CHAPTER 28

LATEST DEVELOPMENTS IN INTERNATIONAL TAXATION



LEARNING OUTCOMES

After studying this chapter, you would be aware of the -

- latest developments in OECD/G20 BEPS Project
- two Pillar approach to address tax challenges out of digitalization
- key highlights of Pillar One and Pillar Two of BEPS 2.0

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28.1 BRIEF BACKGROUND OF BEPS

What is BEPS?

Base erosion and profit shifting (BEPS) refers to tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax. Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately.

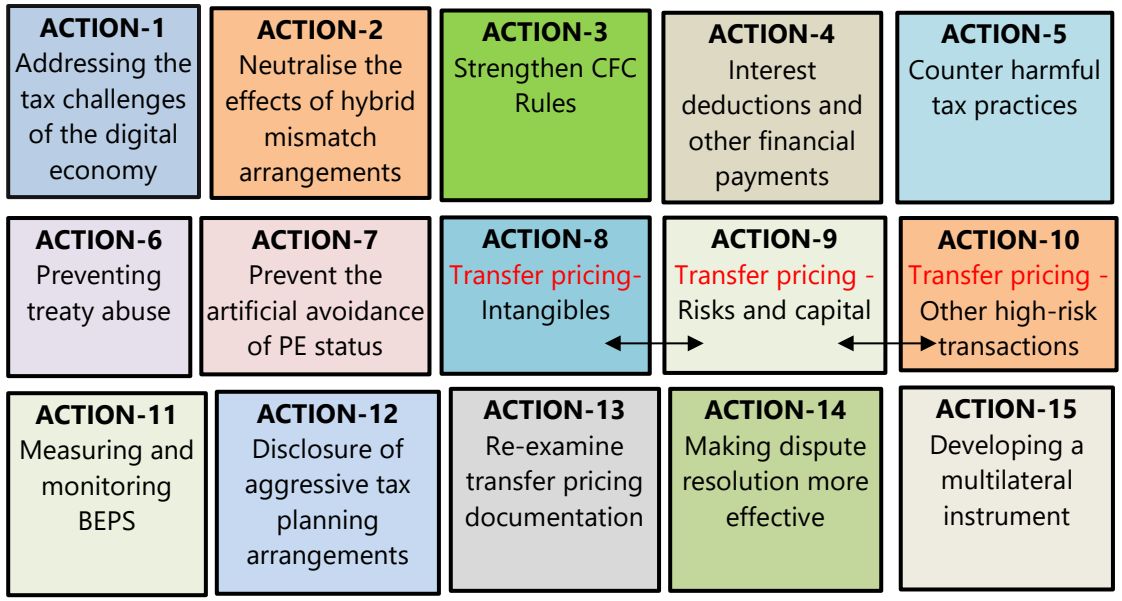
The report Addressing Base Erosion and Profit Shifting (OECD1, 2013) concluded that no single tax rule on its own enables BEPS, it is rather the interplay among different issues that makes it possible. Domestic laws and rules that are not coordinated across borders, international tax standards that have not always kept pace with the changing global business environment and a pervasive lack of relevant information at the level of tax administrations and policymakers combine to provide opportunities for taxpayers to undertake BEPS strategies. The availability of harmful tax practices was also identified as a key pressure area.

Out of a shared desire to address BEPS concerns, there is agreement on a comprehensive package of measures which are designed to be implemented domestically and through treaty provisions in a coordinated manner, supported by targeted monitoring and strengthened transparency. The goal is to tackle BEPS structures by comprehensively addressing their root causes rather than merely the symptoms.

Thus, in 2015, under the OECD/G20 BEPS Project, 15 BEPS Actions were delivered to tackle tax avoidance, improve the coherence of international tax rules, and ensure a more transparent tax environment (BEPS package).

[1] *Organisation for Economic Co-operation and Development (OECD)*

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Recognising all the progress made, including establishing a new OECD-G20 framework for more inclusive deliberations, it appears necessary to further deepen cooperation and focus on monitoring the implementation and effectiveness of the measures adopted in the context of the BEPS Project as well as the impact on both compliance by taxpayers and proper implementation by tax administrations.

OECD and G20 countries agree to keep working on an equal footing to monitor the implementation of the BEPS measures. The monitoring will consist of an assessment of compliance in particular with the minimum standards in the form of reports on what countries have done to implement the BEPS recommendations.

28.2 ESTABLISHMENT OF INCLUSIVE FRAMEWORK

Globalisation requires that global solutions and a global dialogue be established which go beyond OECD and G20 countries. The strong interest expressed by developing countries through their participation in the BEPS Project should be sustained by the establishment of an even more inclusive framework, which will continue to include other international organisations and regional tax organisations.

Drawing on the successful experience of the Global Forum on Transparency and Exchange of Information for Tax Purposes, in early 2016 OECD and G20 countries decided to work together to design and propose a more inclusive framework to

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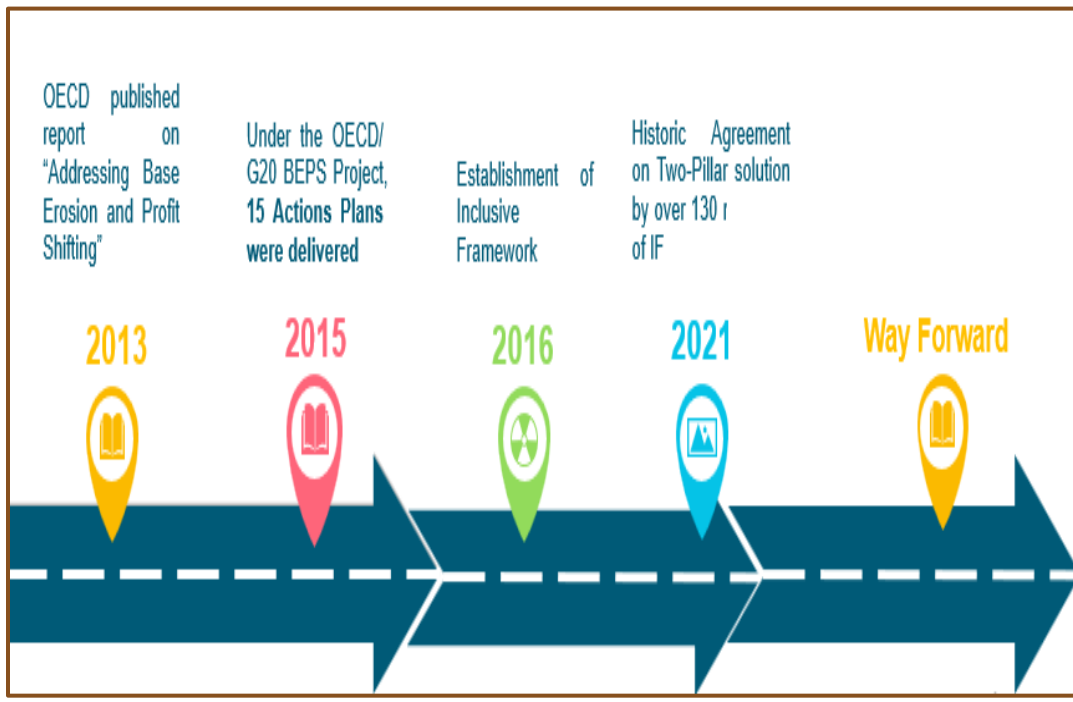
support and monitor the implementation of the BEPS package, with countries and jurisdictions participating on an equal footing.

The idea was to include consideration of the manner in which non-OECD non-G20 countries and jurisdictions can commit to the agreed standards and their implementation. Thus, it was proposed to call on the OECD to prepare a framework by early 2016 with the involvement of interested non-G20 countries and jurisdictions, particularly developing economies, on an equal footing.

The Inclusive Framework includes 148 members, with Guatemala having joined as the 148th member in January 2026. Members participate on an equal footing in monitoring implementation and developing measures to combat BEPS.

28.3 INTRODUCTION OF TWO-PILLAR SOLUTION (BEPS 2.0)

On 1 July 2021, 130 jurisdictions of the Inclusive Framework, representing more than 90% of worldwide GDP, reached a historic agreement on a two-pillar solution to address the tax challenges of digitalisation and introduce a global minimum tax on the profits of large multinational enterprises (MNEs).



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The support for the July 2021 Statement increased to 134 member jurisdictions by 31 August 2021. The agreement provided for fundamental reforms to key elements of the international tax system and was intended to help countries protect their tax bases.

Subsequently, as of 9 June 2023, in total 139 member jurisdictions had agreed to the 8 October 2021 Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (the "2021 October Statement"). The October 2021 Statement further developed the two-pillar solution and included a detailed implementation plan.

It represented a major step forward in the reform of the international tax system and the outcome of intensive work carried out under BEPS Action 1 "Addressing the tax challenges arising from the digital economy," which has been the top priority of the OECD/G20 Inclusive Framework.

Since the agreement on the 2021 October Statement, the OECD/G20 Inclusive Framework has moved to its implementation, with significant progress achieved.

Two parts to Pillar One

- **Amount A,** the international framework for reallocation of taxing rights over profits of large and highly profitable MNEs; and
- **Amount B,** the simplified transfer pricing approach for baseline distribution activity.

Pillar Two is similarly structured around two complementary components.

- **Global Anti-Base Erosion (GloBE) Rules**, which establish a minimum tax framework in each jurisdiction where large MNEs operate, and
- **Subject-To-Tax-Rule (STTR)**, which allows a source jurisdiction to "tax back" where taxing rights have been ceded under a tax treaty and a payment is subject to a low nominal rate in the residence jurisdiction.

The following discussions provide an overview of Pillar One and Pillar Two.

Overview of Pillar One and Pillar Two

Digital transformation spurs innovation, generates efficiencies, and improves services while boosting more inclusive and sustainable growth and enhancing

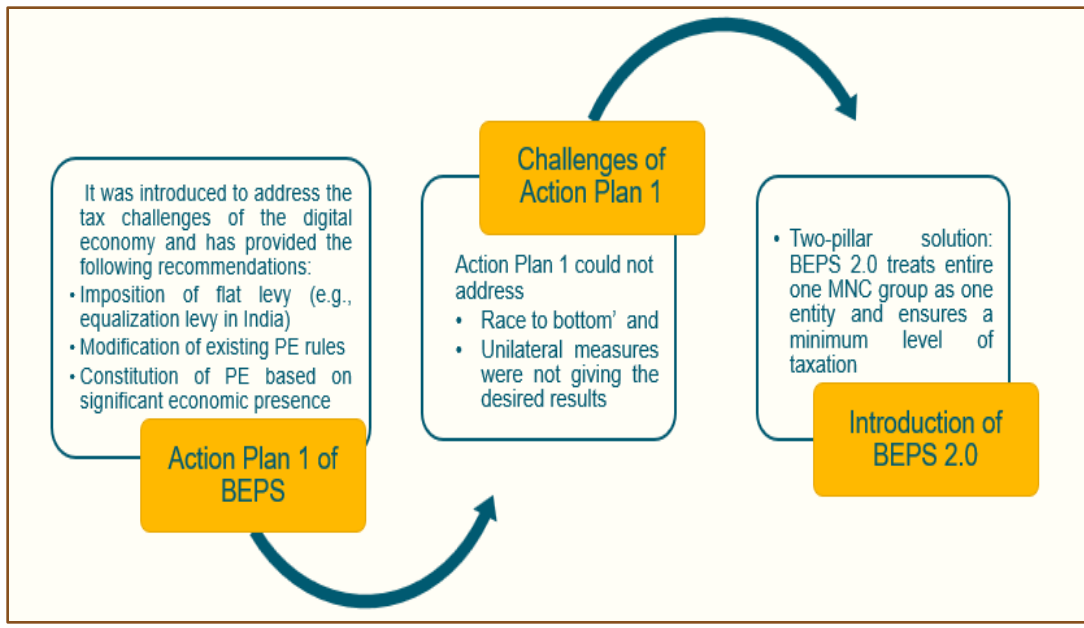
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well-being. At the same time, the breadth and speed of this change introduce challenges in many policy areas, including taxation.

Reforming the international tax system to address the tax challenges arising from the digitalisation of the economy, restore stability to the international tax framework and prevent further uncoordinated unilateral tax measures has therefore been a priority of the international community for several years, with commitments to deliver a consensus-based solution.

These tax challenges were first identified as one of the main areas of focus of the OECD/G20 BEPS Project, leading to the 2015 BEPS Action 1 Report (the Action 1 Report) (OECD, 2015). The Action 1 Report found that the whole economy was digitalising and, as a result, it would be difficult, if not impossible, to ring-fence the digital economy.

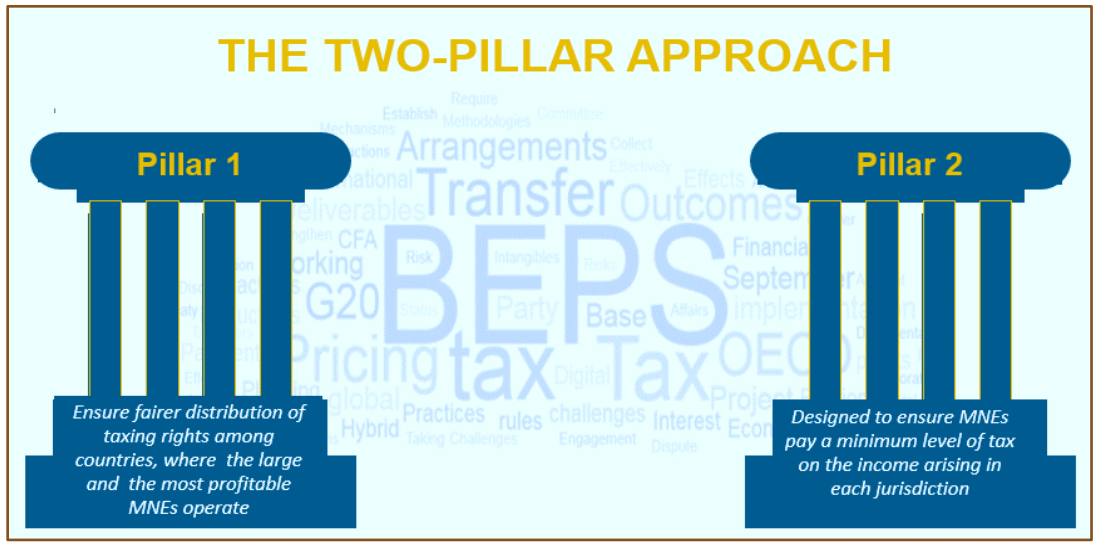
The 2015 Action 1 report provided the options to safeguard against BEPS on account of digitalisation and left it to the discretion of the countries to resort to these measures as part of their domestic law. The report also indicated that it was agreed between the members to continue to monitor developments in respect of the digital economy.



Pursuant to this, the OECD Inclusive Framework on BEPS came up with a consensus-based solution for tax challenges arising out of digitalisation (commonly known as BEPS 2.0), framed within two complementary pillars, namely,

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Pillar One and Pillar Two.



As already discussed above, the 2021 October Statement had the support of 139 countries and jurisdictions as of 9 June 2023. The agreement demonstrates that developing countries can play an active and influential role in international standard setting through their participation in the Inclusive Framework, while all participants have recognised the need for compromise.

Pillar One

(1) Introduction

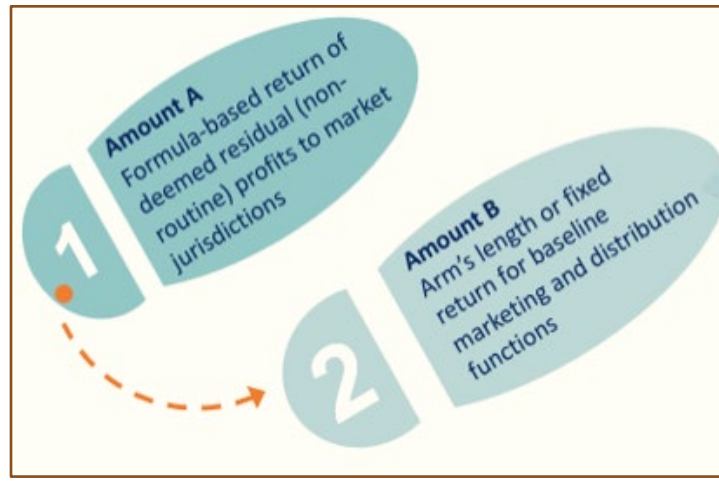
Pillar One is designed to deliver a sustainable taxation framework reflective of today's digitalising economy, with the potential to achieve a fairer and more efficient allocation of taxing rights.

It aims to ensure a fairer distribution of taxing rights among countries with respect to the largest and most profitable MNEs. It will reallocate taxing rights over a portion of the residual profits of MNEs to the market countries and jurisdictions where they have business activities, regardless of whether they have a physical presence there.

Under Pillar One, an MNE is treated as a consolidated entity, and taxing rights are allocated on predetermined formulas and assumptions which are briefly discussed

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in this chapter. These are primarily classified into two parts, Amount A and Amount B.



(2) Amount 'A' and Amount 'B'

Pillar One introduces new nexus and profit allocation rules to reallocate a portion of the residual profits of certain in-scope MNE Groups to eligible market jurisdictions. This allocated profit is termed as 'Amount A'. Market jurisdictions must fulfil the nexus test to be eligible for 'Amount A' allocation. Amount A has not entered into force / is not currently operational as a multilateral convention).

Amount B is a critical component of Pillar One. While the work on Amount A updates the international taxation framework with respect to large and very profitable multinational enterprises (MNE), Amount B simplifies the existing transfer pricing rules for all taxpayers.

It is focused on the application of transfer pricing rules to so called baseline marketing and distribution activities; likely the most frequent fact patterns that MNEs encounter in the jurisdictions where they operate. Amount B is intended to increase tax certainty, reduce compliance and administrative costs and in particular assist low-capacity jurisdictions that often suffer from the absence of local market comparable.

The text of the Multilateral Convention (MLC) to implement Amount A was released in October 2023. However, the MLC is not yet open for signature, and

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Amount A is therefore not presently in force. The framework for Amount B has been finalised and incorporated in the OECD Transfer Pricing Guidelines; it applies where a jurisdiction chooses to adopt the simplified and streamlined approach.

Broadly, the material released by OECD till date, explain Amount A and Amount B as under:

Amount 'A'

Pillar One Amount A rules apply to the biggest and most profitable MNEs and allocate parts of their profits to the countries where they sell their products and provide their services (the market countries). Any such allocation is capped or eliminated, however, where the market country already exercises taxation over the MNE's residual profits under the marketing and distribution profits safe harbour.

Amount A is based on a comprehensive scope that uses quantitative thresholds to determine whether an MNE is subject to the rules on Amount A. This means that any MNE that meets the scope thresholds will have to apply the Amount A rules, regardless of what type of business it undertakes.

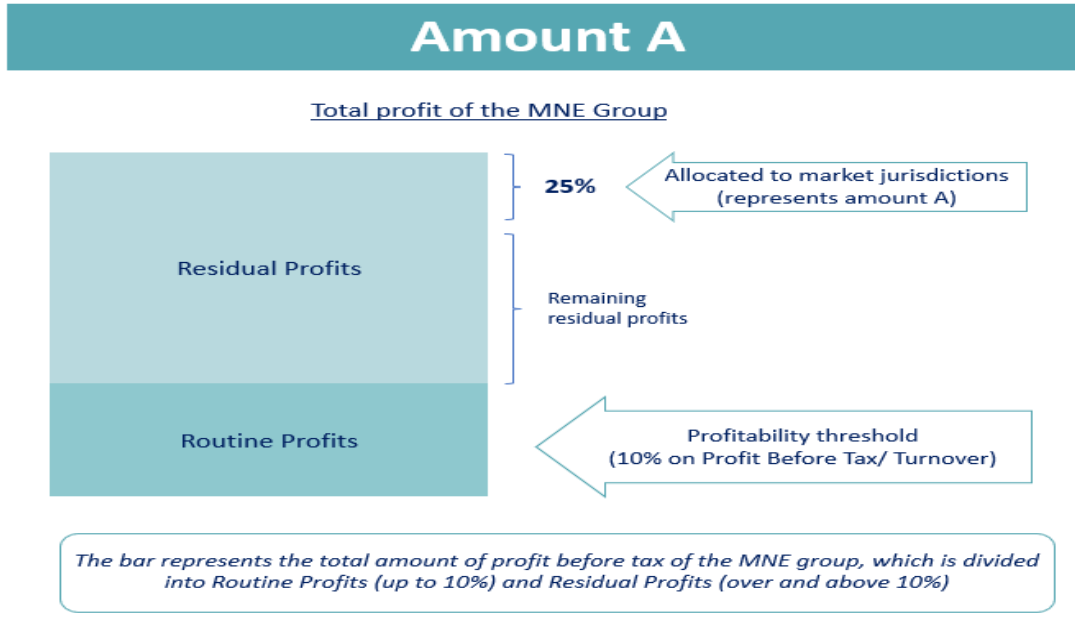
Under the scope thresholds, MNEs with revenues greater than EUR 20 billion and with profitability greater than 10% will be in scope of Amount A. These thresholds apply at a group level (i.e. to the entire MNE), using the financial data in an MNE's consolidated financial statements. In exceptional cases where an MNE does not meet the profitability threshold, but a segment reported in the MNE's consolidated financial statements (a 'Disclosed Segment') has revenues greater than EUR 20 billion and profitability greater than 10% on a standalone basis, that Disclosed Segment will be in scope of Amount A.[2]

Amount A is **25% of the residual profit** defined as profit in excess of 10% of revenue that will be allocated to market jurisdictions with nexus using revenue-based allocation keys.

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[2]*For detailed understanding with respect to determining Amount A please refer https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/cross-border-and-international-tax/frequently-asked-questions-progress-report-on-amount-a-pillar-one-july-2022.pdf*

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Allocation of Amount A is majorly based on the following two factors:

(i) Nexus Test

(ii) Revenue Sourcing Rules

Nexus test

The new special-purpose nexus rule applies solely to determine whether a jurisdiction qualifies for profit reallocation under Amount A. These rules will not alter the nexus for any other tax or non-tax purpose. Amount A is allocated to the market jurisdiction only if the nexus exists. To determine whether an MNE in-scope of Amount A satisfies the nexus test for Amount A in a jurisdiction, it will have to apply the **revenue sourcing rules** to identify the jurisdiction in which revenue arises for purposes of Amount A.

To establish nexus, the market revenue thresholds is:

- €1 million for jurisdiction with annual GDP ≥ €40 billion
- € 250,000 for jurisdiction with annual GDP < €40 billion

It transfers taxing rights over residual profits to jurisdictions with business activities regardless of the physical presence.

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Revenue sourcing rules

Revenue will be sourced to the end market jurisdictions where goods or services are used or consumed. To facilitate the application of this principle, detailed source rules for specific categories of transactions are contained in the October 2023 Amount A MLC package. In applying the sourcing rules, an MNE must use a reliable method based on the MNE's specific facts and circumstances.

Revenues must be sourced according to the category of Revenues earned. Revenues that fall under more than one category are sourced according to their predominant character. Revenues derived from Supplementary Transactions may be sourced in accordance with the revenue sourcing rule that applies to the Revenues that they supplement.

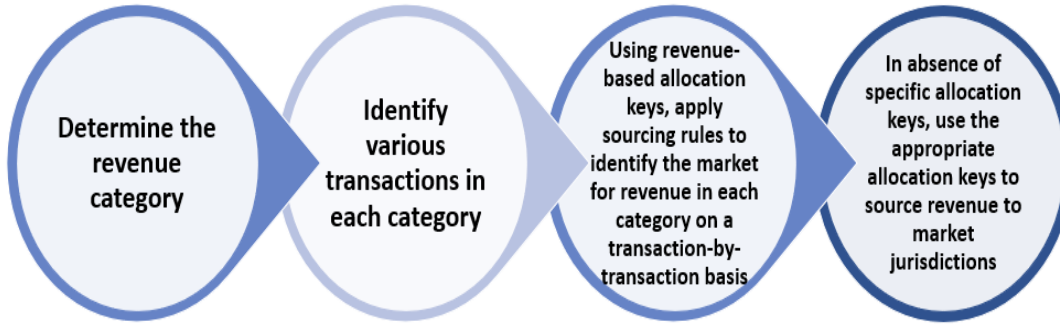
Specific revenue sourcing rules provide a common basis for identifying an MNE's market countries that will benefit from Amount A, categorised per type of revenue. For revenues from online advertising, for example, the sourcing principle is based on the "eyeballs" of the viewer, and not on the location of the advertiser. To identify the viewer, the MNE should use data points that reliably indicate the location of the viewer, such as IP address or geolocation, or other reliable commercial information.

In some cases, it will be very challenging for an MNE to locate the end-user. This may be the case, for example, for revenues from cloud computing services, where the MNE may not have information available on where its customer's employees use the service. In order to provide certainty in these more challenging cases, the MNE is allowed to use targeted proxies or allocation keys, which approximate the market country (such as allocation keys based on statistical information on aggregated headcount data or macroeconomic proxies). This is a way to balance the compliance burden while ensuring that Amount A profits are reliably reallocated in all cases.

Once an MNE has determined how much revenue it generates in each of its market countries, Amount A profit will be reallocated only to the market countries where the MNE meets a new quantitative special purpose nexus test.

Process to be followed while applying the nexus test and the revenue sourcing rules is summarized as under:

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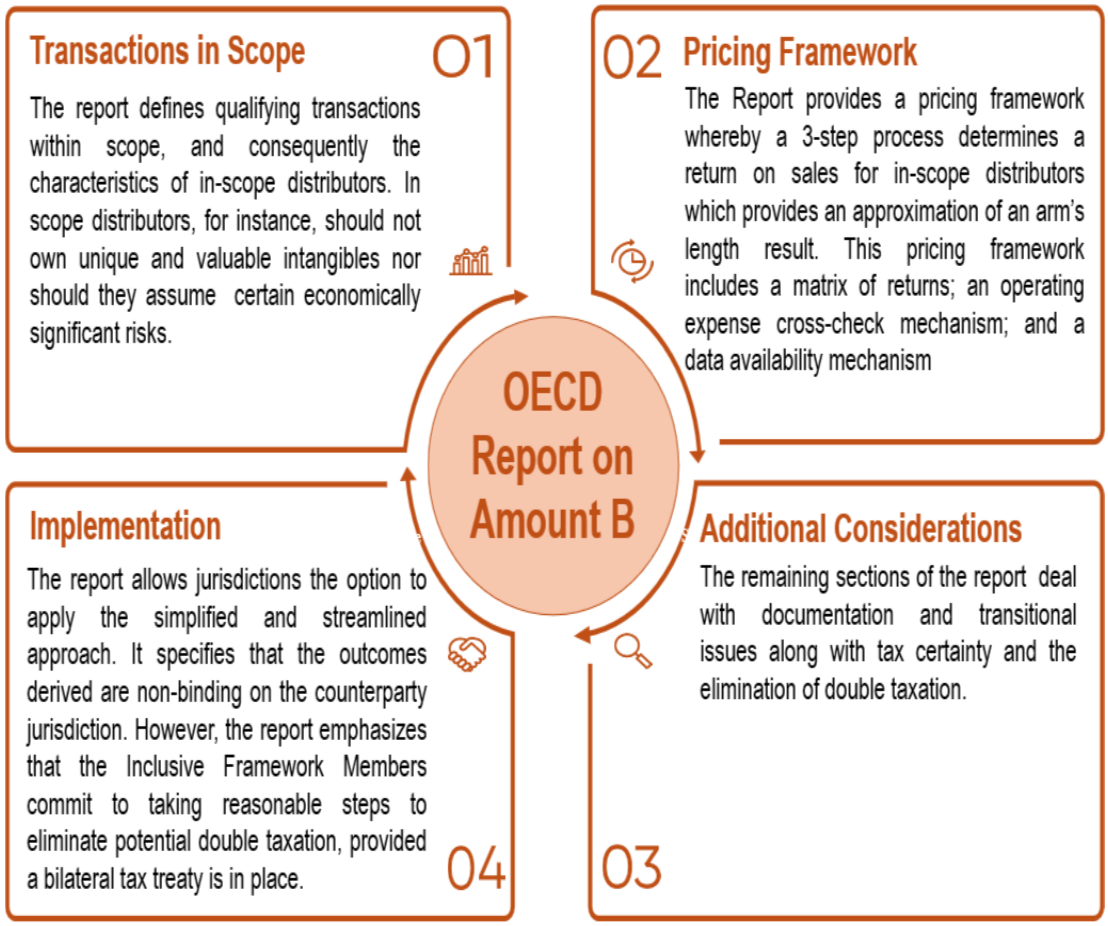
Amount 'B'

The Inclusive Framework on BEPS released a report on Amount B of Pillar One on 19 February 2024, aimed at simplifying and streamlining the application of the arm's length principle to in-country baseline marketing and distribution activities, with a particular focus on the needs of low-capacity jurisdictions. On 17 June 2024, the Inclusive Framework published the pending design aspects of Amount B.

The OECD/G20 Inclusive Framework published the Consolidated Report on Amount B on 24 February 2025, bringing together the agreed simplified and streamlined approach and its implementation framework. On 17 February 2026, the OECD also published Amount B Pricing FAQs and a revised Pricing Automation Tool to support application of the framework. Amount B is not automatically applicable in every jurisdiction. Its application depends on the relevant jurisdiction choosing to adopt the simplified and streamlined approach in accordance with its domestic legislation and applicable implementation framework. Therefore, in the absence of such adoption, Amount B does not displace or override the jurisdiction's existing transfer pricing provisions, including India's domestic transfer pricing provisions.

In summary, the framework for Amount B, as outlined in the report, is as follows:

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Broadly, the steps involved in applying Amount B are as under:

- **STEP 1: SCOPING CONDITIONS**

The purpose of Step 1 is to determine whether baseline marketing and distribution activities carried out by a tested party are in-scope of Amount B. When a tested party is involved in a qualifying transaction (Step 1-1) that meets the scoping criteria (Step 1-2), then the transaction is in-scope of Amount B.



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- **STEP 2: PRICING OF IN-SCOPE TRANSACTIONS**

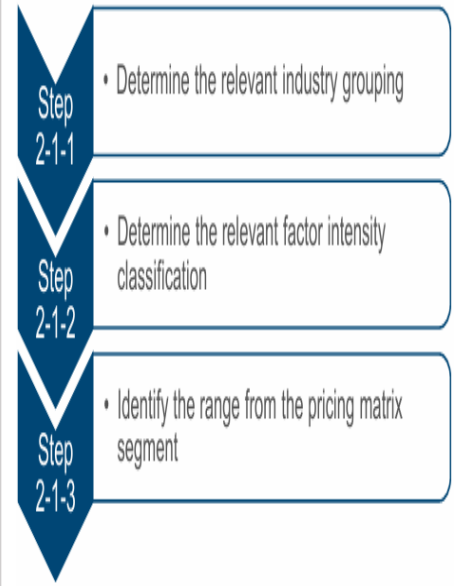
  If a qualifying transaction is determined to be within the scope of Amount B, it is priced using the Amount B pricing framework, unless a reliable internal Comparable Uncontrolled Price (CUP) is available. The pricing framework comprises the following three sub-steps:

Step 2-1: Application of the Pricing Matrix

The purpose of step 2-1 is to determine the return on sales percent in the pricing matrix of Amount B:

Factor Intensity	Industry Grouping 1	Industry Grouping 2	Industry Grouping 3
(A) OAS 45% or more, any level of OES	3.50%	5.00%	5.50%
(B) OAS 30% to 44.99%, any level of OES	3.00%	3.75%	4.50%
(C) OAS 15% to 29.99%, any level of OES	2.50%	3.00%	4.50%
(D) OAS less than 15%, OES 10% or more	1.75%	2.00%	3.00%
(E) OAS less than 15%, OES less than 10%	1.50%	1.75%	2.25%

**OAS – Operating Assets Intensity*
OES – Operating Expenses Intensity



The pricing matrix is derived from a global dataset of comparable companies engaged in baseline marketing and distribution activities. Their financial information, filtered using benchmarking criteria and scoping conditions, has been used to approximate arm's length returns, expressed as **return on sales**.

Note - *The pricing matrix and related parameters are subject to periodic review and should be read with the latest OECD guidance. The OECD has stated that the Pricing Automation Tool is updated annually to reflect changes to the pricing matrix and other datapoints relevant to the application of Amount B adjustment features.*

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Note:

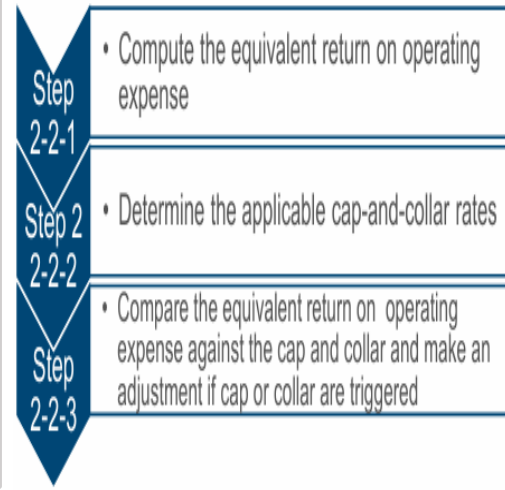
Industry grouping refers to the categorisation of specific industries and industry sectors in which in-scope distributors operate into three pre-defined groupings based on the observed relationships between specific industries / products and the profitability attributed to baseline distribution of those products. The categories of goods falling into each of the three industry groups are:

Group 1	perishable foods, grocery, household consumables, construction materials and supplies, plumbing supplies and metal.
Group 2	IT hardware and components, electrical components and consumables, animal feeds, agricultural supplies, alcohol and tobacco, pet foods, clothing footwear and other apparel, plastics and chemicals, lubricants, dyes, pharmaceuticals, cosmetics, health and wellbeing products, home appliances, consumer electronics, furniture, home and office supplies, printed matter, paper and packaging, jewellery, textiles hides and furs, new and used domestic vehicles, vehicle parts and supplies, mixed products and products and components not listed in group 1 or 3.
Group 3	medical machinery, industrial machinery including industrial and agricultural vehicles, industrial tools, industrial components miscellaneous supplies.

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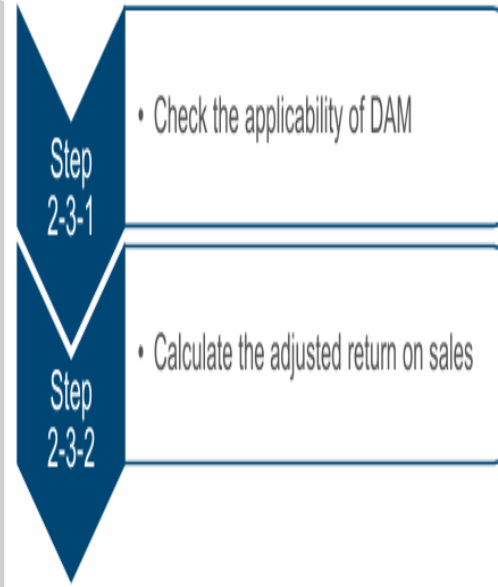
Step 2-2: Application of the operating expense cross-check (OECC)

The purpose of Step 2-2 is to apply the operating expense cross check (OECC) which works as a corroborative check by assessing the return derived from the matrix by reference to the operating expense level of the tested party.
Where the application of the return on sales net profit indicator produces a result outside of the pre-defined operating expense cap-and-collar range, the profitability of the tested party will be adjusted.



Step 2-3: Application of the data availability mechanism (DAM)

Step 2-3 applies the data availability mechanism (DAM) which provides for upward adjustments to the return derived from the pricing matrix in certain cases. The mechanism is intended to account for cases where there is no or insufficient data in the global dataset for a particular tested party jurisdiction upon which to validate the appropriateness of the Amount B pricing matrix coupled with evidence that that jurisdiction could be reasonably considered a 'higher risk' jurisdiction.



In order to simplify compliance burdens associated with administering the simplified and streamlined approach, the analysis supporting the determination of the pricing matrix and operating expense cap-and-collar rates will be updated every five years unless there is a significant change in market conditions that warrants an interim update. The financial data and other datapoints will be reviewed annually and updated where necessary.

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The data availability mechanism (DAM) and qualifying-jurisdiction treatment form part of the agreed Amount B framework. Current OECD qualifying-jurisdiction lists, pricing tools and implementation materials should be referred to when applying these features.

Pillar Two

(1) Introduction

This pillar explores the design of a system to ensure that MNEs pay a minimum level of tax. This pillar is intended to address the remaining issues identified by the OECD/G20 BEPS initiative by providing countries with new tools to protect their tax base from profit shifting to jurisdictions that tax these profits at below the minimum rate.

Pillar Two consists of the Global Anti-Base Erosion (GloBE) Rules and a treaty-based Subject to Tax Rule (STTR).

The GloBE Model Rules for the global minimum tax were released in December 2021, followed by the related Commentary and Administrative Guidance. The GloBE Rules provide a coordinated system, under a common approach, to ensure that in-scope MNE Groups with consolidated revenue of at least EUR 750 million are subject to a minimum effective tax rate of 15% in each jurisdiction in which they operate. The minimum level of tax may also be imposed locally through a Qualified Domestic Minimum Top-up Tax (QDMTT), subject to the applicable qualification requirements. The GloBE Rules began applying from 2024 and their implementation has expanded significantly worldwide.

The Subject to Tax Rule (STTR) is a treaty-based rule that complements the GloBE Rules and protects the taxing rights of developing Inclusive Framework members. It applies to specified covered cross-border payments between connected persons where the income is subject to a nominal corporate income tax rate below 9% in the recipient jurisdiction. In such cases, the source jurisdiction may impose additional tax up to the agreed minimum rate. Tax imposed under the STTR is taken into account in computing the GloBE effective tax rate, thereby giving the STTR practical priority in its interaction with the GloBE Rules. The STTR may be implemented through the STTR Multilateral Instrument (STTR MLI) or through bilateral amendments to tax treaties.

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Common Approach: The jurisdictions are not required to adopt the GloBE rules, but if they choose to do so, they agree to implement them in a way that is consistent with the agreed outcomes.

(2) Key highlights of Pillar Two

Jurisdictional Blending	• Tax liability to be determined on a jurisdictional basis and will arise when the effective tax rate (ETR) of a jurisdiction in which the MNE Group operates is below the agreed minimum rate
Minimum Tax Rate	• The GloBE Rules prescribe a minimum effective tax rate of 15%. STTR operates by reference to a 9% minimum rate for specified covered payaments, subject to treaty conditions.
Rule Order	• Under the model rules, a priority order is prescribed to be followed while applying the Pillar 2 rules
De minimis Exclusion	• A simplification measure to exclude jurisdictions from the GloBE rules that have less than a certain percentage of the Average GloBe revenue
Substance based Income Exclusion	• Provided to exclude a fixed return for substantive activities within a jurisdiction from the application of the GloBE Rules

(3) STTR and GloBE Rules

As already mentioned, Pillar Two consists of the Global Anti-Base Erosion (GloBE) Rules and a treaty-based Subject to Tax Rule (STTR). Taxes imposed under the STTR are taken into account in the GloBE ETR computation, giving the STTR practical priority in the co-ordination of the two regimes.

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2025–2026 developments under the GloBE framework

Side-by-Side Package — 5 January 2026

The Inclusive Framework agreed on a Side-by-Side Package comprising a Simplified ETR Safe Harbour, a one-year extension of the Transitional CbCR Safe Harbour, a Substance-based Tax Incentives Safe Harbour, and a Side-by-Side system providing two safe harbours for MNE Groups headquartered in eligible UPE jurisdictions. The package preserves the primacy and operation of Qualified Domestic Minimum Top-up Taxes (QDMTTs).

Administrative Guidance — 18 May 2026

The Inclusive Framework issued Administrative Guidance on 18 May 2026 addressing the application of the Transitional UTPR Safe Harbour to MNE Groups with 52/53-week Fiscal Years.

GloBE Information Return (GIR): Central Filing and Exchange — May/June 2026

In **May 2026**, the Inclusive Framework reached a common understanding supporting the central filing and exchange of the GloBE Information Return (GIR), together with an updated Central Record of qualified IIR and DMTT regimes. June 2026 guidance further addressed the use of the GIR XML Schema for the first filing and exchange cycle.

2026 Consolidated Commentary

The 2026 Consolidated Commentary to the GloBE Model Rules was published on 28 May 2026. It consolidates the Commentary with the agreed Administrative Guidance.

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Subject to Tax Rules (STTR)

Overview

The STTR is a treaty-based rule that permits a source jurisdiction to impose limited additional tax on specified categories of covered income paid between connected persons where the relevant adjusted nominal tax rate in the residence jurisdiction is below the 9% STTR minimum rate, subject to the treaty conditions and limitations.

The Inclusive Framework's political commitment to implement the Subject to Tax Rule (STTR) is designed particularly to address the priorities of developing members. For purposes of identifying the developing Inclusive Framework members covered by that implementation commitment, the **2019 Gross National Income (GNI) per capita threshold of USD 12,535** is used. This threshold is not an operative condition of the STTR itself; rather, it is a criterion relevant to the Inclusive Framework's implementation commitment.

Applicability

- The technical scope of the STTR applies to specified categories of covered income arising between connected persons, subject to the conditions and exclusions in the treaty rule. It is not confined, as an operative treaty condition, to payments made by an entity in a developing country.
- The **materiality threshold** applies by reference to the aggregate amounts of covered income specified in paragraph 12 arising in the source jurisdiction during the fiscal year. The threshold is **EUR 1 million** where the applicable GDP threshold is **EUR 40 billion or more**, and **EUR 250,000** where GDP is **below EUR 40 billion**. The threshold amount is determined by reference to the **size of the smaller economy of the two Contracting States**.

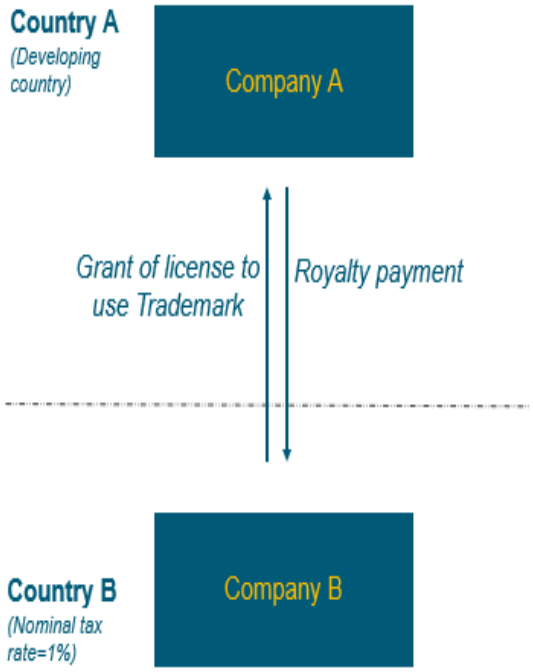
Covered income includes interest, royalties, payments for distribution rights for a product or service, insurance or reinsurance premiums, guarantee or financing fees, rentals for industrial, commercial or scientific equipment, and specified services and other covered income. For covered income other than interest and royalties, the STTR generally does not apply where the amount does not exceed attributable costs plus an 8.5% mark-up.

Connected persons include the more-than-50% direct or indirect ownership deeming test and a separate facts-and-circumstances test for de facto control.

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Specified rate

The STTR specified rate is determined by reference to the relevant tax rate under the adjusted nominal rate mechanics, including applicable preferential adjustments, and is further reduced by source taxation already allocated to the source jurisdiction under other treaty provisions.



Country A and Country B incorporated STTR provisions under their Tax Treaty	Rate
STTR rate	9%
Nominal tax rate applied in the resident jurisdiction [Country B]	1%
The payor jurisdiction [Country A] retains the 5% withholding tax right under the tax treaty	5%
STTR Specified rate [Country A to tax under STTR]	**3%**

Facts

- Company A is a company resident in Country A (a developing country) and has entered into a royalty agreement (payable in respect of the grant of license to use trademark owned by Company B) with Company B (resident of Country B). Accordingly, Country A shall be the 'source jurisdiction' and Country B shall be the 'resident jurisdiction.'
- In consideration, royalty is payable by Company A to Company B.
- Country A and B has entered into a DTAA, i.e., Double Tax Avoidance Agreement or Tax Treaty, wherein the source jurisdiction retains withholding taxing rights @5% on royalty payments.
- Royalty payments are taxable @ 1% in Country B.

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Observations

In the above example, if the source jurisdiction impose 5% tax on the covered royalty and the relevant residence-jurisdiction rate is 1%, the source jurisdiction may impose an additional 3% under the STTR (9% – 5% – 1% = 3%). The STTR charge is generally levied after the end of the fiscal year as an ex-post annualised charge and is not necessarily withheld when the payment is made.

The STTR MLI remains open for signature. 10 signatories had been recorded by September 2025, and San Marino deposited the first instrument of ratification in December 2025. Albania deposited the second instrument of ratification on 15 September 2026. Accordingly, the STTR MLI will enter into force on 1 January 2027 for San Marino and Albania.

GloBE Rules

Scope

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.

MNE Group means any Group that includes at least one Entity or Permanent Establishment not located in the jurisdiction of the Ultimate Parent Entity whereas a 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 included in the Consolidated Financial Statements of the Ultimate Parent Entity.

Entities that are Excluded Entities fall outside the operative GloBE provisions. Their revenue nevertheless counts for purposes of the consolidated revenue test. Excluded Entities include specified Governmental Entities, International Organisations, Non-profit Organisations, Pension Funds and certain Investment Funds or Real Estate Investment Vehicles that are Ultimate Parent Entities, together with specified ownership vehicles. Their ownership interests in other Constituent Entities do not automatically exclude those entities from the GloBE Rules.

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Overall design

The GloBE charging rules are the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR). A Qualified Domestic Minimum Top-up Tax (QDMTT) is a domestic minimum top-up tax that may qualify under the GloBE framework and is relevant to the agreed rule order; it should not be described as one of the GloBE Model Rules.

(i) **Qualified Domestic Minimum Top-up Tax (QDMTT):** QDMTT imposes a jurisdictional top-up tax on the constituent entity located in a low-taxed jurisdiction (LTJ). It allows the LTJ to collect the top-up tax computed in accordance with the GloBE rules.

QDMTT provides the right to the LTJ to collect the jurisdictional top-up tax by way of the introduction of QDMTT in its domestic tax laws. This would preserve a jurisdiction's primary right of taxation over its own income.

(ii) **Income Inclusion Rule (IIR):** IIR imposes a top-up tax on a parent entity in respect of the constituent entity located in low-taxed jurisdiction.

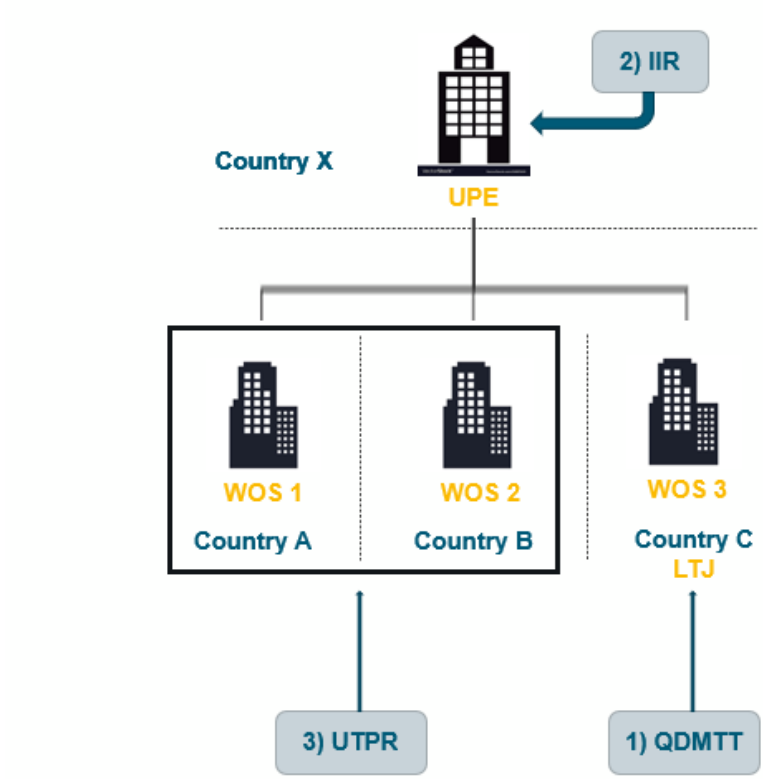
A Constituent Entity, that is the UPE of an MNE Group, located in a GloBE implementing jurisdiction that owns (directly or indirectly) an Ownership Interest in a Low-Taxed Constituent Entity at any time during the Fiscal Year shall pay a tax in an amount equal to its Allocable Share of the Top-Up Tax of that Low-Taxed Constituent Entity for the Fiscal Year.

(iii) **Undertaxed Profits Rule (UTPR):** The UTPR denies deductions or requires an equivalent adjustment to produce an additional cash tax expense to the extent low-taxed income of a Constituent Entity is not brought into charge under a Qualified IIR. Denial of a deduction is one permissible domestic mechanism for giving effect to the UTPR; it is not the definition of the rule itself.

The UTPR operates as the backstop after the applicable IIR rules. Under the IIR top-down approach, the UPE generally applies a Qualified IIR first; where the UPE is not required to apply a Qualified IIR, an Intermediate Parent Entity may be required to apply it, while the Partially Owned Parent Entity rules can require an IIR charge at that level. Residual top-up tax not collected under a QDMTT or Qualified IIR may then be allocated under the UTPR to implementing jurisdictions.

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Let us understand the mechanism of these three rules from the example below:



Observations

The UPE of an MNE group located in Country X has three wholly owned subsidiaries ("WOS") in Country A, B, and C. Let's say, Country C is a low-taxed jurisdiction ("LTJ"). The priority ranking as per the model GloBE rules prescribes that:

Priority 1 – Where Country C imposes QDMTT in its jurisdiction, the jurisdictional top-up tax shall be imposed on WOS 3 (refer to the diagram above).

Priority 2 – Where Country C does not impose a QDMTT, the IIR is applied through the GloBE top-down approach. The UPE generally applies the Qualified IIR first; where applicable, an Intermediate Parent Entity or a Partially-Owned Parent Entity may be required to apply the IIR under the specific ownership-chain rules.

Priority 3 – Any residual top-up tax not collected under a QDMTT or Qualified IIR may be allocated under the UTPR to Constituent Entities in jurisdictions that have implemented a Qualified UTPR.

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Other Important Topics under GloBE Rules

(i) **Effective Tax Rate (ETR):** The GloBE rules will operate to impose a top-up tax using an **effective tax rate** test that is calculated on a **jurisdictional basis.** If the jurisdictional ETR is below the 15% minimum rate, the jurisdiction is treated as a low-tax jurisdiction and the constituent entities are treated as low-taxed constituent entities (LTCE). The Effective Tax Rate of the MNE Group for a jurisdiction shall be calculated for each Fiscal Year.

Effective Tax Rate = Total of Adjusted Covered Taxes of each Constituent Entity located in the jurisdiction / Net GloBE Income of the jurisdiction

Where,

– Adjusted Covered Taxes are the taxes attributable to the income of a Constituent Entity.

  The amount of a Constituent Entity's Covered Taxes is determined by taking the Constituent Entity's current taxes for the Fiscal Year, adjusted to reflect certain timing differences. Covered Taxes are allocated from one Constituent Entity to another in certain cases. To the extent there are changes in tax liability after filing, additions or reductions to taxes are identified and allocated to a particular jurisdiction and time period.

– the Net GloBE Income of a jurisdiction for a Fiscal Year is the positive amount, if any, computed in accordance with the following formula:

Net GloBE Income = GloBE Income of all Constituent Entities – GloBE Losses of all Constituent Entities

Under the OECD Model Rules, the jurisdictional net GloBE income is the total GloBE income of all constituent entities in the jurisdiction, less any GloBE losses of constituent entities in the jurisdiction.

If there is a net GloBE loss, this means the ETR need not be calculated. In most cases this would mean no top-up tax would be due.

(ii) **Jurisdictional Blending:** The ETR computation is determined on a **jurisdictional blending basis**. **Jurisdictional blending** allows all the profits, losses, and taxes of the Constituent Entities of the MNE Group

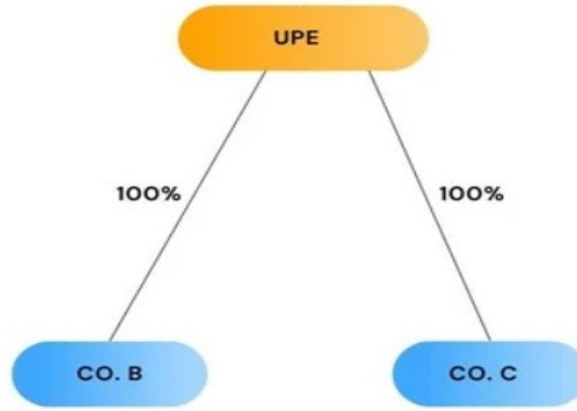
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located in the same jurisdiction to be blended for purposes of the effective tax rate calculation.

Note - For the purpose of determining the applicability of the GloBE Rules, global revenue is considered. However, for determining ETR, the calculation is done on jurisdictional basis.

Let us understand the above concepts with the help of following example:

UPE Co. (Country A) has wholly owned subsidiaries B Co. and C Co. in Country B.



Details related to both the subsidiaries are as follows:

Particulars	Company B	Company C
GloBE income	5,000,000 euros	10,000,000 euros
Adjusted covered taxes	1,000,000 euros	1,000,000 euros
Eligible payroll costs	4,000,000 euros	6,000,000 euros
Eligible tangible assets	6,000,000 euros	14,000,000 euros

The calculation of ETR:

Adjusted Covered Taxes of Country B (i)	2,000,000 euros
Net GloBE Income in Country B (ii)	15,000,000 euros
ETR (i)/(ii)	13.3333%

Thus, the ETR of the above MNE group for Country B is 13.3333%.

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Further, if Company B had incurred losses of 5,000,000 euros, the net GloBE income for Country B would have been 5,000,000 euros instead of 15,000,000 euros. This is because of the concept of jurisdictional blending.

(iii) **Substance-based Income Exclusion (SBIE) or substance-based carve-out:** Net GloBE Income for the jurisdiction is reduced by the Substance-based Income Exclusion for the jurisdiction to determine Excess Profit for purposes of computing the Top-up Tax.

The permanent SBIE percentages under Article 5.3 are 5% of eligible payroll costs and 5% of the carrying value of eligible tangible assets. Article 9.2, however, substitutes higher transitional percentages for Fiscal Years beginning in 2023–2032. For a Fiscal Year beginning in 2026, the applicable rates are 9.4% of eligible payroll costs and 7.4% of the carrying value of eligible tangible assets.

Fiscal Year beginning in	Eligible payroll costs	Eligible tangible assets
2023	10.0%	8.0%
2024	9.8%	7.8%
2025	9.6%	7.6%
2026	9.4%	7.4%
2027	9.2%	7.2%
2028	9.0%	7.0%
2029	8.2%	6.6%
2030	7.4%	6.2%
2031	6.6%	5.8%
2032	5.8%	5.4%
Thereafter	5.0%	5.0%

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.

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(iv) Top-up Tax: The Jurisdictional Top-up Tax for a jurisdiction for a Fiscal Year is equal to the positive amount, if any, computed in accordance with the following formula:

Jurisdictional Top-up Tax = (Top-up Tax Percentage X Excess Profit) + Additional Current Top-up Tax – Domestic Top-up Tax

Where,

– the Top-up Tax Percentage for a **jurisdiction** shall be the positive percentage point difference, if any, computed in accordance with the following formula:

Top-up Tax Percentage = Minimum Rate − Effective Tax Rate [ETR]

– the Excess Profit for the jurisdiction is the positive amount, if any, computed in accordance with the following formula:

Excess Profit = Net GloBE Income – Substance-based Income Exclusion

Note: *The Top-up Tax Percentage is calculated by reference to the jurisdictional ETR, but it is applied to Excess Profit, i.e., Net GloBE Income less the Substance-based Income Exclusion, so that the substance-based carve-out is reflected in the Top-up Tax computation.*

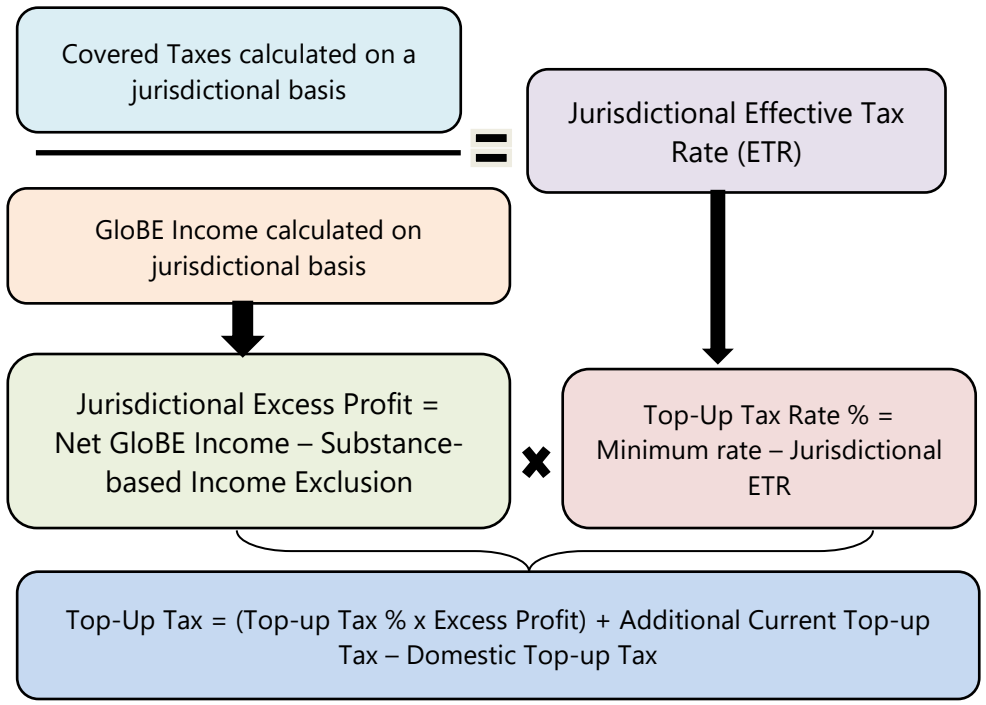
Continuing our example, we refer to the information collated below:

Minimum tax rate (i)	**15%**
ETR (ii)	13.333%
Net GloBE Income in Country B (iii)	15,000,000 euros
Substance-based Income Exclusion (iv)	2,420,000 euros
Top-up Tax Percentage (i) − (ii)	1.6667%
Excess Profit (iii) − (iv)	12,580,000 euros
Top-up Tax for Country B*	209,667 euros (approx.)

**For this illustration, assume that there is no Additional Current Top-up Tax and no Domestic Top-up Tax amount under Article 5.2.3. A Domestic Top-up Tax amount in that formula should not be treated as interchangeable with a tax satisfying the separate QDMTT qualification requirements.*

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The concepts explained in the earlier points are summarized as under:



(v) **De minimis Exclusion:** At the election of the Filing Constituent Entity, the GloBE Rules provide a jurisdictional exclusion where the prescribed de minimis conditions are met over the relevant averaging period:

– the Average GloBE Revenue of the jurisdiction is less than EUR 10 million; and

– the Average GloBE Income or Loss of the jurisdiction is a loss or is less than EUR 1 million.

The policy intent underlying the exclusion is to avoid the complexities of a full ETR computation where the amount of any Top-up Tax would not justify the associated compliance and administrative costs.

Resources: The discussion on Pillar One and Pillar Two contained in this chapter is primarily based on current OECD materials on cross-border and international tax, BEPS and the global minimum tax available at https://www.oecd.org/en/topics/policy-issues/cross-border-and-international-tax.html

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