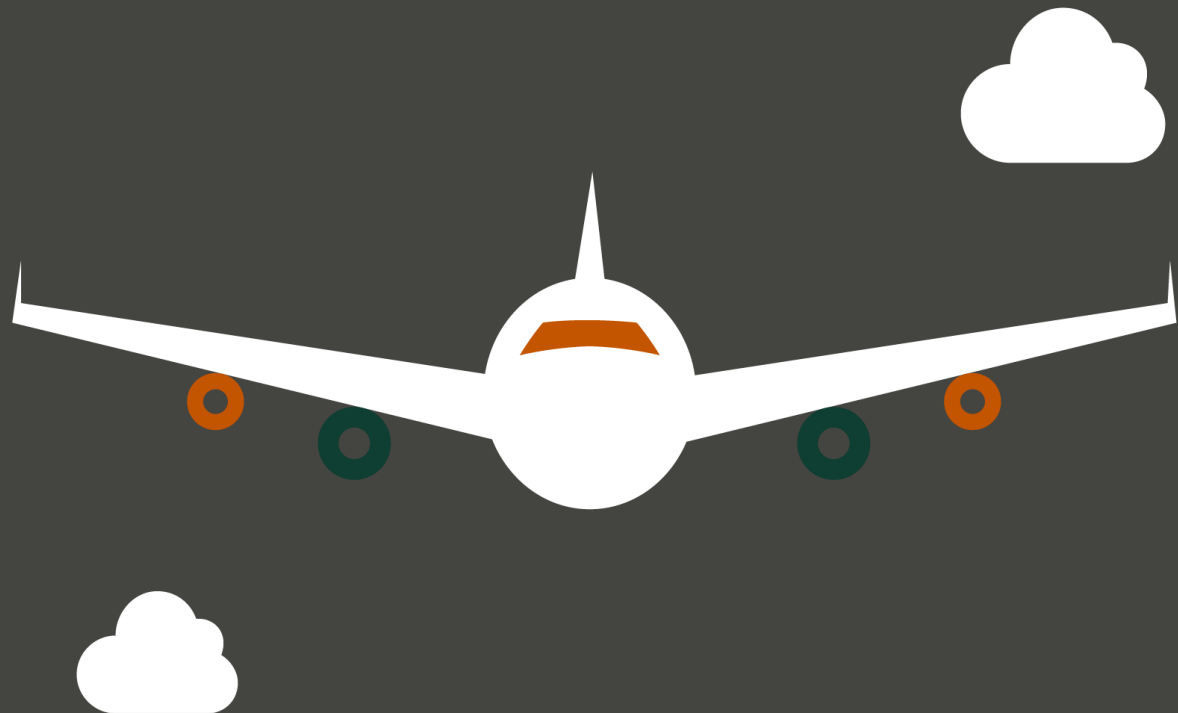


BEPS: Pillar Two

Overview

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25 MAY 2022



Introduction

- Aim: to ensure that all internationally operating businesses pay a minimum level of tax
- Minimum tax rate: 15%
- Large multinational groups
- Building blocks:
 - Two charging mechanisms – IIR and UTPR
 - Switchover rule
 - Subject to tax rule



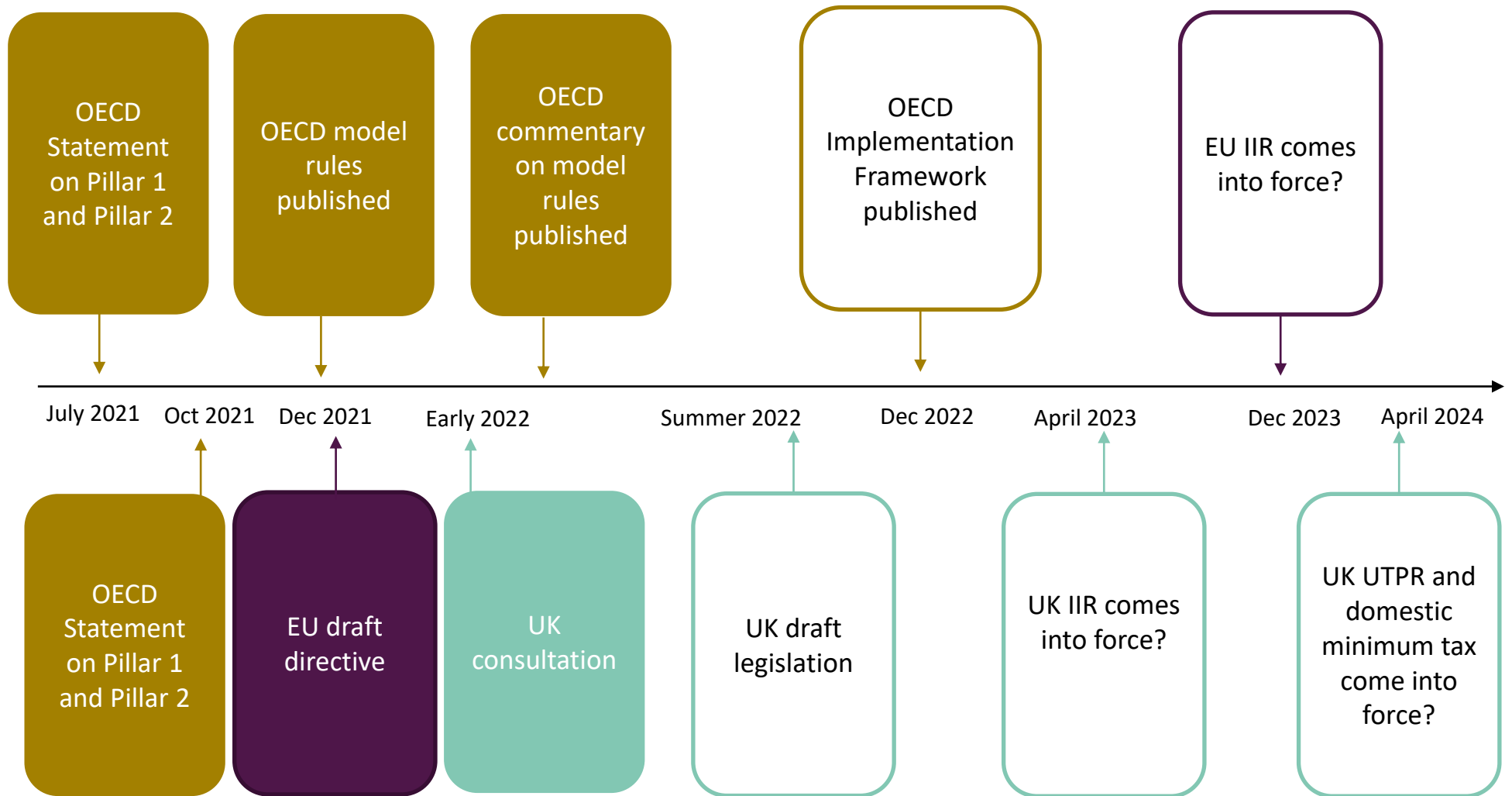
“Global action is needed to stop a harmful race to the bottom”

OECD 2019b, page 24

Overview

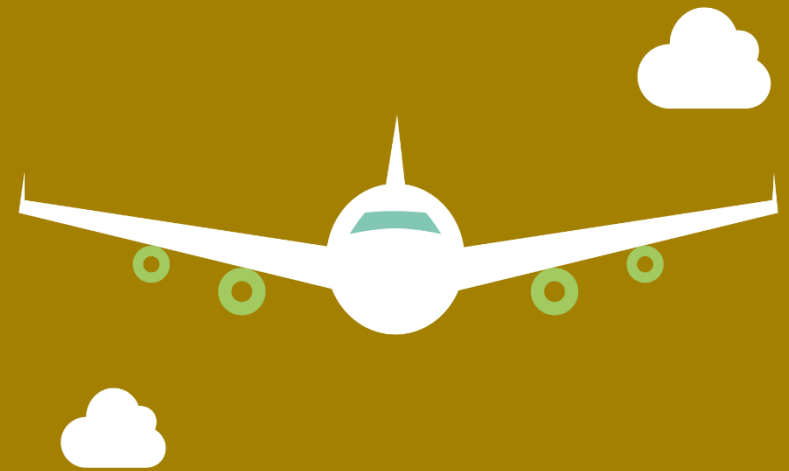


Pillar Two Timeline



1. Scope

- Which groups are in scope?
 - €750m revenue
 - Operating in two or more jurisdictions
 - Members of group = Constituent Entities
- Are there any Excluded Entities?
 - Governmental Entity / International Organisation / Non-profit Organisation / Pension Fund / Investment Fund / Real Estate Investment Vehicle / certain holding entities
 - Excluded Entities are not Constituent Entities



2. Allocate Income and Taxes

- Calculate Constituent Entity's GloBE Income
 - Starting point: income in UPE's financial statements
 - Adjustments required – e.g. remove dividends and gains from >10% shareholdings
- Calculate Constituent Entity's Adjusted Covered Taxes
 - Starting point: tax expense in UPE's financial statements
 - Taxes on income and profits only
 - Adjustments required: e.g. remove tax dividends and gains from >10% shareholdings



3. Calculate Effective Tax Rate

- Calculated on jurisdictional basis
- $$\text{ETR} = \frac{\text{Aggregate Adjusted Covered Taxes}}{\text{Net GloBE Income}}$$
- Minimum tax rate: 15%



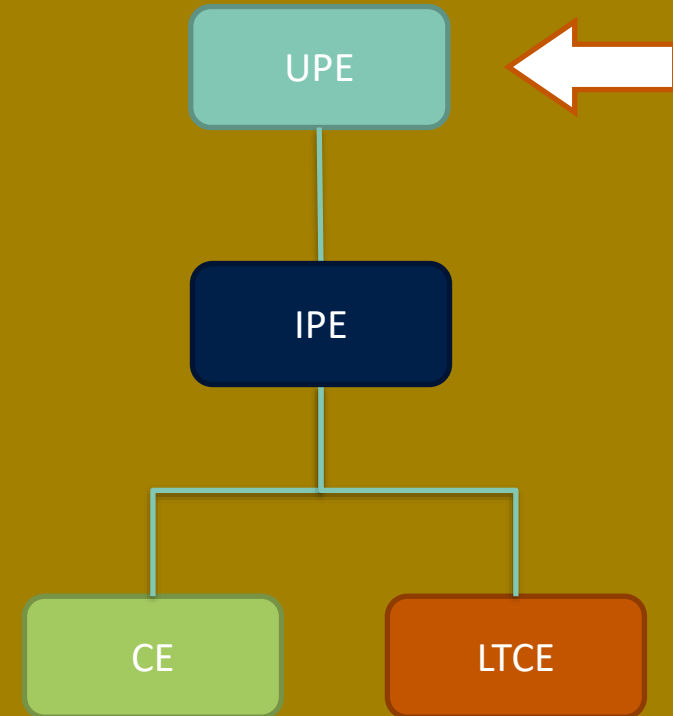
4. Calculate top-up tax payable

- Top-up tax percentage = 15% - ETR
- Multiply top-up tax % by GloBE income
- Adjustments:
 - Substance in jurisdiction
 - Domestic minimum tax
 - Earlier year adjustments
- Apportion top-up tax between Constituent Entities in jurisdiction



5. Charge top-up tax

- Primary mechanism: Income Inclusion Rule (IIR)
- Parent entity pays top-up tax in proportion to ownership interest
- Top-down rules: start with UPE
- Parent entity must be located in jurisdiction that has implemented IIR



5. Charge top-up tax

- Secondary mechanism: Under-taxed Payments Rule
- Only applies where top-up tax not picked up through IIR
- Charged on UTPR jurisdictions where Constituent Entities with tangible assets and / or employees are located

