Global Anti-Base Erosion Model Rules (Pillar Two)

FREQUENTLY ASKED QUESTIONS

1. **How will the global minimum tax rules ensure that MNEs pay a minimum level of tax on the income they earn in each jurisdiction?**

   Countries that choose to introduce the Global Anti-Base Erosion (GloBE) rules have agreed to do so in a consistent and co-ordinated way. The inter-locking nature of the GloBE rules means that their adoption by a critical mass of jurisdictions will be sufficient to ensure that MNEs are required to pay the minimum level of tax on their profits arising in each jurisdiction where they operate. The GloBE rules incorporate an agreed rule order together with backstop or secondary rules that apply if a country where an MNE is based does not apply the primary rule. For instance, if the country where the MNE is headquartered does not subject the ultimate parent entity of the MNE group to the primary income inclusion rule (or "IIR"), another parent entity in the group, further down in the ownership chain, must apply the IIR under the agreed rule order. If even this does not result in the income of the MNE Group being subject to tax at the 15% minimum tax rate, the further backstop of the "UTPR" kicks in, which ensures the payment of the minimum tax through a denial of deduction or similar mechanism in all the countries where the MNE has a presence. The interlocking nature of these rules therefore ensures that top-up tax will be collected in jurisdictions that have introduced the GloBE rules even where the MNE operates in or through other jurisdictions that have not implemented the rules.

   While countries are not required to adopt the GloBE rules, jurisdictions that adopt the GloBE rules will apply an effective tax rate test using a common tax base and a common definition of covered taxes to determine whether an MNE is subject to an effective tax rate below the agreed minimum rate of 15% in any jurisdiction where it operates. Having a common, consistent effective tax rate test as the foundation of the global minimum tax rules ensures a level playing field and puts a floor under tax competition.

2. **What are the benefits of the global minimum tax rules for Inclusive Framework members and what will be the impact on developing countries?**

   With a minimum effective tax rate of 15%, the GloBE rules are expected to generate revenues through the application of the rules themselves, but also additional corporate income tax revenues expected from the resulting reduction in profit shifting activity as a consequence of introducing the rules. A jurisdictional effective tax rate of 15% is a big step up from the historically often very low rates on foreign source income of MNEs.

   The GloBE rules acknowledge the calls from developing countries for more transparent, mechanical, predictable rules to level the playing field and reduce the incentive for MNEs to shift profits out of developing countries. The GloBE rules are expected to reduce pressure on governments to offer wasteful tax incentives and tax holidays, while still providing a carve-out for certain income that arises from real substance. The introduction of the GloBE rules in other jurisdictions also creates an opportunity for developing countries to introduce a Qualified Domestic Minimum Top-up Tax (QDMTT) as the QDMTT applies first in the rule order. In addition to this, developing countries are expected to be able to further protect their tax base through the application of a treaty based Subject to Tax Rule (STTR) which will allow countries to retain their taxing right, which they may have otherwise ceded under a tax treaty, on certain payments made to related parties abroad which often pose BEPS risks, such as interest and royalties.

3. **Are countries required to adopt the global minimum tax rules, what happens if they don't?**

The GloBE rules are not mandatory but have been agreed as a "common approach". This means that jurisdictions are not required to adopt the GloBE rules, but if they choose to do so, they agree to implement and administer them in a way that is consistent with the agreed outcomes set out under those rules. Even if they do not implement the rules, agreement on a common approach means that one jurisdiction accepts the application of the GloBE Rules by another in respect of MNEs operating in its jurisdiction.

4. **Has the Inclusive Framework consulted with business and other stakeholders on the design of the global minimum tax rules?**

There have been public consultations on both Pillars One and Two since the launch of the digital economy project in 2019. An initial public consultation on the key aspects of Pillar Two took place in March 2019 following the release of a policy note by the Inclusive Framework members in January 2019. A second public consultation took place in December 2019 after the release of the Programme of Work in May 2019. This second consultation focused on the design of the tax base and the use of financial accounts. The Blueprint on Pillar Two, which was developed following this consultation, addressed all the key technical aspects of the design of the GloBE rules. The Blueprint was released in October 2020, and a third public consultation took place in January 2021 to discuss the Blueprint. The input provided by stakeholders on the blueprint informed the discussions that were held throughout this year in developing the GloBE Model Rules. More recently, a fourth public consultation took place in March 2022 and covered several aspects of the GloBE Implementation Framework, including agreed administrative procedures (e.g. detailed filing obligations, multilateral review processes) and the possible use of safe-harbours to facilitate both compliance by MNEs and administration by tax authorities. The last public consultation took place in April 2023 and focussed on the data points that MNEs are expected to collect for complying with the GloBE Rules as part of the work on the GloBE information Return and on tax certainty options for the GloBE Rules.

In addition to these consultations, there has been direct consultation with stakeholders, including civil society, in relation to particular aspects of the design of the rules. Also, the work has benefitted from ongoing input and engagement with a Business Advisory Group set up by the OECD's Business and Industry Advisory Committee (BIAC).

5. **Which MNEs are in scope of the global minimum tax rules?**

The GloBE Model Rules will apply to MNEs that have consolidated revenues of EUR 750 million in at least two out of the last four years. This revenue threshold is broadly similar to that used for Country-by-Country Reporting (CbCR purposes), and is estimated to cover over 90% of the global corporate income tax base. Government entities, international organisations, non-profit organisations, pension funds or investment funds that are ultimate parent entities of an MNE Group (and certain holding vehicles of such entities) are excluded entities that are not subject to the GloBE rules, but this exclusion does not affect the MNE Group owned by such entities, which will remain in scope of the GloBE rules if the group as a whole otherwise meets the consolidated revenue threshold.

6. Is the minimum tax rate of 15% high enough?

The GloBE rules are based on an effective tax rate. While headline corporate income tax rates are higher than 15% in many jurisdictions, MNEs often have an effective tax rate on that income that is significantly lower than the headline rate as a result of deductions, exclusions and credits provided under local law. Furthermore the exemptions (or indefinite deferral) provided to firms for foreign income, combined with the ability of MNEs to structure their offshore arrangements in a way that limits their exposure to foreign taxes, means that an MNE's effective tax rate on foreign income can be much lower than 15% and may even be close to zero in some cases. The GloBE rules will ensure that foreign income will be taxed at an effective rate of at least 15%, restoring a level playing field and eliminating the need for countries to offer very low tax rates in order to compete for inbound investment.

7. What role does the substance carve-out play in the global minimum tax calculation? What is the likely impact on investment incentives?

The substance carve-out excludes from the GloBE tax base a certain amount of income calculated by reference to a fixed return on assets and payroll expenses in each jurisdiction. The amount of this substance-based income exclusion is equal to the sum of (i) 5% of the carrying value of tangible assets located in the jurisdiction and (ii) 5% of the payroll costs for employees that perform activities in the jurisdiction. The GloBE rules also provide for a 10-year transition period in recognition of the potential impact of the GloBE rules on existing incentives and existing investment. The Transition Period starts with a 10% carve-out for payroll costs and 8% carve-out for tangible assets, with these carve-out percentages declining to 5% over time.

A substance carve-out based on assets and payroll costs allows a jurisdiction to continue to offer tax incentives that reduce taxes on routine returns from investment in substantive activities, without triggering additional GloBE top-up tax. Given the carve-out covers investment in both tangible assets and payroll it will have broad application to a wide range of different industries.

8. Are there mechanisms to address timing differences?

Income or expenses may be recognised in a different year for financial accounting and tax. Given that the GloBE rules rely on the financial accounts for calculating the tax base, special rules are needed to adjust for fluctuations in the effective tax rate that are attributable to these timing differences. MNEs already use deferred tax accounting principles to track differences between financial accounting and local tax in the timing in the recognition of income and expenses. The GloBE rules leverage these deferred tax accounting mechanisms to adjust for timing differences under GloBE.

When an item of income is recognised for GloBE purposes before it is recognised for local tax purposes, credit is given at the minimum rate for the tax that will be paid in the future with respect to such income (i.e., a deferred tax liability). Because credit is given for tax to be paid in the future, the timing difference does not give rise to minimum tax. The GloBE deferred tax accounting mechanism incorporates a number of limitations on the use of deferred tax accounting that are designed to protect the integrity of the outcomes under the GloBE rules.

9. What are the limitations and adjustments on the use of deferred tax accounting?

The application of the deferred tax accounting approach under the GloBE rules incorporates a number of safeguards designed to ensure that this approach neutralises only temporary differences between tax and book, and that credit is only given for tax that will be paid within an appropriate time frame. The deferred tax accounting approach under the GloBE rules starts with the total amount of deferred tax adjustments for the year as reported in the financial accounts of the group entity and then makes three key adjustments:

- It removes deferred tax items that reflect management's views on future outcomes (such as changes in valuation of tax losses and uncertain tax positions);
- It excludes deferred tax on items that are not included within the GloBE tax base – this includes requiring an adjustment for tax losses that result from non-economic deductions.
- It caps the accrued deferred tax assets and liabilities at the minimum rate in order to ensure a credit for deferred taxes only provides shelter for the corresponding timing difference and cannot be used to generate extra credit under the rules;

Further the deferred tax accounting approach incorporates a recapture rule that limits allowable timing differences under this approach to five years. This recapture rule requires a deferred tax liability to be recaptured to the extent it is not reversed within five years from when it was originally credited under the GloBE rules. The five-year recapture rule does not apply to certain deferred tax liabilities that relate to particular long-term items recognised as requiring an exception on policy grounds. Items that are not subject to the five year recapture rule include cost recovery allowances on tangible assets, R&D expenses and fair value accounting on unrealised gains.

Finally the GloBE rules also incorporate an alternative mechanism, primarily intended for MNEs that incur losses in low tax jurisdictions, that allows for a carry-forward of those losses in the form of a deemed tax asset that is determined based on the minimum rate.

10. Do the global minimum tax rules provide any allowance for losses incurred in a period prior to the introduction of the rules?

The GloBE rules provide a transition rule to take into account losses that have been incurred prior to the effective date of the rules. To the extent MNEs have tax attributes resulting from tax losses reflected in their financial accounts, such attributes may generally be carried-forward into the global minimum tax regime and may be used in future years to offset income. This ensures that inappropriate outcomes do not occur whereby minimum tax is charged simply because a MNE is using an attribute that arose as a result of a tax loss prior to the effective date of the global minimum tax rules.

11. What are the expected administrative and compliance costs resulting from the introduction of the global minimum tax rules?

The GloBE rules have been designed with the objective of minimising cost and complexity for both tax authorities and taxpayers within the context of the tax policy objectives of Pillar Two. The drive for simplicity has informed a number of design choices including:

- The use of Country-by-Country reporting (CbCR) style thresholds and definitions for determining scope.
- The reliance on entity level financial information and the use of parent financial accounting standards, with essentially no book-to-book and limited book-to-tax adjustments.
- Use of deferred tax accounting to address timing differences, including transitional rules based on existing tax accounting.
- A de minimis exclusion for operations in a jurisdiction that are below EUR 1 million in income and EUR 10 million in revenues.
- The use of the IIR as the primary rule with the UTPR acting as a backstop, which is largely driven by simplicity and lower compliance costs.
- The use of bright line and mechanical tests such as those used for the substance based carve-out and the allocation key for the UTPR.

In addition, safe harbours were developed to help mitigate compliance burdens for MNEs, such as:

- A transitional CbCR safe harbour relying on information available in the financial accounts and in the CbCR of MNEs in scope of the GloBE Rules for Fiscal Years commencing on or before the end of 2026.
- A transitional UTPR safe harbour, which provides the UPE Jurisdiction with relief from the application of the UTPR for fiscal years commencing on or before the end of 2025.
- A permanent safe harbour for jurisdictions that introduce a Qualified Domestic Minimum Top-up Tax (QDMTT), which will make compliance and administration easier for MNEs and tax administrations (see also below).
- Simplified Income and Tax Calculations which an MNE could apply for its Non-Material Constituent Entities (NMCEs) under the Simplified Calculation Safe Harbour.

Finally, a standardised GloBE Information Return (GIR) was developed to ensure MNEs could comply with the GloBE rules in all implementing jurisdictions in a uniform manner. The GIR has been developed by taking into account the feedback received from stakeholders and also incorporates transitional simplified reporting requirements that allow MNEs to report their GloBE calculations at a jurisdictional level.

12. How do the rules ensure that there are co-ordinated outcomes and avoid the risk of over-taxation?

The GloBE rules are a co-ordinated system of interlocking rules that are intended to be adopted by jurisdictions in the form of a common approach. However, not all countries can apply their rules at the same time with respect to the same item of low-taxed income. To eliminate the risk of over-taxation under the GloBE rules, priority rules apply which ensure that the global minimum tax rules are deactivated in situations where the low-taxed income is already subject to the minimum tax somewhere else.

Those priority rules rely on the qualified status of implementing jurisidctions' legislation and every implementing jurisdiction needs a mechanism for identifying the qualified status of other implementing jurisdictions' legislation. In the short term it will not be possible to conduct and finalise a full legislative review for each implementing jurisdiction that is implementing IIR and/or DMTT legislation effective as of 2024. Therefore, the IF has developed a simplified procedure for an initial transitional qualification mechanism that allows the swift recognition of the qualified status of implementing jurisdictions' legislation on a temporary basis pending a full legislative review and further ongoing monitoring. The full legislative review will assess whether the legislation of an implementing jurisdiction achieves consistent outcomes with the GloBE Rules. The ongoing monitoring will ensure that rules are in practice applied and administered consistently with the GloBE Rules. In both instances, the GloBE Rules includes the GloBE Model Rules together with the Commentary and Agreed Administrative Guidance. Further details on the peer review process are provided in the document "Qualified Status under the Global Minimum Tax – Questions and Answers".

While the priority rules provided under the global minimum tax generally deactivate the application of the rules in other jurisdictions, there may be instances where an MNE Group is required to allocate its top-up tax payments in more than one jurisdiction. To ensure consistency and coordinated outcomes also in those instances, the IF will further explore dispute prevention and resolution mechanisms providing tax certainty to stakeholders in applying the rules.

13. Do the global minimum tax rules apply on top of other rules, like CFC rules? Won't that lead to double taxation?

Because the GloBE rules operate as a minimum tax, the rules are complimentary to existing corporate tax rules, such as Controlled Foreign Company (CFC) regimes. Taxes paid on income arising in a jurisdiction, including under CFC regimes, is taken into account for purposes of computing the effective tax rate in a jurisdiction. To the extent tax is paid at or above the minimum rate as a result of existing rules, including CFC rules, no additional tax is due under the GloBE Rules.

The guidance released in June 2024 provides a simplified methodology for allocating both current and deferred taxes arising under CFC regimes. The guidance also applies to taxes arising in one jurisdiction on the income of permanent establishments, Hybrid Entities and Reverse Hybrid Entities located in another jurisdiction. Further, the guidance released in February and December 2023 provide for a simplified allocation of CFC taxes arising under a Blended CFC Tax Regime for a limited time period. A Blended CFC Tax Regime is one in which the tax charge is computed based on a blend of income, losses and / or creditable taxes of multiple CFCs. The US Global Intangible Low-Taxed Income (GILTI) regime is an example of a Blended CFC Tax Regime. Fiscal Years commencing on or before the end of 2025 are expected to be covered by this simplified allocation.

14. Do these rules require countries to introduce top-up taxes on their own taxpayers?

Countries that adopt the GloBE rules are not required to introduce domestic top-up taxes on their own resident taxpayers, but may choose to do so. To the extent a country chooses to implement a qualified domestic minimum top-up tax (QDMTT), such tax will reduce the amount of top-up tax that may otherwise be applicable under the GloBE rules and payable in another jurisdiction. For example, if top-up tax of 100 is due with respect to a jurisdiction under the GloBE rules, but such jurisdiction imposes its own qualified domestic minimum top-up tax of 100, there will be no incremental top-up tax due under the GloBE rules. This crediting of a qualified domestic minimum top-up tax against a top-up tax liability under the GloBE preserves the primary taxing rights for the jurisdiction where the income arises.

Detailed guidance on the design of QDMTTs were released in February and July 2023. In addition, a permanent safe harbour for jurisdictions that introduce a QDMTT was released in July 2023. MNEs eligilble for the QDMTT Safe Harbour will not be required to undertake the calculations provided under the GloBE Rules for the relevant jurisdiction. Instead, the calculations undertaken under the QDMTT legislation would be sufficient to determine the MNE Group's Top-up Tax liability (if any) in respect of the jurisdiction.

15. Where is more information available?

The Global Anti-Base Erosion Model Rules webpage (regularly updated) provides a comprehensive list of resources on the GloBE rules. They include:

- The Global Anti-Base Erosion Model Rules (2021), which serve as a model for legislating the rules in domestic law, the Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2023), which clarifies the interpretation and operation of the provisions in the GloBE Model Rules, and Agreed Administrative Guidance.
- The GloBE Information Return (2025), which sets out a standardised information return to facilitate compliance with and administration of the GloBE Rules.
- A Minimum Tax Implementation Handbook (2023), which provides an overview of the key provisions of the rules and the considerations to be taken into account by tax policy and administration officials and other stakeholders in assessing their implementation options.
- The Pillar Two Rules in a Nutshell provide an overview of the GloBE rules and the key operative provisions.
- A Fact sheet summarises the 5-step process for applying the GloBE rules.
- The Qualified Status under the Global Minimum Tax – Questions and Answers provide further detail on the transitional qualification mechanism and the peer review and ongoing monitoring process.

In addition, a series of short webinars (published in 2022) in English provides a summary insight into the OECD BEPS Action Plan, including 8 videos on Pillar Two and the GloBE Rules. Two videos are available in English, French, Spanish and Arabic.