



GloBE Rules and Domestic Top-up Tax ("DTT")



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The information presented in the slides aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. This information is correct as at the date of presentation. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary its position accordingly.

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Overview

Items

1. Background on BEPS 2.0 – Two Pillars
2. Adoption of GloBE Rules by Jurisdictions
3. Scope of GloBE Rules
4. Mechanics of IIR, UTPR and DTT
5. Exclusions from GloBE Rules
6. Safe Harbours



1. Background on BEPS 2.0 – Two Pillars

BEPS Project

- **Base erosion and profit shifting (BEPS)** refers to tax planning strategies used by Multinational Enterprises (“MNEs”) that exploit gaps and mismatches in tax rules to **artificially shift profits to low or no-tax locations** where there is **little or no economic activity**
- **2013:** OECD and G20 countries adopted a **15-point Action Plan** to address BEPS
 - Three key themes: (i) introducing coherence in the domestic rules that affect cross-border activities, (ii) reinforcing substance requirements in the existing international standards, and (iii) improving transparency as well as certainty
- **2015:** The final reports for the measures in response to the 15 actions were released
- As the BEPS measures are implemented, it is expected that **profits will be reported where the economic activities are carried out** and where value is created
- **2016:** To ensure a consistent and coordinated implementation of the BEPS measures and to make the project more inclusive, OECD established the OECD/G20 Inclusive Framework on BEPS (**Inclusive Framework, “IF”**)
- IF comprises of jurisdictions beyond the OECD and G20 countries
- With over 140 members, the IF monitors and peer reviews the implementation of the minimum standards on BEPS
- Singapore is a member of the IF and participates in international discussions

BEPS 2.0 – Two Pillars

- On 8 Oct 2021, the IF agreed to a two-pillar solution to address the **tax challenges arising from the digitalisation of the economy** commonly known as BEPS 2.0
- Over 135 IF members agreed to the **two-pillar solution** to:
 - reform the international taxation rules; and
 - ensure that multinational enterprises pay a fair share of tax wherever they operate and generate profits in today's digitalised and globalised world economy

Pillar One

Re-allocates taxing rights on residual profits to market jurisdictions

Aim: To achieve a fairer distribution of profits and taxing rights among jurisdictions with respect to the largest MNEs

Pillar Two

Provides jurisdictions with a right to impose “top up” tax, where other jurisdictions do not tax income or subject an income to low tax

- Global Anti-Base Erosion (“GloBE”) Rules
 - Income Inclusion Rule (“IIR”)
 - Undertaxed Profits Rule (“UTPR”)
- Treaty based rule: Subject to tax rule (“STTR”)

Aim: To limit tax competition by ensuring that MNEs pay a minimum level of tax in each jurisdiction that they operate



2. Adoption of GloBE Rules by Jurisdictions

Adoption of GloBE Rules by Jurisdictions

The GloBE rules are not mandatory but have been agreed as a [common approach](#).

- This means that :
 - [IF members are not required to adopt the GloBE rules](#), but, if they choose to do so, they will implement and administer the rules in a way that is consistent with the outcomes provided for under Pillar Two, including in light of model rules and guidance agreed to by the IF; and
 - [even if an IF member chooses not to implement GloBE Rules, it will need to accept the application of the GloBE Rules](#) (including agreement as to rule order and the application of any agreed safe harbours) [by other IF members in respect of MNEs operating in its jurisdiction](#)

An abstract graphic on the left side of the slide, composed of various geometric shapes like triangles, squares, and polygons in shades of white and light gray. These shapes are arranged to form a stylized, fragmented representation of a globe or a map, primarily concentrated on the left edge and extending slightly into the center.

3. Scope of GloBE Rules

Scope of GloBE Rules

*The GloBE Rules apply to Constituent Entities that are members of an MNE Group that has **annual revenue of EUR 750 million or more** in the Consolidated Financial Statements of the Ultimate Parent Entity (UPE) in at least **two of the four Fiscal Years** immediately preceding the tested Fiscal Year.*

Two out of four Fiscal Years

- The current Fiscal Year is excluded from the Four Year calculation

Consolidated revenue of the Group

- Intra-group transactions are excluded from consolidated revenue

Minority holding

- Include revenue attributable to minority interest holding

Excluded Entity

- Include revenue of Excluded Entity

Applying the Revenue Threshold

Recently created MNE Groups

- GloBE Rules will apply in the 3rd year (tested fiscal year) if EUR 750m threshold is met in the two prior years
- i.e. there is no need to wait for a full 4 years period to apply GloBE Rules

Fiscal period other than 12 months

- Adjust EUR 750m revenue threshold proportionately to the period of less than 12 months; OR
- Gross up the revenue (for less than 12 months) of the MNE group to 12 months equivalent

Group, MNE Group, CE and PE

Group

- a) a collection of Entities that are related through ownership or control such that the assets, liabilities, income, expenses and cash flows of those Entities:
 - i. are **included in the Consolidated Financial Statements (“CFS”)** of the Ultimate Parent Entity (“UPE”); or
 - ii. are **excluded from the CFS** of the UPE solely on size or materiality grounds, or on the grounds that the Entity is held for sale; or
- b) an Entity that is:
 - i. located in one jurisdiction and has one or more Permanent Establishments (PEs) located in other jurisdictions; and
 - ii. not part of another group in (a)

Group, MNE Group, CE and PE

MNE Group

- At least one Entity or PE that is not located in the jurisdiction of the UPE

Constituent Entity

- All Entities of a Group (including arrangements such as partnerships and trusts) and PE of any such Entities
- Does not include Excluded Entities (explained in slides 28 and 29)

Permanent Establishment

- A PE of an Entity (itself a CE) is treated as a separate CE



4. Mechanics of IIR, UTPR and DTT

Objective of the Pillar 2 Rules

Aim

- To limit tax competition by ensuring that MNEs pay a minimum level of tax in each jurisdiction that they operate in by
 - providing a co-ordinated system of taxation
 - imposing a top-up tax on profits arising in a jurisdiction **whenever the effective tax rate** (determined on a jurisdictional basis) is **below the minimum rate of 15%**



How

- Provides jurisdictions with a right to **impose top-up tax**, where other jurisdictions do not tax income or subject income to low tax



Rules employed

1. **Global Anti-Base Erosion (“GloBE”) Rules:**
 - Income Inclusion Rule (“IIR”)
 - Undertaxed Profits Rule (“UTPR”)
2. **Treaty based rule**
 - Subject to Tax Rule (“STTR”)

Rule Order of STTR, IIR and UTPR

The Pillar 2 rules are ordered to avoid double taxation where more than one jurisdiction seek to apply top-up tax on the same profits subject to “insufficient” domestic tax

1. Subject to Tax Rule (“STTR”)

- Minimum tax of **9%** on a gross basis (on certain intra-group cross border payments)
- STTR taxes collected in **payer’s jurisdiction** (i.e. source state)
- Under a tax treaty, where a source state has given up taxing rights on certain outbound payments, the source state can recover some of those rights if the outbound payment is taxed in the state of payee at a rate below 9%

2. Income Inclusion Rule (“IIR”)

- Minimum tax of **15%** (in respect of low taxed income of subsidiaries that are not in the ultimate parent entity (“UPE”) jurisdiction)
- Top-up tax collected in **parent entity’s jurisdiction** from the parent entity

3. Undertaxed Profits Rule (“UTPR”)

- Minimum tax of **15%** (acts as a backstop to the IIR)
- Top-up tax collected in **foreign subsidiary’s jurisdiction**, if no top-up tax is collected from the parent entity under IIR (as parent entity’s jurisdiction does not implement GloBE Rules)
- By way of denying deductions to the group entities or by imposing tax in the form of an equivalent adjustment

Mechanics of GloBE Rules

Step 1 – Constituent Entities within scope

- Identify Groups within Scope and the location of each Constituent Entity within the Group

Step 2 – GloBE Income

- Determine income of each Constituent Entity

Step 3 – Covered taxes

- Determine taxes attributable to income of a Constituent Entity

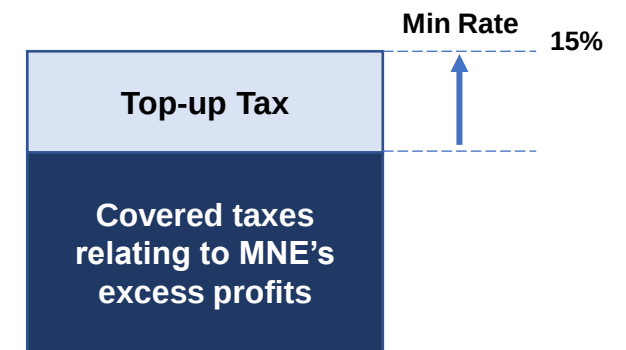
Step 4 – Effective Tax Rate and Top-up Tax

- Calculate the Effective Tax Rate of all Constituent Entities located in the same jurisdiction and determine resulting Top-up Tax

Step 5 – IIR and UTPR

- Impose Top-up Tax under IIR or UTPR in accordance with agreed rule order

Top-up Tax is imposed on excess profits* in a jurisdiction **to the extent the ETR of the jurisdiction is below 15%**



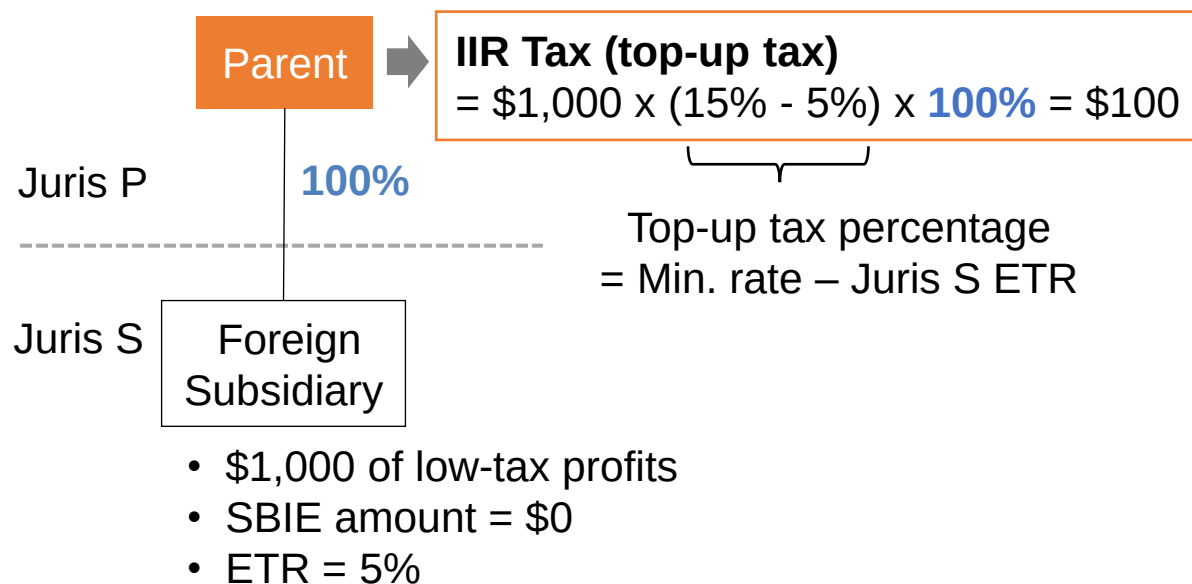
* Excess profits in a jurisdiction
= Net GloBE Income for the jurisdiction –
Substance-Based Income Exclusion
("SBIE") for the jurisdiction

Source: OECD's fact sheets on "Overview of the Key Operating Provisions of the GloBE Rules"

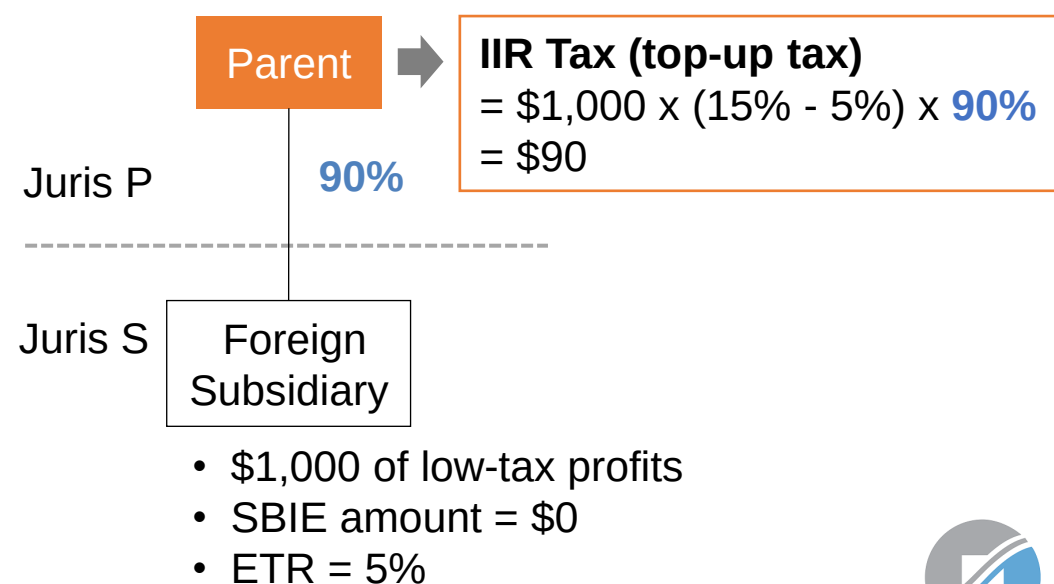
Mechanics of IIR

- **IIR is applied by the parent jurisdiction on the parent entity.** In a multi-tiered holding structure in which parent entities of a low tax subsidiary are located in different jurisdictions, the GloBE model rules will determine which parent jurisdiction applies the IIR.
- The parent entity will pay **top-up tax determined based on its share of the low-tax profits of its foreign subsidiaries and branches.**

E.g. 1: Parent entity owns 100% of foreign subsidiary

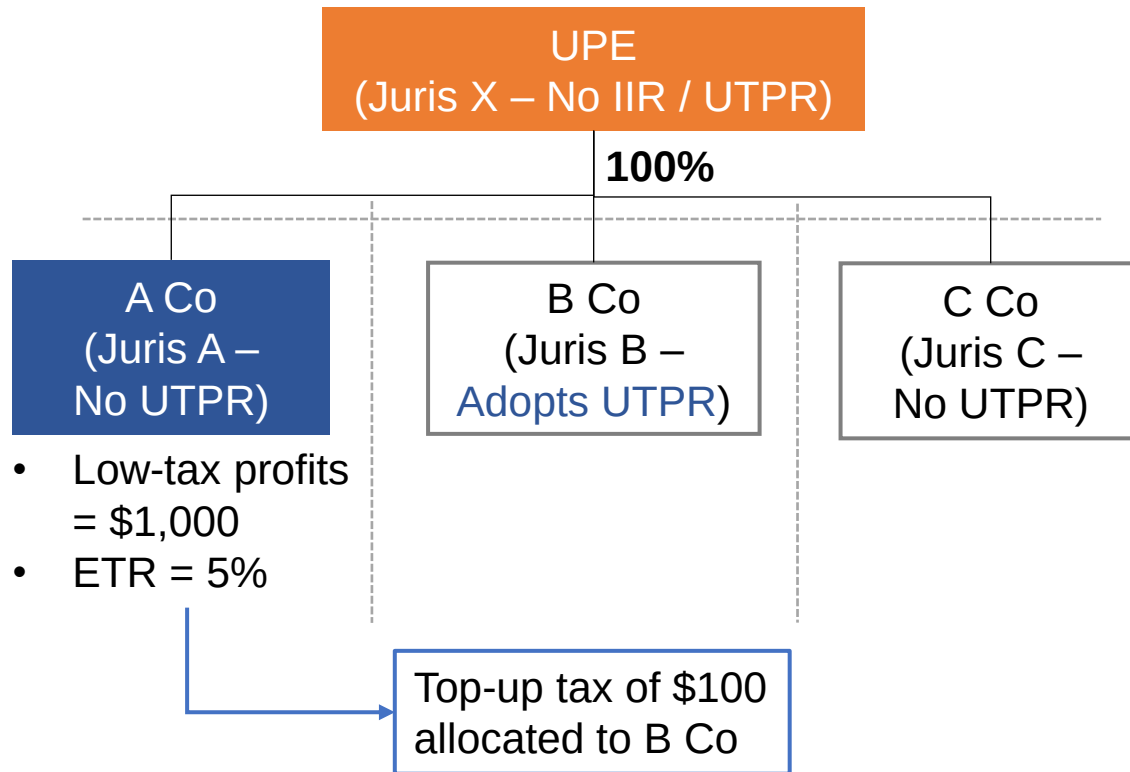


E.g. 2: Parent entity owns 90% of foreign subsidiary



Mechanics of UTPR

UTPR serves as a backstop to the IIR. It applies to the extent the top-up tax on the UPE's share of low-tax profits is not fully collected under the IIR.



**A Co has \$1,000 of low-tax profits
(Assume ETR = 5% and min. rate = 15%)**

Step 1: Compute top-up tax, using the same rules as IIR

Top-up tax
= \$1,000 x (15% - 5%) = \$100
(not collected under IIR)

Step 2: Allocate top-up tax to group entities in each UTPR jurisdiction based on agreed allocation key*

Allocate top-up tax of \$100 to B Co.

* Number of employees and net book values of tangible assets of group entities in each UTPR jurisdiction

(Top-up tax is not allocated to UPE, A Co and C Co as UPE Jurisdiction and Jurisdictions A and C do not adopt UTPR.)

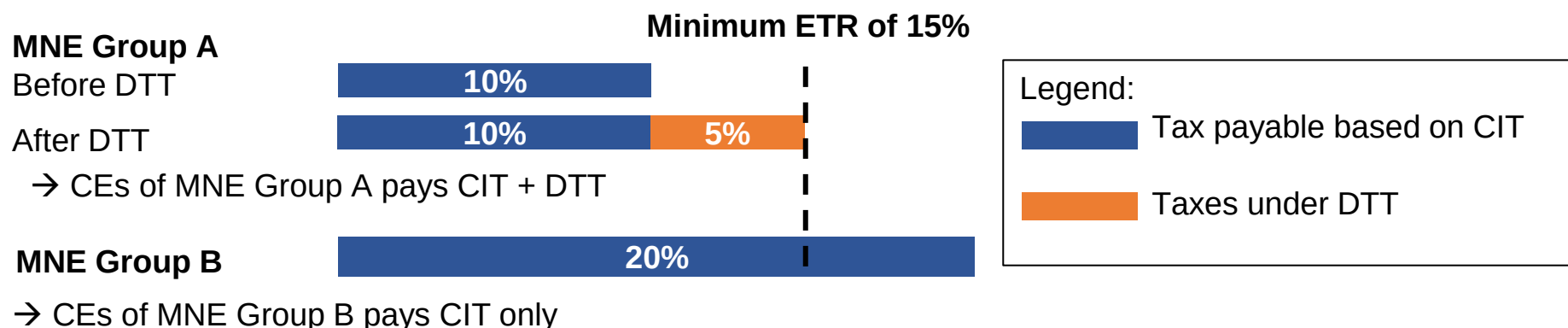
Conceptual Overview of DTT

- A jurisdiction may impose a **Qualified Domestic Minimum Top-up Tax (“QDMTT”)** to collect the top-up tax instead. A QDMTT under the GloBE Rules is **deducted against the GloBE Top-up Tax**.
- Where a QDMTT is designed to mirror closely to the GloBE Rules, there may be nil or low remaining GloBE Top-up Tax after deducting the QDMTT.

$$\text{GloBE Jurisdictional Top-up Tax} = (\text{Top-up Tax \%} \times \text{Excess Profit}^*) - \text{QDMTT}$$

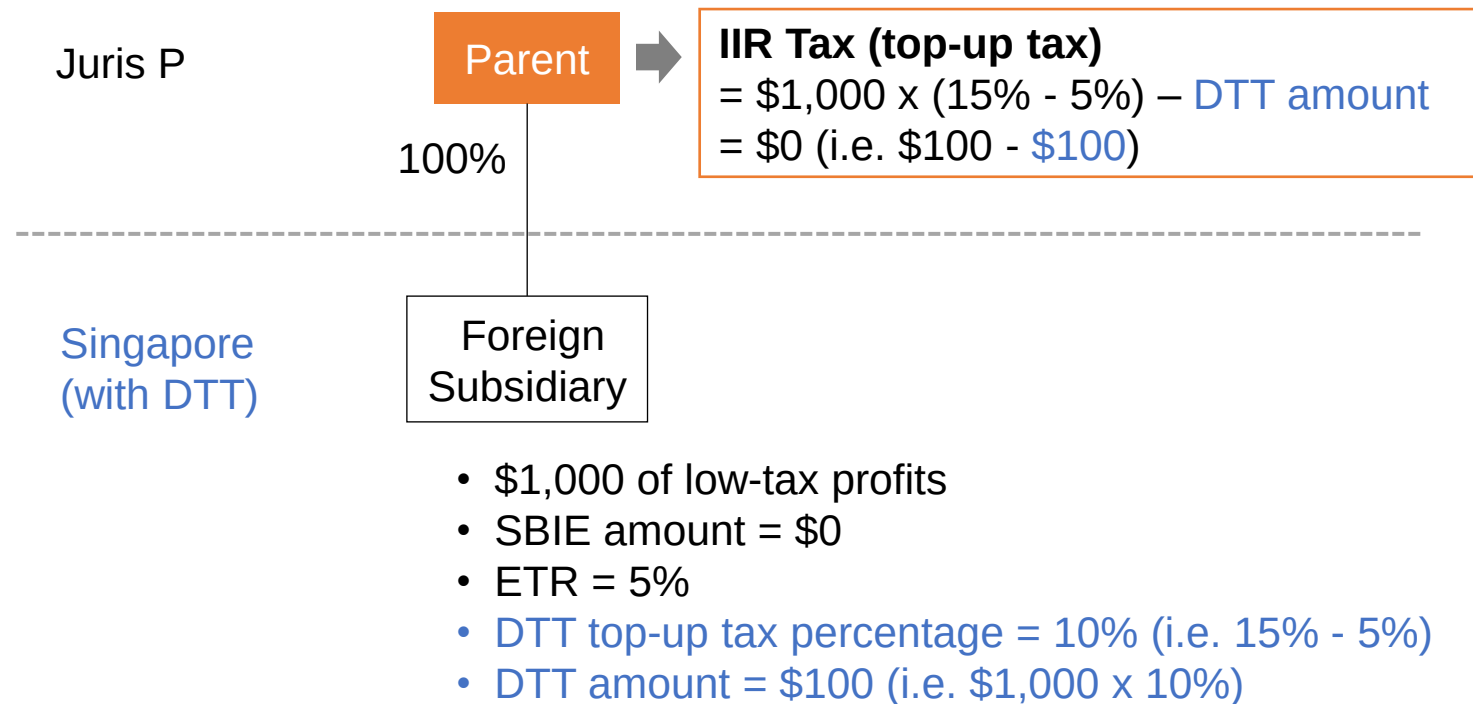
* Excess profits in a jurisdiction
= Net GloBE Income for the jurisdiction
less SBIE for the jurisdiction

- In Singapore, a DMTT known as DTT will be implemented from businesses’ FY starting on or after 1 Jan 2025. **DTT is imposed as a top-up tax**, in addition to Corporate Income Tax (“CIT”) on constituent entities (“CEs”) of a MNE group located in Singapore. DTT is **payable when the MNE group’s ETR in Singapore falls short of 15% minimum rate**.
 - **MNE Group A:** Jurisdictional ETR < 15% → CEs of MNE Group A pays CIT + DTT to bring ETR to minimum rate.
 - **MNE Group B:** Jurisdictional ETR ≥ 15% → CEs of MNE Group B pays CIT only.



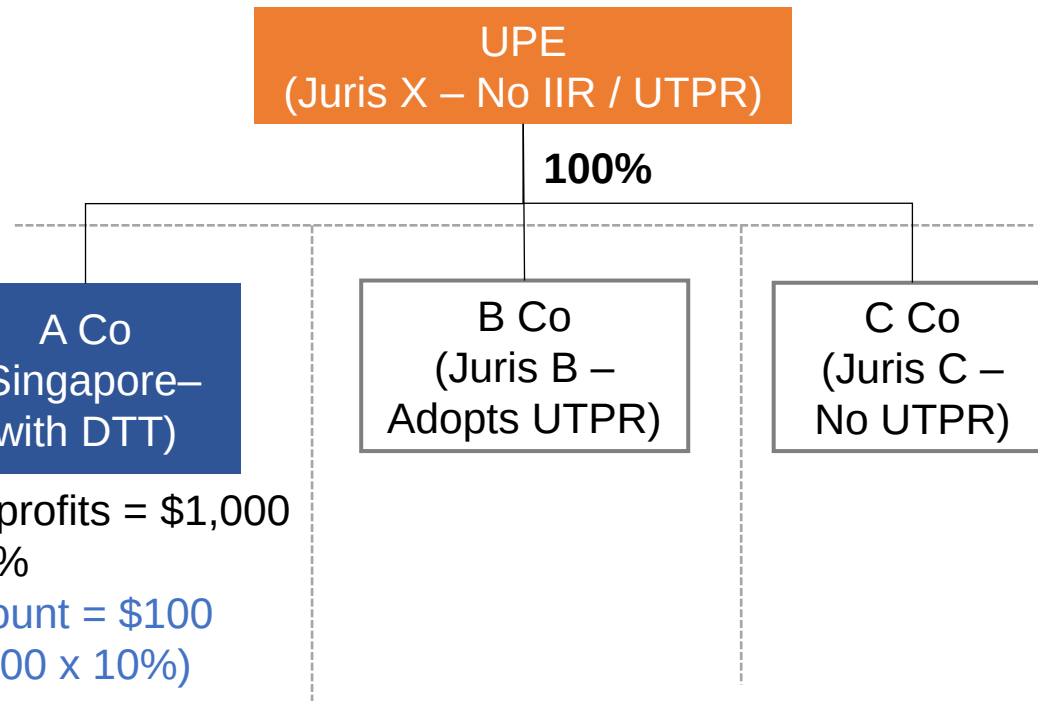
Mechanics of IIR with DTT

DTT amount is deducted against IIR top-up tax



Mechanics of UTPR with DTT

DTT amount is deducted against UTPR top-up tax



- Low-tax profits = \$1,000
- ETR = 5%
- DTT amount = \$100 (i.e. \$1,000 x 10%)

**A Co has \$1,000 of low-tax profits
(Assume ETR = 5% and min. rate = 15%)
Singapore implements DTT which is a QDMTT**

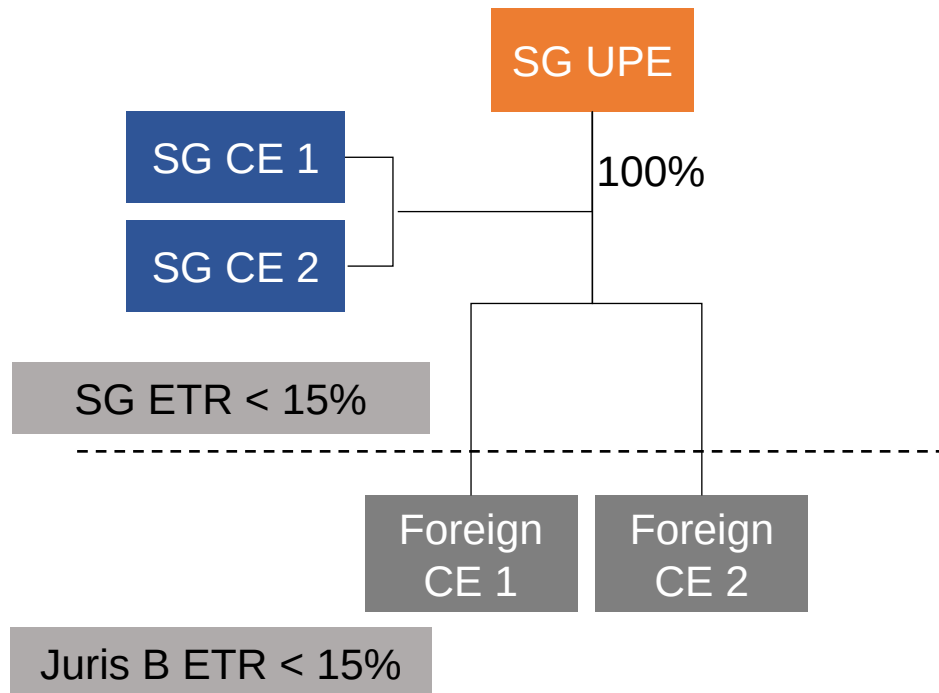
Compute top-up tax, using the same rules as IIR and deduct the DTT amount

UTPR Top-up tax in Juris B
= \$1,000 x (15% - 5%) - DTT amount
= \$0 (i.e. \$100 - \$100)

No UTPR top-up tax paid in Juris B

How will MNE Groups be Affected when SG Implements IIR and DTT

Singapore implements IIR & DTT
(FY beginning on or after 1 Jan 2025)



Example 1: Foreign CEs are held directly by SG UPE

FY 2024

SG: No IIR top-up tax (for low-taxed foreign CEs) and no DTT payable (for low-taxed SG CEs)

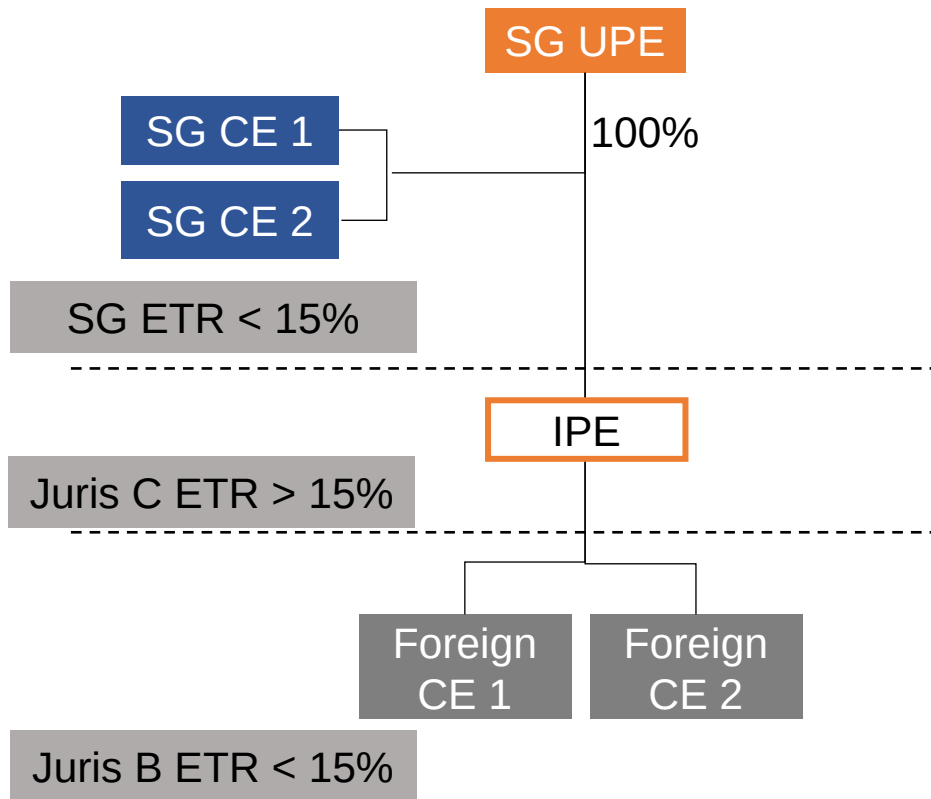
FY 2025

SG:

1. SG MNE group pays **DTT** on profits of low-taxed SG CEs to IRAS
2. SG UPE pays **IIR top-up tax** on profits of low-taxed foreign CEs to IRAS

How will MNE Groups be Affected when SG Implements IIR and DTT

Singapore implements IIR & DTT
(FY beginning on or after 1 Jan 2025)



Example 2: Foreign CEs are held by Intermediate Parent Entity (“IPE”) in Juris C which adopts IIR for FY beginning on and or after 1 Jan 2024

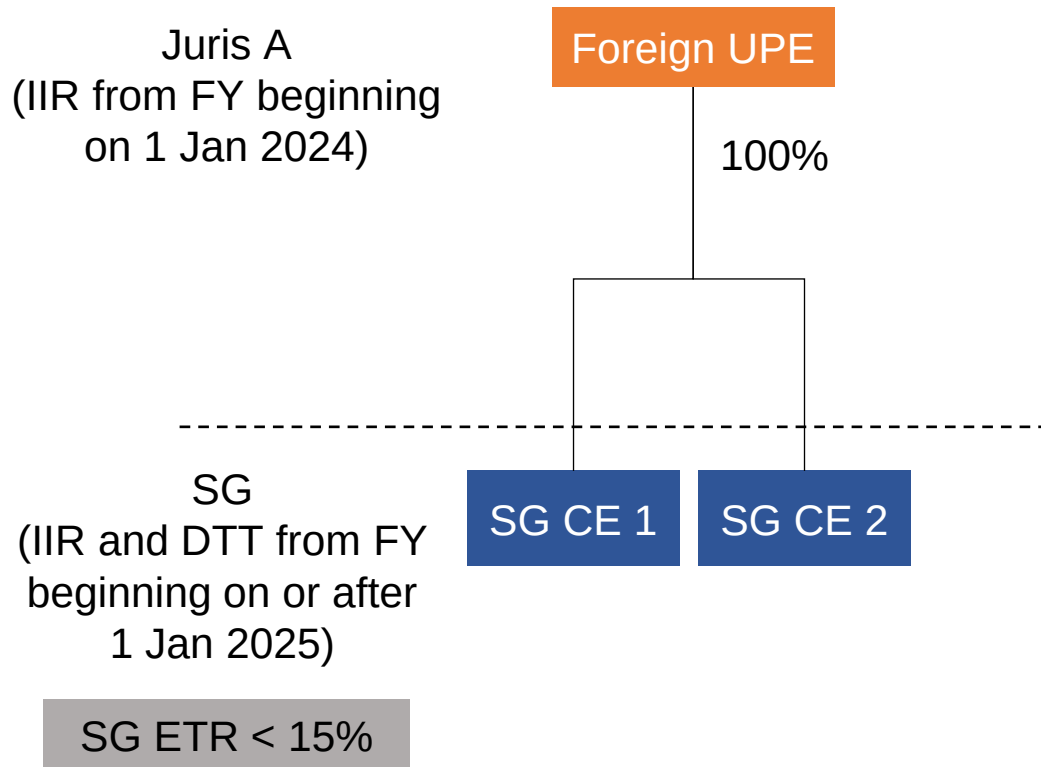
FY 2024

- **SG:** No IIR top-up tax and no DTT payable to IRAS
- **Juris C:** IPE pays **IIR top-up tax** on profits of low-taxed foreign CEs 1 and 2 to tax authority of Juris C

FY 2025

- **SG:**
 1. SG MNE group pays **DTT** on profits of low-taxed SG CEs and the SG UPE (if applicable) to IRAS
 2. SG UPE pays **IIR top-up tax** on profits of low-taxed foreign CEs 1 and 2 to IRAS
- **Juris C:** No IIR top-up tax payable by IPE (switched off by IIR top-up tax paid by SG UPE)

How will MNE Groups be Affected when SG Implements IIR and DTT



Example 3: Foreign HQ MNE group operating in Singapore

FY 2024

- **SG:** No DTT payable
- **Juris A:** Foreign UPE pays **IIR top-up tax** on profits of low-taxed SG CEs to tax authority of Juris A

FY 2025

- **SG:** Foreign MNE group pays **DTT** on profits of low-taxed SG CEs to IRAS
- **Juris A:** Foreign UPE pays **IIR top-up tax** on profits of low-taxed SG CEs (reduced by DTT paid in SG) to tax authority of Juris A



5. Exclusions from GloBE Rules

Exclusions

1 Entity Exclusion

Entities that are Excluded Entities are not subject to the GloBE Rules and DTT

2 Income Exclusion

Reduces the profit that is subject to top-up tax

1. Substance-based income exclusion
2. International shipping income exclusion

3 De Minimis Exclusion

Top-up Tax for the CEs located in a jurisdiction shall be deemed to be zero for a fiscal year when certain conditions are met

Excluded Entities

- Excluded Entities will **not be subject to GloBE Rules and DTT**
- Attributes of Excluded Entities (including their profits, losses, taxes paid, tangible assets and payroll expenses) will be **excluded when computing the MNE group's GloBE Top-up Tax and DTT**

Excluded Entities

Entities typically not subject to tax for various non-tax policy reasons

1. Governmental Entity
2. International Organisation
3. Non-profit Organisation
4. Pension Fund

Entities excluded to protect their status as tax neutral investment vehicles

5. Investment Fund that is an UPE
6. Real Estate Investment Vehicle that is an UPE

Excluded Entities (other than a Pension Services Entity) may be required to hold assets or carry out specific functions through **separate controlled entities**

- a. where **at least 95%** of the value of the Entity is owned by one or more Excluded Entities and where that Entity:
 - i. operates exclusively or almost exclusively to hold assets or invest funds for the benefit of the Excluded Entity or Entities; or
 - ii. only carries out activities that are ancillary to those carried out by the Excluded Entity or Entities; or
- b. where **at least 85%** of the value of the Entity is owned by one or more Excluded Entities provided that substantially all of the Entity's income is Excluded Dividends or Excluded Equity Gain or Loss that is not subject to GloBE Top-up Tax

Substance-Based Income Exclusion (“SBIE”)

- **SBIE reduces profit subject to top-up tax**, based on payroll and carrying value of tangible assets.

(Payroll and tangible assets are indicators of substantive activities and are generally expected to be less mobile and less likely to lead to profit shifting.)

1. Payroll carve-out

- 5% of payroll costs of eligible employees
- Transitional relief: 9.8% for FY beginning in 2024 reduced each year until 5% in 2033

2. Tangible assets carve-out

- 5% of carrying value of eligible tangible assets
- Transitional relief: 7.8% for FY beginning in 2024 reduced each year until 5% in 2033

International Shipping Income Exclusion

- Each CE's **(1) International Shipping Income or Loss** and **(2) Qualified Ancillary International Shipping Income or Loss** are excluded from the computation of the CE's **GloBE Income or Loss** for the jurisdiction in which it is located
 - International Shipping Income or Loss and Qualified Ancillary International Shipping income or Loss includes direct and indirect cost (proportionally allocated based on CE's revenue) attributable to the income
- CE must demonstrate that the strategic or commercial management of all ships concerned is effectively carried on from within the jurisdiction where the CE is located

International Shipping Income Exclusion

1. International Shipping Income or Loss	
Include	Exclude
Income derived from ships used for transportation of passengers or cargo in international traffic: • Transportation of passengers or cargo whether the ship is owned, leased or otherwise at the disposal of the CE; • Transportation of passengers or cargo under slot-chartering arrangements; • Leasing a fully equipped, crewed and supplied ship; • Leasing a ship on bare boat charter basis to another CE; • Participation in a pool, a joint business or an international operating agency; • Sale of a ship provided that the ship has been held for use by CE for a minimum of one year.	Net income obtained from transportation of passengers and cargo by ships via inland waterways within the same jurisdiction

International Shipping Income Exclusion

2. Qualified Ancillary International Shipping Income or Loss

Include	Note
Net income obtained by CE from the following activities that are performed in connection with transportation of passengers or cargo by ships in international traffic: • Leasing of a ship on a bare boat charter basis for 3 years or less to another shipping enterprise that is not a CE; • Sale of tickets issued by other shipping enterprises for domestic leg of an international voyage; • Leasing and short-term storage of containers or detention charges for the late return of containers; • Provision of services to other shipping enterprises by engineers, maintenance staff, cargo handlers, catering staff, and customer services personnel; • Investment income where investments that generate the income is made as an integral part of the carrying on the business of operating the ships in international traffic.	Aggregated Qualified Ancillary International Shipping Income of all CEs located in a jurisdiction shall not exceed 50% of those CEs' International Shipping Income

De Minimis Exclusion

- If De Minimis thresholds are met, MNE group **does not have to compute ETR or calculate amount of top-up tax of CEs** located in that jurisdiction for that FY.
- **Top-up tax for CEs located in a jurisdiction shall be deemed to be zero** for a given FY when all CEs located in the same jurisdiction in aggregate have:
 1. Average GloBE revenue < EUR 10 million; **and**
 2. Average GloBE income < EUR 1 million; or GloBE loss.

(Average of current and preceding two fiscal years)

- **Election is on an annual basis.**
- **Stateless CE** (e.g. flow-through entity as described in Article 10.3.2(b) of the Model Rules) **or Investment Entity** (e.g. investment fund or real estate investment vehicle) **are not eligible for the De Minimis Exclusion.** Their revenue and GloBE income or loss are excluded from the De Minimis Exclusion computations.



6. Safe Harbours

Safe Harbours

Safe Harbours

1. Transitional country-by-country report (“CbCR”) safe harbour
2. Permanent Simplified Calculations safe harbours
3. QDMTT safe harbour
4. Transitional UTPR safe harbour

Transitional CbCR Safe Harbour

- **Top-up tax for the jurisdiction will be deemed to be zero** if the MNE group satisfies any of the three transitional safe harbour tests
- Short-term measure to exclude an MNE's operations in certain lower-risk jurisdictions from the scope of GloBE in initial years, hence minimise compliance costs
- **Transition period:** all FYs beginning on or before 31 Dec 2026 but not including a FY that ends after 30 Jun 2028
- **Once out, always out approach** (i.e. if an MNE group has not applied this safe harbour with respect to a jurisdiction in a FY in which it is subject to GloBE Rules, the MNE group cannot qualify for this safe harbour for that jurisdiction in a subsequent year)
- Relies on information in a Qualified CbC Report which is prepared using Qualified Financial Statements

Transitional CbCR Safe Harbour

- **“Qualified CbC Report”** means a Country-by-Country Report prepared and filed using Qualified Financial Statements
- **“Qualified Financial Statements”** means –
 - the accounts used to prepare the Consolidated Financial Statements of the UPE
 - separate financial statements of each Constituent Entity provided they are prepared in accordance with either an Acceptable Financial Accounting Standard or an Authorised Financial Accounting Standard; or
 - in the case of a CE that is not included in an MNE Group’s Consolidated Financial Statements on a line-by-line basis solely due to size or materiality grounds, the financial accounts of that CE that are used for preparation of the MNE Group’s CbC Report.

Transitional CbCR Safe Harbour

MNE group to satisfy any of the following 3 tests in the tested jurisdiction
(Thresholds computed using data from Qualified CbC Report)

1 De Minimis Test

In the jurisdiction:

- a. Total revenue < EUR 10 million; and
- b. Profit (loss) before income tax < EUR 1 million

2 Simplified ETR Test

MNE group has a simplified ETR of at least x% in the jurisdiction for the FY:

FY beginning in	Simplified ETR (x%)
2024	15%
2025	16%
2026	17%

3 Routine Profits Test

MNE group's profit (loss) before income tax in the jurisdiction $\leq$ SBIE amount (calculated under GloBE rules) for CEs resident in the jurisdiction

Permanent Simplified Calculations Safe Harbour

- Aims to **reduce the number of computations and adjustments** a MNE group is required to make under GloBE Rules and **provide alternative simplified calculations** for Routine Profit Test, De Minimis Test and Effective Tax Rate Test with respect to a tested jurisdiction
- Permanent measure
- Framework for permanent safe harbours to be developed and agreed by the Inclusive Framework. Meanwhile, the Inclusive Framework has developed simplified calculations for Non-Material Constituent Entities (NMCEs). For more information on the simplified calculations for NMCEs, please refer to the [December 2023 Administrative Guidance](#) released by the Inclusive Framework.

QDMTT Safe Harbour

- Aims to eliminate the need for an MNE group to perform an additional GloBE calculation in addition to the QDMTT calculation required under domestic law
- Where an MNE Group qualifies for a QDMTT Safe Harbour, Article 8.2 excludes the application of the GloBE rules in other jurisdictions by deeming the Top-up Tax payable under GloBE to be zero (subject to the requirements of Article 8.2.2)
- To qualify for the QDMTT safe harbour, a QDMTT must meet the **QDMTT Accounting Standard**, the **Consistency Standard**, and the **Administration Standard**
- The minimum tax has to be considered first a QDMTT and then tested under these standards to qualify for the QDMTT safe harbour

QDMTT Safe Harbour

A QDMTT that qualifies for a safe harbour must meet the following three standards:

1 QDMTT Accounting Standard

QDMTT legislation adopts one of the following:

- a. provisions that are equivalent to Articles 3.1.2 and 3.1.3 of the GloBE Model Rules; or
- b. the Local Financial Accounting Standard Rule
 - which requires the QDMTT computations to be based on the Local Financial Accounting Standard of the QDMTT jurisdiction where all of the Constituent Entities located in that QDMTT jurisdiction already have financial accounts based on the local standard.

2 Consistency Standard

The computations under the QDMTT are the same as the computations required under the GloBE Rules, except where the QDMTT Commentary explicitly requires or allows for certain variations from the GloBE Rules.

3 Administration Standard

The requirements provided under the ongoing monitoring process applicable to the GloBE Rules are met.

Transitional UTPR Safe Harbour

- Designed to provide transitional relief in the UPE Jurisdiction during the first two years in which the GloBE rules come into effect.
- Under the Transitional UTPR Safe Harbour, the UTPR Top-up Tax Amount calculated for the UPE Jurisdiction shall be deemed to be zero for Fiscal Years which run no longer than 12 months that begin on or before 31 Dec 2025 and end before 31 Dec 2026.
- The transitional UTPR Safe Harbour is only available for UPE jurisdictions with a corporate income tax rate of at least 20%.