

Who will pay Amount A?

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Presentation is based on

- Michael Devereux and Martin Simmler: **Who Will Pay Amount A?** EconPol Policy Brief 36, July 2021.

Aim of the report

- Provide some insights on # of companies affected by Pillar 1 and amount of profits included in Amount A
- Illustrate the impact of certain design choices (e.g., financial sector in/out, revenue threshold, profitability definition)

Amount A

- *Multinational firms with revenues above €20 billion and pre-tax profits above 10% of revenues*
- *Pre-tax profits are based on consolidated financial statements with minor adjustments. Losses are carried forward.*
- *Segmentation only in exceptional circumstances*
- *Regulated financial services and extractives are excluded.*
- **Amount A: 25% (20%) of pre-tax profits above 10% of revenue, latter might be capped if profits are already taxed in market country (safe harbour)**

Italics: Not taken into account in our study

Datasets

1) Fortune Global 500 – Main Results

- 500 largest company groups around the globe based on revenues
- Smallest company has revenues of \$26.3 billion

2) DataStream International – Revenue threshold

- Sample includes public companies with revenues above €750 million

3) ORBIS Europe – Profitability criteria

- Sample includes public and private companies in Europe (EU-28 + Russia and Switzerland) with revenues above €750 million

Main Result – Fortune Global 500

| | # of companies | Profits in \$ billion |
|--|----------------|-----------------------|
| Total | 500 | 2,602 |
| w/o Financial sector | 121 | 982 |
| w/o Extractive industry | 10 | 119 |
| w/o Profits < 10% revenue | 291 | 613 |
| Total | 78 | 887 |
| Amount A: 20% of profits>10% revenue | | 87 |
| In % of total | 16 | 3 |
| In % of non-financial/non-extractive total | 21 | 6 |

- Since the revenue threshold is €20 billion: Around 100 company groups are affected and \$100 [125] billion profits are included in Amount A (20% [25%] of residual profits)
- Results using DataStream: 103 companies and \$102 billion profits included in Amount A

Relative Contribution by HQ Country: Top 7

| Relative to total | Revenues of non-financial and non-extractive firms | Amount A |
|-------------------|--|----------|
| USA | 32.4 | 63.9 |
| China | 23.8 | 9.5 |
| Switzerland | 1.4 | 6.1 |
| UK | 3.2 | 3.8 |
| Russia | 1.3 | 3.8 |
| Ireland | 0.5 | 2.0 |
| Germany | 6.4 | 1.6 |

- 80% (87%) of Amount A comes from companies headquartered in 3 (5) countries.

Relative Contribution by Industry: Top 7

| Relative to total | Revenues of non-financial and non-extractive firms | Amount A | Top 3-4 HQ Countries |
|---------------------------|--|----------|--|
| Technology | 10 | 45 | US (85%), China and Taiwan (5%) |
| Health Care | 9 | 16 | US (62%), Switzerland (29%), UK and Ireland (4%) |
| Energy | 23 | 10 | |
| Food, Beverages & Tobacco | 3 | 8 | USA (29%), Switzerland (18%), UK (16%) |
| Retail | 7 | 6 | |
| Telecommunications | 5 | 5 | |
| Industrials | 3 | 4 | |

- 71% (85%) of Amount A comes from 3 (5) sectors
- Why? Definition of residual profits!

Definition of Profitability – Orbis Europe

| Revenue threshold of €20 billion | # of companies | Amount A in \$ billion |
|----------------------------------|----------------|------------------------|
| Pre-tax profits/revenue > 10% | 33 | 20 |
| Pre-tax profits/equity > 12.5% | 46 | 20 |

| Share of European companies with revenues above €750 million and ... | | |
|--|------|------|
| Pre-tax profits/equity | >10% | |
| Pre-tax profits/revenue | <10% | >10% |
| All sectors | 51 | 29 |
| Manufacturing of computers | 27 | 51 |
| Manufacturing of food products | 59 | 20 |

Changing the Revenue Threshold - DataStream

| Revenue threshold | # of companies | Amount A in \$ billion |
|-------------------|----------------|---------------------------|
| €20 billion | 103 | 102 |
| €10 billion | 221 | 137 |
| €5 billion | 452 | 172 |
| €2.5 billion | 793 | 201 |
| €750 million | 1720 | 239 |

- Revenue threshold reduction has strong impact on number of companies affected but less so on profits included in Amount A
- *Comparison*: Including financial sector doubles Amount A and increases number of companies affected by 60%

Conclusion

- Around 100 company groups will be affected by Pillar 1 and Amount A will include \$125 billion profits (25% of residual profits)
- Pillar 1 affects disproportionately company groups in technology, health care and food, beverage & tobacco due to defining residual profits relative to revenues.
- These company groups are pre-dominantly headquartered in the US, Switzerland, Ireland and UK.
- Reduction of revenue threshold to €10 billion has modest impact on Amount A profits and more than doubles the number of company groups affected.

Many thanks for your attention

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