Global Minimum Tax – An equitable solution?

Following the commitment given by G-7 finance ministers to reaching an equitable solution on the allocation of taxing rights, partly through the introduction of a global minimum corporate tax rate, the Organisation for Economic Co-operation and Development ('OECD') announced on 1 July 2021 that 130 out of 139 countries had agreed to its two-pillar programme ('BEPS 2.0') for international taxation.

Given that most major trading nations, including China, have agreed to BEPS 2.0 with an implementation scheduled for 2023, the programme paves the way for a transformation of international taxation, especially in the global digital economy.

BEPS 2.0 is set out in two pillars. Pillar One focusses on taxing rights and distribution of profits of multinationals ('MNE') with a global turnover of EUR 20 billion and profitability above 10%. As part of the plan, MNEs falling in the above bracket (subject to exceptions such as companies in the regulated financial services industry and the extractive sector), will need to reallocate a share of their profits in excess of 10% of revenue to each jurisdiction where they derive at least EUR 1 million. The first pillar therefore aims at ensuring that taxing rights are allocated in a fair manner and that MNEs pay tax in the country where they operate and earn profits irrespective of where their physical presence might be.

Global FinCTAx Services Ltd
7th Floor, Tower 1, NeXTeracom
Cybercity, Ebene 72201, Republic of Mauritius
Tel: +230 403 4250 | Fax: +230 468 1178 | Web: www.finctax.com
MIPA: MRN/MF/2017/190 | BRN: C14120583 | VAT: 27259801

Pillar Two will apply to MNEs that have an annual consolidated group revenue of more than EUR 750m in the preceding period i.e., the same criteria that currently apply for MNEs that report under Country-by-Country reporting. We understand that government organisations, non-profit organisations, pension funds and investment funds that are the ultimate parent entities of MNE groups will be exempt.

Pillar Two consists of two interlocking rules – an Income Inclusion Rule ('IIR') and an Undertaxed Payment Rule ('UTPR'). The IIR imposes a top-up tax to a parent entity in respect of the low-taxed income of a principal entity. It allocates the top-up tax based on a top-down approach. The UPTR approach denies deductions or requires equivalent adjustments to the income of a low-tax principal entity that is not subject to tax under the IIR. It will allocate the tax from the principal entity under a methodology yet to be agreed. The minimum rate of tax will be at least 15%.

We understand that further details regarding the outline plan should be finalised by October 2021. In the meantime, MNEs may need to start looking into an initial impact assessment.

Global FinCTAx Services Ltd
7th Floor, Tower 1, NeXTeracom
Cybercity, Ebene 72201, Republic of Mauritius
Tel: +230 403 4250 | Fax: +230 468 1178 | Web: www.finctax.com
MIPA: MRN/MF/2017/190 | BRN: C14120583 | VAT: 27259801