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Pillar 1 Amount A Profit Reallocation –  
Estimates for U.S. Multinational  
Enterprises (2017)

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*PRELIMINARY, INCOMPLETE AND SUBJECT TO REVISIONS –  
FOR DISCUSSION PURPOSES ONLY*

## ***Pillar 1 Amount A Analysis – Overview***

- Purpose:
  - Estimate how much of the pre-tax income (i.e., the corporate income tax base) of U.S. multinational enterprises (“MNEs”) will be reallocated – relative to the status quo – as a result of the new nexus and income allocation rules related to Amount A under Pillar 1;
  - Analyze the magnitude of income reallocation by major industry categories;
  - Analyze the impact of reallocation on specific country groupings and the United States;
  - Extend the analysis to incremental tax revenue estimates by country grouping and industry.
- Preview of main findings (as “point” estimates under one specific set of assumptions/parameters):
  - Depending on industry, the “in-scope” tax base ranges from approx. 35% to 95% of pre-tax income;
  - Amount A across all industries amounts to 7.5% of the “in-scope” tax base (with industry-specific figures ranging from 3.6% to 13.4%);
  - Reallocated income (because of Amount A and relative to the status-quo) across all industries amounts to 3.7% of the “in-scope” tax base (with industry-specific figures ranging from 0.8% to 4.7%);
  - “Investment hubs” concede the highest share of the reallocated tax base while low income countries (high income countries) gain the highest share of the reallocated tax base as a percentage of the pre-change tax base (total reallocated tax base).

## ***Pillar 1 Amount A Income Reallocation Analysis – Assumptions, Parameters and Approach***

- Amount A assumptions/parameters
  - Profit (loss) before income tax (“PBT”) used as the starting point for purposes of calculating Amount A;
  - “Profitability threshold” – to identify routine profits and isolate residual profits – equal to 10 percent of unrelated-party sales revenue;
  - Reallocation percentage – the portion of the (deemed) residual profit attributable to Amount A and allocable to “market jurisdictions” – equal to 20 percent;
- Overall approach/methodology generally similar to that outlined in Singh et al (2020)<sup>1</sup> with some updated/refinements:
  - 2017 data for US MNEs;
  - Additional data sources used;
  - Attempt to reflect design features and concepts underlying Amount A and the “new taxing right” as described in the October 12, “Pillar 1 Blueprint”
    - Scope, revenue sourcing for Automated Digital Services (“ADS”) and Consumer Facing Businesses (“CFB”) and framework for “relieving jurisdictions” for relief from double taxation

<sup>1</sup> Kartikeya Singh, W. Joe Murphy and Gregory J. Ossi, “The OECD’s New Unified Approach – An Analysis of the Revised Regime for Taxing Rights and Income Allocation,” *Tax Notes International*, February 3, 2020, Volume 97, Number 5

## ***Pillar 1 Amount A Income Reallocation Analysis – Data Sources and Uses***

- Aggregated and anonymized country-by- country report (“CbCR”) information from Form 8975 filings by U.S. multinational enterprises (“MNEs”) for 2017 published by the Internal Revenue Service’s Statistics of Income (“SOI”) department.
  - Primary data in the analysis for purposes of identifying the locational/geographical distribution of US MNEs reported profits, reported revenues, tangible assets and employees categorized across seven industry groupings.
- Bureau Van Dijk’s Orbis database
  - Used to construct a sample of US companies with third-party revenues in excess of \$850 million in 2016;
  - The Orbis sample is used to categorize firms – and their 2017 revenues and profits – into two categories: “in scope” (as ADS or CFB) or “out of scope;”
  - Amount A calculated for each “in scope” company based on 2017 revenues and profits.
- World Bank
  - Cross-country data used to construct “revenue sourcing factor” – internet users and GDP per capita for ADS; household final consumption expenditures for CFB.
- Other (UNCTAD, OECD Tax Statistics, etc.)

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## ***Pillar 1 Amount A Income Reallocation Analysis – Industry Groupings***

- Five industry groupings (as categorized in the SOI data) covered in the final analysis:
  - Manufacturing
  - Wholesale and retail trade, transportation, and warehousing (“Wholesale, retail, and related”);
  - Information;
  - Professional, scientific, and technical services (“Professional services”); and,
  - Management of companies and enterprises, all other services (except public administration), (“Other services”).
- Two other groupings in the SOI CbCR data were categorized as out of scope for Amount A (based on carveouts and other scope criteria detailed in the Pillar 1 Blueprint):
  - Agriculture, forestry, fishing and hunting, mining, quarrying, oil and gas extraction, utilities and construction (“Agriculture, mining, oil and gas, construction, etc.”); and,
  - Finance and insurance, real estate and rental and leasing (“Finance and related”).
  - The exclusion of both industries was validated by scope determination at the firm level using the Orbis sample.

## ***Pillar 1 Amount A Income Reallocation Analysis – Overview of Methodology***

- Each company in the Orbis sample was mapped to one of the seven SOI industry groupings;
  - A “coverage ratio” was calculated for each industry grouping – i.e., ratio of the aggregate PBT (or, third-party revenues) for the industry grouping per the Orbis sample to the PBT (or, third-party revenues) for the same industry per the SOI CbCR data.
- Each company in the Orbis sample classified as either “in scope” or “out of scope” in relation to Amount A (based on the criteria for ADS, CFB, carveouts, etc.)
  - Based on the scope determination for each company, an “in-scope percentage” (for revenues and PBT) at the aggregate industry level was calculated for each of the seven industry groupings.
- Amount A calculated for each “in-scope” company in the Orbis sample;
  - Company-specific Amount A used to calculate aggregate Amount A for each industry grouping in the Orbis sample;
  - Aggregate amount A for each industry rescaled based on the “coverage ratio” for that industry to enable use of the rescaled Amount A with the SOI CbCR data for that industry.

## ***Pillar 1 Amount A Income Reallocation Analysis – Overview of Methodology (contd.)***

- Revenue sourcing for Amount A allocation to market jurisdictions based on SOI CbCR data for each industry grouping and “revenue sourcing factors” (derived from cross-country data):
  - SOI CbCR data (e.g., revenues, tangible assets, employees, profit, etc.) rescaled based on “in-scope percentage” derived for each industry using Orbis data.
  - Non-US revenues (for each industry grouping) sourced to market jurisdictions using “revenue sourcing factors” derived from cross-country data:
    - ADS: Number of internet users in country weighted by GDP per capita for country;
    - CFB: Final household consumption expenditure.
- Relieving jurisdictions identified based on a simplified framework to approximate the four-step process in the Pillar 1 Blueprint:
  - Identification of “above-normal” profits for each jurisdiction (within an industry) – i.e., reported profits in excess of “normal profits” estimated based on routine returns on tangible assets, employee-related costs and (reported) third-party sales;
  - Jurisdictions accounting for a significant share – i.e., greater than [x] percent of worldwide “above normal” profits – identified as “relieving jurisdictions” (for the industry);
  - Amount of relief provided by each relieving jurisdiction calculated in proportion to the “above normal” profits reported in each relieving jurisdiction under the status quo.

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## ***Pillar 1 Amount A Income Reallocation Analysis – Overview of Methodology (contd.)***

- Tax impact
  - Tax rate applicable on Amount A allocated to market jurisdictions assumed to be the statutory CIT rate;
  - Tax rate applicable to the relief provided by “relieving jurisdictions” assumed to be an effective rate lower than the headline rate (e.g., by 5 percentage points).



## ***SOI CbCR and Orbis Data (2017) – Summary Statistics***

**Table 1: US MNEs by Industry Grouping (2017)**

	Number of MNEs	
	SOI CbCR Data	Orbis Sample
Manufacturing	565	429
Wholesale, retail and related	312	286
Information	123	98
Professional services	127	37
Other services	172	129
Total (of the above)	1299	979

**Table 2: PBT, Revenues and "Coverage Ratio"**

	PBT (million USD)		Coverage Ratio - Unrelated Party Revenue (million USD)		Coverage Ratio - Revenues	
	SOI CbCR Data	Orbis Sample	SOI/Orbis	SOI CbCR Data	Orbis Sample	SOI/Orbis
Manufacturing	\$678,578	\$507,695	75%	\$5,084,838	\$4,581,555	90%
Wholesale, retail and related	\$227,048	\$203,571	90%	\$4,496,888	\$3,655,172	81%
Information	\$233,545	\$173,680	74%	\$1,247,526	\$1,073,183	86%
Professional services	\$26,820	\$38,790	145%	\$326,981	\$255,150	78%
Other services	\$251,959	\$66,838	27%	\$1,183,770	\$678,982	57%
Total (of the above)	\$1,417,951	\$990,573	70%	\$12,340,004	\$10,244,041	83%

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## Summary Statistics (contd.)

**Table 3: In-Scope Revenue and PBT by Industry Grouping (Orbis Sample)**

	In-Scope Percentage - Revenues	In-Scope Percentage - PBT
Manufacturing	46.9%	59.2%
Wholesale, retail and related	45.6%	41.3%
Information	92.7%	95.1%
Professional services	46.8%	74.7%
Other services	47.1%	35.3%
Total (for the above)	51.2%	60.8%

**Table 4: Distribution of In-Scope PBT, Employees, Tangible Assets, Revenues and Revenue Sourced to Market Jurisdictions by Country Grouping (All Industries)**

	Reported Share of Global PBT	Share of Global Employees	Share of Tangible Assets	Reported Share of Global Unrelated Party Revenue	Share of Sourced Revenue - ADS	Share of Sourced Revenue - CFB
High Income (incl. United States)	67.5%	83.2%	76.9%	85.7%	85.3%	86.4%
Middle Income	4.4%	5.2%	12.9%	5.3%	10.8%	9.6%
Low Income	1.1%	0.9%	6.5%	0.8%	2.6%	2.8%
Investment Hubs	26.9%	10.7%	3.7%	8.2%	1.3%	1.3%
United States	57.9%	66.7%	60.9%	71.4%	71.4%	71.4%

## ***Pillar 1 Amount A Income Reallocation Analysis – Estimates***

**Table 5: Amount A and Income Reallocation by Industry Grouping**

	Amount A (million USD)	Amount A as percentage of Total PBT	Amount A as percentage of In-Scope PBT	Reallocated Income (million USD)	Reallocated Income as percentage of Total PBT	Reallocated Income as percentage of In- Scope PBT
Manufacturing	\$32,929	4.9%	8.2%	\$19,025	2.8%	4.7%
Wholesale, retail and related	\$3,695	1.6%	3.9%	\$960	0.4%	1.0%
Information	\$22,106	9.5%	9.9%	\$9,620	4.1%	4.3%
Professional services	\$2,682	10.0%	13.4%	\$641	2.4%	3.2%
Other services	\$3,244	1.3%	3.6%	\$712	0.3%	0.8%
Total (of the above)	\$64,655	4.6%	7.5%	\$30,959	2.2%	3.7%

## ***Pillar 1 Amount A Income Reallocation (2017) – Country Groupings***

Figure 1: Amount A Income Reallocation (2017 All Industries) - As Percentage of Pre-Change Tax Base

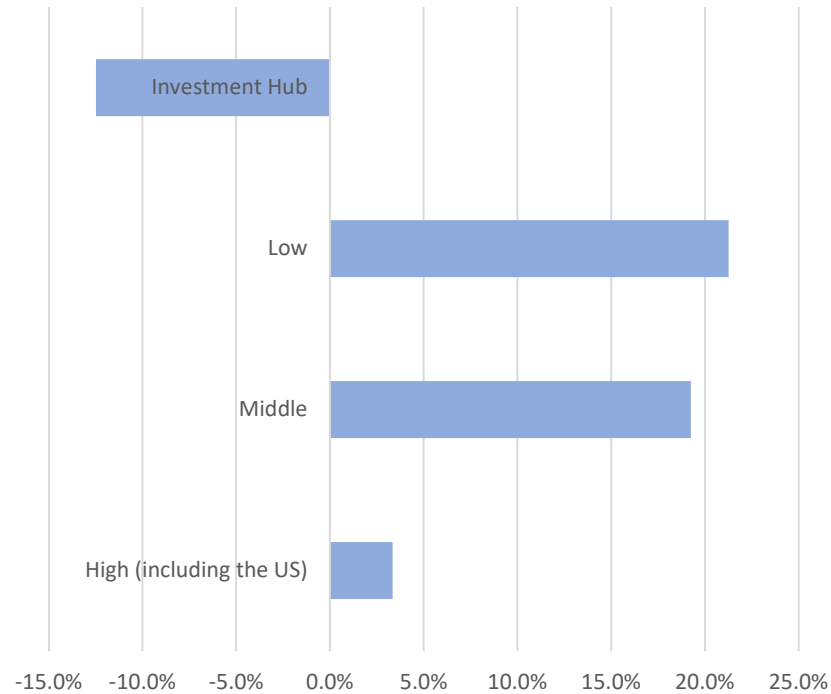
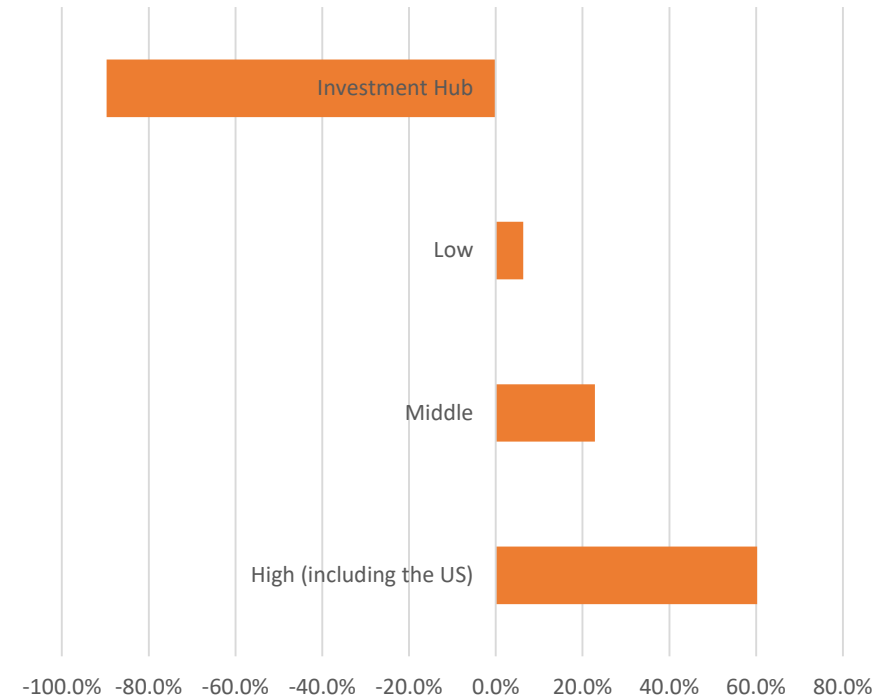


Figure 2: Amount A Income Reallocation (2017 All Industries) - Share of Total Reallocated Income



## ***Pillar 1 Amount A Income Reallocation (2017) – Tax Impact by Country Grouping***

Figure 3: Amount A Tax Impact (2017 All Industries) - As Percentage of Pre-Change Tax Base

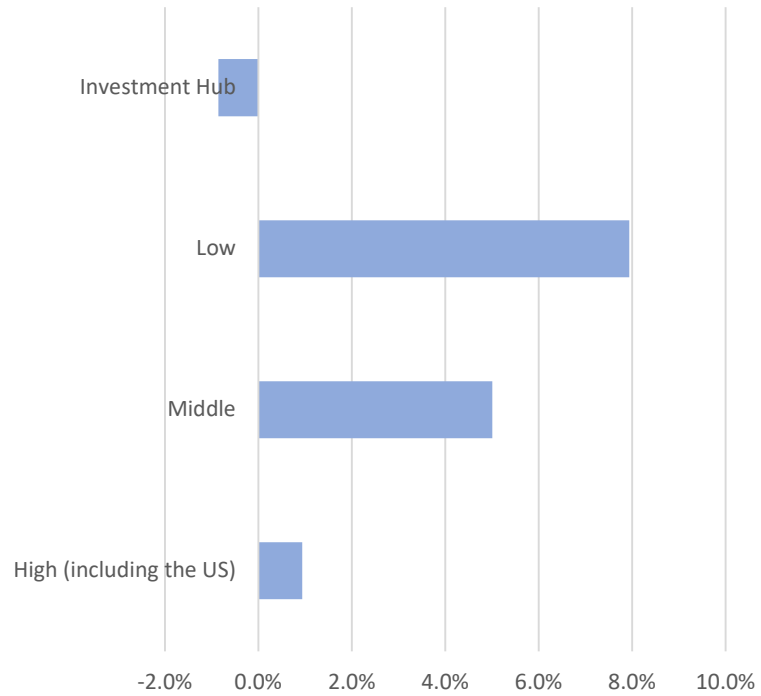
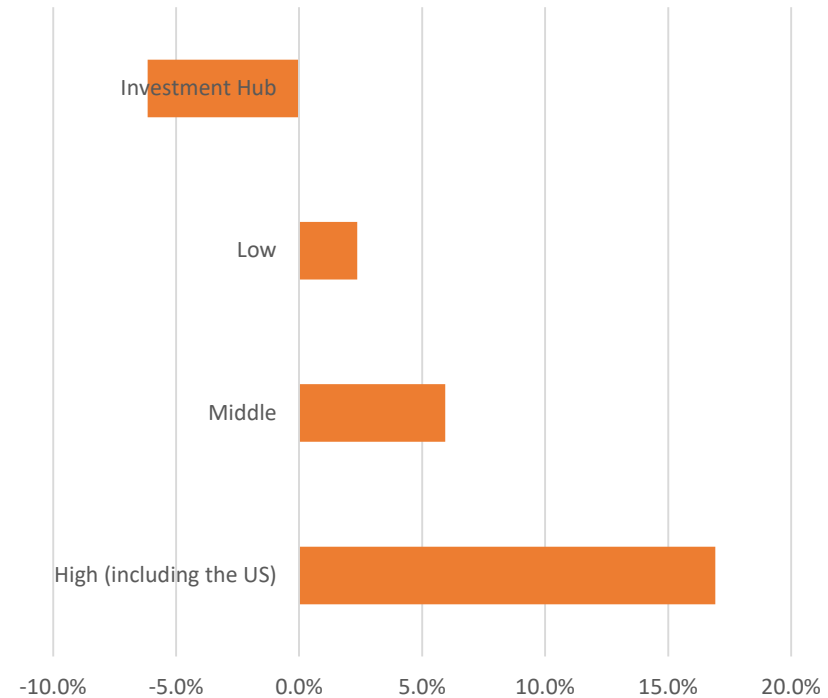


Figure 4: Amount A Income Tax Impact (2017 All Industries) - Share of Total Reallocated Income

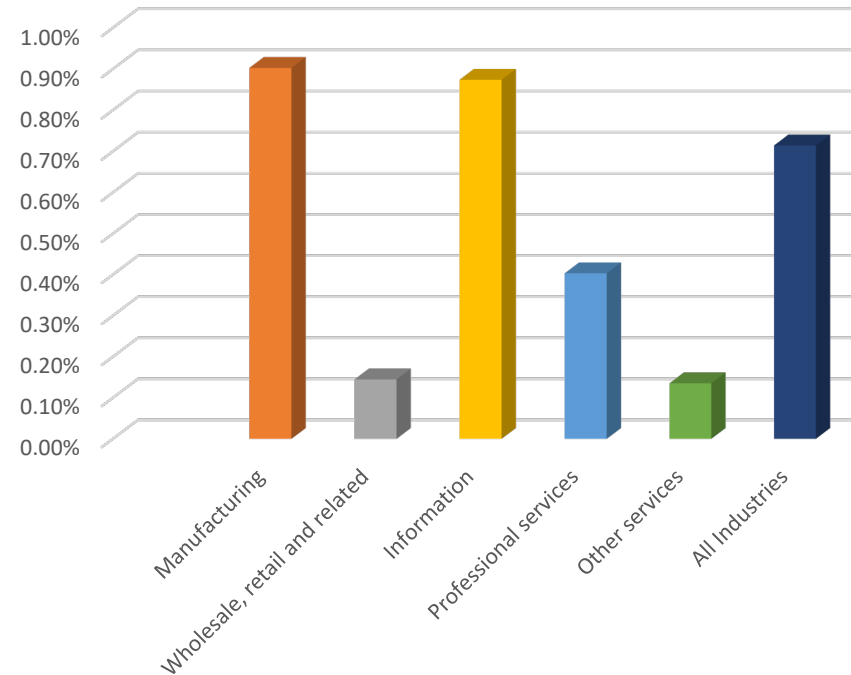


## ***Pillar 1 Amount A Income Reallocation Analysis – Tax Impact by Industry Grouping***

**Table 6: Amount A and Income Reallocation - Tax Impact by Industry Grouping**

Industry Grouping	Tax Impact of Income Reallocation (million USD)	In Scope PBT (million USD)	Tax Impact as Percentage of In-Scope PBT
Manufacturing	\$3,625	\$401,582	0.9%
Wholesale, retail and rel	\$136	\$93,720	0.1%
Information	\$1,942	\$222,186	0.9%
Professional services	\$81	\$20,030	0.4%
Other services	\$120	\$88,914	0.1%
All Industries	\$5,903	\$826,432	0.7%

**Figure 5: Tax Impact - Incremental Tax as Percentage of In-Scope PBT**



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## *Further work*

- Refinements and sensitivity analysis (including articulation of the main limitations of the analysis);
  - Scope categorization at the company level
  - Revenue sourcing assumptions
- Analysis of second-order effect on US tax base and related tax impact via GILTI;
- Alternative assumptions around determination of Amount A (e.g., thresholds, alternative identification of “relieving jurisdictions,” etc.);
- Other