



GloBE Bulletin

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Dhruva publications are designed to assist readers to keep abreast with latest news, developments and tax issues that concern businesses. It is our endeavour to put forward painstaking research which equips you with the knowledge necessary to navigate the complex world of taxation effectively. At Dhruva, our international tax team is a frontrunner in analysing all latest developments with respect to the OECD IF's proposed two-pillar solution. We hope that you will find this publication to be a valuable resource and we look forward to hearing your comments and suggestions.

Calculating top-up taxes (TUT) involves a complex, multi-step process. The task is further complicated by the diverse accounting practices followed in different countries. Central to this intricate procedure is the Adjusted Covered Taxes computation, which requires a series of detailed adjustments, covering both current and deferred taxes. Additionally, the Model GloBE Rules offer various elections for certain tax adjustments, which require careful judgment and thorough analysis.

In this edition, we aim to analyse the Adjusted Covered Taxes computation process by breaking down the key components of these tax adjustments. Our objective is to present a concise analysis, helping readers gain a high-level understanding of the fundamental aspects of tax computation under the GloBE Rules.

This is the eleventh edition of our monthly alert series on the GloBE Rules. This essential resource aims to serve as a compass in navigating the evolving landscape of GloBE Rules, enabling one to anticipate and effectively respond to the challenges and opportunities presented by the imminent implementation of these rules.



A. Knowledge Bytes:

GloBE Rules require the computation of jurisdictional Effective Tax Rate (ETR). The numerator for the ETR formula is Adjusted Covered Taxes, the computation of which is governed by Article 4 of the Model GloBE Rules.

The starting point for the computation mechanism is the amount of current tax expense recorded in the financial accounts with respect to Covered Taxes. Articles 4.1 to 4.4 then prescribe a set of adjustments (including accounting for deferred taxes) to arrive at Adjusted Covered Taxes. The broad theme of these adjustments is to only take those taxes into ETR computation which pertain to income included in GloBE computation so that meaningful comparison can be made.

This edition, along with the next one, focuses on a comprehensive analysis of the key adjustments in the calculation of the Adjusted Covered Taxes.

1. Covered Taxes

Art. 4.2.1 provides four facets to the meaning of Covered Taxes:

- The first facet covers taxes recorded in the financial accounts of a constituent entity (CE) with respect to its income or profits or its share of the income or profits of a CE in which it owns an Ownership Interest.
- The second facet covers taxes on distributed profits, deemed profit distributions, and non-business expenses imposed under an Eligible Distribution Tax System.
- The third facet covers taxes imposed in lieu of a generally applicable corporate income tax. This category includes withholding taxes.
- The fourth facet covers taxes levied by reference to retained earnings and corporate equity, including a tax on multiple components based on income and equity.

To illustrate, a resource levy (say @ 20% of iron ore extracted) would not qualify as Covered Taxes. However, withholding taxes on income would generally qualify as Covered Taxes.

The “in lieu of” concept also covers Taxes that are imposed on an alternative basis (i.e. other than net income), such as Taxes based on the number of units produced or commercial surface area, and which are used as substitutes for a generally applicable income tax under the laws of the jurisdiction. If taxes are levied on gross income for certain categories of businesses on a simplified basis as against net income, such taxes would also qualify. Taxes levied under the Subject to Tax Rule (STTR) would also qualify.

Art. 4.2.2 further clarifies that top-up taxes paid under the GloBE framework namely under an IIR, UTPR or a QDMTT do not qualify as Covered Taxes.

2. Additions to Current Taxes (Art. 4.1.2)

Art. 4.1.2 requires four additions to Covered Taxes as follows:

- any amount of Covered Taxes accrued as an expense in the profit before taxation in the financial accounts – it needs to be noted that if any Covered Taxes are included in any expense head (for e.g., where interest withholding tax is recorded as debit to interest income) then such Covered Taxes need to be added to the tax amount in ETR formula;
- any amount of GloBE Loss Deferred Tax Asset used under Article 4.5.3 – this is akin to utilisation of deferred tax asset created under financial accounts which lead to increase in ETR as per financial accounts.
- any amount of Covered Taxes that is paid in the FY and that relates to an uncertain tax position where that amount has been treated for a previous FY as a reduction to Covered Taxes - Uncertain tax positions



generally result when a CE takes a filing position that is not more likely than not to be sustained upon examination.

- any amount of credit or refund in respect of a Qualified Refundable Tax Credit that is recorded as a reduction to the current tax expense.

3. Reductions to Current Taxes (Art. 4.1.3)

Art. 4.1.3 requires five reductions to Covered Taxes as follows:

- the amount of current tax expense with respect to income excluded from the computation of GloBE Income or Loss – this is premised on the matching concept so that the ETR reflects a fair and accurate position. To illustrate, say a CE has paid taxes on certain dividend income received from its subsidiary. However, by virtue of Art. 3.2.1, such dividend income is excluded income and correspondingly, any taxes on such dividend income are reduced from Covered Taxes.
- any amount of credit or refund in respect of a Non-Qualified Refundable Tax Credit that is not recorded as a reduction to the current tax expense.
- any amount of Covered Taxes refunded or credited, except for any Qualified Refundable Tax Credit, to a CE that was not treated as an adjustment to current tax expense in the financial accounts – generally, tax refunds / credits are adjusted against the tax expenses in the financial accounts itself as prior period adjustments (if pertaining to previous periods). This adjustment addresses a situation where such treatment is not done in financial accounts.
- the amount of current tax expense which relates to an uncertain tax position; and

- any amount of current tax expense that is not expected to be paid within three years of the last day of the FY.

4. Tax Credits

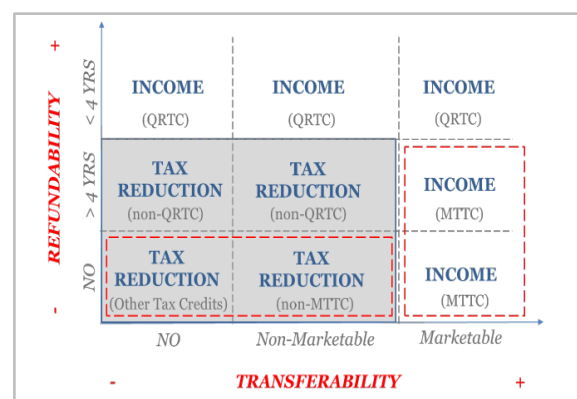
Tax credits are broadly of two types –

- refundable; and / or
- transferable.

Refundable tax credits which are payable in cash / cash equivalents within four years are generally termed as Qualified Refundable Tax Credits (QRTC) with the other refundable tax credits termed as non-QRTC.

Transferable tax credits are also divided into two types basis legal transferability and marketability (transfer price \geq 80% of NPV of credit). Tax credits satisfying both these conditions are termed 'Marketable Transferable Tax Credit' (MTTC) while the ones not satisfying any condition are non-MTTC credits.

The interplay between refundable credits and transferable credits and their treatment in GloBE income / tax computation has been shown in the diagram below –



Source: OECD Administrative Guidance July 2023

To illustrate, say an MNE Group has 1000 of GloBE Income and receives a refundable tax credit of 20 in a jurisdiction. Assuming that the Group has 160 of taxes (before adjusting the tax credit), there can be two possible scenarios under the GloBE Rules depending



on whether the tax credit is treated as a QRTC or a NQRTC.

Taxes shown in financial accounts =
160 – 20

= 140

ETR before adjusting tax credit is
16.00% (160 / 1,000)

The two situations have been dealt with
below:

Scenario I – Treated as QRTC:

GloBE Income = 1,000 + 20 = 1,020

Adjusted Covered Taxes = 140 + 20 =
160

ETR = 160 / 1,020 = 15.69%

Scenario II – Treated as NQRTC:

GloBE Income = 1,000

Adjusted Covered Taxes = 160 - 20 =
140

ETR = 140 / 1,000 = 14.00%

It can be clearly seen that while tax
credits generally have an adverse effect
on ETR, QRTCs generally have a lesser
adverse impact on ETR than NQRTCs.

local tax loss as the starting point for
determining its Total Deferred Tax
Adjustment Amount under Article 4.4 would
undermine the integrity of the GloBE Rules
by effectively allowing the CE to substitute
the (more generous) local tax rules for those
agreed under the GloBE. The approach
taken under Art. 4.1.5 is to tax the excess
benefit resulting from the permanent
difference in the year it is created at the
Minimum Rate but to allow the CE to follow
the local tax rules and apply the excess
deferred tax asset arising for local tax
purposes to shelter income in a future year
without giving rise to adverse outcomes
under the GloBE Rules.

Adjustments pertaining to deferred taxes
and allocation of taxes from one CE to
another CE shall be covered in a
subsequent edition along with adjustments
for post-filing changes to tax positions.

5. Additional Current Top-up Tax

In a FY in which there is no Net GloBE
Income for a jurisdiction, if the Adjusted
Covered Taxes for a jurisdiction are less
than zero and less than the Expected
Adjusted Covered Taxes amount, the CEs in
that jurisdiction shall be treated as having
Additional Current Top-up Tax. Such
amount shall be equal to the difference
between these actual adjusted taxes and
expected adjusted taxes. The Expected
Adjusted Covered Taxes Amount is equal to
the GloBE Income or Loss for a jurisdiction
multiplied by the Minimum Rate (Art 4.1.5).

Although Art. 4.1.5 may apply in other
scenarios, the most common fact pattern in
which Art. 4.1.5 will apply is where there is a
tax loss that is greater than the amount of
loss recognised for GloBE purposes. In
these cases, simply allowing a CE to use its



B. Country Updates:

Canada: On 30 April 2024, Canadian Finance Minister introduced a notice of Ways and Means motion to present the Budget Implementation Act 2024 to Parliament. It followed the budget announcement made on 16 April 2024, where the government reaffirmed its commitment to implement Pillar Two tax legislation. The proposed legislation includes provisions for the Income Inclusion Rule (IIR) and a Domestic Minimum Top-Up Tax. The notice also includes details of several Safe Harbors, such as the Permanent Qualified Domestic Minimum Top-Up Tax Safe Harbor, the Simplified Calculations Safe Harbor, and the Transitional Country-by-Country Reporting Safe Harbor.

Iceland: On 16 April 2024, Iceland's Fiscal Strategy Plan for 2025-2029 was released by its Ministry of Finance and Economic Affairs. This plan includes a proposal for Pillar Two, which is scheduled to be completed in the second half of 2024 and go into effect formally in 2025.

United Kingdom: On 20 May 2024, the UK HMRC issued statutory guidance detailing the registration procedure for both domestic and multinational MNEs regarding Pillar Two Top-Up Tax in UK. This guidance delineates the necessary information such as name and address of the Ultimate Parent Entity (UPE) or other filing member; the start and end dates of the group's accounting period; and postal address of the group, which the taxpayers must furnish for registration, as well as the protocol for informing HMRC about any post-registration reporting-related changes.

As per the guidance, in-scope MNE groups or entities are required to register online for both the Domestic Top-Up Tax and Multinational Top-Up Tax. However, groups solely comprising UK-based entities are required to register for the Domestic Top-Up Tax. Registration with HMRC must be completed within six months following the conclusion of the accounting period commencing on or after 31 December 2023.

Similarly, in the event of any changes to registration details, the filing member is required to promptly update their information online within six months of such alteration.

Guernsey: On 21 May 2024, the Government of Guernsey, through a release confirmed that, its Policy and Resources Committee will soon come out with a policy letter proposing the implementation of an IIR and a Qualified Domestic Minimum Top-Up Tax (QDMTT) beginning in 2025. This aligns with the intentions outlined in the Crown Dependencies' joint statement released on 19 May 2023.

Jersey: On 21 May 2024, the Government of Jersey announced in a release that it would implement an IIR and a stand-alone Multinational Corporate Income Tax (MCIT) from 2025. However, they do not have any immediate plans to introduce UTPR. The MCIT will ensure that companies and branches based out of Jersey, which are within the scope of Pillar Two GloBE Rules, pay an effective tax rate of 15% on their profits. MCIT aligns with the OECD GloBE Model Rules and is principally similar in scope to QDMTT. Legislative drafts for Jersey's IIR and the MCIT are yet to be finalized.

Isle of Man: On 20 May 2024, Manx Treasury Minister confirmed in a release, the Government's intention to introduce a QDMTT with effect from fiscal years beginning on 1 January 2025. He further stated that currently the Government is analyzing the relevance of implementing an IIR, and a final decision in this regard is expected to be taken later this year.

Italy: On 20 May 2024, Italian Ministry of Finance passed an order amending its Pillar Two tax legislation and introducing Transitional Safe Harbors, Anti-Arbitrage Rule and Transitional Undertaxed Profits Safe Harbor Rule which are in line with Administrative Guidance issued by the OECD IF. As per the order, the Transitional CbCR Safe Harbor will be applicable to the



financial years that begin before 31 December 2026 and do not end after 30 June 2028.

Belgium: In December 2023, Belgium had formally adopted the Pillar Two GloBE Rules in their domestic tax legislation. As per the Belgian law, in-scope MNEs that have a presence in Belgium need to register at the Crossroads Bank for Enterprises. A Royal Decree issued on 15 May 2024, which was subsequently published in the Belgian Official Gazette on 29 May 2024, outline the requirements of the mandatory notification, which inter alia includes – general group information, information related to the consolidated financial statements of the group, ownership structure of the group, and information related to the point of contact. The notification is required to be filed within 30 days from the start of the fiscal year in which the Group falls in-scope of the Rules. However, for Groups that have already started with their first GloBE reporting year need to notify the Belgian Tax Authorities within 45 days of the publishing of the Royal Decree in Belgian Official Gazette (29 May) i.e., by 13 July 2024.

Spain: Spain's draft Pillar Two legislation was approved by its Council of Ministers in December 2023 and a public consultation was conducted on the same which concluded in January 2024. The Spanish Government has initiated another round of public consultation with a specific focus on design of QDMTT, determination of taxable base and scope, return filing process and application of the Rules to insurance companies.

European Union (EU): Six EU Member States, namely Cyprus, Latvia, Lithuania, Poland, Portugal, and Spain, are facing infringement proceedings from the European Commission for not informing it about their plans to implement the EU Minimum Tax Directive into national law. The Commission had already started infringement proceedings against nine EU Member States on January 25. Since then, Estonia, Greece, and Malta have complied, and

Latvia, Lithuania, Cyprus, and Poland have made progress on their legislation. While Spain has completed its public consultation phase, Portugal has yet to submit any draft legislation. The six Member States now have two months to respond to the Commission's reasoned opinion released on 23 May 2024, and make the necessary changes, or they may be referred to the Court of Justice of the European Union.

Turkey: Turkish Finance Minister Mehmet Simsek confirmed on 28 May 2024, that Turkey is finalising the introduction of the Pillar Two GloBE Rules and working on strategies to maintain tax incentives and attract investment. The Minister emphasized that over 30 jurisdictions have already enacted the GloBE Rules for 2024, and failing to implement them could result in Turkey losing its ability to tax these companies to other countries. The new rules would, however, affect only 2.5% of multinational enterprises investing in Turkey.

Singapore: While the Singapore Government has announced its intention to introduce an IIR and a DMTT for fiscal years beginning on or after 1 January 2025, the Inland Revenue Authority of Singapore (IRAS) recently issued a presentation providing a high-level overview of the fundamental aspects of the GloBE Rules. The presentation aims to provide a better general understanding of taxpayers' tax obligations.

G7: The G7 Finance Ministers and Central bank Governors met at Stresa, Italy during 23 to 25 May 2024 wherein they discussed a range of issues, which inter alia, included international tax cooperation. The delegates reiterated their commitment to implement the two-pillar solution and called on members of the OECD IF to make every effort towards achieving this goal. The delegates aim to finalise the signing of the Multilateral Convention on Pillar One by the end of June 2024 as well as to host the signing ceremony of the Multilateral Instrument for implementation of the STTR later this year.



C. Around the globe:

European Union (27 countries)

Austria	Italy
Belgium	Latvia
Bulgaria	Lithuania
Croatia	Luxembourg
Cyprus	Malta
Czech Republic	Netherlands
Denmark	Poland
Estonia	Portugal
Finland	Romania
France	Slovakia
Germany	Slovenia
Greece	Spain
Hungary	Sweden
Ireland	

Rest of Europe (23 countries)

Albania	Moldova
Andorra	Monaco
Belarus	Montenegro
Bosnia Herzegovina	North Macedonia
Faroe Islands	Norway
Georgia	San Marino
Gibraltar	Serbia
Guernsey	Switzerland
Iceland	Turkey
Isle of Man	Ukraine
Jersey	United Kingdom
Liechtenstein	

Africa (25 countries)

Angola	Mauritania
Benin	Mauritius
Botswana	Morocco
Burkina Faso	Namibia
Cabo Verde	Republic of Congo
Cameroon	Senegal
Congo	Seychelles
Côte d'Ivoire	Sierra Leone
Djibouti	South Africa
Egypt	Togo
Eswatini	Tunisia
Gabon	Zambia
Liberia	

Asia (29 countries)

Armenia	Maldives
Azerbaijan	Mongolia
Bahrain	Oman
Brunei	Papua New Guinea
China	Philippines
Cook Islands	Qatar
Hong Kong	Russia
India	Samoa
Indonesia	Saudi Arabia
Israel	Singapore
Japan	South Korea
Jordan	Thailand
Kazakhstan	UAE
Macau	Vietnam
Malaysia	

North America (24 countries)

Anguilla	Grenada
Antigua	Haiti
Bahamas	Honduras
Barbados	Jamaica
Bermuda	Mexico
British Virgin Islands	Montserrat
Canada	Panama
Cayman Islands	Saint Lucia
Costa Rica	St. Vincent and the Grenadines
Dominica	St. Kitts and Nevis
Dominican Republic	Turks and Caicos Islands
Greenland	USA

South America (11 countries)

Argentina	Curacao
Aruba	Paraguay
Belize	Peru
Brazil	Trinidad and Tobago
Chile	Uruguay
Colombia	

Australasia (3 countries)

Australia	New Zealand
Fiji	

Legend

	Formal adoption of GloBE Rules from 2024 (26 countries)
	Policy framework in place to introduce IIR, QDMTT in 2024 and UTPR in 2025 (6 countries)
	Policy framework in place to introduce IIR, QDMTT and UTPR in 2025 (13 countries)
	Written declaration to implement GloBE Rules though timelines are uncertain (7 countries)
	EU member states opting for delayed implementation (4 countries)

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