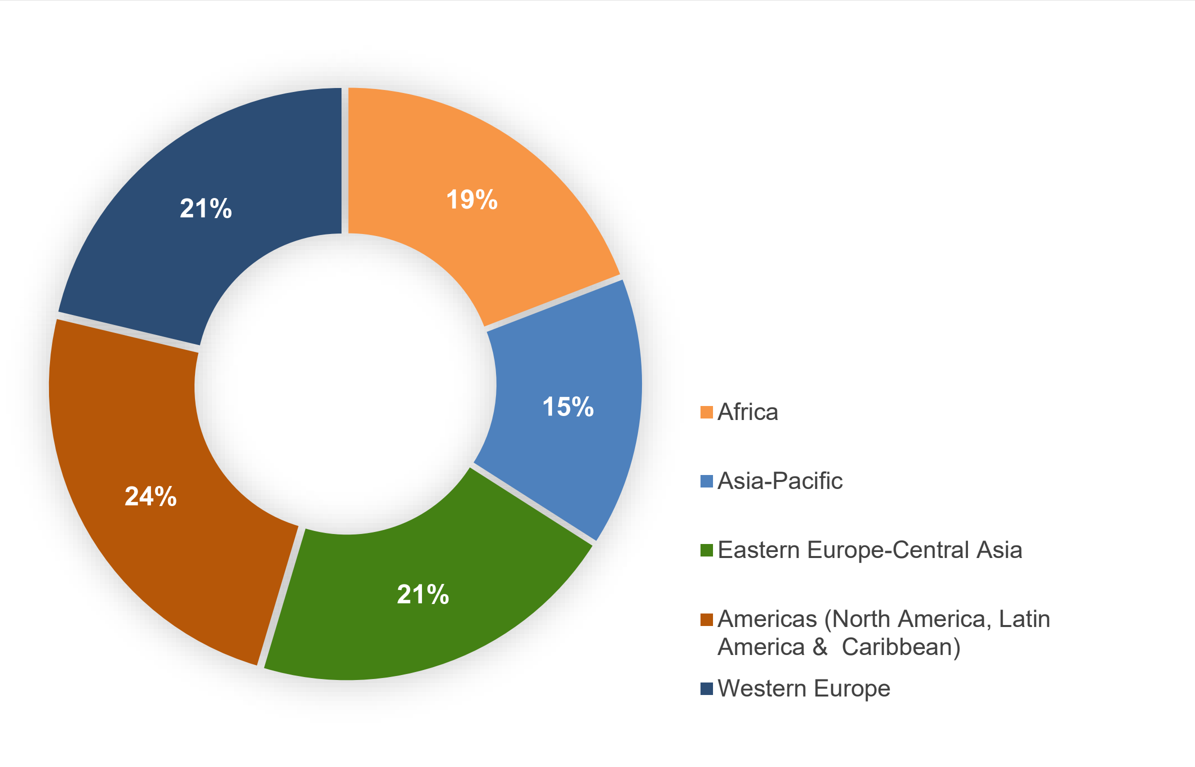


Source: OECD.

The membership of the Inclusive Framework is also regionally balanced, with members[1] from all geographic regions of the world (see Figure 1.2). While the Steering Group[2] of the Inclusive Framework has, from its inception, reflected this geographic balance, in 2022 Marlene Nembhard-Parker of Jamaica was elected as a co-chair of the group, the first time that a developing country member has been elected to such a position (see Section 2.4).

[1] A list of Inclusive Framework members can be found at: https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf.

Figure 1.2. Regional composition of the OECD/G20 Inclusive Framework on BEPS



Source: OECD.

1.2. BEPS minimum standards

The following section examines the progress made by developing countries in implementing the BEPS minimum standards. Unless otherwise indicated, this stocktake takes into account progress made by non-OECD, non-G20 developing countries that are not financial centres as at 1 June 2022.

Action 5: Preferential tax regimes; Transparency framework

The Action 5 minimum standard consists of three elements; two of which are relevant to developing countries that are not financial centres, and are therefore examined here. The first relates to preferential tax regimes, the second requires jurisdictions to exchange relevant information relating to taxpayer-specific rulings. For this action, the progress of developing countries in relation to preferential tax regimes as reported at the April 2022 Forum on Harmful Tax Practices (FHTP) meeting, but published in July 2022, has been used.

Developing countries are continuing to play their part in strengthening the international tax system by ensuring that they do not retain or introduce harmful preferential tax regimes. Some 30% of all regimes reviewed by the FHTP since the start of the BEPS project have been in developing countries. Where their regimes have been found to have harmful features, developing countries have acted to amend or abolish such regimes, or are engaged in ongoing discussions (see Box 1.1.).

The majority of developing countries now receive information on tax rulings issued abroad, better equipping them to conduct risk assessments and identify situations of double non-taxation or tax avoidance (see Box 1.2.).

However, based on the review undertaken in December 2021, using the latest available data (from 2020), only two developing countries have so far provided tax ruling information to other jurisdictions under the transparency framework. (Only one developing country was in a position to provide tax ruling information to other jurisdictions the previous year.) This asymmetry may be, in part, because developing countries are less likely to have legislation and administrative practices in place to issue tax rulings that fall within the scope of the transparency framework.

In the December 2021 review, 491 exchanges of information on tax rulings by two developing countries were found to have taken place in 2020, out of a total of around 5000 exchanges globally. The same two countries provided 607 exchanges of information on tax rulings over the four-year period from 2017-2020.

Box 1.1. Action 5: Preferential tax regimes

Since the start of the BEPS project, developing countries accounted for:

- 42 of 181 (23%) of regimes abolished/ amended (This compares to 37 of 162 regimes or 23%, reported in the 2021 Report)
- 95 of 319 (30%) of regimes reviewed (Compared to 79 of 295 or 27% in the 2021 Report)

Source: OECD, based on the review of the implementation of the BEPS package as at 27 July 2022.

Box 1.2. Action 5: Transparency framework for exchange of information on tax rulings

- 28 developing countries (57%) received at least one ruling in 2020
- 32 developing countries (65%) received information on tax rulings at least once in the last 4 years for which information is currently available, i.e. 2017-2020
- 15 developing countries (31%) received information on tax rulings every year in the past 4 years for which information is currently available, i.e. 2017-2020

Source: OECD, as at the review of the implementation of the BEPS package undertaken in December 2021.

Action 6: Preventing treaty abuse

BEPS Action 6 addresses treaty shopping and requires jurisdictions to amend their bilateral double tax agreements. The MLI is one way of efficiently updating bilateral agreements to close these loopholes.

Progress by developing countries in the year to June 2022 to prevent treaty abuse has been steady. As was noted in the 2021 Report, many developing countries advise that the process towards the signature and ratification of the MLI can be lengthy (see Box 1.3.). Despite this, over 500 double tax treaties where at least one partner is a developing country have now been made compliant with the Action 6 minimum standard, either via the MLI or bilateral negotiations.

Box 1.3. Action 6: Prevent treaty abuse

- 27 developing countries (55%) have now signed the MLI (Compared to 24 developing countries as reported in the 2021 Report)
- 14 developing countries (29%) have ratified the MLI, and all have now entered into force (Compared to 11 in 2021)
- One additional country indicated an interest in signing the MLI

Source: OECD, as at June 2022

Moreover, among the 47 developing countries peer reviewed under the Action 6 minimum standard in 2021, 30 (64%) have no recommendations, meaning they have either fully implemented the standard through the ratification of the MLI or via bilateral negotiations, or they have developed a plan for the implementation of the minimum standard in their agreements. Recommendations have been issued for 17 developing countries where the MLI has been signed but has not yet entered into effect and / or where a plan (or an updated plan), for the implementation of the minimum standard has not yet been provided.

Action 13: Country-by-country reporting

Developing countries continue to report significant challenges in meeting the country-by-country (CbC) reporting requirements. Progress is moderate and the majority of developing countries in the Inclusive Framework still do not have access to CbC reports filed abroad (see Box 1.4.). Five developing countries are now able to receive CbC reports from abroad, up from just three in 2021. Developing countries continue to report that the multiplicity of the Action 13 minimum standard requirements can be a significant barrier to progress. In addition, a number of countries have noted that a lack of treaty-based exchange relationships means that their access to CbC reports for key MNEs operating in their jurisdiction may be limited even once they meet all of the requirements under the minimum standard.

In spite of these barriers, a significant number of developing countries are introducing domestic legislation providing for CbC reports, demonstrating that they consider CbC reports to be an important tool. Feedback from smaller developing countries indicates, however, that while domestic requirements to file a CbC report are required under the minimum standard, such requirements are considered to be redundant in practice due to the absence of locally-headquartered MNEs meeting the CbC reporting threshold. That is, the domestic legislation is required solely for the purpose of meeting the minimum standard and would otherwise have no practical effect.

Box 1.4. Progress on Action 13

- 43 developing countries have undergone a peer review for Action 13
- 23 developing countries (47%) have domestic legislation in place (15 in 2021)
- 37 developing countries (75%) have signed the Multilateral Convention on Mutual Administrative Assistance (MAAC) (33 in 2021), while 32 (65%) have ratified it (28 in 2021)
- 12 developing countries (24%) have signed the multilateral competent authority agreement on the exchange of CbC reports (CbC MCAA) (an increase of 1 from 2021)
- 9 developing countries (18%) have passed the confidentiality assessment under the Automatic Exchange of Information standard (3 in 2021)
- 5 developing countries (10%) have activated relationships under the CbC MCAA allowing for reciprocal exchange of CbC reports (3 in 2021)

Source: OECD.

Action 14: Improving dispute resolution

As was reported in 2021, a large majority of developing countries have very limited numbers of Mutual Agreement Procedure (MAP) disputes and as such are eligible to defer their Action 14 peer review. Indeed, 43 developing country Inclusive Framework members (88%)[3] have opted for a deferral.

1.3. Other BEPS actions

The remainder of this section examines developing countries' progress on selected other BEPS actions that developing countries report to be priorities.

Action 1: Effectively taxing the digitalising economy

Effectively taxing the digitalising economy (BEPS Action 1) is a key priority for developing countries. Almost all developing country Inclusive Framework members have aligned themselves with the October 2021 Statement on a Two-Pillar Solution which would re-allocate a portion of residual profits of the largest and most profitable MNEs to the markets in which they operate, and introduce a global minimum tax.

Developing countries are continuing to have a material impact on the development and implementation of detailed rules under the Two-Pillar Solution (see Box 1.5.).

[3] This percentage has increased slightly from 2021 as two additional developing countries have since joined the Inclusive Framework. Both have opted to defer their Action 14 peer review.

Box 1.5. Developing countries' influence on the Two-Pillar Solution

Developing countries had a material impact on the terms of the high level agreement for a Two-Pillar Solution reached by Inclusive Framework members last year, and continue to influence the evolution of those rules. While the rules are yet to be finalised, examples of developing countries' input can be seen in areas listed below.

Pillar One: Amount A

- A broader scope and simplified design to the exclusion of extractive activities, helping to prevent the re-allocation of economic rents associated with extracted commodities; and minimising the need for complex segmentation.
- Low nexus threshold, with no 'plus factors' meaning smaller developing economies are more likely to benefit from Amount A.
- The averaging mechanism for determining whether an MNE is in scope for Amount A strikes a balance between providing stability and ensuring that MNEs are not inappropriately kept out of scope.
- Stricter time limitations on the carry-forward of losses limiting any long-term reduction in Amount A allocation, while still providing a reasonable period for MNEs to recoup economic losses.
- De minimis thresholds proposed or under consideration for the elimination of double tax mechanism and application of the marketing and distribution safe harbour.
- While strong tax certainty measures have been incorporated into Amount A, certain developing countries will be eligible for elective dispute resolution mechanisms for issues related to Amount A.

Pillar One: Amount B

- Developing countries are having an important influence on the Amount B discussions to ensure that it responds to their needs. Amount B aims to simplify the application of the transfer pricing rules to in-country baseline marketing and distribution activities and seeks to address capacity constraints and the lack of locally available comparables in many developing countries.

Pillar Two: Global Anti-Base Erosion (GloBE) rules

- Scope of the GloBE rules is broader than that for Amount A, with a consolidated annual revenue threshold of €750 million, similar to that which applies for CbC reporting.
- Jurisdictional, rather than global blending is used for the effective tax rate calculation.
- A substance-based, mechanical approach to allocation of any top-up taxes due under the UTPR.
- Confirming the importance of a (mechanical) substance-based carve-out, with a ten-year transition period, allowing countries to continue to offer incentives to attract real foreign direct investment.
- Each constituent entity of an in-scope MNE would be required to file a GloBE information return with its local tax administration by default. This requirement is 'switched off' and central filing allowed, only where the local jurisdiction has access to the return via exchange of information mechanisms.
- Developing countries have welcomed the explicit mention of Qualified Domestic Minimum Top-up Taxes to complement the GloBE rules, and identified the need for further guidance on these.

Pillar Two: Subject to Tax Rule (STTR)

- Developing countries continue to emphasise the importance of the STTR as an essential component of the Two-Pillar Solution.

Source: OECD.

In December 2021, the Inclusive Framework published model rules setting out the detailed application of the GloBE provisions. These rules will provide for a common approach to the application of a global minimum tax under the Two-Pillar Solution. Commentary and examples to complement the rules were released in March 2022. Developing countries had a significant influence on many of the key parameters of the GloBE rules, including in particular, the importance placed on the substance-based income exclusion mechanism, including its ten-year transition period, and the substance-based, mechanical approach to allocation of any top-up taxes collected under the UTPR mechanism. In addition, developing countries have welcomed the explicit mention in the GloBE rules of complementary Qualified Minimum Domestic Top-up Taxes. Importantly, these would have the effect of allowing source countries to have the first right to any top-up taxes due on low taxed income in a jurisdiction, rather than that right defaulting to the country of residence of the ultimate parent of the MNE group under the IIR. On the administrative side, the model rules allow for default local filing of GloBE information returns meaning that developing countries should not face the same barriers in accessing GloBE information returns as have been experienced by many in relation to CbC reports.

Feedback from many developing country Inclusive Framework members indicates that their detailed consideration of the implementation of the GloBE rules is focusing attention on the linkages between these rules and existing tax incentive regimes. (See Box 1.6.) Developing countries report that such incentives are seen as an important tool for attracting foreign direct investment. The substance-based income exclusion element of the GloBE rules acknowledges that well designed tax incentives may have a role to play in this. The rules therefore exempt a defined return on tangible assets and payroll expenses, as proxies for substance, from the application of the top-up tax.

Additional support will be needed to help developing countries evaluate tax incentives in light of the GloBE rules. In parallel to this report, the OECD will deliver a report to the G20 providing an economic analysis of how and when different types of tax incentives are affected by the GloBE, including the impact of different design features. The analytical framework set out in the report on tax incentives will form the basis of additional, bespoke technical assistance provided by the OECD to developing countries to support their implementation of the GloBE rules and their evaluation of existing or proposed tax incentives regimes. Initially, this approach will be tested through a number of pilot programmes with developing country Inclusive Framework members that are already actively considering the likely impact of the GloBE rules on their incentives regimes. The

Box 1.6. Pillar Two GloBE rules and tax incentives

- Under the GloBE rules, where a tax incentive reduces a firm’s effective tax rate (ETR) below the minimum rate of 15%, the firm may be subject to a top-up tax on its ‘excess profits’, typically in the parent company jurisdiction.
- The impact of tax incentives regimes which reduce jurisdictional ETRs below 15% may therefore be blunted.
- However, the ‘excess profits’ to which any top-up tax percentage applies are reduced by reference to a firm’s substantive investment in tangible assets and payroll expenses in a jurisdiction. This means that where an incentive results in substantive investment and employment in a jurisdiction, it will be cushioned from the effect of the top-up tax that would otherwise be required under the GloBE rules. Moreover, certain incentive types, such as those which provide accelerated expensing, will also be sheltered from the application of the GloBE rules.
- The GloBE rules create an opportunity to reform domestic tax incentives and increase revenues from otherwise low-taxed profits, for example by instituting a Qualified Domestic Minimum Top-up tax. Such a measure can be deployed to collect taxes that would otherwise be subject to top-up taxes in the parent company jurisdiction (or elsewhere) under the GloBE rules, making them an important tool to increase revenue for developing countries without sacrificing competitiveness. Jurisdiction-specific analysis is required to understand the precise interaction of Pillar Two with different incentive regimes.

pilot programmes would include workshops with developing country officials responsible for tax and incentives policies and administration. Together with technical specialists from the OECD Secretariat, they would examine the range and design of incentives offered, how such incentives are likely to be impacted by the GloBE rules, and the opportunities for future reform of their tax and incentives regimes.

Ensuring Value Added Tax (VAT) / Goods and Services Tax (GST) are collected effectively on continuously growing e-commerce activity has become a priority for many developing countries. VAT/GST often represents one-third or more of total tax revenues in developing countries. The rapid growth of e-commerce, accelerated by the COVID-19 pandemic, poses significant challenges for domestic VAT/GST systems, particularly in lower capacity developing countries. An increasing number of countries have enacted reform to levy VAT/GST on e-commerce based on the internationally agreed OECD VAT/GST standards and guidance, or are in the process of doing so. The implementation of these standards allows developing countries to secure crucial VAT/GST revenues, ensuring a level playing field between e-commerce and traditional businesses, without stifling innovation and economic growth. These standards reflect broad international consensus based on an inclusive global dialogue among countries worldwide, including many developing countries. While most of these reforms have been aimed at the collection of VAT/GST on online sales of services and digital products, countries are now increasingly considering further reform to ensure that VAT/GST is also collected effectively on online sales of low value imported goods, based on OECD standards and guidance.

Action 7: Artificial avoidance of permanent establishment status

Developing countries are continuing to make progress in adopting treaty measures to prevent the artificial avoidance of permanent establishment (PE) status. (See Box 1.7.) As a result of this progress, around 360 double tax agreements now include stronger provisions to help defend against such artificial structures.

Box 1.7. Action 7: Artificial avoidance of PE status

Of 27 developing countries that have signed the MLI:

- 25 developing countries (22 in 2021) have adopted at least one PE-related provision
- 18 developing countries (16 in 2021) have adopted all PE-related provisions

Source: OECD.

Actions 8-10: Transfer pricing

Developing countries are continuing to make progress in implementing the international standards on transfer pricing, supported by sustained capacity building activities. Transfer pricing (addressed in BEPS Actions 8-10) is a significant BEPS risk and is considered by most developing countries to be amongst their highest priorities. Progress in this area is cumulative and typically only becomes evident over the medium to longer term. Illustrations of progress can be seen in the examples from Zambia and Botswana in Box 1.8.

Box 1.8. Impact of sustained capacity building on transfer pricing in two African Inclusive Framework members

Zambia

A long-term transfer pricing technical assistance programme has been provided to Zambia by the African Tax Administration Forum (ATAF)/OECD/World Bank Group (WBG) partnership since 2014. A focus of the work has been on the copper mining sector that accounts for approximately 70% of Zambia's export earnings. The work is in response to the concerns raised by senior officials in both the Zambia Revenue Authority (ZRA) and Ministry of Finance that very few mining companies were paying Corporate Income Tax (CIT) in Zambia.

The technical assistance has helped the ZRA in nearly quadrupling the number of Zambia mining companies paying CIT, from 3 companies in 2016 to 11 companies in 2021, and in achieving a five-fold US dollar increase in CIT paid from 631m Kwacha (USD 63 million) in 2016 to 6.819 billion Kwacha (USD 322 million) in 2021.

Botswana

A long-term transfer pricing technical assistance programme has been provided to Botswana by the ATAF/OECD/WBG partnership since 2014. This programme has provided assistance to the Botswana Unified Revenue Service (BURS) on its transfer pricing dispute with a diamond polishing company, Diacore Botswana, in respect of its controlled transactions with two related foreign entities, Diacore International and Makinson Holdings. The BURS selected the case for audit following Diacore Botswana reporting losses for 2010 to 2014 inclusive. In 2021, the Botswana board of adjudicators ruled in favour of BURS upholding the transfer pricing adjustments BURS made resulting in additional tax of 8 million Pula (approximately USD 0.8 million).

Source: OECD.

1.4. Conclusions

Overall, progress on implementing the original BEPS actions by developing countries has continued at a steady rate. In some areas, such as on addressing harmful tax practices and VAT/GST on e-commerce, there has been significant uptake by developing countries of the international standard. Typically, these have been in areas with discrete (rather than multi-faceted) requirements and where specific, practical guidance or support is available.

In some areas, such as CbC reporting, progress has been more modest. In many cases, this may be explained by the capacity limitations experienced by most developing countries. Competing priorities in developing country Inclusive Framework members as a result of the intensive work to negotiate the details of the Two-Pillar international tax package in the past year, as well as additional stresses placed on the resources of many countries as a result of the COVID-19 pandemic have exacerbated the effects of capacity limitations.

2 Update on recommendations

This chapter sets out progress made to date on recommendations included in the 2021 Report. Those recommendations are reproduced at Annex A.

2.1. Overarching recommendation for sustained dialogue and assessing progress

Two ministerial level events on tax and development have been held since the 2021 Report recommended additional ministerial dialogue with developing countries and interested G20 members. This recommendation was aimed at monitoring progress at high political levels, and examining the work and priorities of the Inclusive Framework in the context of wider strategic issues of importance to developing countries. The first event was a Ministerial Roundtable hosted by the Minister of Finance of Jamaica, the Hon. Nigel Clarke in November 2021, and the second was convened by the Indonesian G20 Presidency, a Ministerial Symposium on Tax and Development, held in Bali on 14 July 2022.

Ministers at both events stressed the importance of ensuring developing countries benefit from their participation in the Inclusive Framework and other international tax forums such as the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum). This is an essential element to ensure all members continue to advance together to create robust international tax standards that are fit for purpose and will stand the test of time.

Additional support in the form of bespoke technical assistance and capacity building was identified as a top priority by Ministers at both events. Feedback from developing countries at consultation events has underlined the importance of assisting developing countries to participate in the ongoing standard-setting discussions, as well as in the practical implementation of international tax and transparency standards already established.

Many Ministers also pointed to the importance of improvements in governance and strengthening of regional networks to amplify the voices of developing countries in the standard-setting process.

2.2. Recommendations on international norms and guidance: making the BEPS agenda more effective for developing countries

In this section, recent progress on recommendations identified in the 2021 Report relating to international tax norms and guidance are set out. These recommendations covered CbC reporting, guidance on base eroding payments, and guidance on the taxation of natural resources.

2.2.1. Country-by-country reporting

The 2021 Report recommended[4] further reflection on CbC reporting. Since then, most developing countries remain unable to receive CbC reports from abroad. While an additional two developing countries have gained access to CbC reports since last year, this only brings the total number of developing countries with access to five. Feedback from countries indicated that this is due in part, to the multiplicity of requirements that must be met as a pre-condition under the minimum standard (see Box 2.1.).

Improving developing countries' access to, and use of, CbC reports was raised as a priority by Ministers at the Roundtable in November 2021 as well as at the Symposium on Tax and Development in July 2022. At both events, Ministers supported ramping up capacity building support to address this issue. Ministers noted that capacity building should aim not only to support developing countries to meet the requirements of the CbC standard, but also to benefit from CbC report information. The latter requires a holistic approach aimed at supporting the effective and efficient use of CbC report data for risk assessment, as well as following through on such risk assessments to effective transfer pricing compliance activities.

Box 2.1. Elements of the CbC minimum standard

In order to meet the CbC reporting minimum standard, a jurisdiction must have:

- Domestic legislation requiring local MNEs that meet the CbC threshold to file a CbC report
- A signed and ratified treaty instrument which provides for exchange (e.g. MAAC)
- A concluded CbC competent authority agreement (e.g. the CbC MCAA) with activated relationships, on a reciprocal basis
- Passed the confidentiality assessment on a reciprocal basis (based on the Automatic Exchange of Information (AEOI) standard)
- Been assessed as having controls in place to ensure appropriate use of CbC reports

Source: OECD.

The OECD and Global Forum Secretariats are enhancing and focusing capacity building efforts. Countries that already have several of the elements for access to reports in place, have been identified and are being offered targeted assistance to complete the remaining elements expeditiously. Progress has also been made in developing additional tools to support the effective use of CbC report data. Following the issue of a Handbook on Effective Tax Risk Assessment,[5] the OECD has developed a Tax Risk Evaluation and Assessment Tool ("TREAT") which provides a highly accessible tool for lower capacity countries to manipulate and evaluate available CbC report data. Capacity building support on the use of the tool is also underway.

In addition to capacity building support, further consideration should also be given to how the standard for CbC can ensure accessibility to developing countries whilst protecting the confidentiality and appropriate use of sensitive information. Without such consideration the number of developing countries which will be able to access CbC reports filed abroad in the short to medium term is likely to remain limited.

Limitations in existing treaty-based exchange networks have also been identified as a barrier to accessing CbC reports from abroad. In this respect, it should be noted that the original Action 13 Report stated that jurisdictions are "encouraged to expand the coverage of their international agreements for exchange of information", and committed to monitoring the effectiveness of the filing and dissemination mechanisms included in the standard (OECD, 2015).

[4] See Recommendation 1, reproduced in Annex A.

[5] https://www.oecd.org/tax/beps/country-by-country-reporting-handbook-on-effective-tax-risk-assessment.htm.

2.2.2. Tackling base eroding payments

Feedback from developing countries has identified base-eroding payments such as excessive interest deductions, royalties, management and service fees, as a challenge. The 2021 Report recommended[6] the development of additional guidance and other tools to help deal with such payments. The Platform for Collaboration on Tax (PCT) is discussing the possibility of developing a toolkit that would provide guidance and tools addressing these issues, tailored to the needs and capacities of developing countries.

2.2.3. Supporting effective and efficient taxation of natural resources

Given the importance to many developing countries of effective and efficient taxation of natural resources, the 2021 Report recommended[7] the development of additional guidance. The OECD and the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) have agreed to prepare a series of guidance notes to support efficient and effective taxation in the extractives sector. Progress has commenced on several of the six guidance notes to be finalised in the coming two years, starting with notes on mineral pricing, transfer pricing and profit allocation relating to commodity marketing hubs, and the taxation of offshore indirect transfers in natural resources (building on the PCT toolkit).

2.3. Recommendations on capacity building and technical assistance

2.3.1. Capacity building support to the implementation of the Two-Pillar Solution

The effective implementation of the Two-Pillar Solution in developing countries will be essential to ensure their continued active engagement in the Inclusive Framework. The Detailed Implementation Plan that was part of the 2021 October Statement[8] included a commitment that bespoke technical assistance would be available to developing countries to support all aspects of implementation.[9] Further, the provision of capacity building support to adopt and implement the Two-Pillar Solution was also a priority recommendation[10] of the 2021 Report. There has been near-universal recognition of the importance of such capacity building and technical assistance, and this will require sustainable financing in the coming years.

The OECD is ramping up bespoke capacity building and technical assistance to developing country Inclusive Framework members to support their implementation of the Two-Pillar Solution. The current focus is on supporting countries to actively participate in the negotiation of the details of the Two-Pillar Solution. This is being done on an *ad hoc* basis bilaterally, as well as through a range of multilateral and regional events. As the rules and instruments for the implementation of the Two-Pillar Solution are finalised, support will turn towards more bespoke assistance on a regional and bilateral basis to implement

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[6] See Recommendation 2, reproduced in Annex A.

[7] See Recommendation 3, reproduced in Annex A.

[8] See www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf.

[9] This aspect was also noted by G20 Finance Ministers and Central Bank Governors, for example in paragraph 4 of the Communiqué issued following their meeting on 17-18 February 2022, https://g20.org/wp-content/uploads/2022/02/G20-FMCBG-Communique-Jakarta-17-18-February-2022.pdf.

[10] See Recommendation 4, reproduced in Annex A.

the rules into domestic law and to facilitate timely signature and ratification of the necessary legal instruments. Finally, assistance in putting the rules into practice will also be required.

Building on the strong success of the existing capacity building programmes,[11] the technical assistance plan will be delivered through a number of modalities.

- **Regular briefings / updates** to keep members informed of developments and provide an opportunity to give feedback and ask questions. Building on the regional consultations held in the lead-up to the 2021 July and October Statements, five consultations were held in January 2022 which brought together 675 delegates from 124 jurisdictions, and a further round of regional events took place in May/June 2022 which brought together 584 delegates from 117 jurisdictions, including 87 Inclusive Framework members. Ongoing information on the economic impact of the reforms is being provided to countries, including through the provision of bespoke country-specific revenue estimation tools for Amount A.
- **Training on the requirements of Pillars One and Two, and in-depth seminars on specific aspects**. The OECD Global Relations Programme on Tax has delivered three virtual classes on the "Tax challenges and opportunities arising from digitalisation" covering the Two-Pillar Solution. Three further classes on this topic will be delivered in the second half of 2022. In addition, Q&A sessions will be scheduled to address specific questions that may arise with regard to the topics covered in the virtual classes and recorded webinars.
- **Helpdesk for the Asia Pacific region**, to give developing countries additional direct, regular access to technical specialists on Pillars One and Two, as well opportunities to exchange views with peers, and share best practices. The Helpdesk, a joint initiative with the Asian Development Bank (ADB), will be launched in late 2022 with the goal of deepening the technical capacity of developing country officials. This will, in turn, support the participation of those countries in the ongoing development of the detailed rules under the Two-Pillar Solution, and will allow countries to leverage the expertise of their own officials to build capacity in the medium and longer term.
- **Bilateral assistance, including a new round of refreshed induction programmes.**[12] The formal launch of refreshed induction programmes will take place once the rules for the Two-Pillar Solution are finalised, but discussions with Inclusive Framework members on an *ad hoc* basis as well as the input received from the regional consultations show a high demand for this type of assistance. An initial pilot event in Malaysia, focusing on the GloBE rules and tax incentives elements, was conducted in June 2022 (see Box 2.2.). The refreshed programmes will include an

Box 2.2. GloBE and tax incentives: Pilot event, Malaysia

- At the request of the Inland Revenue Board of Malaysia and the Malaysian Ministry of Finance, the OECD conducted a two-day pilot workshop in June 2022 to consider the likely impact of the GloBE rules on Malaysia's tax and tax incentives regimes.
- The workshop brought together technical specialists, policy-makers and administrators, as well as stakeholders from incentives agencies to discuss the operation of the GloBE rules and the interaction with various tax incentive design features. Complementary measures such as the Qualified Domestic Minimum Top-up Tax were also discussed.

[11] See *Tax Co-operation for Development: Report on 2021* for more information on the OECD's work with developing countries on tax matters: www.oecd.org/tax/tax-global/tax-co-operation-for-development-progress-report-on-2020.pdf.

[12] See discussion of induction programmes generally at section 2.3.3.

analysis of the likely impact of the GloBE rules on countries' domestic tax policy, in particular on the policies and design of tax incentives (see also section 1.3). In addition, developing countries will be provided with support in addressing policy and implementation questions such as ensuring consistent implementation of the rules once they have been agreed. For example, this could include supporting developing countries to implement GloBE rules or Qualified Domestic Minimum Top-up taxes that are consistent with the common approach. A series of pilot programmes are scheduled to be launched in the last quarter of 2022. See also section 2.3.3 on the benefits of high-level engagement that induction programmes can provide to support implementation.

- **E-learning and other knowledge resources.**[13] The OECD Global Relations Programme on Tax has produced a video capsule on the background to the project to address the tax challenges of the digitalisation of the economy, as well as several recorded webinars providing an overview for each of the pillars. Additional webinars are being prepared on some of the building blocks of Pillar One and on the scope and the key operative aspects of the GloBE rules. In addition, the PCT plans to update its toolkit on *Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment*, which was published in 2015, to take account of the latest developments including those on Pillar Two.

- **Tax Inspectors Without Borders (TIWB) programmes to support practical implementation of Pillars One and Two.** TIWB is assessing the opportunity to support developing countries with the implementation of the Two-Pillar Solution. This type of practical assistance will be a priority once the rules have come into effect and tax administrations are facing the challenges of applying them in practice. There may also be scope for TIWB to support work on tax incentives.

Finally, it is important to continue to support work on the implementation of the original BEPS package by developing countries. Sustained capacity building results in good progress. For example, to date, an additional USD 1.7 billion in tax collected and USD 3.9 billion in tax assessed, are attributable to TIWB programmes across Africa, Asia and the Pacific, Eastern Europe, and Latin America and the Caribbean.

2.3.2. Capacity building on taxation of extractive industries

Continuing and expanding capacity building efforts were recommended[14] in the 2021 Report to support resource-rich developing countries to effectively tax profits related to their natural resources. The OECD, in partnership with IGF and regional bodies, continues to provide bespoke technical assistance and capacity building seminars in the high priority extractive resources industries. Three virtual regional training programmes were conducted in 2021 in Latin America and the Caribbean, Africa, and Asia and the Pacific, in partnership with ATAF, the Inter-American Center of Tax Administrations (CIAT) and the ADB. The programmes, each involving a series of seminars conducted over a period of six months, were designed to build knowledge on international taxation and measures to address BEPS through the lens of the extractive sector. In total, 24 modules have been delivered (eight modules per region), reaching around 700 government officials from 48 countries. Importantly, participant retention levels (i.e. the number of participants remaining engaged in all modules over the six-month programme) were exceptional, registering above 85%. Participant satisfaction levels have also been extremely high, with almost all noting that their capacity increased as a result of the training. In collaboration

[13] Available on the Knowledge Sharing Platform: https://ksp-ta.org/#/webinars/recordingsofpastevents. For an overview of all available training products on the Two-Pillar Solution: www.oecd.org/tax/tax-global/training-two-pillar-solution.htm.

[14] See Recommendation 5, reproduced in Annex A.

with IGF, ATAF, TIWB and UNDP, a two-day follow-up workshop was conducted in July 2022, building on the knowledge and experiences of the regional training seminars.

Country-focused engagements are delivered principally through the OECD-IGF "Deep Dive" programmes in six countries – Colombia, Guinea, Mongolia, Papua New Guinea, Ecuador and Zambia (in partnership with ATAF). In addition, the regional training with IGF, ATAF, CIAT and the ADB has continued in 2022, with a new syllabus on BEPS and extractives focusing on the minerals of the future (i.e. minerals used in energy transition and IT).

2.3.3. High level engagement to support implementation

BEPS induction programmes are a useful tool to promote political engagement. The initial phase of the induction programme includes the development of a bespoke roadmap for the country, setting out important priorities and milestones over the course of the multi-year programme. Induction programme launch events have provided useful opportunities to engage with ministers, parliamentarians, parliamentary committees and relevant regulatory authorities in order to raise political awareness and buy-in for reform. 46 developing countries have participated in induction programmes since the establishment of the Inclusive Framework to date. Other opportunities for high-level engagement are also being identified**.** For example the OECD is in dialogue with Ministers in the Caribbean Community (CARICOM) Council for Finance and Planning (COFAP) to discuss international taxation issues, and how they intersect with regional priorities and instruments.

2.4. Progress on recommendations on governance, participation and practicalities of the OECD/G20 Inclusive Framework on BEPS

Following the recommendations[15] identified in the 2021 Report, the Inclusive Framework has made significant governance reforms to increase inclusivity. The 2021 Report noted some of the governance arrangements of the Inclusive Framework could be adjusted to better reflect the diverse membership, and to better facilitate the engagement of capacity constrained members.

The Inclusive Framework now has two co-chairs, with one from a non-OECD/non-G20 economy. In March 2022,[16] the Inclusive Framework announced the election of Marlene Nembhard-Parker of Jamaica as its inaugural co-chair to help amplify the voices of developing countries. In this role, Ms Nembhard-Parker also sits on the Steering Group of the Inclusive Framework.

Further, in December 2021, the mandate for the Advisory Group for Global Dialogue on Tax Matters was updated in light of changes in the international tax landscape and to keep pace with the work of the Inclusive Framework. Its new role will help developing countries to further engage in, contribute to, and benefit from the work of the Inclusive Framework. Importantly, the Advisory Group brings together developed and developing countries to exchange views, and acts as a platform to support developing countries' inputs to the work of the Inclusive Framework.

Relationships with regional tax organisations and development banks are being strengthened and intensified, with consultation and capacity building events being planned on a more systematic and frequent basis. A number of regionally-based initiatives, such as regional consultation events and the Asia-Pacific Helpdesk, are noted above.

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[15] See Recommendations 7 and 9, reproduced in Annex A.

[16] www.oecd.org/countries/jamaica/jamaica-s-marlene-nembhard-parker-appointed-co-chair-of-oecd-g20-inclusive-framework-on-beps.htm.

Most meetings and regional events continue to be convened on a virtual basis However, given the benefits of face-to-face interactions, particularly for complex multilateral negotiations, in-person meetings are now also being organised. In such cases, hybrid attendance continues to be made available to help ensure all Inclusive Framework members can actively participate.

Finally, responding to demand from developing countries, an increasing number of the OECD's knowledge products, such as e-learning modules and other online tools are now available in languages other than English, in order to improve their accessibility (see Figure 2.1.).

Figure 2.1. OECD knowledge products (webinars, e-learning modules) available in languages other than English, as at August 2022

Topic	English	French	Spanish	Arabic
Transfer Pricing	6	3	3	(1)*
Treaties	3	1	1	(1)*
Other BEPS	4	3	3	
Two-Pillar Solution	6	(2)*	1 (1)*	(2)*
Exchange of Information (with Global Forum)	4	3	3	
Confidentiality and Data Safeguards (Global Forum)	2	2	2	
VAT/GST	3	(3)*	2	(1)*
Covid	2		1	
Tax and Crime	3	1	1	
Other	2	1	1	

* Figures in parentheses indicate additional products currently under development

Source: OECD.

2.5. Multilateral dialogue on issues beyond BEPS

The final recommendation[17] made in the 2021 Report was to encourage consideration of developing countries' priorities for multilateral dialogue to address tax issues beyond BEPS.

The Inclusive Forum on Carbon Mitigation Approaches announced in June 2022 aims to facilitate an evidence-based multilateral exchange of information about the different efforts around the world to reach net zero emissions. Over time, better data and information sharing about the comparative effectiveness of different carbon mitigation approaches and the sharing of best practices will help inform better policy decisions. This Inclusive Forum is designed to help secure a globally more coherent and better co-ordinated approach to carbon mitigation. Informed and facilitated by technical and objective analysis, it will help ensure the global effectiveness of combined carbon mitigation efforts by working to avoid any counterproductive negative spill-overs. In joining the Forum, developing countries may benefit

[17] See Recommendation 10, reproduced in Annex A.

from access to information about the experiences of other jurisdictions on carbon mitigation approaches. Moreover, since developing countries are typically more vulnerable to the impacts of climate change, their participation in the Forum may also help to build momentum for more effective and more ambitious action around the world.

International organisations are also strengthening their dialogue on environmental taxation. The PCT partners have established a work stream on environmentally related taxation to build on the existing participation across committees and/or reference groups. This enhanced collaboration will initially focus on comparing the data and definitions that the PCT partners use for carbon pricing, which will help to achieve convergence in approaches across the respective organisations.

3 Roadmap for further co-operation with developing countries

3.1. Introduction

The final section of this report sets out a Roadmap to guide further progress on issues identified as priorities by Ministers at the Roundtable (in November 2021) and G20 Symposium on Tax and Development (in July 2022), as well as through bilateral and regional consultations with developing countries conducted by the OECD Secretariat during 2022. The highest of these priorities include:

- Maintaining and accelerating progress on implementing priority BEPS actions, in particular CbC reporting, to ensure developing countries can benefit from them;
- Supporting the implementation of the Two-Pillar Solution;
- Exploring other priority areas for multilateral co-operation with developing countries, with a particular focus on tax and SDGs.

For each of these priorities, the report identifies specific areas of importance for developing countries, and actions already being undertaken by them, followed by a Roadmap of actions that could be pursued by interested G20 members and other stakeholders.

3.2. Roadmap to ensure developing countries benefit from implementing BEPS actions, particularly country-by-country reporting

Ministers from developing countries and the G20 have emphasised the importance of ensuring developing countries benefit from their participation in the Inclusive Framework and their adoption of international tax and transparency standards. While developing countries are continuing to make progress in implementing the BEPS actions, the pace of that progress has been moderate. Developing countries are continuing to weigh the potential benefits of implementing the BEPS actions. Seven years on from the publication of the BEPS final reports, and six years since the establishment of the Inclusive Framework, only five developing countries are able to access CbC reports filed abroad. A flagship element of the BEPS project, CbC reports can be an important tool for assessing transfer pricing risk, which is consistently identified as among the most significant international tax risks by developing countries. Ministers at the Roundtable and Symposium highlighted this element as a critical issue for developing countries.

Feedback from developing countries has identified a range of both ‘push’ and ‘pull’ factors impeding progress on implementing the Action 13, CbC, minimum standard. Capacity-constrained developing countries rationally weigh up the resource costs of implementing any new measure against the associated anticipated benefits. Many developing countries advise that the cost of putting in place the various elements required to meet the minimum standard (see Box 2.1.) is high. Meanwhile, if the country lacks capacity to effectively use CbC information, the anticipated benefits are likely to be minimal. The

Advisory Group for Global Dialogue on Tax Matters[18] has identified as a priority improving capacity and expertise on the practical use of CbC information. Improving capacity to benefit from access to other information that would be gained once the country is able to meet the AEOI standard would also be relevant.

While additional capacity building support would be useful, some developing countries and some G20 Ministers are also calling for further consideration of the Action 13 minimum standard and whether it is best suited to the objectives of allowing for appropriate access to CbC reports, while also safeguarding confidential commercial information. Without such consideration, the number of developing countries which will be able to access CbC reports filed abroad in the short to medium term is likely to remain limited. For example, some developing countries question whether CbC reports should only be able to be exchanged under AEOI mechanisms or whether instead, treaty partners could provide such information spontaneously or on request. Similarly, while recognising the potential commercial sensitivity of CbC report information, some question whether the safeguards built in to the AEOI standard, developed to protect large volumes of sensitive personal financial information, are best suited to CbC reports. Other countries view the current safeguards and limitations on access as fundamental to the agreement that made the Action 13 minimum standard possible.

Interested G20 countries and other Inclusive Framework stakeholders could:

- **Support developing countries to assess the potential benefits of remaining BEPS actions and provide ongoing assistance accordingly**. For example, developing country jurisdictions with transfer pricing compliance programmes and capacity, and existing treaty networks, advise that the additional information contained in CbC reports could be very beneficial in helping to undertake risk assessments to appropriately focus scarce transfer pricing compliance resources. Such countries are likely to benefit most from accessing CbC reports filed abroad.
- **Support the timely integration of guidance on effective use of exchanged information, particularly CbC reports, into capacity building programmes**, to help developing countries to weigh the costs and benefits of implementing the Action 13 minimum standard.
- **Support developing countries that prioritise access to CbC reports to identify the remaining requirements under the Action 13 minimum standard and to build capacity to meet those requirements**.
- **Together with developing countries, consider how the standard for CbC reporting** can maximise accessibility for developing countries and protect the confidentiality and appropriate use of sensitive information.
- **Together with developing countries, explore potential stop-gap measures** such as encouraging spontaneous exchange of CbC reports where appropriate.[19]
- **Provide adequate (resources for) capacity building support for developing countries to continue to implement other BEPS actions and international best practices they identify as**

[18] See https://www.oecd.org/tax/tax-global/statement-of-outcomes-advisory-group-for-dialogue-on-tax-matters-meeting-8-april-2022.pdf.

[19] For example, some jurisdictions may consider spontaneous exchange to be appropriate where the requirements under the Action 13 minimum standard are satisfied (i.e. domestic legislation, a relevant exchange instrument, and appropriate confidentiality and safeguards) other than the necessary CbC competent authority agreement between the countries, and the countries have agreed to the limitations and procedures in the Model CbC Reporting Competent Authority Agreement for any CbC reports so exchanged, in particular on the appropriate use of CbC reports.

priorities, such as on transfer pricing, VAT/GST on e-commerce and the effective taxation of extractive industries.

3.3. Roadmap on supporting implementation of the Two-Pillar Solution

Developing countries will focus their engagement in ongoing negotiations to implement the Two-Pillar Solution in areas where they anticipate the best DRM return, such as Amount B and the STTR. On Amount A, feedback from developing countries indicates that their highest priorities include understanding the estimated impact of the measures on their tax revenues.

For elements of the Two-Pillar Solution which have been stabilised such as the GloBE rules, developing countries are assessing how those rules are likely to impact on, and interact with existing domestic regimes and policies, particularly tax incentives, without sacrificing competitiveness. Since these elements are either less novel, and/or more fully defined than other elements of the Two-Pillar Solution, there is scope for capacity building and support to make a significant difference to the participation of developing countries in the implementation process.

Bespoke technical assistance and capacity building support will be essential for developing countries to implement the Two-Pillar Solution agreed by the Inclusive Framework. This was reflected in the Detailed Implementation Plan[20] released together with the October Statement, and has been consistently underlined by developing countries and G20 Ministers alike. Implementation of the high-level agreement set out in the October statement encompasses the following phases:

1. Finalising the detailed rules;
2. Putting those rules into legal effect via domestic and international legal instruments, supported by administrative guidance and procedures; and
3. Ensuring effective implementation in practice, i.e. compliance with the rules once they come into effect.

3.3.1. Phase 1: Finalisation of the rules

Developing countries, particularly those with the least capacity, consistently report that the pace of discussions and complexity of the measures under the Two-Pillar Solution (especially Amount A and the GloBE rules) creates challenges for them to actively participate in the negotiation process. Given that one of the main aims of the Two-Pillar Solution is to prevent the proliferation of unco-ordinated unilateral measures and ensure a level playing field, it is essential that developing countries' perspectives are taken into account in the negotiation process and that their priorities and constraints are reflected in the agreed measures. Developing countries have prioritised engagement in developing Amount B, which has the potential to bring about significant simplification and domestic resource mobilisation benefits.

Interested G20 and other Inclusive Framework stakeholders could:

- **Continue to support actions to help amplify the voices of developing countries in the negotiations.** In response to the recommendations of the 2021 Report on the governance of the Inclusive Framework, actions already taken have included the appointment of a developing country representative as co-chair of the Inclusive Framework, the re-invigoration of the Advisory Group for Global Dialogue on Tax Matters, and the strengthening of regional engagement.

[20] See Annex to the October Statement, www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf.

- **Support stronger, more systemic engagement with regional partners** as an effective way to raise awareness of current issues and allow developing countries to exchange views with peers and contribute to negotiations.
- **Continue to prioritise the progression of the work on Amount B and the STTR, as well as ensuring developing countries receive timely economic impact analyses, in particular on Amount A.**

3.3.2. Phase 2: Legal implementation

Developing countries are already considering the likely impact of the GloBE Rules, published by the Inclusive Framework in December 2021. In particular, countries are evaluating whether they should implement these rules and if so, on what time frame. In addition, countries are focusing on related policy options given the expected impact on their tax systems and incentives regimes of other jurisdictions implementing the GloBE rules. In the near term, developing countries are ramping up, or will need to ramp up political engagement to ensure appropriate policy choices can be considered and enacted.

Meanwhile, developing countries are also engaging in the Inclusive Framework discussions on administrative frameworks needed to support practical implementation of the published rules. These contributions are particularly important given the unique capacity constraints faced by developing country administrations.

Interested G20 and other Inclusive Framework stakeholders could:

- **Support developing countries including through high-level engagement, in adopting necessary legal instruments to implement the agreed measures**. Amount A will require the development and ratification of a new Multilateral Convention (MLC) by at least a critical mass of countries in order to take effect. Experience with the MLI developed for the first phase of the BEPS project showed that the process to signature and ratification for developing countries can be lengthy, in part due to competing legislative priorities, and difficulties in communicating often complex tax technical matters to high level stakeholders.
- **Support the production by the OECD of appropriate guidance material** for developing countries to analyse and adopt such instruments.
- **Support developing countries to continue to evaluate the likely impact** of the stabilised measures, as well as high-level engagement to consider and implement appropriate policy responses.
- **Support developing countries to continue to participate actively** in the development of administrative frameworks needed to implement the stabilised rules, to help ensure that such frameworks suit their particular needs and take account of the capacity constraints facing developing countries.
- **Support, including through the provision of funding, the re-invigoration of BEPS induction programmes** by the OECD Secretariat to help developing countries in implementing the agreed measures in accordance with their priorities and needs. Developing countries themselves should be encouraged (and where necessary, supported) to assess, identify and articulate these priorities and needs, which could include:
    - Support throughout the signature and ratification process for international law instruments, including the provision of communications tools to help explain the object, purpose and operation of the instrument to high level stakeholders.
    - Bespoke support to ensure domestic law rules are consistent with agreed measures (e.g. ensuring domestically enacted GloBE rules or associated domestic minimum top-up taxes will be regarded as “qualified” rules).

- Bespoke and/or regional level support to analyse tax incentives regimes and how they would be affected by the implementation of minimum taxes under Pillar Two.

- **Support the development of additional guidance material by the OECD Secretariat**, e.g. handbooks or guides to aid the end-to-end implementation of the agreed rules and related, complementary measures. For example, developing countries have identified the need for additional explanatory materials detailing the object and purpose of various elements of the GloBE rules, to help translate the model rules (where required) into domestic law, and to help explain such measures to high level stakeholders. In the context of the interactions between tax incentives and the Pillar Two measures, the PCT Toolkit *Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment* could be revised and updated.
- **Support the development by the OECD Secretariat of guidance on implementing complementary measures**, such as Qualified Domestic Minimum Top-up taxes.

3.3.3. Phase 3: Implementation in practice

After implementation of the relevant legal instruments, the novel nature of many of the measures will mean tax administrations in lower capacity countries would benefit from ongoing support to ensure compliance. Developing countries themselves have welcomed the exchange of views and best practices on these matters, particularly through their membership in regional tax organisations.

Interested G20 and other Inclusive Framework stakeholders could:

- **Support bilateral and multilateral assistance for compliance assurance**, including through TIWB-style, peer-to-peer learning.

3.4. Beyond BEPS: Exploring a Roadmap for further co-operation with developing countries

The 2021 Report identified a number of additional transnational tax challenges where developing countries may stand to benefit from enhanced multilateral co-operation and co-ordination. This is particularly important in light of the reduced fiscal space most developing countries are facing in the aftermath of the COVID-19 pandemic, and the additional economic and social challenges created by food and fuel price and supply shocks.

Direct and indirect taxes, as the largest and most stable source of domestic revenues in almost all developing countries, play an important role in the financing of the SDGs. Meanwhile, reductions in fiscal space, brought on by the pandemic and the ensuing economic crisis have led many developing countries to re-examine their tax policy frameworks, both to support recovery in the face of ongoing uncertainty, and in the longer term, to restore sustainable public finances necessary for investment in the SDGs. However, many lower capacity developing countries lack access to robust analytical tools to assess tax policy design options, both in terms of likely revenue impacts, and also on broader spill-over effects.

Countries are also considering a range of tax policy and tax administration levers that can be deployed to more directly support the SDGs, particularly in areas such as environment, health, social protection, education, gender equality, and in addressing informality, illicit financial flows and tax and financial crimes. For example, in addition to the essential role of taxes in financing health systems, taxes on tobacco and alcohol can provide price signals (in the same way as environmentally related taxes work to help reduce pollution) to support the reduction of harmful product consumption. Similarly, streamlining tax administration and improving the design of presumptive tax regimes can help reduce informality, while greater tax transparency and robust tax administration and associated frameworks can help tackle illicit financial flows and other tax and financial crimes (OECD, 2021).Transparency can also be enhanced through measurement of the tax revenue foregone and the distributional impact of tax expenditures, as well as the publication of regular tax expenditure reports, as a basis for well-informed domestic tax policy debates. The 2022 edition of the OECD Tax Policy Reforms report presents these and other tax measures that a selection of developing countries have implemented in 2021.

While significant work is underway on how tax policies can support the attainment of the SDGs, including with the support of members of the PCT, there are opportunities for greater collaboration and systematisation across development partners. This would facilitate the distillation of common themes and identification of best practices in utilising tax systems to attain the SDGs. There are also opportunities for more peer learning to help design tax systems to finance and support the SDGs.

Implementing advances in digitalisation has the potential to drive transformative change in efficiency and effectiveness of tax administration in developing countries. This, in turn, will provide a stronger, more solid foundation for developing countries to mobilise domestic resources and implement tax policies in support of their broader SDGs. The restrictions imposed by the pandemic have illuminated a range of opportunities presented by increased digitalisation of tax administration, resulting in greater developing country investment, as well as demand for support. A range of international and regional bodies are actively mobilising in this area. In particular, the IMF and the World Bank Group and a range of development partners are actively supporting developing countries to make improvements in this area, including notably, through the Tax Administration Diagnostic Assessment Tool (TADAT), which helps to direct technical advice. In December 2021, FTA and ATAF published a report on Supporting the Digitalisation of Developing Country Tax Administrations (OECD, 2021), which sets out common elements of successful digitalisation journeys, and the benefits they deliver. Following the publication of the report, a pilot programme in assisting tax administrations in the digitalisation process has been established through the TIWB initiative, with several more in the pipeline.

There are opportunities to capitalise on these endeavours by bringing together the work, knowledge and experience of countries, the OECD and its partners, regional tax organisations and the FTA, on a holistic basis and with a focus on developing country priorities and capacity constraints. For example, the OECD has been progressively integrating development considerations across the range of its work, including tax policy and administration issues beyond BEPS and exchange of information, seeking to unlock the experience and expertise in the OECD for the benefit of developing countries. Bringing this work together with complementary work by others could help developing countries navigate the range of support available.

Interested G20 and other stakeholders could:

- **Commission a report from the OECD, working with partners, to assess opportunities for tax policy to support the achievement of the SDGs** through more systemic analysis and multilateral dialogue.
- **Commission the OECD, working with partners, to report on how the G20 can work with all jurisdictions, especially developing countries, to support efforts to digitalise tax administration**, consolidating existing knowledge.

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Annex A. List of recommendations included in the 2021 Report

Overarching recommendation

In order to ensure the Inclusive Framework coalition remains strong and meets the needs of all of its members, further assessments on the progress of developing countries should be conducted on a regular basis. This could take the form of an annual ministerial dialogue with developing countries and interested G20 members of the Inclusive Framework on issues such as:

- Their progress in implementing measures to combat BEPS, including on the two-pillar agreement and areas that have been particularly challenging for developing countries such as Country-by-country reporting;
- Their views on the work and priorities of the Inclusive Framework and its associated standards. This could include wider strategic issues such as the use of Inclusive Framework standards and the broader macro-economic impact of the two-pillar solution, including on Small Island Developing States.

Recommendations on international norms and related guidance

1. As a priority, all stakeholders, including Inclusive Framework members, should reflect on how Country-by-country reporting could be made more accessible to developing countries while also protecting confidentiality of sensitive information.
2. Assistance providers should develop additional guidance and other tools, adapted to the needs and priorities of developing countries, for dealing with base eroding payments such as excessive interest and royalties, to provide additional pathways to strengthening their tax systems.

Recommendations to support effective and efficient taxation of natural resources

3. In light of the importance of natural resources to a significant number of developing countries' domestic resource mobilisation efforts, the OECD Secretariat, together with relevant partners including the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF), should develop practical tools and guidance on mineral pricing, commodities marketing hubs and the taxation of offshore indirect transfers of interests in natural resources industries. These areas have been identified as posing significant BEPS risks for many resource-rich developing countries.

Recommendations on capacity building and technical assistance

4. Development partners, including G20 members, should, as a priority, support a major Inclusive Framework initiative, to be launched in early 2022, to provide capacity building support and technical assistance to ensure developing countries can adopt and implement the Pillar One and Pillar Two measures in an appropriate and timely fashion.

5. Development partners and assistance providers, including G20 members, should deliver expertise and financing to:
    - Intensify and continue the current tailor-made technical assistance and capacity building initiatives which have been shown to provide significant benefits over the medium to long term and expand the work to support capacity building on tax treaty related matters including the prevention and resolution of tax disputes through effective use of the Mutual Agreement Procedure (MAP), areas where the consultation process exposed needs;
    - Further strengthen Tax Inspectors Without Borders (TIWB) and similar peer-based tax compliance initiatives, with a focus on strategic industries and issues, including natural resources, the financial services and telecommunications sectors; and issues such as improving tax administration;
    - Expand the "Deep Dive" capacity building programmes, conducted by the OECD Secretariat with the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) and other partners, to support developing countries capitalise on their mineral resources.
6. All Inclusive Framework stakeholders should encourage and support greater political awareness and buy-in on the need for legislative and administrative reform, including by engaging with parliaments and other policymakers at the highest levels.

Recommendations on governance, participation and practicalities of the Inclusive Framework

The Inclusive Framework stakeholders should:

7. As a priority, reflect on governance arrangements within the Inclusive Framework to ensure a broad and systematic inclusion of developing countries. This could include consideration of representation in the leadership of the Inclusive Framework and its subsidiary bodies, and updating of the mandate of the Advisory Group for Co-operation with Partner Economies.
8. In light of the growing importance of VAT/GST and the cross-overs between the work of Working Party No. 9 on Consumption Taxes (WP9) and the Inclusive Framework, consider, as a priority, integrating WP9 into the scope of the Inclusive Framework.
9. Put in place practical measures to enhance developing country engagement and participation such as:
    - Making Inclusive Framework related meetings more accessible by funding travel where appropriate, making interpretation/translation services widely available and organising pre-meeting briefings and bespoke workshops;
    - Supporting assistance providers in the provision of training and mentorship programmes to strengthen the technical, negotiation and diplomatic skills of developing country officials; and
    - Promoting greater collaboration among developing countries, including at regional level together with regional tax organisations, to effectively articulate and represent common interests and positions in the Inclusive Framework.

Recommendations on the future of the Inclusive Framework

10. The Inclusive Framework should consider developing countries' priorities for multilateral dialogue to address issues beyond BEPS, such as environmental taxation, indirect taxation on e-commerce, and tax administration issues, which could benefit from the multilateral approach facilitated by the Inclusive Framework.

G20/OECD Roadmap on Developing Countries and International Taxation

OECD REPORT FOR THE G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS, OCTOBER 2022, INDONESIA

This Roadmap provides a follow-up to the 2021 report to the G20 on Developing Countries and the OECD/G20 Inclusive Framework on BEPS. It takes stock of progress since 2021 and sets out key priorities. It also provides a Roadmap to guide actions by interested G20 members and other stakeholders to help developing countries to maximise the benefits of multilateral engagement on international tax, and capitalise on advances in tax policy and tax administration to support the achievement of the Sustainable Development Goals.

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