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22 June 2023

THE INTERGOVERNMENTAL ORGANISATION OF THE SOUTH

2023 ATI General Assembly: Stepping-up financing for sustainable development

Estimating revenues from Amount A, Article 12B and Digital Service Taxes

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Overview of the process map:

Step 1.
Scope determination
(Title 1)

Determine whether the MNE is in scope of Amount A:

- To be in scope (and thus a 'Covered Group'), the MNE will need to exceed the scope thresholds of EUR 20 billion in Revenues and have profitability exceeding 10% (Article 1(2));
- Where the MNE does not meet these thresholds, but one of its Disclosed Segments does on a standalone basis, this Disclosed Segment will be subject to Amount A (as per Schedule D); and
- Revenues and profits related to Extractives and Regulated Financial Services will be excluded (as per Schedules B & C).

Step 2.
Nexus & revenue sourcing
(Title 3)

Determine which market jurisdictions are eligible to tax a portion of the MNE's residual profit under Amount A:

- A market jurisdiction will be eligible to tax Amount A if the Covered Group derives more than EUR 1 million in Revenues from that jurisdiction or, alternatively, EUR 250 thousand if that jurisdiction's GDP is lower than EUR 40 Billion (Article 3); and
- To determine how much Revenue is derived from each jurisdiction, the Covered Group will have to apply the revenue sourcing rules included in Article 4 and Schedule E.

Step 3.
Tax base determination
(Title 4)

Determine the relevant measure of profit of the Covered Group:

- The tax base rules will take the Covered Group's total profit (or loss) in its Consolidated Financial Statements as starting point (Article 5(1));
- A limited amount of book-to-tax adjustments will be made to arrive at a standardised Adjusted Profit Before Tax figure (Article 5(2)); and
- Losses will be carried-forward (including any transferred losses following a business reorganisation as calculated under Schedule H), subject to certain (time) limitations (Article 5(3)).

Step 4.
Allocation of Amount A
(Title 4)

Allocate Amount A to eligible market jurisdictions:

- The Amount A profit allocated to an eligible market jurisdiction (as per step 2) is determined by the following formula (Article 6(2)):
  - first take 25% of the Adjusted Profit Before Tax (as per step 3) in excess of 10% of the Covered Group's Revenues, to determine the total Amount A profit; and
  - then allocate the Amount A profit to the market jurisdiction in proportion to the amount of Revenues the Covered Group derives from that jurisdiction (as per step 2).
- The Amount A profit allocated to a market jurisdiction is adjusted and reduced by the Marketing and Distribution Profits Safe Harbour where that jurisdiction already has taxing rights over the Covered Group's residual profits (Article 6(3) – (6)).

Step 5.
Elimination of double taxation
(Title 5)

Eliminate double taxation:

- Double taxation arising from the application of Amount A as an overlay to the existing profit allocation system will be eliminated through the mechanism included in Articles 7 – 11; and
- These rules will apply on a quantitative and jurisdictional basis, to identify which jurisdictions will be responsible for eliminating double taxation and in what amounts.

AMOUNT A ALLOCATION PROCESS: Simplified example with MNE “Group A” Revenues

Group A with **Total Revenue** of USD 30,000 (in million)

Deduction of **Total Expenses** (exclusive of tax expenses): USD 22,000

<u>Profit Before Tax (PBT)</u>

❖1. Calculation of the Profit Before Tax using Qualified Financial Accounting Standard (QFAS)

PBT: Total Revenue – Total Expenses

PBT: 30,000 – 22,000 = USD 8,000

+ adjustments in the Model Rules to arrive at the Adjusted PBT.

Group A has a PBT margin of 26.67%
PBT Margin = PBT/Total Revenue

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AMOUNT A ALLOCATION PROCESS: Simplified example with MNE "Group A" Revenues

❖2. Calculation of Residual Profit

Residual Profit = Profit above 10% of revenue
Group A Residual profit (RP) : PBT – (Revenue*10%)
RP : 8,000 – (30,000*10%) : USD 5,000

❖3. Determination of Amount A

Amount A = 25% of Residual Profit
Amount A: RP*25% = 5,000*25% : USD 1,250

USD 1,250 is Amount A at the Group level i.e amount to now be redistributed to market jurisdictions / developing countries.

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AMOUNT A ALLOCATION PROCESS: Simplified example with MNE “Group A” Revenues

❖4. Identification of Group A’s Revenue Sources carried out using Revenue Sourcing Rules

Market Jurisdiction	Local Revenue (L)	% of Total Revenue
Suriname	3000	10
Sri Lanka	6000	20
South Africa	12000	40
Senegal	9000	30
Total	30000	100

❖5. Determination of Amount A taxable in each Market Jurisdiction

Reallocable Profit * Share of sales in the jurisdiction

Suriname: 1,250*10% = USD 125
Sri Lanka: 1,250*20% = USD 250
South Africa: 1,250*40% = USD 500
Senegal: 1,250*30% = USD 375

AMOUNT A ALLOCATION PROCESS: Simplified example with MNE “Group A” Revenues

❖Tax Rates in different Market Jurisdictions

Suriname: 20%
Sri Lanka: 15%
South Africa: 25%
Senegal: 30%

AMOUNT A ALLOCATION PROCESS: Simplified example with MNE “Group A” Revenues

❖6. **Tax Revenue Finally Collected** (application of tax rate on taxable profits in each jurisdiction)

Suriname: 125*20% = USD 25
Sri Lanka: 250*15% = USD 37.5
South Africa: 500*25% = USD 125
Senegal: 375*30% = USD 112.5

AMOUNT A ALLOCATION PROCESS: Simplified example with MNE "Group A" Revenues

$$Q = \left(P - (R * 10\%)\right) * 25\% * \frac{L}{R}$$

Q = Quantum of Amount A
P= Adjusted PBT
R = Revenues
L = Local Revenues

Quantum of Amount A for Sri Lanka:

Q = (8000 – (30000 *10)) * .25 * .20 = 250

(Note: Quantum is NOT final tax collected)

DISCLAIMER: Methodology is Extremely Simplified and Does not Include

- Elimination of Double Taxation
- Marketing and Distribution Safe Harbour
- Adjustment of Withholding Taxes
- Exclusion of Extractives and Regulated Financial Services
- Averaging Mechanism
- ….
- And many other components which are still to be finalized and which can substantially reduce Amount A further

Formula for Digital Service Taxes

$$T = L * D$$

T = Tax Collected
L = Local Revenues
D = DST Rate

Tax Collected by Sri Lanka with 4% DST:

T = 6000 * 4% = 240

Formula for Article 12B Net Method

$$T = Domestic\ CIT\ Rate\ * Qualified\ Profits$$
$$Qualified\ Profits\ = (.3\ * profitability\ ratio\ *\ L)$$

Higher of MNE group's profitability ratio or beneficial owner's profitability ratio to be applicable

Illustrations on application of Net Method

Situation D: Segmental Accounts available	
Gross revenue arising in State S and paid to State R	1000
Profitability ratio of ADS segment of Beneficial Owner	10%
Profitability ratio of ADS segment of MNE group	15%
Qualified profits taxable in State S under para 3	45
Domestic CIT rate of State S	30%
Tax Imposed by State S under para 3	13.5

Situation E: Segmental Accounts not available	
Gross revenue arising in State S and paid to State R	1000
Overall profitability ratio of Beneficial Owner	15%
Overall profitability ratio of MNE group	10%
Qualified profits taxable in State S under para 3	45
Domestic CIT rate of State S	30%
Tax Imposed by State S under para 3	13.5

Global Allocation Key

- Amount A Revenue Sourcing Rules
- % of Revenue Sourced in the Jurisdiction = Jurisdiction Final Consumption Expenditure/Total FCE
- World FCE in 2021 – $69.4 trillion
- Indonesia FCE in 2021 - $768.4 billion
- Indonesia share of consumption = 1.10%

	Indonesia	Sri Lanka	Jamaica	Nigeria
Sourcing Using Final Consumption Expenditure	1.10	.09	.017	0.42
Tax Rate (%)	22	30	25	30

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Case Study 1: Compute Amount A Allocation (in USD)

Alphabet Inc.
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share amounts)

	Year Ended December 31,		
	2020	**2021**	**2022**
Revenues	$ 182,527	$ 257,637	$ 282,836
Costs and expenses:			
Cost of revenues	84,732	110,939	126,203
Research and development	27,573	31,562	39,500
Sales and marketing	17,946	22,912	26,567
General and administrative	11,052	13,510	15,724
Total costs and expenses	141,303	178,923	207,994
Income from operations	41,224	78,714	74,842
Other income (expense), net	6,858	12,020	(3,514)
Income before income taxes	48,082	90,734	71,328
Provision for income taxes	7,813	14,701	11,356
Net income	$ 40,269	$ 76,033	$ 59,972
Basic net income per share of Class A, Class B, and Class C stock	$ 2.96	$ 5.69	$ 4.59
Diluted net income per share of Class A, Class B, and Class C stock	$ 2.93	$ 5.61	$ 4.56

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Case Study 1A: Compute Amount A Allocation (in USD) for 2022

	Amt in Millions	
Year End	2022	
Revenue of Alphabet Inc	282,836	
PBT	71,328	
PBT (%)	25	> 10%
10% of Revenue	28,284	
Residual Profit	43,044	
Amount A	10,761	

Jurisdiction	**Revenue (% of Alphabet Global Revenues)**	**Quantum of Amount A (USD Million)**	**Tax Rate**	**Tax Collected (USD Million)**
Indonesia	1.1		22	
Sri Lanka	.09		30	
Jamaica	.017		25	
Nigeria	.42		30	

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Case Study 1A: Compute Amount A Allocation (in USD) for 2022

	Amt in Millions	
Year End	2022	
Revenue of Alphabet Inc	282,836	
PBT	71,328	
PBT (%)	25	> 10%
10% of Revenue	28,284	
Residual Proft	43,044	
Amount A	10,761	

Jurisdiction	Revenue (% of Alphabet Global Revenues)	Quantum of Amount A (USD Million)	Tax Rate	Tax Collected (USD Million)
Indonesia	1.1	118.371	22	26.04162
Sri Lanka	.09	9.6849	30	2.90547
Jamaica	.017	1.82937	25	0.4573425
Nigeria	.42	45.1962	30	13.55886

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Case Study 2: Compute Digital Service Taxes Revenue in 2022

	Amt in Millions	
Year End	2022	
Revenue of Alphabet Inc	282,836	

Jurisdiction	Revenue (% of Alphabet)	Revenue Derived from Jurisdiction (USD Million)	DST Rate (%)	Tax Collected (USD Million)
Indonesia	1.1		4	
Sri Lanka	.09		4	
Jamaica	.017		4	
Nigeria	.42		4	

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Case Study 2: Compute Digital Service Taxes Revenue in 2022

	Amt in Millions	
Year End	2022	
Revenue of Alphabet Inc	282,836	

Jurisdiction	Revenue (% of Alphabet)	Revenue Derived from Jurisdiction (USD Million)	DST Rate (%)	Tax Collected (USD Million)
Indonesia	1.1	3111.196	4	124.44784
Sri Lanka	.09	254.5524	4	10.182096
Jamaica	.017	48.08212	4	1.9232848
Nigeria	.42	1187.9112	4	47.516448

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Case Study 3: Compute Article 12B Net Method Revenue in 2022

	Amt in Millions	
Year End	2022	
Revenue of Alphabet Inc	282,836	
PBT	71,328	
PBT (%)	25	

Jurisdiction	Revenue (% of Alphabet)	Revenue Derived from Jurisdiction (USD Million)	Qualified Profits	Tax Rate	Tax Collected (USD Million)
Indonesia	1.1	3111.196		22	
Sri Lanka	.09	254.5524		30	
Jamaica	.017	48.08212		25	
Nigeria	.42	1187.9112		30	

Case Study 3: Compute Article 12B Net Method Revenue in 2022

	Amt in Millions	
Year End	2022	
Revenue of Alphabet Inc	282,836	
PBT	71,328	
PBT (%)	25	

Jurisdiction	Revenue (% of Alphabet)	Revenue Derived from Jurisdiction (USD Million)	Qualified Profits	Tax Rate	Tax Collected (USD Million)
Indonesia	1.1	3111.196	233.3397	22	51.33473
Sri Lanka	.09	254.5524	19.09143	30	5.727429
Jamaica	.017	48.08212	3.606159	25	0.90154
Nigeria	.42	1187.9112	89.09334	30	26.728

Revenues from Alphabet under Different Tax Policy Options

	Amt in Millions	
Year End	2022	
Revenue of Alphabet Inc	282,836	
PBT	71,328	
PBT (%)	25	

Jurisdiction	Digital Services Tax	Amount A	Article 12B Net Method
Indonesia	124.4	26	51.3
Sri Lanka	10.1	2.9	5.7
Jamaica	1.9	0.4	0.9
Nigeria	47.5	13.5	26.7

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