Tax Newsletter

Timely news and information on national tax issues

International tax reform: New global minimum tax

Due to the accelerated growth of large Multinational Enterprises (MNEs), which play a leading role in a globalized economy, transfer pricing (TP) continues to be a priority on the agendas of corporate groups, as well as for tax administrations, with respect to the establishment of the most fair taxation parameters in each jurisdiction in which the multinational group operates, reflecting a tax base aligned with the economic activity performed in each country. For MNEs, it is important to ensure that their cross-border transactions between related parties are not being subject to double taxation.

Thus, the Organization for Economic Cooperation and Development (OECD), as an organization that promotes better tax policies, has been constantly issuing specific guidelines that allow for a fairer application of tax policies, among them: the OECD TP Guidelines, Report on intangible property and services, Report on cost contribution arrangements, and the Report on the BEPS Project actions, among others.

Notwithstanding, the recent and accelerated digital transformation of the economy has generated significant changes that pose new challenges for countries. Mainly, there is an ongoing debate as to whether international income tax rules, developed for a "brick-and-mortar" environment a long time ago, continue serving their purpose in the current global and digital economy.

According to the OECD, the current global tax system determined where taxes should be paid based on physical presence. However, new technologies have facilitated tax avoidance through the shifting of profits to low or no tax jurisdictions (which is what in essence the BEPS Project sought to avoid).

In light of the above, on 1 July 2021, 130 countries and jurisdictions (as of 9 July 2021, it is now 132 members) agreed to a **new two-pillar plan to reform international taxation rules** and ensure that MNEs are subject to tax in the territories where they operate and generate profits, and not only where they have a physical presence.

It is worth mentioning that the countries that signed this tax reform Statement include the United States and Latin American countries, such as Mexico, Costa Rica, Panama, Colombia, and Brazil, among others. Furthermore, this agreement has been signed by countries classified by the Salvadorian regulations as tax havens, such as: the Cayman Islands, Cook Islands, British Virgin Islands, United Arab Emirates, Hong Kong, and certain states of the United States, among many others.

The two pillars that this Statement is based upon, which is the result of long conversations, are the following:

1) **Pillar One: Reallocation of taxing rights**

   This pillars seeks to ensure a fairer distribution of the profits obtained by MNEs and thus improve the taxing rights of each country where the largest MNEs operate, including those that do not have a physical presence in any country.

   That is, the taxing rights of countries over MNEs will be reallocated, transferring them from their home countries to the countries where they perform their business activities and earn profits, regardless of whether or not they have a physical presence there.

   Through the implementation of Pillar 1, taxing rights on more than USD 100 billion of profit obtained by MNEs worldwide are expected to be reallocated to market jurisdictions each year.

2) **Pillar Two: Global anti-base erosion mechanism**

   This pillar will be focused on establishing a floor on competition over corporate income tax on MNEs profits, through the implementation of a **global minimum tax** that countries can use to protect their tax bases.

   The global minimum tax would have a minimum tax rate of at least **15%**. It is estimated that through the implementation of this pillar of the plan, USD 150 billion in additional global tax revenues would be collected annually.

As mentioned by the OECD Secretary-General, "This package does not eliminate tax competition, as it should not, but it does set multilaterally agreed limitations on it."

The additional tax revenues collected worldwide will provide the necessary support to governments seeking to raise essential tax revenues for repairing their budgets and their balances sheets, while investing in different areas, in their search for a post-COVID-19 pandemic recovery.

It is important to mention that the countries and jurisdictions that signed this Statement set a very close deadline for concluding it, with an October 2021 deadline for finalizing the technical work, and **implementation of the plan set for 2023**.

The countries and jurisdictions that have joined the agreement on the international tax regulation, as well as the official statement from the OECD can be consulted using the following links:

Countries and jurisdictions that are members of the OECD that have signed the two-pillar international tax reform Statement

Official Statement of the OECD on the two-pillar international tax reform Statement

Final Comments:

Although the conclusion of the technical phase of the new plan to reform international tax rules is near, it is still pending for each of the countries to adopt these rules and adapt them to their own legislation. The speed of this process will depend on the process for the enactment of a law in each of the countries.

MNEs and their local affiliates should review the impact that the two pillars mentioned above will have on their tax obligations and the measures they will adopt to face such impact.

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Tax Calendar July 2021

The updated 2021 tax calendar is now available on the Tax Administration's website, which includes public holidays and deadlines for all tax obligations.

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Download the 2021 Obligations Calendar

July 14

VAT

Declaration and payment of the Tax on the Transfer of Movable Goods and the Rendering of Services (F-07).

Financial Income and Transactions

Monthly declaration of Payment on Account, and Tax Withheld on Income, Financial Transactions, and the Special Contribution for Citizen Security and Coexistence (F-14)

Specific and Ad Valorem Taxes

Declaration and payment of Specific Taxes, Ad Valorem Taxes and Special Contribution (F-06).

Other obligations

- Report on Donations (F-960)
- Report on Specific and Ad Valorem Taxes on Producers and Importers of Alcoholic Beverages, Potable Ethyl Alcohol and Beer, Carbonated Beverages, Isotonic Beverages, Fortified Beverages or Energy Drinks, Juices, Nectars, Soft Drinks and Concentrated or Powder Mixtures for the Preparation of Drinks (F-955).
- Report on Specific and Ad Valorem Taxes on Producers and Importers of Firearms, Ammunitions, Explosives and Similar Items, Producers of Tobacco and Producers, Importers and those that clear fuels through customs (F-988)
- Monthly Report of Sales to Producers, Distributors or Retailers of Tobacco and Tobacco Products (F-956)
- Report on Authorizations of Accounting Systems, Legal Accounting Books, VAT Books or Records, Certifications and Reports issued on Modifications to Legal Books, Subsidiary Books and Special Records (F-463)

July 21

VAT

Monthly Report on Withholdings, Collections, or Payments on Account of VAT (F-930).

Printing Presses

Monthly Report on Documents Printed for Taxpayers Registered under the VAT (F-945)

CNR

Property and Mortgage Registry: Semi-annual report on the Registration of Real Property

Commercial Registry

Semi-annual report on the Establishment, Transformation, Merger, Dissolution or Liquidation of Companies.

Municipalities

- Semi-annual report on the registration, obtaining of licenses, permits or termination of activities in commercial, industrial, and services establishments or establishments of any economic nature.

- Semi-annual report on the Suppliers or Creditors of Movable Tangible Property or Services

Other obligations

Report of Importers, Distributors, Manufacturers of Vehicles and their Representatives (F-990)

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