

The Voice of RSM Special Edition

OECD Pillar One Amount B: Gaining Clarity with New Definitions

On 17 June 2024, the OECD released updated definitions for the Pillar One Amount B Report providing clarity on the “qualifying jurisdictions” and “covered jurisdictions” for purposes of applying the Simplified and Streamlined Approach (“SSA”). As mentioned in our [previous article](#), the SSA introduces an industry-specific pricing matrix for baseline distribution and marketing activities instead of the use of traditional benchmarking studies.

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After a slight delay from the intended release date, the latest update from the OECD includes: 1) definitions of “qualifying jurisdictions” for applying the SSA in sections 5.2 and 5.3 (concerning adjustments to be made when the SSA is applied), and 2) a list of countries committed to respecting SSA outcomes for in-scope transactions (subject to domestic legislation).

COVERED JURISDICTIONS DEFINITION

In our view the most significant information provided in the update relates to the “covered jurisdictions” definition. Covered jurisdictions are defined as countries who have committed to respecting the outcome of the SSA for in-scope transactions.

Essentially, covered jurisdictions are low- and middle-income countries based on World Bank classifications (excluding EU, OECD, and G20 members) that have committed to applying the SSA by March 2024. Any non-Inclusive Framework members considered as low- and middle-income who are willing to apply the SSA will also be included.

The list of covered jurisdictions will be published on the OECD website and reviewed every 5 years starting 1 January 2025 (see the full definition and list of countries [here](#)).

Companies may want to consider the following:

1. The most straightforward scenario and next steps will be for groups with distributors in covered jurisdictions to start assessing and preparing for the impact of the SSA as early as possible. The SSA might result in adjusted pricing points, transfer pricing policies, documentation, and local compliance considerations to align with the new standards.
2. Companies should not limit their impact assessment to their distribution activities alone. It will also be important to consider other elements of the product supply chain if they are located in the covered jurisdictions. Companies are advised to understand how the SSA influences pricing and profitability across all business functions including manufacturing, procurement and logistics in different territories.
3. Even if a Group does not operate in the covered jurisdictions, certain jurisdictions might still implement the SSA and announce this at a later stage. It will therefore be important to track the implementation of the SSA in the countries wherein a Group operates.
4. Last but not least, tax authorities might use the SSA pricing matrix as a reference point during audits and risk assessments. The SSA could effectively serve as a de facto pricing point for similar transactions. It will be prudent to consider the SSA pricing in general when it comes to pricing distribution activities, irrespective of the countries wherein a Group operates.

QUALIFYING JURISDICTIONS DEFINITION

The update also provides a definition for "qualifying jurisdictions" for purposes of applying step 5.2 and 5.3 in the SSA as follows:

- "Qualifying jurisdictions" for purposes of section 5.2 are countries classified by the World Bank Group as low, lower-middle, and upper-middle income based on the latest World Bank classifications.
- "Qualifying jurisdictions" for purposes of applying step 5.3 are countries with a publicly available long-term sovereign credit rating of BBB+ (or equivalent) or lower from a recognized credit rating agency and are represented by fewer than five comparables in the global dataset used for the pricing matrix.

The list of qualifying jurisdictions will also be published on the OECD website and reviewed every 5 years starting 1 January 2025 (see the full definition and list of countries [here](#)).

Companies may want to consider the following:

1. When applying the SSA, consider the list of qualifying jurisdictions under sections 5.2 and 5.3 for calculating distributor returns in these territories.
2. In terms of thinking one step ahead, even if the SSA is not applicable in all jurisdictions and is only limited to specific activities, taxpayers may consider aligning their benchmarking methodologies to be consistent with the framework provided by the OECD's SSA benchmark study. This alignment should improve compliance and potentially minimize disputes.

FORWARD THINKING

The updated definitions provide much-needed clarity on the application of the SSA. With these definitions now in place, companies are advised to prepare early, assess the impact across the entire product value chain regardless of the countries wherein operations are set up, and align with the SSA pricing matrix to improve compliance and mitigate potential audit risks.

RSM is a thought leader in the field of International Tax and Transfer Pricing. We offer frequent insights through training and thought leadership that is based on detailed knowledge of global tax reforms, regulatory obligations, and practical applications in working with multinational corporations. If you have any questions on the OECD's Pillar One Amount B, please reach out to one of our consultants.

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