Day One – Pillar 2

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Agenda

- Day 1
  - Pillar Two Overview
  - Step 1 – Scope of MNE Group & Constituent Entities
  - Step 2 – Computation of GloBE Income / (Loss)
  - Step 3 – Computation of Adjusted Covered Taxes
- Day 2
  - Step 4 – Top–Up Tax Computation & Substance–Based Income Exclusion Amount Calculations
  - Step 5 – Application of the Charging Provisions
  - Safe Harbour Tests
  - GloBE Information Return Overview

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Pillar 2 – Overview

OECD Pillar 2 – Overview

- Multinational enterprise (MNE) groups with annual revenue in excess of EUR 750 million are in scope of Pillar Two rules
- Minimum rate of taxation equal to 15% in 2024 (eventually 17% in 2026)
  - Applicable and collectible with respect to any jurisdiction regardless of whether such jurisdiction has enacted Pillar Two
- Global anti–Base Erosion ("GloBE") interlocking charging rules:
  - Income Inclusion Rule ("IIR")
  - Undertaxed Payment Rule ("UTPR")
  - Qualified Domestic Minimum Top–Up Tax ("QDMTT")
- OECD contemplates global taxing jurisdictions to adopt a unified approach

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OECD Pillar 2 – Timeline of Guidance

- October 2021 – over 140 member states in the G20 agree to adopt OECD Pillar Two
- December 2021 – Model rules for the GloBE tax
- December 2022 – Safe Harbour test guidance
- February 2023 – First administrative guidance – QDMTTs and Blended CFC tax regimes
- July 2023 – Second administrative guidance – additional guidance on QDMTTs, new safe harbour tests, and other clarifying information to GloBE rules
- December 2023 – Interplay of anti–hybrid rules with GloBE, new safe harbour test for NMEs, and additional guidance regarding transitional safe harbours

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Computation of the Top-Up Tax – Overview

TOP-UP TAX LIABILITY (for jurisdiction) = **TOP-UP TAX PERCENTAGE** (for jurisdiction) × **EXCESS PROFITS** (for jurisdiction)

TOP-UP TAX PERCENTAGE:

GloBE Rate of 15%

−

GloBE Jurisdictional ETR

[Adjusted Covered Taxes ÷ Net GloBE Income / (Loss)]

EXCESS PROFITS:

Net GloBE Income / (Loss)

−

Substance-Based Income Exclusions

[(Eligible Payroll Expenses × Applicable Rate of 5%) + (Eligible Tangible Assets × Applicable Rate of 5%)]

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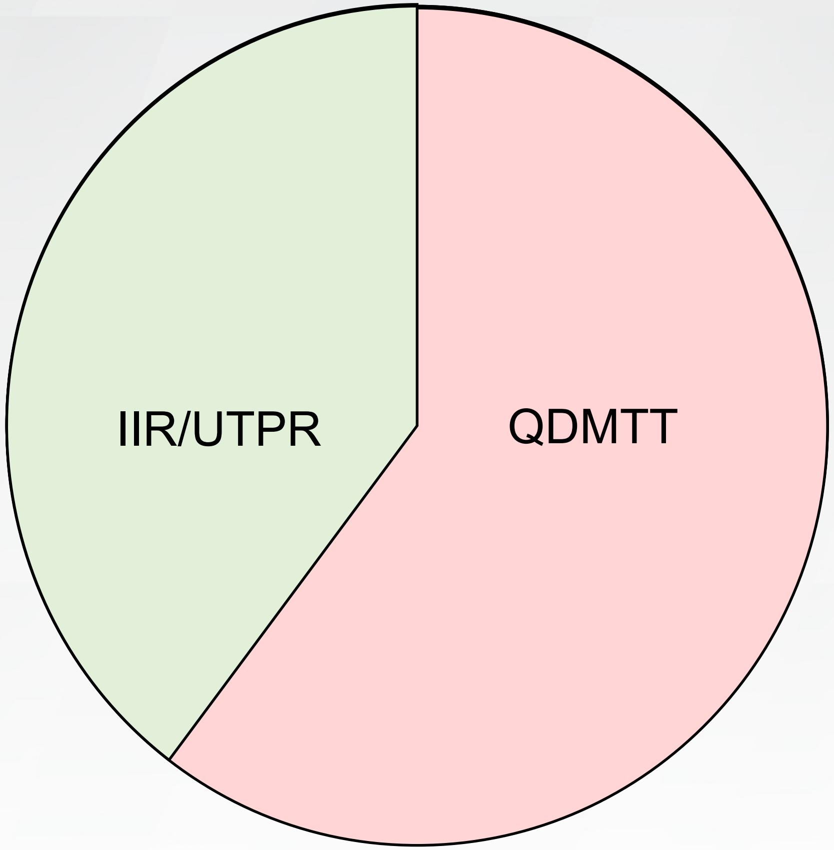
Top–Up Tax & Charging Provisions – Generally

Total Top–Up Tax



Key Terms & Definitions

- **Qualified Domestic Minimum Top-Up Tax (QDMTT)** – A minimum tax that is imposed by the domestic law of a country that computes its own top–up tax following the Pillar Two rules.

- **Income Inclusion Rule (IIR)** – Imposes a top–up tax on the Ultimate Parent Entity (UPE) of a multinational enterprise group with respect to its low taxed income of its constituent entities.

- **Undertaxed Payments Rule (UTPR)** – Operates as a backstop to the IIR, applying only in specific circumstances where the top–up tax is not brought into charge under an IIR or QDMTT

Ordering of the Pillar Two Charging Provisions

QDMTT → IIR → UTPR

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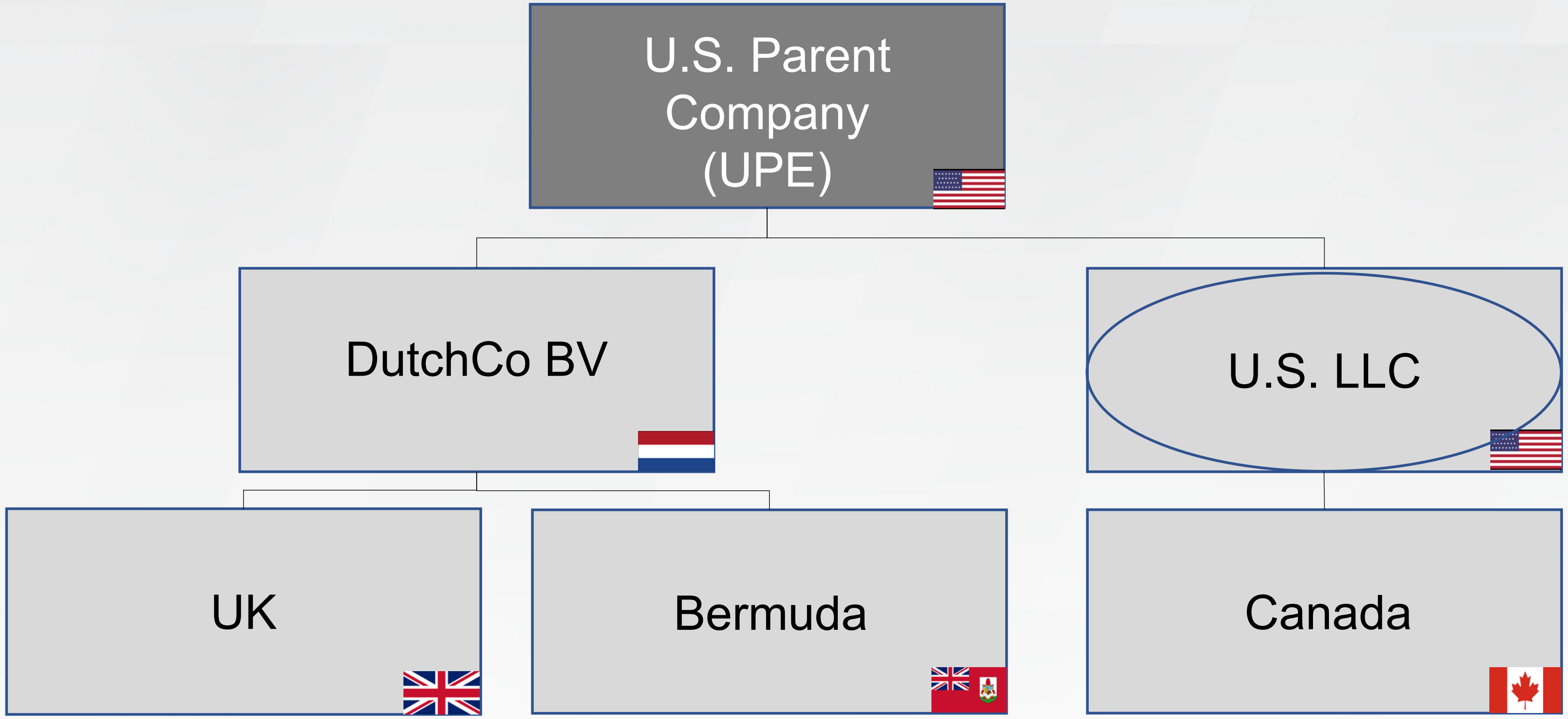
Org Chart Example of Charging Provisions

Legend

- UTPR Application
- IIR Application
- QDMTT Application



Assumptions:

Netherlands, UK, and Canada adopts QDMTT, IIR, and UTPR

U.S. and Bermuda do not adopt an IIR, QDMTT, or UTPR

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Org Chart Example – QDMTT

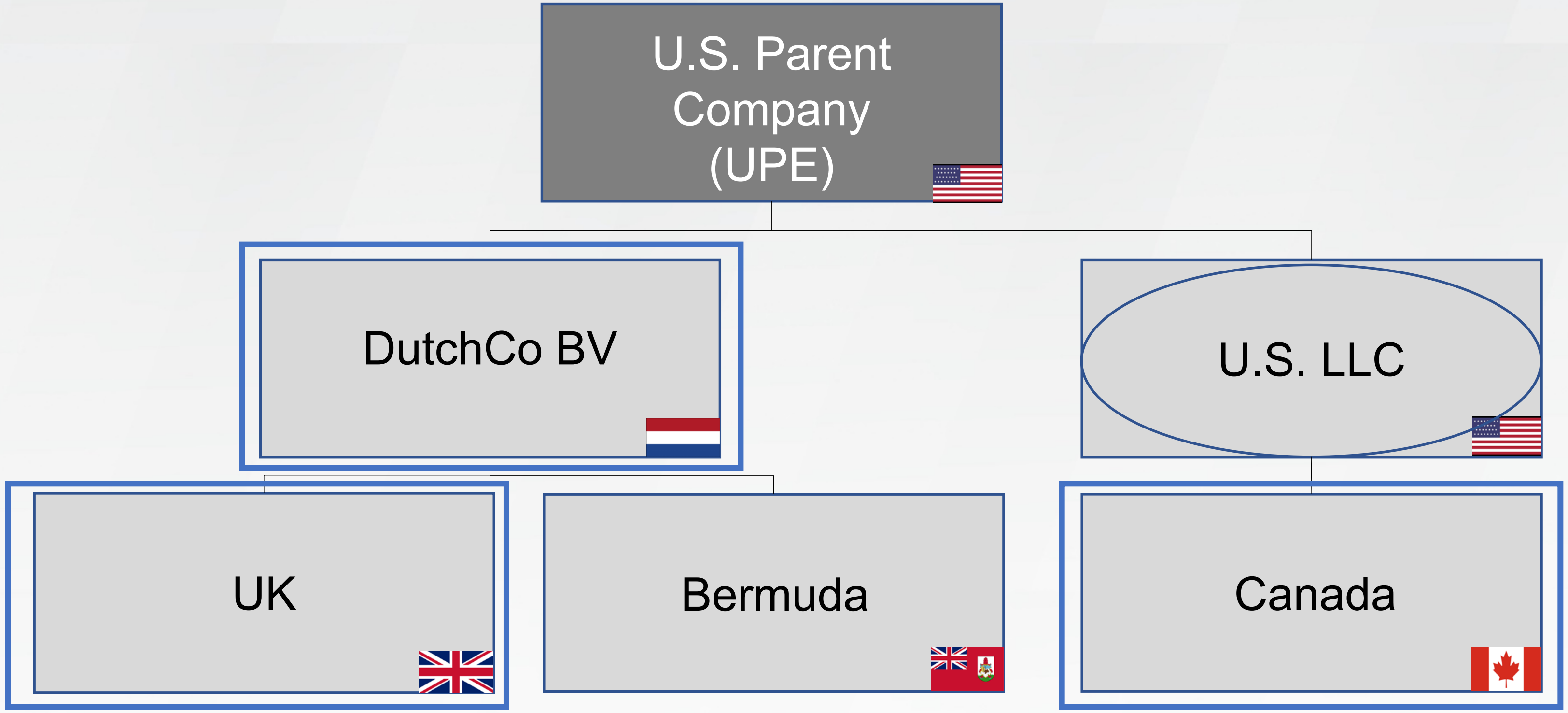
Legend

UTPR Application

IIR Application

QDMTT Application

- DutchCo BV will collect its share of Top–Up Tax through application of its QDMTT.
- UK will collect its share of Top–Up Tax through application of its QDMTT.
- Canada will collect its share of Top–Up Tax through application of its QDMTT.
- DutchCo BV will not collect UK's share of Top–Up Tax since UK's QDMTT has fulfilled UK's Top–Up Tax liability.



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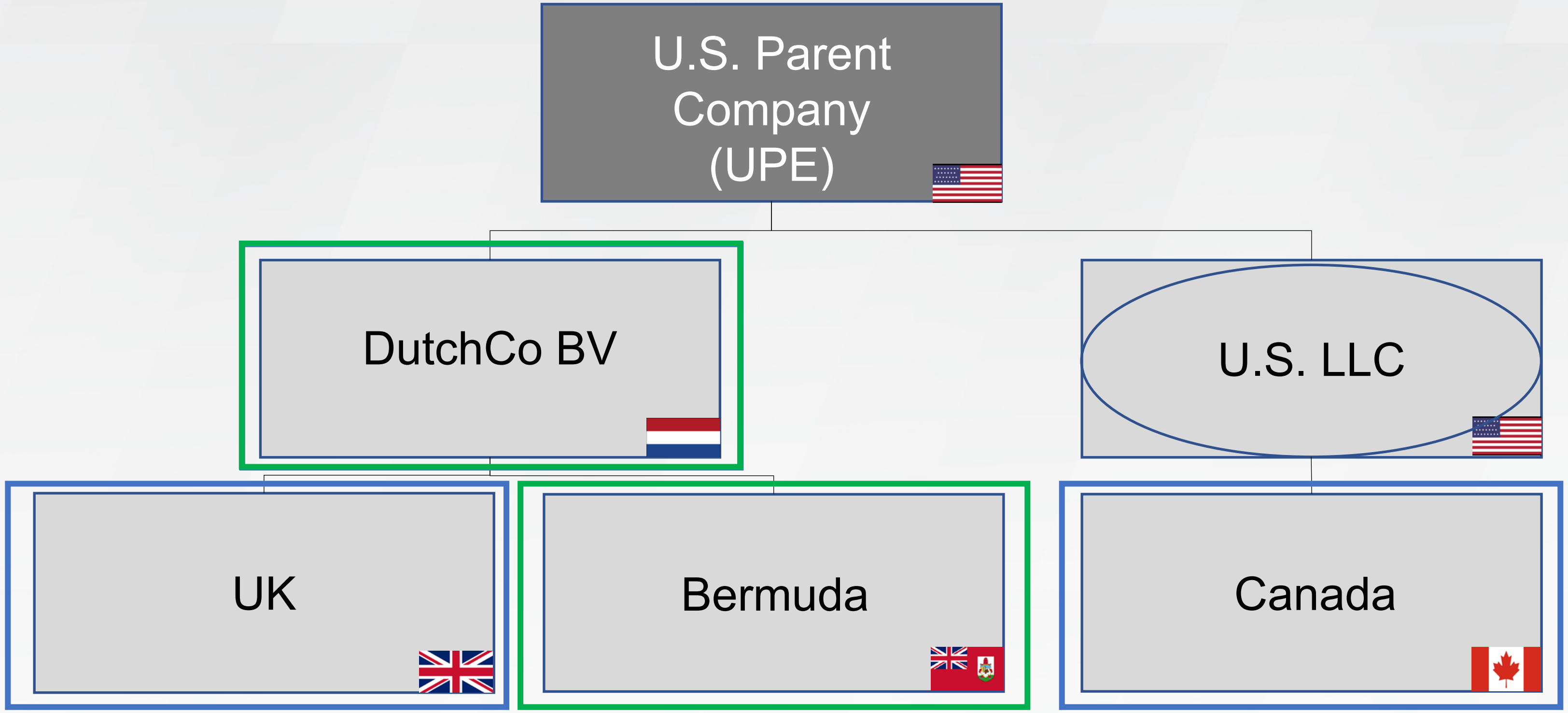
Org Chart Example – IIR

Legend

- UTPR Application
- IIR Application
- QDMTT Application

- DutchCo BV, Canada, and UK collect their share of Top–Up Tax through their QDMTTs
- Bermuda's share of Top–Up Tax will be collected through DutchCo BV's IIR.
- UK's QDMTT will exclude its share of top-up Tax from DutchCo BV's IIR due to application of its QDMTT.
- UPE and U.S. LLC will have outstanding Top–Up Tax.



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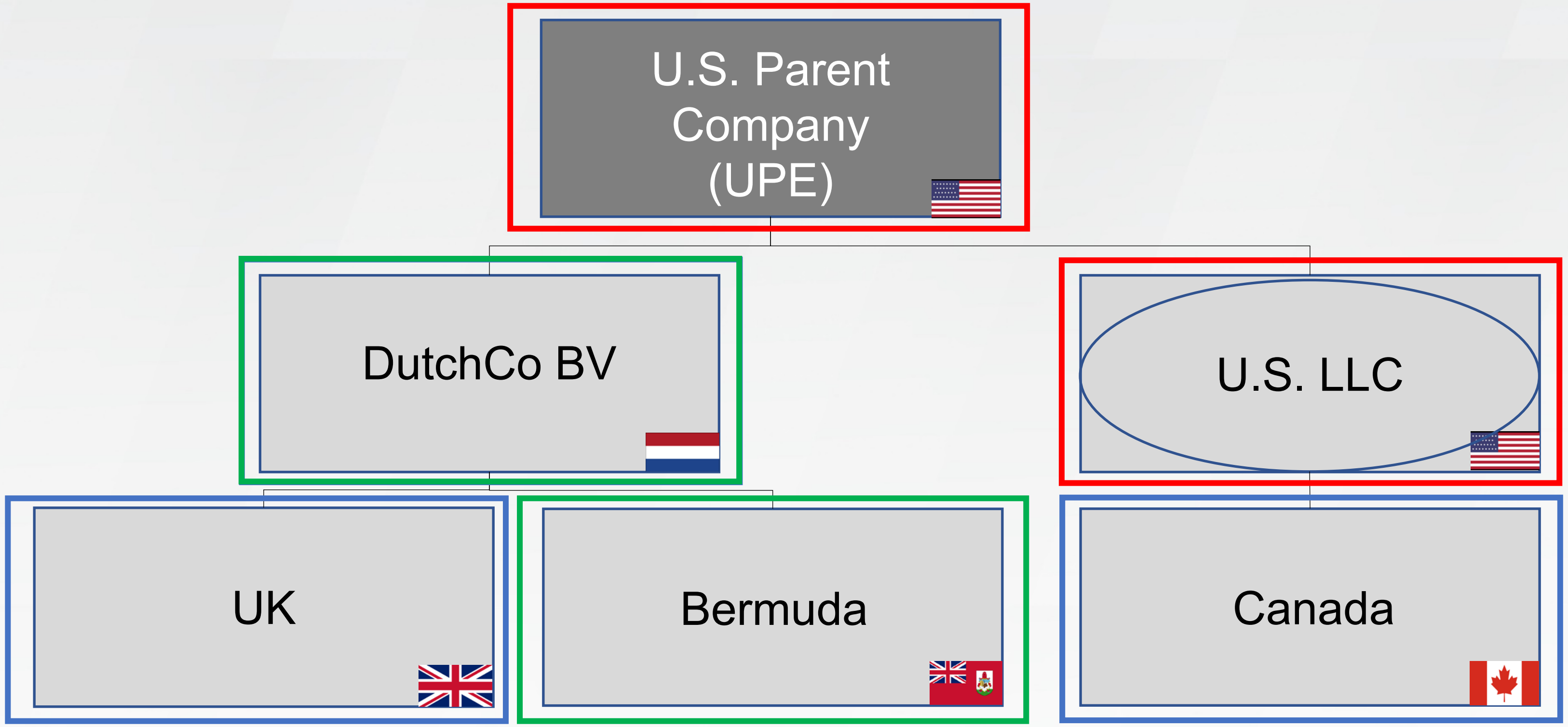
Org Chart Example – UTPR

Legend

- UTPR Application
- IIR Application
- QDMTT Application

- DutchCo BV, Canada, and UK will collect their share of Top–Up Tax through application of their respective QDMTTs.
- DutchCo BV will collect Top–Up Tax on behalf of Bermuda through its IIR; UK's Top–Up Tax is excluded from DutchCo BV's IIR due to its QDMTT.
- UPE and U.S. LLC's Top–Up Tax will not be collected by either Canada or DutchCo BV's IIR.
- DutchCo BV, Canada, and UK will make adjustments to their deductions to collect the shares of Top–Up Tax at UPE and U.S. LLC by application of their UTPRs.



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Org Chart Example – Summary

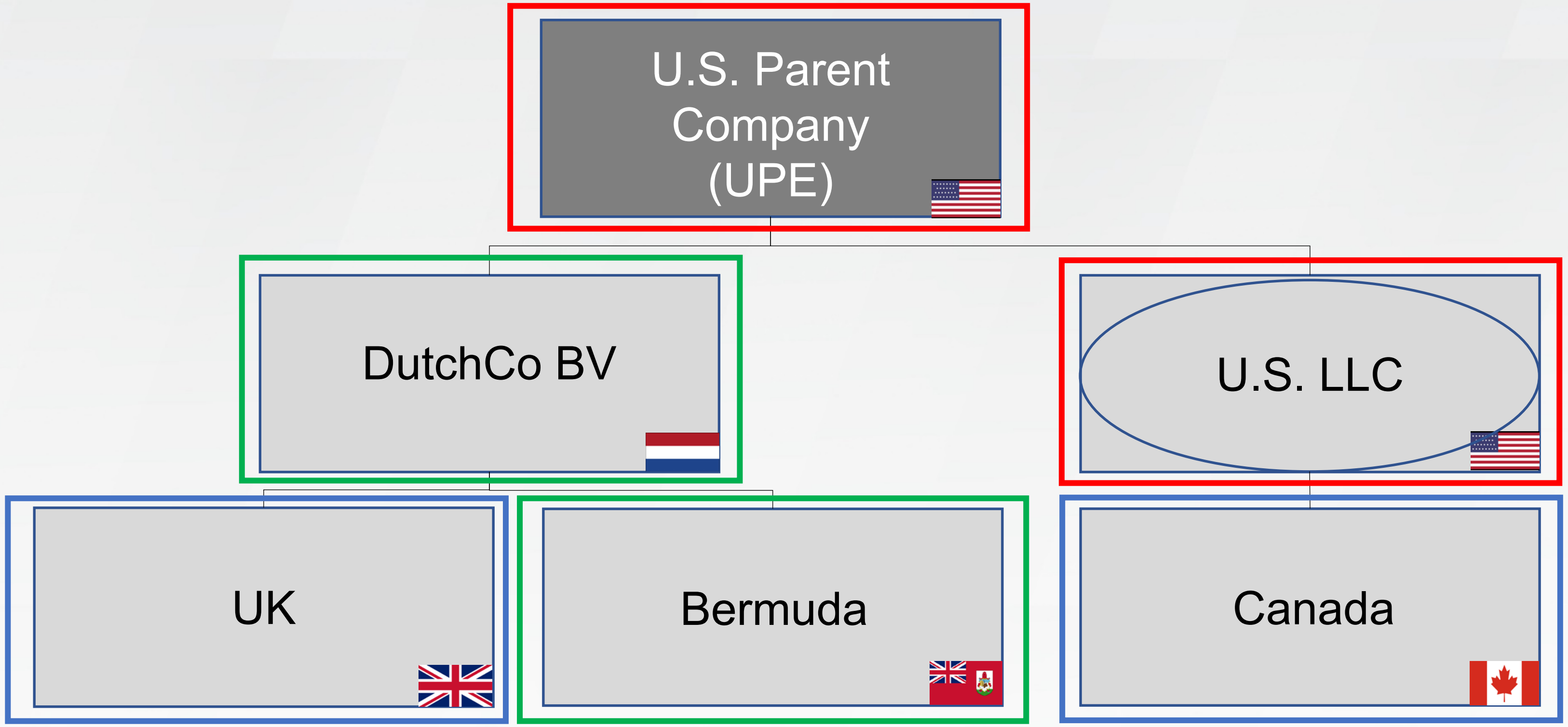
Legend

UTPR Application

IIR Application

QDMTT Application

- DutchCo BV, Canada, and UK will collect Top–Up Tax with respect to their share based on their QDMTTs.
- DutchCo BV will collect Bermuda's share of Top–Up Tax through application of its IIR.
- DutchCo BV, Canada, and UK will collect Top–Up Tax on behalf of UPE and U.S. LLC through their UTPR.



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Calculation Steps

Step 1 – Constituent Entities Covered	• Identify MNE Groups within scope of the GloBE Rules. • Identify Constituent Entities (“CEs”) and Remove any Excluded Entities. • Identify location of each CE.
Step 2 – Determine GloBE Income or Loss	• Determination of Financial Accounting Net Income / (Loss). • Adjust Financial Accounting Net Income or Loss to GloBE Base. • GloBE Income or Loss allocated to Permanent Establishments or through Flow–Through Entities where necessary.
Step 3 – Adjusted Covered Taxes	• Identification of Covered Taxes. • Adjust Covered Taxes for temporary differences and losses and allocate to other CEs as necessary. • Take post–filing adjustments into account.
Step 4 – Effective Tax Rate and Top-Up Tax Computation	• Determination of Substance-Based Income Exclusion Amounts and other exceptions. • Computation of jurisdictional Top–Up Tax for low–taxed jurisdictions (after consideration of Safe Harbours and elections). • Allocation of the Top–Up Tax between Low Taxed CEs.
Step 5– Applying the Charging Provisions	• Identification of UPE liable for Top–Up Tax under IIR and determination of Top–Up Tax paid by UPE under IIR. • Identification of the remaining amount, if any, that is allocable under the UTPR. • Liability for residual Top–Up Tax in the UTPR Jurisdictions through a UTPR adjustment.

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Step 1 – Determine the MNE Group and Constituent Entities

Scope of the GloBE Rules

- Apply to Constituent Entities that are members of a multinational enterprise group (**MNE Group**)
  - Annual revenue of ***EUR 750 million or more***
  - Consolidated Financial Statements of the Ultimate Parent Entity (**UPE**)
  - At least two of the four Fiscal Years immediately preceding the tested Fiscal Year
- Excluded Entities are not subject to the GloBE rules
- "Fiscal Year" definition
  - "Accounting period with respect to which the UPE of the MNE Group prepares its Consolidated Financial Statements"

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Consolidated Financial Statements

- **Consolidated Financials**: financial statements in which assets, liabilities, income, expenses and cash flows and Controlling Interests owned are presented as a single economic unit using an Acceptable Financial Accounting Standard,
- **PE Group Financials**: For PE controlled groups, the financial statements of the Entity that are prepared in accordance with an Acceptable Financial Accounting Standard;
- **Adjusted Financials**: if UPE does not have financial statements prepared in accordance with an Acceptable Financial Accounting Standard, financial statements subject to adjustments to prevent any distortions to GloBE rules; and
- **“Would Be” Financials**: where the UPE does not prepare financial statements, the consolidated financial statements that would have been prepared if required to prepare financials in accordance with an Authorized Financial Accounting Standard using an Acceptable Financial Accounting Standard or another financial accounting standard adjusted to prevent any distortions to the GloBE rules.

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MNE Group

- An **MNE Group**
  - any Group that includes at least one Entity or Permanent Establishment that is not located in the jurisdiction of the Ultimate Parent Entity.
- **“Group”** means:
  - a collection of Entities that are related through ownership or control such that the assets, liabilities, income, expenses, and cash flows of those Entities are either:
    - (a) included in the Consolidated Financial Statements of the Ultimate Parent Entity; or
    - (b) excluded from the Consolidated Financial Statements of the Ultimate Parent Entity solely on size or materiality grounds, or on the grounds that the Entity is held for sale
  - an Entity that is located in one jurisdiction and has one or more Permanent Establishments located in other jurisdictions provided that the Entity is not a part of another Group.

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Ultimate Parent Entity (UPE) & Constituent Entities (CEs)

- **Ultimate Parent Entity**:
  - (a) an Entity that:
    - owns directly or indirectly a Controlling Interest in any other Entity; and
    - is not owned, with a Controlling Interest, directly or indirectly by another Entity; or
  - (b) the Main Entity of a Group that owns one or more permanent establishments.
    - A Main Entity is the Entity that includes the financial accounting net income or loss of a Permanent Establishment in its financial statements.
- **Constituent Entity**:
  - An entity that is included in a Group or
  - any Permanent Establishment of a Main Entity.
  - Do not include any entity that is an Excluded Entity

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Excluded Entity

- (a) a Governmental Entity;
- (b) an International Organisation;
- (c) a Non–profit Organisation;
- (d) a Pension Fund;
- (e) an Investment Fund that is an Ultimate Parent Entity; or
- (f) a Real Estate Investment Vehicle that is an Ultimate Parent Entity.

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Excluded Entity

- An entity where at least 95% (or 85%) of the value of the Entity is owned (directly or through a chain of Excluded Entities) by one or more Excluded Entities (other than a Pension Services Entity) and where that Entity:
  - operates exclusively or almost exclusively to hold assets or invest funds for the benefit of the Excluded Entity or Entities; or
  - only carries out activities that are ancillary to those carried out by the Excluded Entity or Entities.

Note:

- If 85% of the value is owned, substantially all of the Entity's income must be Excluded Dividends or Excluded Equity Gain or Loss
- Five-Year Election to not treat an entity as an Excluded Entity is permissible.

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Step 2 – Computation of GloBE Income / (Loss)

Computation of Net GloBE Income / (Loss)

Financial Accounting Net Income or Loss (FANIL)

+

GloBE Adjustments

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Exclusion for International Shipping Income

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GloBE Adjustments

Listed	Other
Net Tax Expense	Debt Releases
Excluded Dividends	Stock-Based Compensation Adjustment
Excluded Equity Gains or Losses	Arms-Length Adjustment
Included Revaluation Method Gains or Losses	Qualified Refundable Tax Credit Adjustment
Gains or Losses from Disposition of Excluded Assets / Liabilities	Fair Value Gain / Loss Adjustment
Asymmetric Foreign Currency Gain / (Loss)	Aggregate Asset Gain Election Adjustment
Policy Disallowed Expenses	Intragroup Financing Arrangement Expense
Prior Period Errors	Intragroup Transaction Election Adjustment
Changes in Accounting Principles	Insurance Company Tax Adjustment
Accrued Pension Expense	Tier One Capital Equity Adjustment
	GloBE M&A Adjustments

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Listed GloBE Adjustments (Article 3.2.1)

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Article 3.2.1(a): Net Tax Expense

- Addback of the net tax expense to a CE's FANIL.
- May be a negative adjustment, *e.g.*, CE incurs a net loss that results in creation of a deferred tax asset.
- Net tax expense is defined to include the net amount of:
  - Covered taxes accrued
  - Current and deferred income tax expense
  - DTAs attributable to a Fiscal Year loss
  - QDMTT and IIR/UTPR taxes
  - Disqualified Refundable Imputation Taxes (*i.e.,*, refundable taxes to a beneficial owner related to distribution of a dividend generally)

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Article 3.2.1(b): Excluded Dividends

- Adjustment to FANIL for any dividends or other distributions paid from shares or equity interests where
  - an MNE Group holds 10% or more of the payor or
  - the recipient CE has held full economic ownership of the interest for a period of 12 months or more.
- Exceptions:
  - Short–term portfolio shareholdings
  - Ownership interest in an Investment Entity – subject to the Taxable Distribution Method election in Article 7.6

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Article 3.2.1(c): Equity Gains / Losses

- Adjustment to FANIL for a CE's excluded equity gain or loss
- Excluded Equity Gain / (Loss) defined:
  - **Changes in Fair Value**
    - Changes in fair value recorded in P/L
    - If included in OCI, no negative adjustment needed
  - **Equity Method Accounting –** typically with non–controlled Entities owned 20 to 50%
    - Equity method net income = negative adjustment
    - Equity method net loss = positive adjustment
  - **Dispositions** – applicable where MNE Group, in aggregate, owns 10% or more of Ownership Interest other than a Portfolio Shareholding
    - Unlike Excluded Dividends, time period for holding the Ownership Interest is not relevant for determining whether to include such gain or loss

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Article 3.2.1(d): Included Revaluation Method Gains / Losses

- Applies to Entities under the Revaluation Method with respect to accounting for property, plant, and equipment (PPE)
- Defined as net gain or loss, increased or decreased by any Covered Taxes, for the Fiscal Year in respect of all PPE that
  - periodically adjusts the carrying value of PPE to its fair value,
  - records such changes in OCI, and
  - does not subsequently report the gains or losses recorded in OCI through its P/L
- Election – permits CE to not include the gains or losses found in OCI in GloBE income as they arise and defer recording until the asset underlying the PPE is disposed.

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Article 3.2.1(e): Gains or Losses from Disposition of Excluded Assets / Liabilities

- Article 6.3’s GloBE Reorganisation provisions
  - typically requires inclusion of gain or loss arising from a transfer of assets and liabilities
    - To extent gain is excluded = negative adjustment
    - To extent loss is excluded = positive adjustment
- GloBE Reorganisation
  - Gain or loss to the extent there is Non–Qualifying Gain or Loss
    - The lesser of taxable or financial accounting gain or loss on the transfer (as defined in Article 10)

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Article 3.2.1(f): Asymmetric FXGL

- **Asymmetric Foreign Currency Gain or Loss (FXGL)**: GloBE Adjustment that arise due to differences between functional currency for accounting purposes and the one used for local tax purposes.
- Common scenarios – If included in either the computation of a CE's taxable income or FANIL:
  - **Tax Included** – FXGL attributable to fluctuations in the exchange rate between its accounting functional currency and its tax functional currency
    - Positive adjustment to FANIL = FXGL
    - Negative adjustment to FANIL = tax FX loss
  - **FANIL Included –** FXGL attributable to fluctuations in the exchange rate between its tax functional currency and its accounting functional currency
    - Positive adjustment = accounting FX gain
    - Negative adjustment = accounting FX loss

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Article 3.2.1(f): Asymmetric FXGL

- Special Scenarios – where there is a third foreign currency attributable to FXGL:
  - **FANIL Included** – FXGL attributable to fluctuations in the exchange rate between a 3rd foreign currency and its accounting functional currency
    - Positive adjustment = accounting FX loss
    - Negative adjustment = accounting FX gain
  - **Tax Related** – FXGL attributable to fluctuations in the exchange rate between a 3rd foreign currency and its tax functional currency, regardless whether FXGL is included in taxable income.
    - Positive adjustment = tax FX gain
    - Negative adjustment = tax FX loss

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Article 3.2.1(g): Policy Disallowed Expenses

- Policy Disallowed Expenses
  - Adjusts FANIL for expenses accrued by the CE for illegal payments, bribes, kickbacks, fines, and penalties.
- De Minimis rule for fines and penalties
  - no adjustment needed if CE’s fines and penalties are less than EUR 50,000 (or equivalent amount in FC of CE’s FANIL) for a single year

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Article 3.2.1(h): Prior Period Errors & Changes In Accounting Principles

- Adjustment where there are changes made to a CE’s opening equity at the beginning of a Fiscal Year attributable to either:
  - **Prior Period Error**: a correction of a prior period errors that generally affected the computation of GloBE income or loss in a prior Fiscal Year where GloBE was applicable
    - If error correction requires a corresponding decrease to Covered Taxes in a previous Fiscal Year of EUR 1M or more, no adjustment is needed.
  - **Change In Accounting Principles**: A change in accounting principle or policy that affects the income or expenses includable in the computation of GloBE income or loss.
    - Only applies to the extent the equity adjustment is attributable to items of income/expense should have been included in computation of GloBE income or loss.

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Article 3.2.1(i): Accrued Pension Expense

- FANIL adjustment equal to the difference between:
  - amount of pension contributions made during the year and
  - amount accrued as an expense in the FANIL computation
- Dependent upon whether a CE's FANIL includes an accrued pension expense or income with respect to a Pension Fund.
  - Accrued Pension Expense:
    - Positive Adjustment = if amount accrued under FANIL exceeds contributions for the year
    - Negative Adjustment = if contributions for the year exceed expense accrued in FANIL
  - Accrued Pension Income
    - Negative Adjustment = sum of pension income and amount of pension contributions, if any, during the Fiscal Year

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Article 3.2.1(i): Accrued Pension Expense

Accrued Pension Adjustment = [Pension Contributions (for fiscal year) + Accrued Pension Income / (Expense)] × (–1)

Other GloBE Adjustments

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Debt Release Exclusion Election

- **Debt Release:** Where an amount owing by an entity is waived or forgiven by a creditor without being repaid in full and with the debtor being freed or released from any further obligation to pay the amount and is recorded in FANIL of CE.
- Introduced in February 2023 Administrative Guidance
- Election to exclude from GloBE Income / (Loss)
- Certain procedural and other specified rules for claiming the Election must be met.

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Debt Release Exclusion Election

- Applicable if debt release relates to:
  - **Bankruptcy Proceedings** – debt release undertaken under in formal insolvency or bankruptcy proceedings
    - Applies to third party and related–party debts released applicable to the debt arrangement;
  - **Foreseeable Debtor Insolvency** – Attributable to a third party debt and debtor would have been insolvent within 12 months but for the release of the third–party debts released under the debt arrangement.
    - Applies to third party and related–party debts released applicable to the debt arrangement;
  - **Actual Debtor Insolvency** – Debtor's liabilities exceed fair market value of its assets determined immediately before the debt release.
    - Applies to only third party debts
    - Amount excluded = lesser of (a) the excess Debtor's liabilities over FMV of its assets determined immediately before the debt release, or (b) the reduction in Debtor's attributes under tax laws of jurisdiction resulting from debt release.

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Article 3.2.2 – Stock Based Compensation Adjustment

- Election to permit CEs to substitute the amount of stock–based compensation allowed as a deduction to CE's taxable income in place of the amount expensed in the CE's financial accounts.
- Addresses disparity between tax and financial accounting treatment:
  - **Tax purposes** – value of compensation paid based on FMV of stock when option exercised
  - **Financial accounting purposes** – value of compensation paid based on present value of stock at time of issuance, amortized over exercise period
- Five-year election once made
- Certain recapture provisions and additional rules included to prevent claiming deduction for option that will never be exercised.

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Article 3.2.3 – Arms Length Adjustment

- Transactions between Group Entities must be priced consistently with the Arm's Length Principle and recorded at the same price for GloBE purposes for all parties.
  - Presumption: Arm's Length Principle is default for uncertain situations or where transfer pricing by country differs.
- Not required for transactions between CEs in same jurisdiction
  - Loss Exception: Arm's Length Principle must be considered if transfer of an asset produces a loss taken into account in the GloBE income / loss computation (*i.e.,*, not excluded loss).
  - If five-year consolidated accounting election in Article 3.2.8 in place for jurisdiction – no adjustment is needed.

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Article 3.2.4 – Qualified Refundable Tax Credit Adjustment

- Full amount of Qualified Refundable Tax Credit (QRTC) is to be treated as GloBE income for a recipient CE in the year of accrual.
  - QRTCs or portion of a credit that is a QRTC, = income (not a reduction to GloBE income)
  - Non–QRTCs or portion of a credit that is not a QRTC = deduction in full from GloBE income.

- Corresponding adjustment to Adjusted Covered Taxes are needed to reflect these adjustments.

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Article 3.2.4 – Qualified Refundable Tax Credit Adjustment

- QRTC: tax credit designed where:
  - (1) it must be paid as cash or available as cash equivalents, and
  - (2) will be paid or made available within 4 years from when CE satisfies conditions for credit under applicable jurisdiction laws.

- Non QRTC: any tax credit that is:
  - (1) not a QRTC, and
  - (2) is refundable in whole or in part.

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Article 3.2.4 – Marketable Transferable Tax Credit Adjustment

- Addressed in 2023 July Administrative Guidance
- Marketable Transferable Tax Credit (MTTC) treated as QRTCs.
- MTTC: any tax credit which meets all three requirements:
  - (1) can be used by the holder of the credit to reduce its liability for a Covered Tax in an issuing jurisdiction and
  - (2) meets the Legal Transferability Standard in the hands of holder, and
  - (3) meets Marketability Standard in the hands of holder.

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Article 3.2.4 – Marketable Transferable Tax Credit Adjustment

- **Legal Transferability Standard**:
  - Originator of a tax credit
    - if the tax credit regime is designed where Originator can transfer the credit to an unrelated party in the Origination Year or within 15 months of the end of the Origination Year.
      - Origination Year – Fiscal Year in which it satisfies the eligibility criteria for the credit
  - Purchaser of a tax credit
    - if the tax credit regime is designed where purchaser can transfer the credit to an unrelated party in the Fiscal Year in which it purchased the tax credit.

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Article 3.2.4 – Marketable Transferable Tax Credit Adjustment

- **Marketability Test**:
  - Originator of a tax credit
    - if transferred to an unrelated party within 15 months of the end of the Origination Year at a price that equals or exceeds the Marketable Price Floor.
      - May be satisfied if not transferred or transferred between related parties and similar tax credits trade between unrelated parties within 15 months of the end of the Origination Year
  - Purchaser
    - if Purchaser acquired the credit from an unrelated party at a price that equals or exceeds the Marketable Price Floor.
- Marketable Price Floor: 80% of NPV of tax credit
  - NPV is determined based on yield to maturity on debt instrument issued by the issuing government with equal or similar maturity (and up to five-year maturity) issued in the same Fiscal Year as the tax credit transferred (or if not transferred, the Origination Year).

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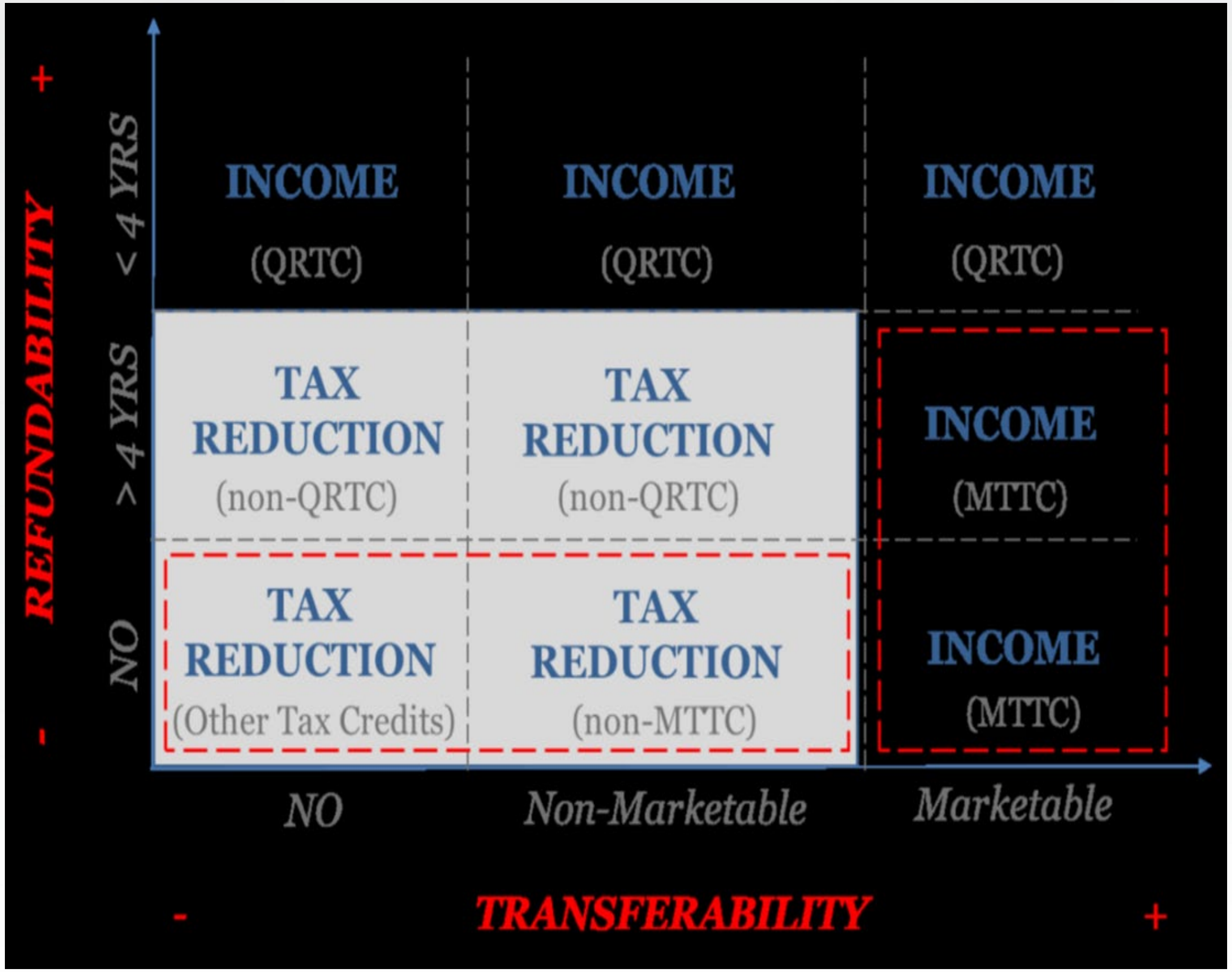
Article 3.2.4 – QRTC & MTTC Testing

- Testing threshold for determining the GloBE category of a tax credit – looks to
  - (a) the *refundability* and
  - (b) if refundable, then *transferability* of tax credit.
- If tax credit meets the refundability criteria and qualifies as a QRTC, it will be defined as a QRTC regardless of whether it could be also be transferable at a marketable price.
- If tax credit does not meet the refundability criteria (*i.e.*, it is either a non–refundable or a non–QRTC), then the transferability criteria is tested to determine whether tax credit could be a MTTC.



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Article 3.2.5 – Fair Value Gain / Loss Adjustment

- Election to include gain/(loss) under realization method in lieu of fair value or impairment gain/(loss) with respect to assets sold.
- Five-Year Election
  - cannot be revoked after election made until after five-year period
  - Cannot be elected into after revocation until five subsequent years.
  - If revoked, recapture adjustments must be made to reflect the net fair value gain or loss that arose during the pendency of the election.
- Effect of Election:
  - If elected, gain/(loss) associated with asset or liability will arise when asset is disposed rather then as its value changes due to changes in market value or impairments.
  - Carrying value of asset or liability for purposes of determining gain/(loss) is carrying value of asset or liability at the later of time the asset acquired / liability incurred or beginning of the year in which election made.

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Article 3.2.6 – Aggregate Asset Gain Election

- Permits an MNE Group to allocate Aggregate Asset Gain under a specified method allocating the Aggregate Asset Gain over a period of up to five years
  - Aggregate Asset Gain = net gain in the election year from disposition of Local Tangible Property owned by all CEs located in the jurisdiction – except gain or loss on asset transfer between Group Members.
  - If not elected – gain/loss in a single year (*i.e.*, effecting MNE Group's jurisdictional ETR)
  - Local Tangible Property – immovable property located in the same jurisdiction as the CE in question
  - Five-year period – four years before election made and the election year
- Election
  - Annual
  - made on a jurisdictional basis

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Article 3.2.7 – Intragroup Financing Arrangement (IFA) Expense

- Requires group financing payments (i.e., interest expense) between Low Tax and High Tax Entities in an MNE Group not increase GloBE income of High Tax Entity to the extent High Tax Entity uses the interest income to immediately set–off interest income with excess interest expense capacity.
  - Adjustment needed – increase expense in computing the GloBE income or loss of the Low Tax Entity and not have a corresponding increase to GloBE income of High Tax Entity party to the IFA.
- **IFA**: any arrangement between two or more members of the MNE Group whereby a High Tax counterparty directly or indirectly provides credit or otherwise makes an investment in a Low Tax Entity.
  - Includes all steps and transactions that give effect to the arrangement (including intermediaries involved).
    - Financing Intermediary Exception: if intermediary operates as a treasury/financing center managing group's working capital requirements, money borrowed from the High Tax Counterparty considered separate from and independent from loan made to the Low Tax Entity (i.e., loans not in arrangement).
- **Low/High Tax Entity** – entity which would be a Low Tax/High Tax Jurisdiction if ETR determined without regard to any income / expense accrued in the IFA.

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Article 3.2.8 – Intragroup Transaction Election Adjustment

- Election permits consolidated accounting treatment to be applied to transactions between CEs of the same MNE Group in the same jurisdiction.
  - Effect: income, expense, gains, and losses from transactions between CEs may be eliminated from the computation of GloBE income or loss in same manner as amounts related to transactions among members of a consolidated group are eliminated as part of the consolidation adjustments under an Acceptable Financial Accounting Standard used by the UPE in preparing its Consolidated Financial Statements.
- Must distinguish transactions between CEs in the same jurisdiction vs. CEs in a different jurisdiction.
- May be revoked
  - If revoked, appropriate adjustments are required to ensure no duplication or omission of items in computation of GloBE income or loss.

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Article 3.2.9 and 3.2.10 – Insurance Company Tax and Tier One Capital Equity Adjustment

- Exclude income of an **insurance company** from computation of GloBE income – Article 3.2.9
  - To the extent amounts charged to policy holders for taxes paid by an insurance company with respect to returns to the policy holders are only excluded if the tax is not recorded as an expense within the P/L before tax in the financial accounts.
  - No adjustment needed if tax on policy holders is treated as an above–the–line expense under the accounting standard used in the Consolidated Financial Statements.
- Increases or decreases to equity of a CE attributable to distributions related to **Additional Tier One Capital** to be treated as income / expense in computation of GloBE income or loss – Article 3.2.10
  - Equity adjustments for issuance or redemption of Additional Tier One Capital not included in GloBE.
  - Additional Tier One Capital: instrument issued by a CE pursuant to regulatory requirements applicable to the banking sector convertible to equity or may be written down if a pre–specified triggering event occurs with other features designed to aid loss absorbency in the event of a financial crisis.

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Article 3.2.11 – GloBE M&A Adjustments

- Adjustments must be made to CE's FANIL necessary to reflect the requirements of Article 6 (Corporate Restructuring and Holding Company rules) and 7 (Tax Neutrality and Distribution Regime rules) of the GloBE Model rules
- Special elections included in these Articles enabling dividend income in certain scenarios to be included in GloBE income or loss and Adjusted Covered Taxes – *i.e.*, Taxable Distribution Method Election under 7.6.
- Additional rules tailored to adjusting GloBE income or loss contemplated for CEs leaving or joining an MNE Group.

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Article 3.3.3 – International Shipping Income Exclusion

- Includes net income of a CE from:
  - Transportation of passengers/cargo by ships operating in international traffic,
  - Transportation of passengers/cargo by ships operated in international traffic under slot–chartering arrangements;
  - Leasing a ship to be used for the transportation of passengers/cargo in international traffic on fully equipped charter;
  - Leasing ship on bare boat charter basis for use of transportation of passengers or cargo in international traffic to another CE;
  - Participation in a pool, a joint business or international operating agency for transportation of passengers/cargo by ships in international traffic; and
  - Sale of a ship used for transportation of passengers/cargo in international traffic provided ship held for use by the CE for a minimum of one year.
- Not applicable to extent net income obtained from operations via **inland waterways in same jurisdiction**.

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Step 3 – Computation of Adjusted Covered Taxes

Computation of Adjusted Covered Taxes

Covered Tax Expense (FANIL current tax expense)

+

Additions / Reductions to Covered Tax Expense

+

Total Deferred Tax Adjustment Amount (DTAA)*

+

Increases / Decreases for OCI / Equity Items

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*If GloBE Loss Election under Article 4.5 is made, no DTAA adjustment required.

Adjusted Covered Taxes – Article 4

- Determined based off mathematical computation that is designed to conform to the base of GloBE income and loss
  - Adjustment to GloBE income under Article 3 (denominator of the GloBE ETR) = corresponding adjustment to Covered Taxes (numerator of the GloBE ETR)
- Covered Tax cannot be taken into account more than once
- **Special Rule For Negative Tax Expense Carryforwards:**
  - In Fiscal Year where no Net GloBE Income for a jurisdiction, if Adjusted Covered Taxes for a jurisdiction less than zero and less than Expected Adjusted Covered Taxes Amount → CEs in jurisdiction are treated as having Additional Current Top-Up Tax in jurisdiction in current Fiscal Year
    - Expected Adjusted Covered Taxes Amount = GloBE Income or Loss for a jurisdiction multiplied by the Minimum Rate.

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Covered Taxes – Include

- Taxes recorded in financial accounts of CE with respect to its income or profits or its share of the income or profits of CE in which it owns an Ownership Interest;
- Taxes on distributed profits, deemed profit distributions, and non–business expenses imposed under an Eligible Distribution Tax System;
- Taxes imposed in lieu of generally applicable corporate income tax; and
- Taxes levied by reference to retained earnings and corporate equity, including tax on multiple components based on income and equity.

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Covered Taxes – Does Not Include

- Taxes accrued pursuant to an IIR,
- Taxes accrued pursuant to a UTPR,
- Taxes accrued pursuant to a QDMTT
- Taxes paid by an insurance company with respect to returns to policyholders
- Disqualified Refundable Imputation Tax

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Disqualified Refundable Imputation Tax

- Any amount of Tax, other than a Qualified Imputation Tax, accrued or paid by a CE that is either:
  - refundable to beneficial owner of a dividend distributed by CE with respect to that dividend or creditable by beneficial owner against a tax liability other than a tax liability with respect to the dividend; or
  - refundable to distributing corporation upon distribution of a dividend.

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Qualified Imputation Tax

- A Covered Tax accrued/paid by a CE refundable/creditable to the beneficial owner of a dividend distributed by the CE (or, in case of a Covered Tax accrued or paid by a PE, a dividend distributed by the Main Entity) to the extent the refund/credit provided is either:
  - By a jurisdiction that is not jurisdiction imposing Covered Taxes under a foreign tax credit regime;
  - To a beneficial owner of the dividend subject to tax at a nominal rate equaling or exceeding the Minimum Rate on the dividend on a current basis under law of jurisdiction imposing Covered Tax;
  - To an individual beneficial owner of the dividend who is tax resident in the jurisdiction imposing Covered Taxes and subject to tax on dividends as ordinary income; or
  - To a special entity enumerated under GloBE rules
    - Example: Governmental Entity, International Organization, resident Non–profit Organization, resident Pension Fund, and others.

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Addition to Covered Taxes

- Designed to ensure all Covered Taxes are properly captured and attributed to a CE relative to GloBE income/loss.
- Equal to sum of all items:
  - Any amount of Covered Taxes accrued as an **ordinary expense** in the profit before taxation in the financial accounts;
  - Any amount of **GloBE Loss Deferred Tax Asset** made available by the **GloBE Loss Election** under Article 4.5.3;

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Addition to Covered Taxes

- Any amount of Covered Taxes paid in the Fiscal Year and relates to an uncertain tax position (**UTP**) where the amount has been treated for a previous Fiscal Year as a Reduction to Covered Taxes under Article 4.1.3(d);
  - Does not include penalties/interest accrued or paid with respect to UTP not included as Addition.
- Any amount of credit or refund in respect of a **QRTC** that is recorded as a reduction to the current tax expense.
  - Corresponding adjustment to the FANIL adjustment treating QRTC as income in year the entitlement to the credit accrues (see Article 3.2.4)

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Reduction To Covered Taxes

- Designed to ensure ETR calculation for relevant CE reflects taxes with respect to GloBE income/loss expected to be paid within three years.
- Equal to sum of all items:
  - Amount of current tax expense with respect to **income excluded** from the computation of GloBE Income or Loss
  - Any amount of credit or refund in respect of a **Non–QRTC** not recorded as a reduction to the current tax expense;
    - Corresponding adjustment to the FANIL adjustment excluding Non–QRTC income in year the entitlement to the credit accrues (see Article 3.2.4)

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Reduction To Covered Taxes

- Any amount of **Covered Taxes refunded or credited** to a CE not treated as an adjustment to current tax expense in the financial accounts;
    - Exception: No reduction for QRTCs
- Amount of current tax expense which relates to a **UTP**;
    - Unless and until paid, current tax expense related to a UTP must not be included
- Any amount of current tax expense **not expected to be paid within three years** of the last day of the Fiscal Year.
    - Article 4.6.4: If >EUR 1 million of amount accrued by a CE as current tax expense and included in Adjusted Covered Taxes for Fiscal Year is not paid within 3 years of the last day of such year → ETR and Top-Up Tax for Fiscal Year in which unpaid amount was claimed as a Covered Tax must be recalculated excluding such unpaid amount from Adjusted Covered Taxes.

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Total DTAA

- Mechanical Computation in Article 4.4 designed to address temporary differences to tax expense for GloBE purposes.
- **Starting Point: Compare the applicable tax rate to the Minimum Rate**
  - Minimum Rate represents the rate of the global minimum tax in the Fiscal Year in question – *i.e.*, 15% today (17% eventually).
- **If applicable tax rate is <u>less</u> than the Minimum Rate** → DTAA = deferred tax expense accrued in CE's financial accounts
- **If applicable tax rate is <u>greater</u> than Minimum Rate** → DTAA = deferred tax expense accrued in CE's financial accounts recast at the Minimum Rate (revaluation of deferred tax expense)
- DTAA is subject to certain adjustments to Covered Taxes under Articles 4.4.2, 4.4.3, and certain exclusions.

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Total DTAA – Exclusions

- Applicable exclusions to DTAA:
  - Amount of deferred tax expense with respect to excluded items in GloBE Income or Loss under Article 3;
  - Amount of deferred tax expense with respect to Disallowed Accruals and Unclaimed Accruals;
  - Impact of a valuation adjustment or accounting recognition adjustment with respect to a deferred tax asset;
  - Amount of deferred tax expense arising from re–measurement due to a change in the applicable domestic tax rate; and
  - Amount of deferred tax expense related to generation and use of tax credits.

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Total DTAA – Article 4.4.2 Adjustments

- Increase = amount of Disallowed Accrual or Unclaimed Accrual paid during Fiscal Year
  - Disallowed Accrual → any movement in deferred tax expense accrued in the financial accounts of a CE which relates to a UTP and/or distributions from a CE.
  - Unclaimed Accrual → any increase in a DTL recorded in the financial accounts of a CE for a Fiscal Year that is not expected to be paid within the subsequent five–year time period set forth in Article 4.4.4 and an annual election not to include in Total DTAA is made for the Fiscal Year.

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Total DTAA – Article 4.4.2 Adjustments

- Increase = amount of Recaptured Deferred Tax Liability computed in a preceding Fiscal Year that is paid during current Fiscal Year
- Reduce = amount that would be attributable to reduction to the DTAA due to loss DTA for a current-year loss (in event loss DTA not recognized due to criteria not met)

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DTAA – Article 4.4.3 Adjustment

- Applicable only if:
  - There is a DTA attributable to a GloBE Loss, AND
  - DTA attributable to GloBE Loss is recorded at a rate lower then the Minimum Rate
- If requirements met, the DTA is revalued at the Minimum Rate in the Fiscal Year in which the loss becomes a GloBE loss.
- May create Additional Top–Up Tax in certain instances
- Policy: prevent distortions attributable to loss DTA arising in future years and encourage consistent outcomes with GloBE income/loss base.

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Special DTL Recapture Rule & Recapture Exception Accrual

- Article 4.4.4 → to extent a DTL is taken into account in Covered Taxes and the DTL is not paid within five subsequent Fiscal Years, the amount must be recaptured.
  - Treated as a Reduction To Covered Taxes in the fifth preceding Fiscal Year (results in a re–computation of ETR and Top–Up Tax)
  - The Recaptured DTL for current Fiscal Year = amount of deferred tax liability included in the Total DTAA in the fifth preceding Fiscal Year not reversed by end of the last day of current Fiscal Year
- Exception: **Recapture Exception Accrual** (Article 4.4.5)
  - if amount subject to the DTL Recapture Rule is a Recapture Exception Accrual = no DTL Recapture required

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Special DTL Recapture Rule & Recapture Exception Accrual

- Recapture Exception Accrual = tax expense accrued attributable to changes in deferred tax liabilities with respect to:
  - Cost recovery allowances on tangible assets
  - Cost of license from a government for use of immovable property/exploitation of natural resources entailing investment in tangible assets
  - R&D expense
  - De–commissioning and remediation expenses;
  - Fair value accounting on unrealized net gains;
  - FX net gains;
  - Insurance reserves and insurance policy deferred acquisition costs;
  - Gains from the sale of tangible property located in the same jurisdiction of CE that are reinvested in tangible property in same jurisdiction;
  - Any additional amounts accrued resulting from accounting principles changes related to these items.

The GloBE Loss Election

- Introduced in Article 4.5
- Alternative to DTAA rules
- Jurisdictional election that creates a GloBE Loss DTA in each year where there is a Net GloBE Loss for the elected jurisdiction and permits the GloBE Loss DTA to be carried forward and used in subsequent Fiscal Years as an Addition to Covered Taxes (4.1.2).
  - GloBE Loss DTA = Net GloBE Loss x Minimum Rate
  - Once GloBE Loss DTA is used in a subsequent Fiscal Year, the DTA must be reduced.
  - GloBE Loss DTA is a jurisdictional attribute with respect to the MNE Group that made the election – *i.e.*, not transferable with respect to a CE transferred to another MNE Group

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The GloBE Loss Election

- **One–Time Election**
  - Must be filed with the first GloBE Information Return (GIR) of MNE Group that has a CE located in the jurisdiction for which the election is made
  - Not applicable for jurisdictions with Eligible Distribution Tax Systems in Article 7.3
  - Can be revoked
    - If revoked → any remaining GloBE Loss DTA must be reduced to zero upon revocation.
- **Special Rule for Flow-Through UPEs** – can be made for Flow-Through UPEs but only with respect to the UPE and not other entities in the UPE jurisdiction.

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Increase or Decrease in Covered Tax for OCI and Equity

- Increases or decreases to Covered Taxes that are not included in current or deferred tax expense but are recorded in equity or OCI are required to be adjusted to Covered Taxes when the amounts of income or loss to which such taxes relate are considered in the computation of GloBE income or loss.
- Example: CE subject to tax on gain/loss taken into account under OCI pursuant to revaluation method for PPE under Article 3.2.1(d).
  - If gain included in GloBE = increase to covered tax adjustment
  - If loss included in GloBE = reduction to covered tax adjustment

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Day 1 Closing Remarks