
The Impact of Pillar 1 on Tax Revenues in Germany

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Agenda

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01

Introduction

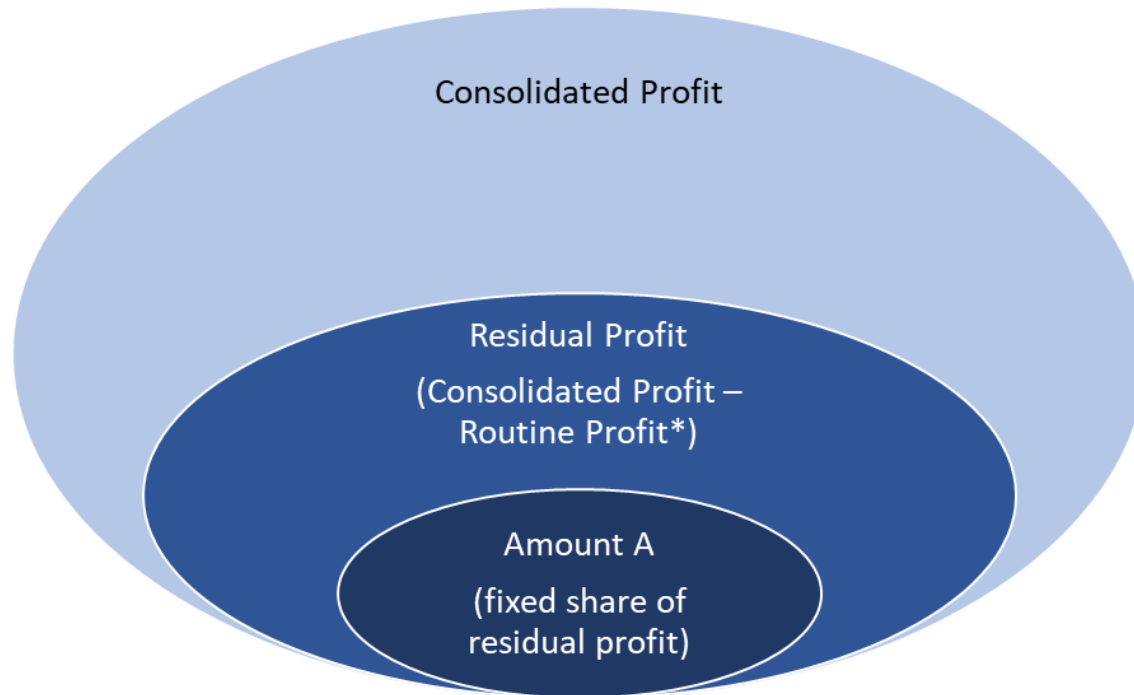
Background

- OECD/G20 rely on a **two pillar strategy** to combat base erosion and profit shifting (BEPS):
 - **Pillar 1:** Market jurisdictions are granted the right to tax (part of) multinational profit (*Unified Approach*).
 - **Pillar 2:** Introduction of a global effective minimum tax.
- On behalf of the German Federal Ministry of Finance, we assessed the revenue effects of Pillar 1 for Germany based on firm-level data.

Pillar 1 Proposal

- International **reallocation of taxation rights**: Part of multinational corporate profit (**Amount A**) will be taxed by market jurisdictions.
- Amount A is fixed share of **residual profit**; residual profit is the profit exceeding a certain return-on-revenue (RoR) threshold.
- However, restrictions apply when it comes to the application of the new rule:
 - Only **large multinational firms** (defined by a revenue threshold) will be in scope.
 - Only **highly profitable firms** (defined by a RoR and, possibly, also a gross and/or EBIT margin threshold) will be in scope.
 - **Extractive and regulated financial services** will be out of scope.
- Originally, only **consumer facing businesses** (CFB) and **providers of automated digital services** (ADS) were in scope.

Determination of Amount A



* Residual Profit = Profit exceeding a certain profitability threshold

$$\text{Amount A} = p_1\% \times (\underbrace{\text{Consolidated Profit} - p_2\% \times \text{Consolidated Revenue}}_{\text{Residual Profit}})$$

Routine Profit

Data & Descriptives

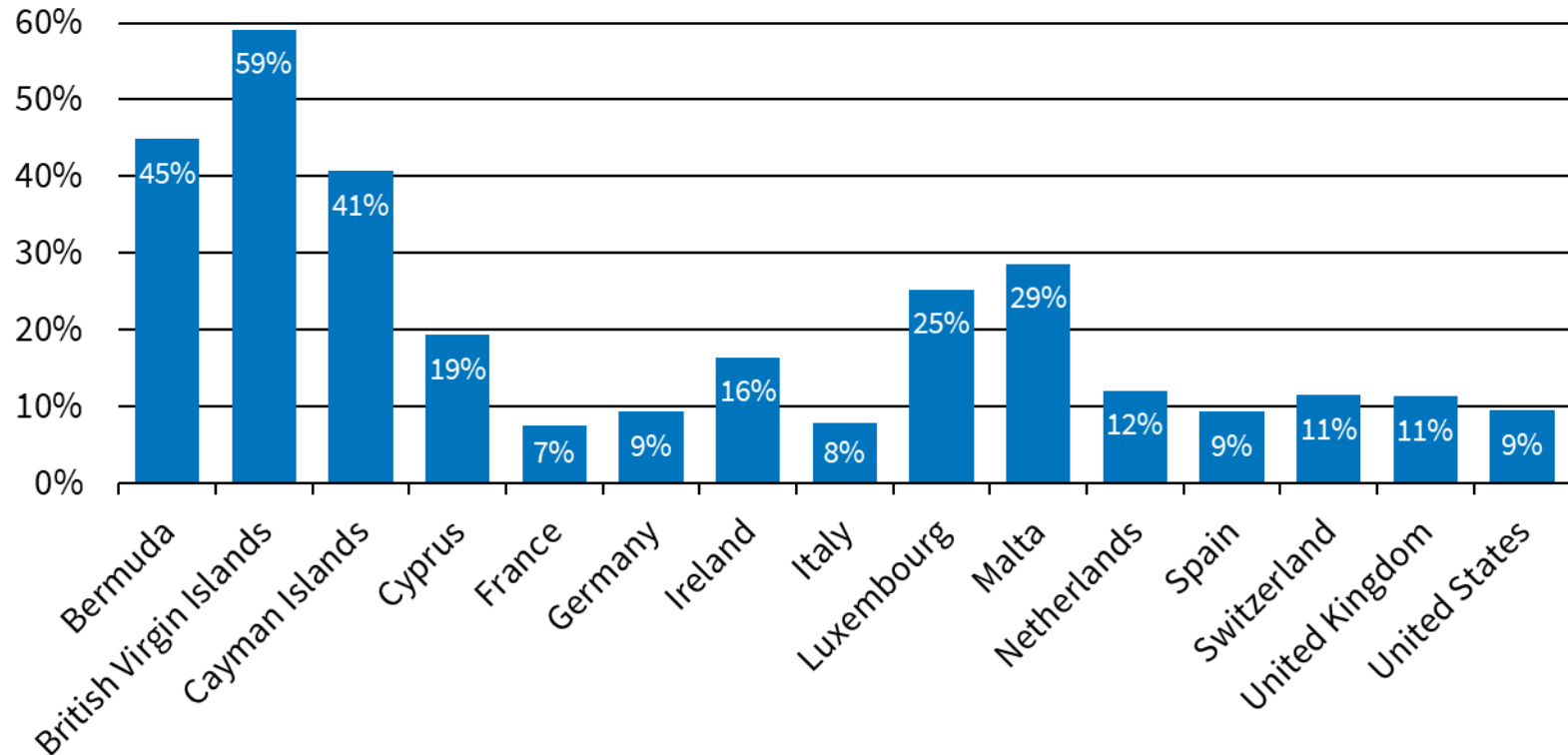
Data Sources

- To access the revenue effects of Pillar 1, we were granted access to German multinationals' Country-by-Country Reports (CbCR).
- For foreign multinational firms, we rely on Orbis data (plausibility checks and extrapolations based on AMNE data).
- To account for cross-border transactions, we use industry-specific bilateral trade data.
- Our data covers the years 2012 to 2018; based on these data, we project the future revenue effects for the period 2022 to 2027.

Descriptives

Return on Revenue of German Multinational Firms by Country

Multinationals with consolidated revenue > €750 mio



Source: Own calculations based on CbCR data.

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Results

Scenarios

- We estimate the revenue effects for **eight different scenarios** defined by different industry, size, and profitability thresholds.
- Here, we focus on **five scenarios**:

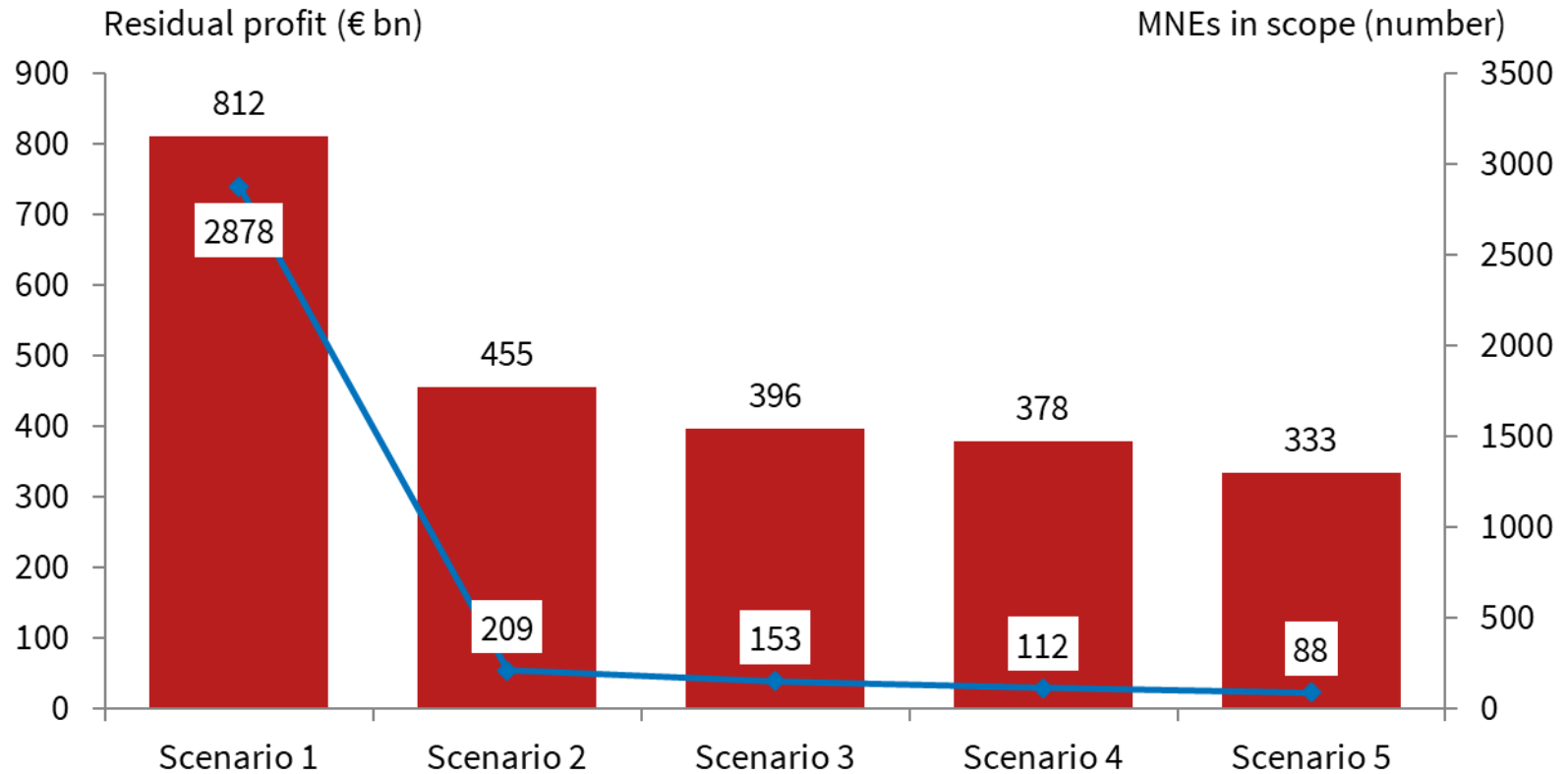
Scenario	S1 (original proposal)	S2	S3	S4	S5
Industry threshold	Only CFB and ADS	All but extractive and financial	All but extractive and financial	All but extractive and financial	All but extractive and financial
Revenue threshold	€750 mio	€10 bn	€10 bn	€20 bn	€20 bn
RoR threshold	10%	10%	10%	10%	10%
EBIT margin threshold	---	20%	25%	20%	25%

- **Double taxation** is avoided through tax credits (Amount A is creditable where residual profit is generated).

In-Scope Activity

Residual Profit and MNEs in scope of Pillar 1

By scenario



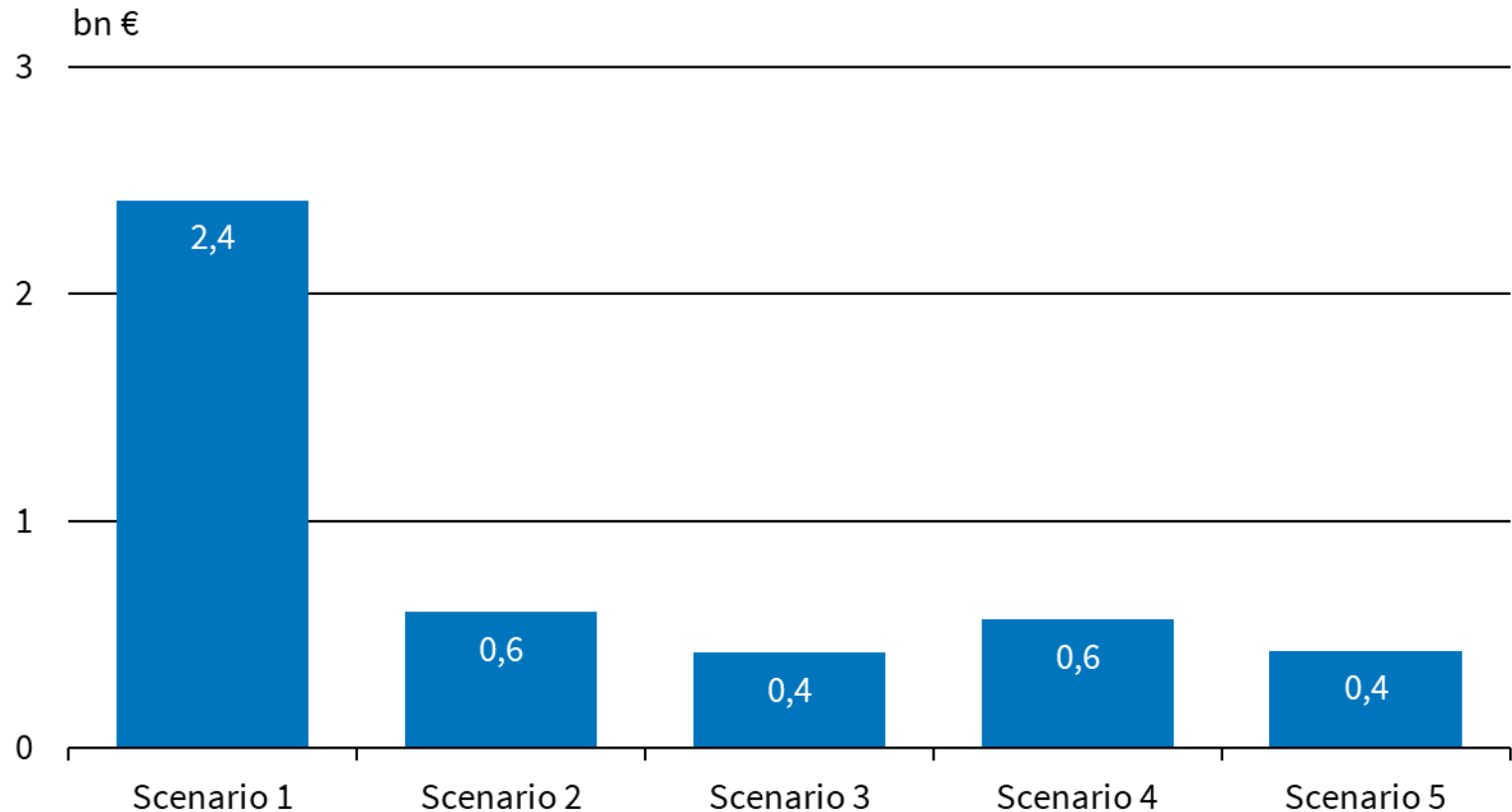
Source: Own calculations based on CbCR and Orbis data.

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Revenues from Pillar 1 for Germany

Revenue Effect of Pillar 1 for Germany (25-over-10 Rule)

Projected annual revenues from 2022 to 2027



Source: Own calculations based on CbCR data.

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Conclusions

Interpretation

- Only few MNEs (about 100) would be affected by Pillar 1.
- Revenues from Pillar 1 most likely small since the tax base is only €80 to €110 bn (25% of residual profits).
- Germany amongst the winners of Pillar 1.
- Reason: Subsidiaries located in Germany hardly contribute to MNEs' residual profits.
- However, for Germany (and, most likely, other countries as well), revenues from Pillar 1 are negligible (in 2016, corporate tax revenue in Germany was €91 bn).

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