OECD/G20 BASE EROSION AND PROFIT SHIFTING PROJECT

Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) Examples

INCLUSIVE FRAMEWORK ON BEPS

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Inclusive Framework on BEPS

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Abbreviations and acronyms

BEPS	Base Erosion and Profit Shifting
CFC	Controlled foreign company
CIT	Corporate income tax
ETR	Effective tax rate
FX	Foreign exchange
FXGL	Foreign currency gains or losses
GloBE	Global Anti-Base Erosion
IIR	Income Inclusion Rule
LTCE	Low-Taxed Constituent Entity
MNE	Multinational Enterprise
OECD	Organization for Economic Co-operation and Development
PE	Permanent Establishment
POPE	Partially-Owned Parent Entity
UPE	Ultimate Parent Entity

Introduction

1. The Global Base Erosion rules (GloBE Rules) have been developed as part of the solution for addressing the tax challenges of the digital economy. They are designed to ensure large multinational enterprises (MNEs) pay a minimum level of tax on the income arising in each jurisdiction where they operate. The Commentary to the GloBE Rules provides tax administrations and taxpayers with guidance on the interpretation and application of those rules. The Commentary is intended to promote a consistent and common interpretation of the GloBE Rules that will facilitate co-ordinated outcomes for both tax administrations and MNE Groups. The Commentary explains the intended outcomes under the rules and clarifies the meaning of certain terms.

2. This document, which has been prepared by the OECD Secretariat, sets out a number of examples that illustrate application of the GloBE Rules. The numbering of the examples is consistent with the relevant provisions of the GloBE Rules and the Articles in the Commentary to the GloBE Rules Articles. The examples are intended to be used for illustrative purposes only and do not form part of the Commentary. Additional examples may be developed and published in the future to illustrate the application of the same or other aspects of the GloBE Rules and the explanations given in the Commentary.

Chapter 2 – Examples

Article 2.1.3

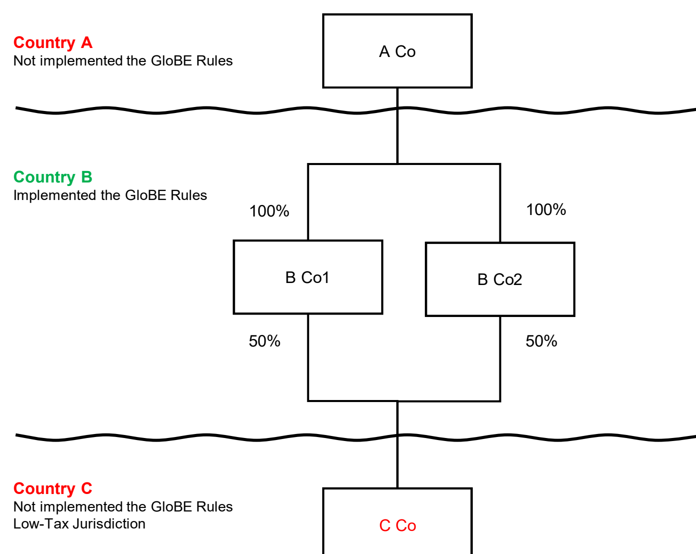
Example 2.1.3 - 1

Application of Top-down Approach

1. This example illustrates the application of the top-down approach under Article 2.1.3 in a situation where the UPE is not required to apply a Qualified IIR.

2. A Co is located in Country A and is the UPE of the ABC Group. A Co directly owns B Co 1 and B Co 2, both located in Country B. B Co 1 and B Co 2 each hold 50% of the Ownership Interests in C Co, which is a Constituent Entity located in Country C. The Ownership Interests of C Co are ordinary common stock that carry an equal right to profit distributions and capital. A Co, B Co 1, B Co 2 and C Co are the only Constituent Entities in the ABC Group.

3. A Co, B Co 1 and B Co 2 all have an ETR for the Fiscal Year that is above the Minimum Rate, however, C Co is an LTCE located in a Low-Tax Jurisdiction. Of the three jurisdictions, only Country B has implemented a Qualified IIR. A diagram illustrating the holding structure and location of the members of the ABC Group is set out below.



4. Country C is a Low-Tax Jurisdiction and C Co is a LTCE for the purposes of the GloBE Rules and any Top-up Tax determined for C Co under Chapter 5 will therefore be subject to charge under an applicable IIR.

5. A Co is the UPE and would have the priority to apply the IIR under Articles 2.1.1 and 2.1.3 if Country A had introduced a Qualified IIR. In this case, however, only Country B has introduced a Qualified IIR and thus, the Intermediate Parent Entities (B Co 1 and B Co 2) are required to apply the IIR in accordance with Article 2.1.2 because the conditions in Article 2.1.3(a) are not met. B Co 1 and B Co 2 must apply the IIR in accordance with Article 2.1.2 based on their Allocable Share of the Top-up Tax (50% each) of C Co. B Co 1 and B Co 2 pay the Top-tax under the IIR equal to the full amount of C Co's Top-up Tax.

Example 2.1.3 - 2

Application of Top–down Approach and Offset Mechanism

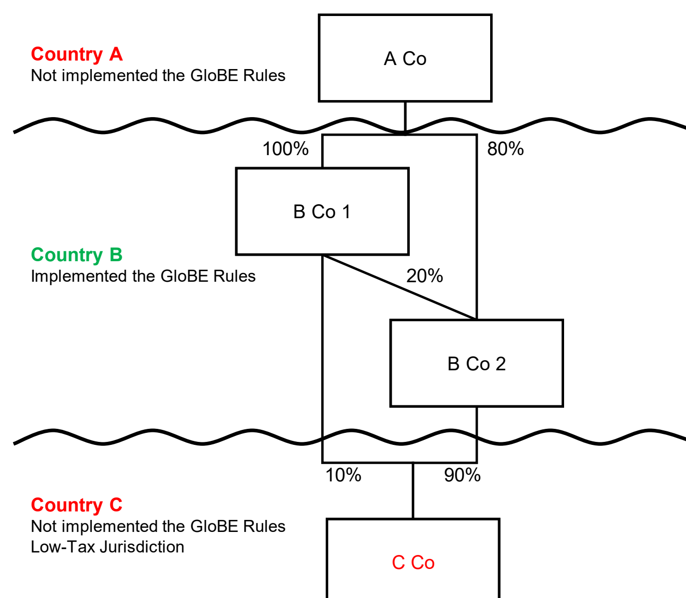
1. This example illustrates the application of the top-down approach under Article 2.1.3 in a situation where an Intermediate Parent Entity required to apply a Qualified IIR owns an Ownership Interest in another Intermediate Parent Entity that is also required to apply a Qualified IIR with respect to the same LTCE.

2. The facts are the same as in example 2.1.3 - 1, except that:

a. A Co directly holds 80% of the Ownership Interests in B Co 2 with the balance of B Co 2's Ownership Interests held by B Co 1; and

b. Rather than B Co 1 and B Co 2 each holding 50% of the Ownership Interests of C Co, B Co 1 has 10% of the Ownership Interests in C Co and B Co 2 holds 90% of the Ownership Interests.

3. A diagram illustrating the holding structure and location of the members of the ABC Group is set out below.



4. In this example, one of the Intermediate Parent Entities (B Co 1) that is required to apply the IIR holds some of the Ownership Interests of another Intermediate Parent Entity (B Co 2). However, Article 2.1.3(b) does not prevent the lower-tier Entity (B Co 2) from applying the IIR because B Co 1 does not own a Controlling Interest in B Co 2. Thus, both B Co 1 and B Co 2 are required to apply the IIR under Article 2.1.2 based on their Allocable Share of the Top-up Tax in accordance with Article 2.2.

5. In this case, it is assumed that B Co 2's Allocable Share of C Co's Top-up Tax is 90% (based on its direct shareholding in C Co) and that B Co 1's Allocable Share of the Top-up Tax is 28% (10% due to its direct ownership and 18% due to its indirect ownership). However, in order to avoid double taxation, Article 2.3 requires B Co 1 to reduce the Top-up Tax attributable to its indirect ownership in C Co by the amount that will be brought into charge by B Co 2.

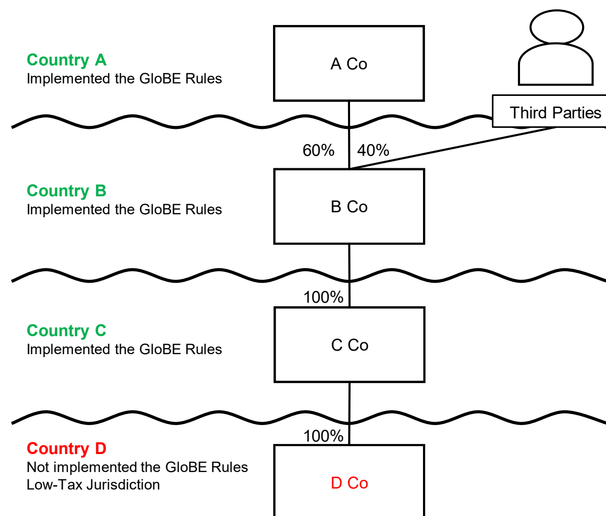
Article 2.1.5

Example 2.1.5 - 1

Application of the IIR - POPE

1. This example illustrates the application of the split-ownership rules and the top-down approach in a situation where the UPE and POPE are required to apply a Qualified IIR with respect to the same LTCE.

2. A Co is located in Country A and is the UPE of the ABCD Group. A Co owns the Controlling Interests in three Constituent Entities: B Co, C Co and D Co, respectively located in Countries B, C and D. A Co owns 60% of the Ownership Interests in B Co, while the remaining 40% are held by third parties. B Co, in turn, wholly owns C Co and C Co wholly owns D Co. The Ownership Interest of B Co, C Co, and D Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the ABCD Group is set out below.



3. D Co is located in a Low-Tax Jurisdiction for the purposes of the GloBE Rules and therefore any Top-up Tax determined for D Co under Chapter 5 will be subject to charge under an applicable IIR.

4. In accordance with Article 10.1, a POPE is a Constituent Entity that: (a) owns (directly or indirectly) an Ownership Interest in another Constituent Entity of the same MNE Group; and (b) more than 20% of its Ownership Interests (in its profits) are held directly or indirectly by persons that are not Constituent Entities of the MNE Group. The indirect ownership test does not consider the Ownership Interests owned by non-Constituent Entities through the UPE. B Co is a POPE because (a) it owns an Ownership Interest in C Co and (b) 40% of its Ownership Interests are owned by persons that are not Constituent Entities of the ABCD Group. C Co also meets the definition of a POPE because (a) it owns an Ownership Interest in D Co and (b) 40% of its Ownership Interests are owned indirectly by persons that are not Constituent Entities of the ABCD Group (through B Co). However, D Co is not a POPE because, while 40% of its Ownership Interests

are owned indirectly by person that are not Constituent Entities of the MNE Group (through B Co and C Co), D Co does not own an Ownership Interest in any Constituent Entity of the MNE Group.

5. In accordance with Article 2.1.4, a POPE is required to apply the IIR based on its Allocable Share of the Top-up Tax of the LTCE notwithstanding that the UPE or an Intermediate Parent Entity is also required to apply the IIR. Thus, both B Co and C Co would be required to apply the IIR under Article 2.1.4 because they have an Ownership Interest in D Co. However, Article 2.1.5 restricts C Co from applying the IIR because it is wholly owned by another POPE (B Co). Consequently, B Co applies the IIR in accordance with Article 2.1.4 and pays tax equal to 100% of the Top-up Tax of D Co.

6. The existence of a POPE does not preclude the UPE from also applying a Qualified IIR. However, the IIR offset mechanism in Article 2.3 requires the UPE to reduce its Allocable Share of the Top-up Tax by the portion that is brought into charge by the POPE. Accordingly, A Co is required to reduce its Allocable Share of the Top-up Tax of D Co to zero in accordance with Article 2.3.

Example 2.1.5 - 2

Application of the IIR - POPE

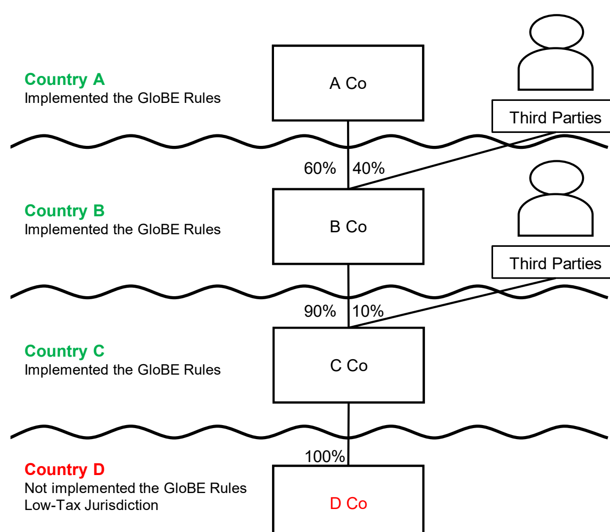
1. This example illustrates the application of the split-ownership rules and the top-down approach under Articles 2.1.4 and 2.1.5 in a situation where two POPEs are required to apply a Qualified IIR with respect to the same LTCE.

2. The facts are the same as Example 2.1.5 - 1, except that:

   a. 10% of the Ownership Interest in C Co is held directly by third parties; and

   b. the remaining 90% is still held by B Co.

3. A diagram illustrating the holding structure and location of the members of the ABCD Group is set out below.



4. B Co and C Co are POPEs because more than 20% of their Ownership Interests are held by persons that are not Constituent Entities of the ABCD Group. B Co is a POPE because 40% of its Ownership Interests are held directly by non-Group Members and C Co is also a POPE because 46% of its Ownership Interests are held directly (10%) or indirectly (40%*90% = 36%) by third parties .

5. Under this scenario, however, Article 2.1.5 does not restrict C Co from applying the IIR because it is not wholly owned by another POPE.

6. Therefore, C Co applies the IIR under Article 2.1.4 with respect to 100% of the Top-up Tax of D Co because that is its Allocable Share of the Top-up Tax. In this case, B Co is still required to apply the IIR in accordance with Article 2.1.4 (with a different Allocable Share of the Top-up Tax) and is not restricted by Article 2.1.5. However, the IIR offset mechanism of Article 2.3 would eliminate any potential double taxation due to A Co's and B Co's application of the IIR in respect of D Co.

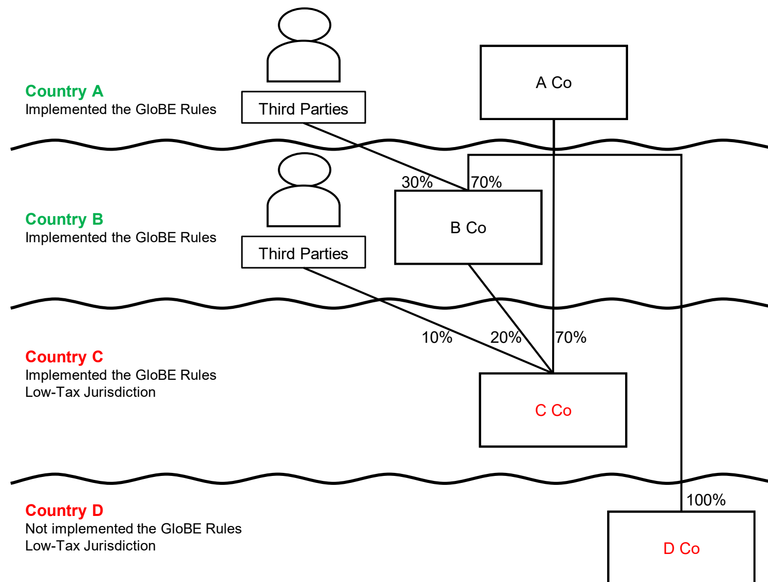
Article 2.2.3

Example 2.2.3 - 1

Allocation of Top-up Tax under the IIR

1. This example illustrates the computation of the Inclusion Ratio and a Parent Entity's Allocable Share of the Top-up Tax Amount.

2. A Co is the UPE of an MNE Group and owns 70% of the Ownership Interests in B Co, a POPE located in Country B. The remaining 30% of the Ownership Interests in B Co are owned by persons that are not Group Entities. B Co owns 20% of the Ownership Interests in C Co, an LTCE located in Country C. A Co directly owns 70% of the Ownership Interests in C Co. A person that is not a Group Entity owns the remaining 10% of the Ownership Interests in C Co. A Co owns 100% of the Ownership Interests in D Co, an LTCE located in Country D. The Ownership Interest of B Co, C Co, and D Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



3. The Top-up Tax computed for Country C and allocated to C Co for the Fiscal Year is 1,000. The Top-up Tax computed for Country D and allocated to D Co for the Fiscal Year is 500. The Financial Accounting Net Income of C Co and D Co reflected in the Consolidated Financial Statements of A Co is 18,000 and 0, respectively. C Co's GloBE Income is 20,000 and D Co's GloBE Income is 35,000. The difference between C Co's GloBE Income and the income reflected in the Consolidated Financial Statements is attributable to 2,000 of expenses that are not taken into account in computing GloBE Income or Loss. The difference between D Co's GloBE Income and its income reflected in the Consolidated Financial Statements is attributable to the fact that all of its transactions were conducted with Group Entities located outside of Country D.

Entity	Consolidated income	GloBE Income	Difference
C Co	18,000	20,000	2,000
D Co	0	35,000	35,000

4. B Co's Allocable Share of the Top-Up Tax of C Co is computed as follows:

   a. If B Co actually prepared Consolidated Financial Statements pursuant to UPE's financial accounting standard, it would not consolidate the income and expenses of C Co because B Co only owns a 20% Ownership Interest in C Co. However, pursuant to Article 2.2.3(a), B Co assumes that it owns a Controlling Interest in C Co such that it would be required to consolidate its income, expense, assets, liabilities and cash flows with C Co for purposes of the hypothetical Consolidated Financial Statements.

   b. The first step in determining B Co's Inclusion Ratio is computing the amount of GloBE Income attributable to Ownership Interests held by "other owners" in accordance with Article 2.2.3, which includes the Ownership Interests held by A Co. Under paragraph (d), Ownership Interests held by A Co are treated as Ownership Interests held by non-Group Entities for purposes of applying the UPE's financial accounting standard for allocating income to non-Group Entities that do not have a Controlling Interest in the LTCE. In this case, 16,000 of the GloBE Income is attributed to Ownership Interests held by other owners (2,000 in relation to the 10% owned by a person that is not a Group Entity and 14,000 in relation to the 70% owned by A Co).

   c. The second step is to compute B Co's "Inclusion Ratio" for C Co in accordance with Article 2.2.2. B Co's Inclusion Ratio is 20% (= [20,000 GloBE Income – 16,000 other owners' interest] / 20,000 GloBE Income).

   d. The final step is calculating B Co's Allocable Share of the Top-up Tax of C Co in accordance with Article 2.2.1. B Co's Allocable Share of the Top-up Tax is 200 (= 1,000 Top-up Tax x 20% Inclusion Ratio).

5. A Co's Allocable Share of the Top-Up Tax of C Co is computed as follows:

   a. The first step is computing the amount of GloBE Income attributable to the Ownership Interests held by "other owners" in accordance with Article 2.2.3. In this case, 3,200 of the GloBE Income is attributed to Ownership Interests held by other owners (2,000 in relation to the 10% Ownership Interests owned directly by non-Group Entities and 1,200 in relation to the 6% Ownership Interests indirectly owned by other non-Group Entities through B Co). This amount is different from the amount attributed to persons that are non-Group Entities as reflected in the Consolidated Financial Statements because Article 2.2 uses the GloBE Income and not the Financial Accounting Net Income.

   b. The second step is to compute A Co's "Inclusion Ratio" for C Co in accordance with Article 2.2.2. A Co's Inclusion Ratio is 84% (= [20,000 GloBE Income – 3,200 other owners' interest] / 20,000 GloBE Income).

   c. The final step is to calculate A Co's Allocable Share of the Top-up Tax of C Co in accordance with Article 2.2 and Article 2.3. A Co first computes a tentative Allocable Share of the Top-up Tax under Article 2.2.1 of 840 (= 1,000 Top-up Tax x 84% Inclusion Ratio). Then, A Co reduces its Allocable Share by an amount equal to the portion that is brought to charge under the IIR applicable to B Co, or 14% (= B Co 20% x 70%). Thus, A Co's Allocable Share of the Top-up Tax for purposes of applying Chapter 2 is 700 (= 840 tentative Allocable Share – 140 offset).

6. Finally, A Co's Allocable Share of the Top-Up Tax of D Co is computed as follows:

a. The first step is computing the amount of GloBE Income attributable to Ownership Interests held by "other owners" in accordance with Article 2.2.3. In this case, that amount is zero because D Co is wholly-owned by A Co.

b. The second step is to compute A Co's Inclusion Ratio with respect to D Co. A Co's Inclusion Ratio is 100% (= [35,000 GloBE Income – 0 other owners' interest] / 35,000 GloBE Income). The fact that D Co's income was eliminated in the actual consolidation process does not change the outcome of the hypothetical allocation because Article 2.2.3(c) requires an allocation on the basis of the GloBE Income and not the Constituent Entity's income reflected in the Consolidated Financial Statements of A Co.

c. The final step is to calculate A Co's Allocable Share of the Top-up Tax of D Co in accordance with Article 2.2.1. A Co's Allocable Share of the Top-up Tax is 500 (= 500 Top-up Tax x 100 % Inclusion Ratio).

7. The following table illustrates each Parent Entity's Allocable Share of the Top-up Tax of each LTCE and the Article 2.3 Offset Mechanism.

	A Co	**B Co**	**Non-Group**	**Total**
Allocable Share of C Co Top-up Tax	840	200	100	1,140
Article 2.3 Offset	(140)	-	-	(140)
Allocable Share of D Co Top-up Tax	500	-	-	500
Total Top-up Tax allocated	1,200	200	100	1,500

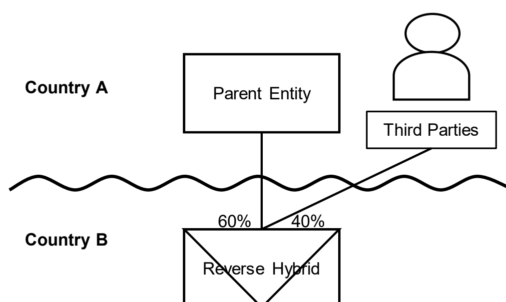
Article 2.2.4

Example 2.2.4 - 1

Allocation of Top-up Tax under the IIR

1. This example illustrates the determination of the Inclusion Ratio and the Allocable Share of the Top-up Tax in a situation where some of the LTCE's income is allocated to non-Group Entities under Article 3.5.3.

2. Reverse Hybrid Entity is a company incorporated in Country B that is treated as fiscally transparent under the tax laws of Country B but not under the tax laws of Country A. A Parent Entity of the MNE Group, located in Country A, owns 60% of the Ownership Interests of Reverse Hybrid Entity and the remaining 40% of the Ownership Interests are owned by non-Group Entities. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



3.

4. Prior to the application of Article 3.5.1, Reverse Hybrid Entity's GloBE Income or Loss is reduced by 40%, the amount allocable to non-Group Entities. The remaining 60% of its GloBE Income or Loss is allocated to itself pursuant to Article 3.5.1(c). For purposes of determining the Parent Entity's Allocable Share of the Top-up Tax under Article 2.2, Article 2.2.4 provides that Reverse Hybrid Entity's income does not include any income allocated to non-Group Entities under Article 3.5.3. Accordingly, the Parent Entity's Inclusion Ratio for purposes of determining its Allocable Share of the Top-up Tax of Reverse Hybrid Entity is 100% after the adjustment pursuant to Article 3.5.3. In other words, because the GloBE Income allocable to the non-Group Entities has been removed from the Reverse Hybrid Entity's GloBE Income pursuant to Article 3.5.3, all of the remaining GloBE Income is attributable to the Parent Entity's Ownership Interest.

Article 2.3.2

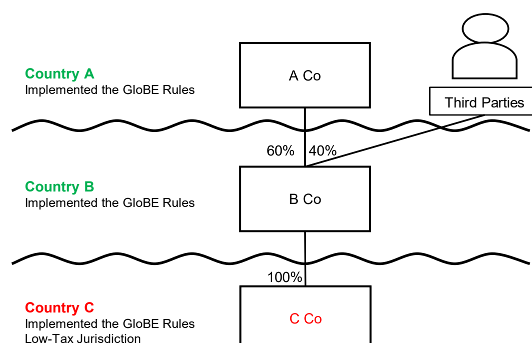
Example 2.3.2 - 1

IIR Offset Mechanism – POPE

1. This example illustrates the application of the IIR offset mechanism in Article 2.3.2 in a situation where a UPE and a POPE apply a Qualified IIR with respect to the same LTCE.

2. A Co is the UPE of ABC Group. A Co is located in Country A that directly or indirectly owns Controlling Interests in two subsidiary companies: B Co and C Co, respectively located in Countries B and C. C Co is an LTCE located in a Low-Tax Jurisdiction. A Co, B Co and C Co are the only Constituent Entities in the ABC Group.

3. A Co has a 60% Ownership Interest in B Co while third parties own the remaining 40%. B Co, in turn, wholly owns C Co. The Ownership Interest of B Co and C Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



4. The Top-up Tax of C Co is EUR 10 million. B Co is a POPE because it has Ownership Interests in another Constituent Entity of the ABC Group and 40% of its Ownership Interests are held by third parties (i.e. non-group Entities). B Co is therefore required to apply the IIR in accordance with Article 2.1.4 because it is a POPE that owns an Ownership Interest in a LTCE. A Co is also required to apply the IIR in accordance with Article 2.1.1 because it is the UPE. To prevent double taxation, however, Article 2.3.1 reduces the Top-up Tax that has been allocated to A Co because it owns an Ownership Interest in an LTCE (C Co) through a POPE (B Co). The reduction of Top-up Tax is limited to "the portion" of the Top-up Tax that has been allocated to the upper-tier Parent Entity (A Co) and that "is brought into charge" by the lower-tier Intermediate Parent Entity or POPE (B Co) in accordance with Article 2.3.2.

5. Therefore, B Co is required to apply the IIR and its Allocable Share of the Top-up Tax is EUR 10 million. A Co is also required to apply the IIR but its Allocable Share of the Top-up Tax (EUR 6 million) is reduced to zero by the Top-up Tax brought into charge by B Co. A table illustrating the numerical results of this example is set out below.

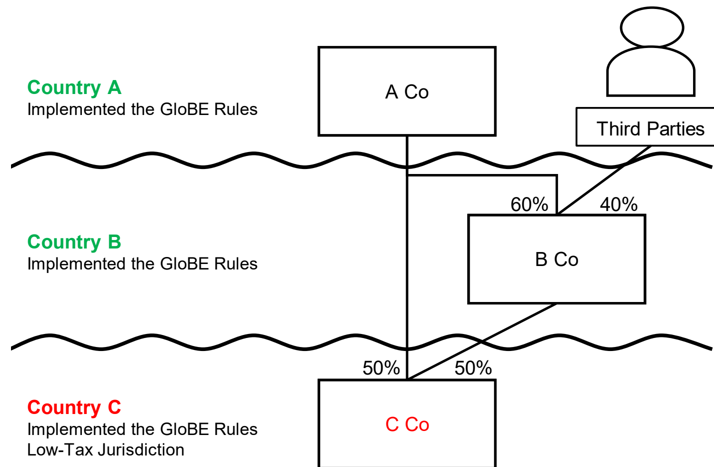
Entity	**Direct Ownership Interest in C Co**	**Indirect Ownership Interest in C Co**	**Inclusion Ratio**	**Allocable Share of Top-up Tax**	**IIR offset**	**Final Top-up Tax Liability**
B Co	100%	-	1	EUR 10 million	-	EUR 10 million
A Co	-	60% (60%*100%)	0.6	EUR 6 million	EUR 6 million	EUR 0

Example 2.3.2 - 2

IIR Offset Mechanism – POPE

1. This example illustrates the application of the IIR offset mechanism in Article 2.3.2 in a situation where a UPE has a direct Ownership Interest in an LTCE and an indirect Ownership Interest in the LTCE that is owned through a POPE and both the UPE and the POPE apply a Qualified IIR with respect to the LTCE.

2. The facts are the same as Example 2.3.2 - 1, except that A Co has a 50% direct Ownership Interest in C Co while the remaining 50% is held by B Co. The Ownership Interests of B Co and C Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



3. The Top-up Tax of C Co is EUR 10 million. B Co is required to apply the IIR because it is a POPE that owns 50% of an LTCE (C Co). A Co is also required to apply the IIR because it is a UPE that owns, directly and indirectly, 80% of an LTCE (C Co). A Co's Allocable Share of Top-up Tax, however, is reduced by an amount equal to the portion that is brought into charge by the lower-tier Parent Entity (B Co). A table illustrating the numerical results of this example is set out below.

Entity	Direct Ownership Interest in C Co	Indirect Ownership Interest in C Co	Inclusion Ratio	Allocable Share of Top-up Tax	IIR offset	Final Top-up Tax liability
B Co	50%	-	0.5	EUR 5 million	-	EUR 5 million
A Co	50%	30% (60%*50%)	0.8	EUR 8 million	EUR 3 million	EUR 5 million

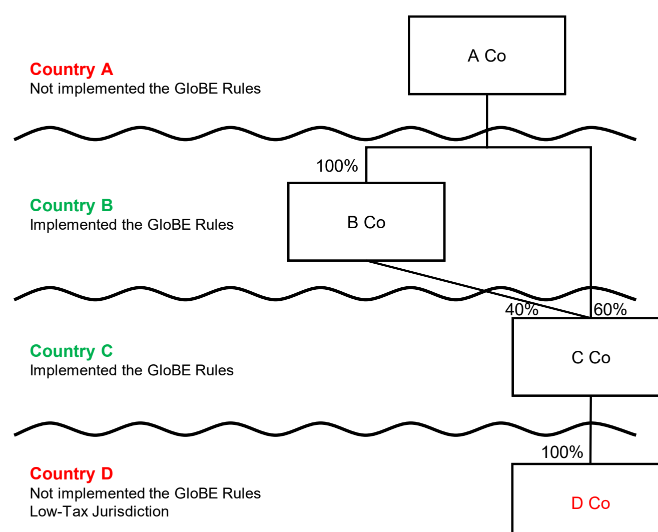
Example 2.3.2 – 3

IIR Offset Mechanism – Intermediate Parent Entity

1. This example illustrates the application of the IIR offset mechanism in Article 2.3.2 in a situation where two Intermediate Parent Entities apply a Qualified IIR with respect to the same LTCE.

2. A Co is the UPE of ABCD Group. A Co is a company located in Country A that owns Controlling Interests in three subsidiary companies: B Co, C Co and D Co, respectively located in Countries B, C and D. D Co is an LTCE located in a Low-Tax Jurisdiction. A Co, B Co, C Co and D Co are the only Constituent Entities in the ABCD Group. Only Countries B and C have implemented the GloBE Rules.

3. A Co has a 100% Ownership Interest in B Co and a 60% Ownership Interest in C Co. B Co has the remaining 40% Ownership Interest in C Co, which is not a Controlling Interest for the purposes of this example. C Co, in turn, has a 100% Ownership Interest in D Co. The Ownership Interests of C Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



4. The Top-up Tax of D Co is EUR 10 million. The UPE (A Co) is not required to apply the IIR as Country A has not implemented the GloBE Rules.

5. C Co is an Intermediate Parent Entity and is therefore required to apply the IIR in accordance with Article 2.1.2 because it owns an Ownership Interest in an LTCE (D Co). C Co's obligation to apply the IIR

is not switched-off under Article 2.1.3 because the Parent Entity holding its Controlling Interests (A Co) is not required to apply the IIR.

6. B Co is also required to apply the IIR because it is an Intermediate Parent Entity that owns 40% of an LTCE (D Co) and its Controlling Interests are not held by a Parent Entity that is required to apply the IIR (A Co is not required to apply the IIR). B Co's Allocable Share of the Top-up Tax, however, is reduced by the amount that is equal to the portion brought into charge by the lower-tier Parent Entity (C Co) through which its Ownership Interest in D Co is held. A table illustrating the numerical results of this example is set out below.

Entity	Direct Ownership Interest in D Co	Indirect Ownership Interest in D Co	Inclusion Ratio	Allocable Share of Top-up Tax	IIR off-set	Final Top-up Tax liability
A Co	-	100% (60%+40%)	-	-	-	
B Co	-	40%	0.4	EUR 4 million	EUR 4 million	EUR 0
C Co	100%	-	1	EUR 10 million	-	EUR 10 million

Article 2.4.1

Example 2.4.1 - 1

Application of the UTPR – Additional Cash Tax Expense (reduction of loss carry-forward)

1. This example illustrates how to assess whether Constituent Entities located in a UTPR Jurisdiction have an additional cash tax expense equal to the UTPR Top-up Tax Amount allocated to that jurisdiction for purposes of applying Article 2.4.1. Assessing whether Constituent Entities have had an additional cash tax expense equal to that UTPR Top-up Tax Amount may also be relevant for the purposes of applying Article 2.4.2 (availability of the carry-forward mechanism) and 2.6.3 (effect on the UTPR Percentage of a UTPR Jurisdiction).

2. Assume a Constituent Entity in a UTPR Jurisdiction earns revenue of EUR 200 and deductible expenses of EUR 300 (loss of EUR 100) in Year 1 and revenue of EUR 200 and deductible expenses of EUR 100 (profit of EUR 100) in Year 2. Assume the jurisdiction where the Constituent Entity is located allows losses to be carried forward indefinitely. Assume that the UTPR Top-up Tax Amount allocated to that jurisdiction is EUR 60 for Year 1, that the jurisdiction has a CIT rate of 20% and that there are no other Constituent Entities in that jurisdiction.

3. The additional cash tax expense is in addition to the amount of additional tax that the Constituent Entities would otherwise have been paid under the ordinary domestic rules for calculating their taxable income and tax liability. Therefore, the additional cash tax expense is determined by comparing the amount of tax that is due after the UTPR adjustment is made with the amount of tax that would have been paid under the ordinary domestic rules for calculating taxable income.

4. The jurisdiction denies EUR 300 of deductions (= 60 / 20%) under its UTPR in order to produce an additional tax expense of EUR 60, equal to the UTPR Top-up Tax Amount. In Year 1, the denial of a deduction for EUR 300 of expenses results in the elimination of the loss carry-forward of EUR 100 and in a profit of EUR 200. On the profit of EUR 200, the Constituent Entity is subject to EUR 40 of tax in respect of Year 1, whereas it would not have been liable for any tax in the absence of a UTPR adjustment. The EUR 40 of additional tax is the additional cash tax expense incurred in respect of Year 1, and the full additional cash tax expense (60) is not paid in Year 1. The EUR 40 of additional tax is lower than the EUR

60 of UTPR Top-up Tax Amount allocated to this jurisdiction, but an additional cash tax expense may arise in respect of a future year because of the elimination of the loss carry-forward.

5. In this example, the UTPR adjustment made in respect of Year 1 will result in another additional cash tax expense in Year 2. Because the UTPR adjustment has eliminated the loss carry-forward of EUR 100, the Constituent Entity will have an additional cash tax expense of EUR 20 on the profits generated in Year 2. If the loss carry-forward of EUR 100 was not eliminated in Year 1 as a result of the UTPR adjustment, it would have offset the taxable income in Year 2 and resulted in no income tax liability in Year 2 absent the application of the UTPR.

6. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction before the UTPR adjustment.

Before UTPR adjustment	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
Profit or loss (before UTPR adjustment)	(100)	100
Loss carry-forward generated or (used) (before UTPR adjustment)	100	(100)
Loss carry-forward balance (before UTPR adjustment)	100	0
Tax due in the jurisdiction (before UTPR adjustment)	0	0

7. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction after the UTPR adjustment.

After UTPR adjustment	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
UTPR Adjustment (denial of deduction)	300	-
Profit or loss (after UTPR adjustment)	200	100
Loss carry-forward generated or (used) (after UTPR adjustment)	0	0
Loss carry-forward balance (after UTPR adjustment)	0	0
Tax due in the jurisdiction (after UTPR adjustment)	40	20

8. The following table illustrates the computations that are made to assess the additional cash tax expense that the Constituent Entity had in respect of Year 1 and Year 2.

Computation of the additional cash tax expense	**Year 1**	**Year 2**
[A] Tax due in the jurisdiction (before UTPR adjustment)	0	0
[B] Tax due in the jurisdiction (after UTPR adjustment)	40	20
[C] Additional cash tax expense, where [C] = [B] – [A]	40	20

2. As illustrated in this example, a reduction to loss carry-forward does not result in additional cash tax expense until corresponding income has arisen in a subsequent period. On this basis, the additional

cash tax expense incurred by the Constituent Entity amounts to EUR 30 in respect of Year 1 and EUR 20 in respect of Year 2. Therefore, this Constituent Entity has an additional cash tax expense of EUR 60 over the period.

Article 2.4.2

Example 2.4.2 - 1

Application of the UTPR – Additional Cash Tax Expense (no loss carry-forward)

1. This example illustrates a situation where the carry-forward mechanism provided under Article 2.4.2 is necessary for the Constituent Entities located in a UTPR Jurisdiction to have an additional cash tax expense equal to the UTPR Top-up Tax Amount allocated to that jurisdiction for the purposes of applying Article 2.4.1.

2. In Example 2.4.1 - 1, the application of the UTPR in Year 1 eliminates the loss that can be carried forward to Year 2 and results in an additional cash tax expense over the two-year period that equals the UTPR Top-up Tax Amount. Therefore, no additional UTPR adjustment is needed in Year 2.

3. The facts are the same as in Example 2.4.1 - 1, except that the UTPR jurisdiction does not allow the carry forward of losses in the computation of taxable income.

4. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction before the UTPR adjustment.

Before UTPR adjustment	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
Profit or loss (before UTPR adjustment)	(100)	100
Loss carry-forward (before UTPR adjustment) – not available	0	0
Tax due in the jurisdiction (before UTPR adjustment)	0	20

5. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction after the UTPR adjustment made in respect of Year 1.

After UTPR adjustment made in Year 1	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
UTPR Adjustment (denial of deduction)	300	-
Profit or loss (after UTPR adjustment)	200	100
Loss carry-forward (after UTPR adjustment) – not available	0	0
Tax due in the jurisdiction (after UTPR adjustment)	40	20

6. In this example, the additional cash tax expense incurred by the Constituent Entity amounts to EUR 40 in respect of Year 1 and EUR 0 in respect of Year 2 unless an additional adjustment is made

under Article 2.4.2 (see below). There is no additional cash tax expense in Year 2 that results from the UTPR adjustment made in Year 1.

7. Therefore, to impose an additional cash tax expense under the UTPR in Year 2, the UTPR Jurisdiction will need to deny another EUR 100 of deductions in Year 2 to increase the profit to EUR 200 (thereby imposing an additional EUR 20 of tax by virtue of the application of the UTPR).

8. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction after the UTPR adjustment made in respect of Year 1 and the additional adjustment made in respect of Year 2.

After UTPR adjustment in Year 1 and 2	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
UTPR Adjustment (denial of deduction)	300	100
Profit or loss (after UTPR adjustment)	200	200
Loss carry-forward (after UTPR adjustment) – not available	0	0
Tax due in the jurisdiction (after UTPR adjustment)	40	40

9. The following table illustrates the computations that are made to assess the additional cash tax expense that the Constituent Entity had in respect of Year 1 and Year 2.

Computation of the additional cash tax expense	**Year 1**	**Year 2**
[A] Tax due in the jurisdiction (before UTPR adjustment)	0	20
[B] Tax due in the jurisdiction (after UTPR adjustment)	40	40
[C] Additional cash tax expense, where [C] = [B] – [A]	40	20

10. In this example, the additional cash tax expense incurred by the Constituent Entity amounts to EUR 30 in respect of Year 1 and EUR 20 in respect of Year 2. Therefore, this Constituent Entity has an additional cash tax expense of EUR 50 over the period, but, unlike in Example 2.4.1-1, an additional UTPR adjustment was necessary in respect of Year 2 to achieve this outcome. This additional adjustment is made under Article 2.4.2.

Article 2.5.3

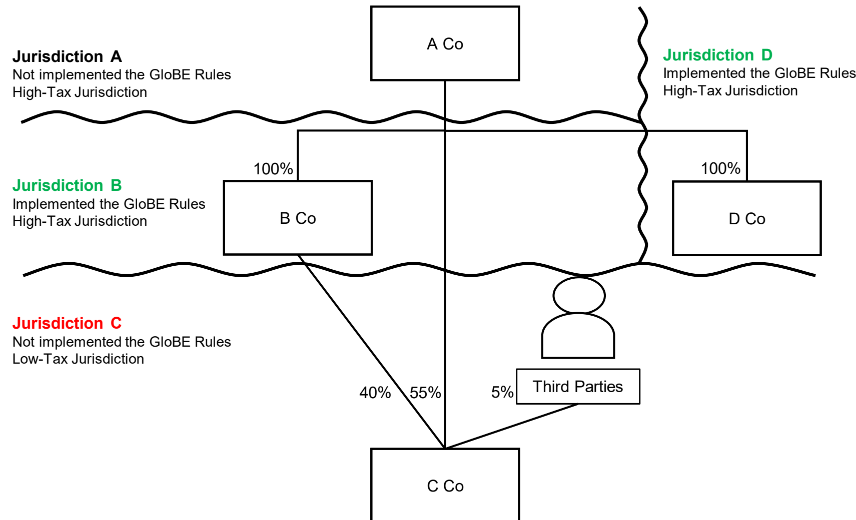
Example 2.5.3 – 1

UTPR Top-up Tax Amount

1. This example illustrates how to compute the UTPR Top-up Tax Amount under Article 2.5.3.

2. Assume A Co is the UPE of the ABC Group. A Co is located in Jurisdiction A. A Co directly owns 100% of B Co, 55% of C Co and 100% of D Co, respectively located in Jurisdictions B, C and D. Assume B Co has a 40% Ownership interest in C Co, and that the remaining 5% ownership interests of C Co are held by minority shareholders. A diagram illustrating the holding structure and location of the members of the ABC Group is set out below.

3. Assume C Co is a LTCE and Jurisdictions A and C have not implemented the GloBE Rules whereas Jurisdictions B and D both have a Qualified IIR and a Qualified UTPR. Assume the Top-up Tax of C Co is EUR 100.



4. A Co is not required to apply a Qualified IIR. B Co's allocable share of the Top-up Tax of C Co equals 40%. Therefore, as provided under Article 2.1.2, B Co is required to apply a Qualified IIR with respect to 40% of the Top-up Tax of C Co. B Co is liable for a Top-up Tax of EUR 40.

5. A Co's Ownership Interest in C Co equals to 95% in total (40% indirectly held via B Co and 55% directly held). Therefore, not all of A Co's Ownership Interest in C Co are held by a Parent Entity that is required to apply a Qualified IIR with respect to C Co and Article 2.5.3 applies respectively.

6. Article 2.5.3 provides that the Top-up Tax of EUR 100 of C Co is reduced by the amount of B Co's allocable share of C Co's Top-up Tax (EUR 40) to compute the UTPR Top-up Tax Amount that is allocated under the UTPR. In this example, the UTPR Top-up Tax Amount is EUR 60 (= 100 – 40).

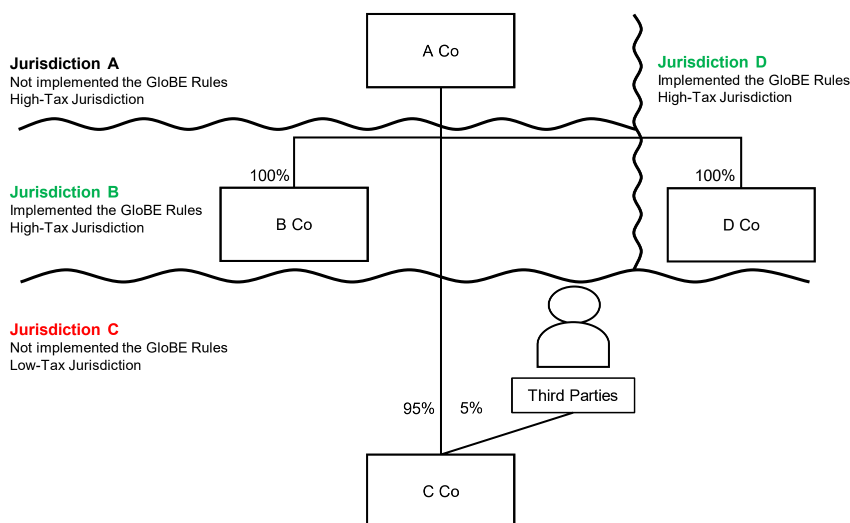
Article 2.6.4

Example 2.6.4 – 1

Allocation of Top-up Tax for the UTPR

1. This example illustrates the effect of Article 2.6.4 on the UTPR Percentages of the UTPR Jurisdictions.

2. The fact pattern is similar to the one presented in Example 2.5.3 – 1 but B Co does not own any Ownership Interest in C Co and A Co holds its Ownership Interest in C Co directly. A diagram illustrating the holding structure and location of the members of the ABC Group is set out further below.



3. No Constituent Entity is required to apply a Qualified IIR with respect to the Top-up Tax of C Co because Jurisdiction A has not implemented the GloBE Rules and B Co and D Co do not have Ownership Interests in C Co. Therefore, the total amount of Top-up Tax is allocated under the UTPR.

4. Assume the UTPR Top-up Tax Amount in respect of C Co is EUR 100 for each of Fiscal Years 1 to 4 and that the UTPR Percentages of Jurisdictions B and D are 50% each over the same period based on the formula under Article 2.6.1.

5. For Fiscal Year 1, Jurisdiction B and D are each allocated an amount of Top-up Tax of EUR 50. Assume that Jurisdiction B is not able to collect the whole amount of EUR 50 for the taxable year in which Fiscal Year 1 ends. Article 2.6.3 provides that Jurisdiction B's UTPR Percentage is deemed to be zero for Year 2 (and following Years) as long as the UTPR Top-Up Tax Amount of EUR 50 allocated to Jurisdiction B in Year 1 has not resulted in B Co having an equivalent additional cash tax expense. This means that no more UTPR Top-up Tax Amount is allocated to Jurisdiction B until it has been able to impose the relevant Tax.

6. In Fiscal Year 2, Jurisdiction B has a UTPR percentage of zero. As a consequence, the whole UTPR Top-up Tax calculated for Fiscal Year 2 (EUR 100) is allocated to Jurisdiction D. Assume that Jurisdiction B is again not able to collect the whole amount of UTPR Top-up Tax of EUR 50 (allocated in respect of Fiscal Year 1) for the taxable year in which Fiscal Year 2 ends. Further, Jurisdiction D is also not able to collect the whole amount of EUR 100 (allocated in respect of Fiscal Year 2) for the taxable year in which Fiscal Year 2 ends. As provided in Article 2.6.3, both Jurisdictions B and D would have a UTPR percentage of zero for Fiscal Year 3.

7. However, Article 2.6.4 stipulates that Article 2.6.3 would not apply when it would result in all UTPR Jurisdictions' UTPR percentages being reduced to zero. Pursuant to Article 2.4.2, in Fiscal Year 3, the Total UTPR Top-up Tax Amount of EUR 100 is therefore allocated to Jurisdictions B and D in respect of their UTPR Percentage based on the formula under Article 2.6.1 (50%/50%) without the application of Article 2.6.3. An amount of EUR 50 of Top-up Tax is added to the other UTPR Top-up Tax Amounts that are still to be collected by each Jurisdiction.

8. Finally, assume that all remaining UTPR Top-up Tax Amounts are collected in both Jurisdictions for the taxable year in which Fiscal Year 3 ends. In Fiscal Year 4, the UTPR Top-up Tax Amount of 100 is allocated to Jurisdictions B and D based on their respective UTPR Percentages determined using the formula in Article 2.6.1.

9. The following table summarises the amount of UTPR Top-up Tax allocated to each Jurisdiction under this example.

Year	UTPR Top-up Tax Amount	Allocation Jurisdiction B	Allocation Jurisdiction D
1	EUR 100	EUR 50 (UTPR Percentage of 50%)	EUR 50 (UTPR Percentage of 50%)
2	EUR 100	EUR 0 (UTPR Percentage of 0%)	EUR 100 (UTPR Percentage of 100%)
3	EUR 100	EUR 50 (UTPR Percentage of 50%)	EUR 50 (UTPR Percentage of 50%)
4	EUR 100	EUR 50 (UTPR Percentage of 50%)	EUR 50 (UTPR Percentage of 50%)

Chapter 3 – Examples

Article 3.2.1(b)

Example 3.2.1(b) - 1

Excluded Dividend and Short-term Portfolio Shareholding

1. This example illustrates how to test the period during which a Portfolio Shareholding was held.

2. Assume A Co is a Constituent Entity of an MNE Group that is subject to the GloBE Rules. B Co is unrelated to A Co. B Co has 10,000 ordinary shares on issue that carry an equal right to profit distributions and capital. A Co acquires 200 common shares in B Co on 1 July in Year 1 and acquires an additional 100 common shares in B Co on 31 March in Year 2. B Co has only one class of shares and distributes a dividend of EUR 0.10 per share on 31 December of Year 2. A time line showing the period A Co held the two tranches of B Co shares and the receipt of the dividend is set out below.

Year 1				**Year 2**			
Jan.-March	April -June	July – Sept.	Oct. – Dec.	Jan.-March	April -June	July – Sept.	Oct. – Dec.
		200 Shares					
					100 Shares		
		1 July Acquisition 200		**31 March** Acquisition 100			**31 December** Dividend 30

3. A Co is a member of an MNE Group that holds less than 10% of the shares in B Co. Therefore, A Co holds a Portfolio Shareholding in B Co at the date the dividend is paid. One hundred of these shares are treated as a Short-term Portfolio Shareholding under the GloBE Rules because A Co has held those shares for less than 12 months at the dividend date. The dividends received on those shares (10 = 100 shares x 0.10) will be taken into account in calculating A Co's GloBE income and only 20 of the dividends received by A Co in respect of the remaining 200 shares will be treated as an Excluded Dividend under Article 3.2.1(b) of the GloBE Rules.

Example 3.2.1(b) - 2

Excluded Dividend and Short-term Portfolio Shareholding

1. The facts are the same as in Example 3.2.1(b) - 1, except that A Co disposes of 40 B Co shares on 30 September in Year 2. In accordance with the Commentary to Article 3.2.1, the sale of B Co shares is deemed to be a sale of those shares of the same class of shares that were most recently acquired by A Co. Therefore, A Co is treated as having disposed the B Co common shares that were acquired on 31 March in Year 2. B Co distributes a dividend of EUR 0.10 per share on 31 December of Year 2. A timeline showing the period A Co held the B Co shares and the receipt of the dividend is set out below.

Year 1				Year 2			
Jan.- March	April -June	July – Sept.	Oct.-Dec.	Jan.-March	April -June	July – Sept.	Oct. – Dec.
		200 Shares					
					60 Shares		
					40 Shares		
		1 July Acquisition 200		**31 March** Acquisition 100		**30 September** Sale 40	**31 December** Dividend 26

2. At the date of the distribution, 60 of the 260 shares that are held are treated as a Short-term Portfolio Shareholding under the GloBE Rules because A Co has held those 60 shares for less than 12 months at the dividend date. The dividend received on those shares (6 = 60 shares x 0.10) will be taken into account in calculating A Co's GloBE income and only 20 of the dividends received by A Co in respect of the remaining 200 shares will be treated as an Excluded Dividend under Article 3.2.1 of the GloBE Rules.

Example 3.2.1(b) - 3

Excluded Dividend and Short-term Portfolio Shareholding

1. The facts are the same as Example 3.2.1(b) - 1 but assume that A Co disposes of 50 shares on 31 December of Year 1. In accordance with the Commentary to Article 3.2.1, the sale of B Co shares is deemed to be a sale of those shares that were most recently acquired by A Co. In this case A Co is treated as having disposed the B Co shares that were acquired on 1 July in Year 1. B Co distributes a dividend of EUR 0.10 per share on 31 December of Year 2. A timeline showing the period A Co held the B Co shares and the receipt of the dividend is set out below.

Year 1				Year 2			
Jan.- March	April - June	July – Sept.	Oct. – Dec.	Jan. - March	April - June	July – Sept	Oct. – Dec.
		150 Shares					
		50 Shares			100 Shares		
		1 July Acquisition 200	**31 December** Sale 50	**31 March** Acquisition 100			Dividend 25

2. At the date of the distribution, 100 of these shares are treated as a Short-term Portfolio Shareholding under the GloBE Rules because A Co has held those shares for less than 12 months as at the dividend date. The dividend received on these shares (10 = 100 shares x 0.10) will be taken into account in calculating A Co's GloBE income and only 15 of the dividends received by A Co in respect of the remaining 150 shares will be treated as an Excluded Dividend under Article 3.2.1 of the GloBE Rules.

Article 3.2.1(f)

Example 3.2.1(f) - 1

Asymmetric Foreign Currency Gains or Losses

1. A Co, located in Country A, is member of an MNE Group that is subject to the GloBE Rules. A Co has an accounting and tax reporting period that corresponds to the calendar year. A Co uses Euros for its tax functional currency and US Dollars for its accounting functional currency. At the start of Year 1, A Co holds a non-interest bearing bond with a face value of $1,000. At the beginning of the year the EUR€ : US$ exchange rate is €1:$1, however by the end of the year the Euro has strengthened against the US$ and the exchange rate is €1:$1.25. The fall in the value of the bond in euro terms (- €200 = [€1,000 / 1.25] - €1,000) is taken into account in Year 1 as a deduction for the purposes of calculating A Co's taxable income under Country A law. However there is no change to A Co's accounting income because the bond is denominated in the same currency as the financial accounts.

2. The table below illustrates the effect of the movement in the exchange rate in Year 1. The table on the left shows A Co's profit and ETR for local tax purposes (calculated in Euros) while the table on the right shows the same calculations for accounting purposes (calculated in dollars). Other income and Country A tax are converted based on the year-end exchange rate of €1:$1.25.

Tax Functional Currency (Euros)		Accounting Functional Currency (Dollars)	
Other income	500	Other income	625
Foreign currency gain (loss)	(200)	Foreign currency gain (loss)	-
Total profit	300	Total profit	625
Country A Tax	60	Country A Tax	75
ETR	20%		12%

3. In this case, the strengthening of the Euro results in a decrease in profit for A Co in EUR terms (and a corresponding decrease in tax expense), however the financial accounts do not show a foreign currency loss on the bond because both the bond and the accounts are denominated in the same currency. Accordingly, while A Co's ETR in its tax functional currency is 20%, the ETR is 12% (i.e. 75/625) in its financial accounting functional currency.

4. The foreign currency loss that arises for tax purposes is attributable to fluctuations in the exchange rate between its accounting and tax functional currency. Accordingly, this loss falls within paragraph (a) of the definition of Asymmetric Foreign Currency Gains or Losses. The amount of the loss that is recognised for tax purposes must be translated into dollars at the relevant exchange rate (€1:$1.25) and then included as a negative adjustment to the Financial Accounting Net Income or Loss of A Co. The table below shows the effect of including the Asymmetric Foreign Currency Loss in the GloBE ETR calculation.

Accounting Functional Currency (Dollars)	
Other income	625
Asymmetric Foreign Currency Gain (Loss) Adj.	(250)
Total profit	375
Country A Tax	(75)
ETR	20%

Example 3.2.1(f) - 2

Asymmetric Foreign Currency Gains or Losses

1. A Co, located in Country A, is member of an MNE Group that is subject to the GloBE Rules. A Co has an accounting and tax reporting period that corresponds to the calendar year. A Co uses Euros for its tax functional currency and US Dollars for its accounting functional currency. At the start of Year 1, A Co enters into a loan agreement denominated in Euros and at the end of Year 1 it accrues EUR 500 of interest expense that translates to $500 interest expense in the Consolidated Financial Statements because the EUR€ : US$ exchange rate is €1:$1 for Year 1.

2. In Year 2, A Co pays EUR 500 of interest expense accrued at the end of Year 1, which translates to $625 in the financial accounts because the Euro has strengthened against the US$ and the exchange rate is now €1:$1.25. The difference between the amount of interest expense accrued ($500) and the amount paid ($625), or $125, is reflected as a foreign currency loss or additional interest expense in the Consolidated Financial Statements. However, that difference does not result in any tax gain or loss because the loan and the interest expense are denominated in Euros, which is the tax functional currency.

3. The table below illustrates the effect of the movement in the exchange rate between Year 1 and Year 2. The table on the left shows A Co's profit and ETR for local tax purposes (calculated in Euros) in Year 2 while the table on the right shows the same calculations for accounting purposes (calculated in dollars). Other Income and Tax are converted based on the year-end exchange rate of €1:$1.25.

Tax Functional Currency (Euros)		Accounting Functional Currency (Dollars)	
Other income	1,000	Other income	1,250
Foreign currency gain (loss)	-	Foreign currency gain (loss)	(125)
Total profit	1,000	Total profit	1,125
Tax	(200)	Tax	(250)
ETR	20%		22.2%

4. In this case, the strengthening of the Euro results in a foreign currency loss or an increase of interest payable for A Co in dollar terms but the tax accounts do not show a foreign currency loss for A Co on the interest payable because both the interest payable and the tax accounts are denominated in the same currency. Accordingly, while A Co's ETR when calculated based on its tax accounts is 20%, the ETR is 22.2% (i.e. 250/1,125) when calculated based on its financial accounts.

5. The foreign currency loss that arises for accounting purposes is attributable to fluctuations in the exchange rate between its tax and accounting functional currency. Accordingly, this loss falls within paragraph (b) of the definition of Asymmetric Foreign Currency Gains or Losses. The amount of the loss that is recognised for accounting purposes must be included as a positive adjustment to the Financial Accounting Net Income or Loss of A Co. The table below shows the effect of including the Asymmetric Foreign Currency Loss in the GloBE Income or Loss and ETR calculation.

Accounting Functional Currency (Dollars)	
Other income	1250
Foreign Currency Gain (Loss)	(125)
Asymmetric Foreign Currency Gain (Loss) Adj.	125
Total profit	1,250
Country C Tax	(250)
ETR	20%

Example 3.2.1(f) - 3

Asymmetric Foreign Currency Gains or Losses

1. A Co, located in Country A, is member of an MNE Group that is subject to the GloBE Rules. A Co has an accounting and tax reporting period that corresponds to the calendar year. A Co uses Euros for its tax functional currency and US Dollars for its accounting functional currency. In Year 1, the GBP£ : EUR€ exchange rate is £1:€1.1, the GBP£ : US$ exchange rate is £1:$1.8, and the US$: EUR€ exchange rate is $1:€0.61. In Year 1, A Co sells merchandise on account for £100 and accrues a receivable of €110 for local tax purposes and a receivable of $180 in the financial accounts.

2. In Year 2, A Co receives £100 in respect of the receivable recorded in Year 1, which translates to €121 and $198 because the British Pound Sterling has strengthened: (i) against the Euro so that the exchange rate is now £1:€1.21; and (ii) against the US Dollar so that the exchange rate is now £1:$1.98. (In Year 2, the US$: EUR€ exchange rate remains $1:€0.61.)

3. The strengthening of the British Pound Sterling results in a €11 (= 121 – 110) gain for tax purposes because A Co received British Pounds Sterling worth €121 in respect of a receivable that was recorded at €110 in the tax accounts. Furthermore, the strengthening results in a $18 (= 198 - 180) gain for accounting purposes because A Co received British Pounds Sterling worth $198 in respect of a receivable that was recorded at $180 in the financial accounts. The gain in euro terms, however, is not taken into account for the purposes of calculating A Co's taxable income under Country A law.

4. The table below illustrates the effect of the movement in the exchange rate between Year 1 and Year 2. The table on the left shows A Co's profit and ETR for local tax purposes (calculated in Euros) in Year 2 while the table on the right shows the same calculations for accounting purposes (calculated in Dollars). Other Income and Tax are converted based on the year-end exchange rates of £1:€1.21 and £1:$1.98.

Tax Functional Currency (Euros)		Accounting Functional Currency (Dollars)	
Other income	200	Other income	328
Foreign currency gain (loss)	-	Foreign currency gain (loss)	18
Total profit	200	Total profit	346
Tax	30	Tax	49
ETR	15%	ETR	14%

5. In this case, the strengthening of the British Pound Sterling results in an increase of profit for A Co in dollar terms. The foreign currency gain that arises for accounting purposes is attributable to fluctuations in the exchange rate between a third currency (GBP) and the accounting functional currency of A Co. Accordingly, this gain falls within paragraph (c) of the definition of Asymmetric Foreign Currency Gains or Losses. Therefore, the amount of the gain that is recognised for accounting purposes must be included as a negative adjustment to the Financial Accounting Net Income or Loss of A Co.

6. The foreign currency gain that is attributable to fluctuations in the exchange rate between a third currency (GBP) and the tax functional currency of A Co falls within paragraph (d) of the definition of Asymmetric Foreign Currency Gains or Losses. Paragraph (d) requires an adjustment to the Financial Accounting Net Income or Loss when there is a gain or loss attributable to such fluctuations irrespective of whether such gain or loss is included in the taxable income of A Co. Accordingly, the amount of the gain in respect of the tax functional currency must be translated into the accounting functional currency and included as a positive adjustment to the Financial Accounting Net Income or Loss of A Co. The table below shows the effect of including the adjustments under paragraphs (c) and (d) of the Asymmetric Foreign Currency Gain adjustments under paragraphs (c) and (d) in the GloBE ETR calculation.

Accounting Functional Currency	(Dollars)
Other Income	328
Foreign currency gain (loss)	18
Asymmetric FXGL Adj. (paragraph (c))	(18)
Asymmetric FXGL Adj. (paragraph (d))	18
Total profit	346
Country A Tax	49
ETR	14%

Article 3.2.3[1]

Example 3.2.3 - 1

Arm's Length Requirement for Cross-border Transactions

1. A Co, which is located in Jurisdiction A, and B Co, which is located in Jurisdiction B, are Constituent Entities of the same MNE Group. The nominal tax rate in Jurisdiction A is 25% and Jurisdiction B does not impose an income tax on Entities located therein. B Co provides services to A Co in Year 1. The financial accounts of A Co reflect an expense of 100 and the financial accounts of B Co reflect income of 100 in respect of the transaction. For tax purposes, however, A Co deducts 150 in respect of the services.

2. Article 3.2.3 requires transactions between Group Entities to be at the same price and consistent with the Arm's Length Principle. Where necessary to prevent double taxation or double non-taxation under the GloBE Rules, Article 3.2.3 requires an adjustment to the Financial Accounting Net Income or Loss when a Constituent Entity claims an amount of income or expense in a tax return attributable to a controlled transaction that differs from the amount reflected in the financial accounts.

3. In this scenario, A Co reported 150 of expense in its Jurisdiction A tax return for Year 1 and 100 of expense in its financial accounts for Year 1. B Co reported 100 of income in its financial accounts in Year 1. As a result, 50 of the MNE Group's income is not subject to tax in Jurisdiction A and is not exposed to Top-up Tax in Jurisdiction B. To avoid double non-taxation under the GloBE Rules, Article 3.2.3 requires A Co to include the 50 of additional expense in the computation of its GloBE Income or Loss for Year 1 and B Co to include 50 of additional income in the computation of its GloBE Income or Loss for Year 1.

[1] Examples 3.2.3 – 1, 3.2.3 – 2 and 3.2.3 – 3 do not implicate Article 4.6.1 because the adjustments are made contemporaneously with the filing of the relevant tax returns.

Example 3.2.3 - 2

Arm's Length Requirement for Cross-border Transactions

1. The facts are the same as in Example 3.2.3 – 1, except that A Co reported 80 of expense from the transaction with B Co in its Jurisdiction A tax return in accordance with a unilateral Advance Pricing Agreement concluded with Jurisdiction A.

2. In this scenario, A Co reported 80 of expense in its Jurisdiction A tax return for Year 1 and 100 of expense in its financial accounts for Year 1. B Co reported 100 of income in its financial accounts in Year 1. As a result, A Co is subject to tax in Jurisdiction A on 20 of income that is also exposed to Top-up Tax in Jurisdiction B. To avoid double taxation under the GloBE Rules, Article 3.2.3 requires A Co to reduce the expense by 20 in the computation of its GloBE Income or Loss and B Co to include 20 less income in the computation of its GloBE Income or Loss.

Example 3.2.3 - 3

Arm's Length Requirement for Cross-border Transactions

1. The facts are the same as in Example 3.2.3 – 1, except that Jurisdiction B has a corporate income tax that has a nominal rate of 7.5% and B Co reported 50 of income from the transaction with A Co in Jurisdiction B in accordance with a unilateral Advance Pricing Agreement concluded with Jurisdiction B.

2. In this scenario, B Co reported 50 of income in its Jurisdiction B tax return for Year 1 and 100 of income in its financial accounts for Year 1. A Co reported 100 of expense in its Jurisdiction A tax return and its financial accounts in Year 1. The 50 of income that is both deducted in A Co's Jurisdiction A taxable income and excluded from B Co's Jurisdiction B taxable income is exposed to Top-up Tax in Jurisdiction B under the GloBE Rules because it is included in B Co's GloBE Income or Loss. An adjustment to conform to B Co's local tax treatment would cause double non-taxation under the GloBE Rules because the income would not be subject to tax in Jurisdiction A or exposed to Top-up Tax in Jurisdiction B. Accordingly, Article 3.2.3 neither requires not permits an adjustment to the GloBE Income or Loss of A Co nor B Co.

Article 3.2.6

Example 3.2.6 - 1

Election to Spread Capital Gains Over Five Years

1. A Co is a Constituent Entity of an MNE Group. A Co is incorporated and tax resident in Country A and holds Local Tangible Assets. In Year 3, A Co disposed of a Local Tangible Asset and incurred a Net Asset Loss of EUR 25. In Year 5, A Co disposed of its remaining Local Tangible Assets for EUR 300. The carrying value of the Local Tangible Assets disposed of in Year 5 was EUR 100. As a result, a Net Asset Gain of EUR 200 was realised in Year 5. A Co made an Annual Election under Article 3.2.6 with respect to the Net Asset Gain in Year 5.

2. As discussed in the Commentary on Article 3.2.6, with the disposal of its Local Tangible Assets in Year 5, A Co realised an Aggregate Asset Gain of EUR 200. Because A Co also had incurred a Net Asset Loss of EUR 25 in Year 3, A Co first must allocate EUR 25 of the Aggregate Asset Gain to Year 3 under Article 3.2.6 (b). This is because Article 3.2.6(b) provides that Aggregate Asset Gain in the Election Year must first be carried-back to the earliest Loss Year and set-off against any Net Asset Loss.

3. Then, pursuant to Article 3.2.6(d), A Co must allocate the remaining EUR 175 evenly to each Fiscal Year in the Look-back Period, which consists of the four prior Fiscal Years and the Election Year. This results in a carry-back of EUR 35 to each Fiscal Year in the Look-back Period.

4. Article 3.2.6 is an ETR Adjustment Article. Pursuant to Article 5.4.1, A Co's GloBE Income or Loss, ETR and Top-up Tax must be recalculated for each of the prior Fiscal Years in the Look-back Period by including all of the Aggregate Asset Gain allocated to each year under Article 3.2.6(d).

5. The allocation of the Aggregate Asset Gain over the five years of the Look-back Period can be summarised as follows:

Aggregate Asset Gain	Year 1	Year 2	Year 3	Year 4	Year 5 / Election year
EUR 200	EUR 35	EUR 35	EUR 60	EUR 35	EUR 35

Article 3.2.7

Example 3.2.7 - 1

Special Rule for Intra-Group Financing Arrangements

1. A Co is a Constituent Entity located in Country A where a 10% CIT rate applies. B Co is a Constituent Entity of the same MNE Group located in Country B where a 30% CIT rate applies. Prior to the transaction described below, the ETR of Country A for the MNE Group is 10% and for Country B is 30%.

2. A Co issues an interest bearing instrument to B Co in exchange for cash (i.e., A Co borrows from B Co), that is treated as debt for financial account purposes, but as equity for tax purposes in both Country A and Country B. As a result, payments on the instrument reduce the GloBE Income or Loss of A Co, while not reducing the Country A domestic tax liability of A Co. This is because the interest payments are included in income or expense for GloBE purposes, but dividends are not included in income or expense for tax purposes in Country A and Country B. Similarly, the payments on the instrument increase the GloBE Income or Loss of B Co, while not increasing the Country B domestic tax liability of B Co. As a result of the issuance of this instrument, the ETR for GloBE purposes of Country A will be increased and the ETR of Country B will be decreased.

3. This arrangement requires analysis under Article 3.2.7 to determine if it is an Intragroup Financing Arrangement. If the arrangement is an Intragroup Financing Arrangement, the operative provisions of Article 3.2.7 will apply.

4. Under Article 10.1, an Intragroup Financing Arrangement is an arrangement entered into between two or more members of the MNE Group whereby a High-Tax Counterparty directly or indirectly provides credit or otherwise makes an investment in a Low-Tax Entity.

5. Under Article 10.1, a High-Tax Counterparty is a Constituent Entity that is located in a jurisdiction that is not a Low-Tax Jurisdiction or that is located in a jurisdiction that would not be a Low-Tax Jurisdiction if its ETR were determined without regard to any income or expenses accrued by that Entity in respect of an Intragroup Financing Arrangement. A Low-Tax Jurisdiction is a jurisdiction where the MNE Group has Net GloBE Income and is subject to an ETR in that period lower than the Minimum Rate.

6. B Co is a High-Tax Counterparty because, notwithstanding this transaction, its ETR of 30% exceeds the Minimum Rate and therefore is not located in a Low-Tax Jurisdiction.

7. Because B Co is a High-Tax Counterparty, it must be determined if A Co is a Low-Tax Entity. A Low-Tax Entity means a Constituent Entity located in a Low-Tax Jurisdiction or that would be a Low-Tax Jurisdiction notwithstanding the transaction analysed. Since A Co has an ETR of 10% which is lower than the Minimum Rate notwithstanding this transaction, A Co is a Low-Tax Entity.

8. The final step of the Article 3.2.7 analysis is to determine whether, over the expected duration of the arrangement, it can be reasonably anticipated that:

a. the arrangement will increase the amount of expenses taken into account in calculating the GloBE Income or Loss of the Low-Tax Entity (A Co);

b. without resulting in a commensurate increase in the taxable income of the High-Tax Counterparty (B Co).

9. Because the instrument issued between B Co and A Co is treated as interest bearing debt for financial accounting purposes, it will increase the amount of expenses taken into account in calculating the GloBE Income or Loss of A Co, satisfying the first prong of the test described above.

10. The second prong of the Article 3.2.7 test is also satisfied because the instrument issued between B Co and A Co is treated as equity for tax purposes in Country B and accordingly will not increase the taxable income of B Co in Country B.

11. Since all requirements to apply Article 3.2.7 are met, the interest expense with respect to the instrument issued between B Co and A Co shall be excluded from the computation of GloBE Income or Loss for A Co.

Example 3.2.7 - 2

Special Rule for Intra-Group Financing Arrangements and use of tax attributes that would not otherwise be used to increase the ETR of a Low-Tax Entity

1. The facts are the same as in Example 1, except that the instrument issued between B Co and A Co is treated as debt for tax purposes in Country A and Country B. At the time the instrument is issued, A Co is highly-levered and cannot deduct any additional interest expense for Country A tax purposes. B Co is also highly-levered and has carried forward previously denied interest expense deductions for Country B tax purposes sufficient to shelter the interest income with respect to the instrument issued between B Co and A Co.

2. The interest expense incurred by A Co will satisfy the first prong of the Article 3.2.7 test because the interest expense increases the amount of expenses taken into account in calculating the GloBE Income or Loss of A Co.

3. The second prong of Article 3.2.7 is also satisfied because there is no commensurate increase in the taxable income of B Co. This is because B Co does not incur a commensurate increase in its Country B taxable income with respect to the interest income received from A Co given its excess interest expense carry-forward.

4. As in the previous example, since all requirements to apply Article 3.2.7 are met, the interest expense with respect to the instrument issued between B Co and A Co shall be excluded from the computation of GloBE Income or Loss for A Co

Article 3.3.1

Example 3.3.1 - 1

Exclusion of International Shipping Income and Qualified Ancillary International Shipping Income from GloBE Income or Loss

1. This example illustrates how the exclusion of International Shipping Income and Qualified Ancillary International Shipping Income provided under Article 3.3 operates. Assume a Constituent Entity has Financial Accounting Net Income of EUR 200. This Constituent Entity has an income of EUR 60 that was derived from performing an activity that is not covered by Article 3.3. In addition, this Constituent Entity has International Shipping Income of EUR 100 and Qualified Ancillary International Shipping Income of EUR 40. No adjustments other than the exclusion of International Shipping Income and Qualified Ancillary International Shipping Income are required to compute the GloBE Income of the Constituent Entity. The resulting GloBE Income of the Constituent Entity is EUR 60 (= 200 – (100 + 40)).

2. The adjustment required under Article 3.3.1 is illustrated in the following table.

Computation of the GloBE Income of the Constituent Entity	Net Income
[A] Financial Accounting Net Income or Loss	200
[B] Income (other than shipping)	60
[C] International Shipping Income	100
[D] Qualified Ancillary International Shipping Income	40
[E] Adjustment under Article 3.3.1 = [C+D]	140
GloBE Income = [A] – [E]	60

Example 3.3.1 - 2

Exclusion of International Shipping Income and Qualified Ancillary International Shipping Income when Qualified Ancillary International Shipping Income exceeds the limitation provided under Article 3.3.4

1. This example illustrates how the exclusion of International Shipping Income and Qualified Ancillary International Shipping Income provided under Article 3.3 operates when the amount of Qualified Ancillary International Shipping Income exceeds the limitation provided under Article 3.3.4. The facts are the same as in Example 3.3.1 – 1, except that the amount of income that was derived from performing an activity that is not covered by Article 3.3 is EUR 40 and the amount of Qualified Ancillary International Shipping Income is EUR 60.

2. Article 3.3.4 provides that the aggregated Qualified Ancillary International Shipping Income of all Constituent Entities located in a jurisdiction shall not exceed 50% of those Constituent Entities' International Shipping Income. Therefore, the total amount of Qualified Ancillary International Shipping Income is limited to EUR 50 in this example. The resulting GloBE Income of the Constituent Entity is EUR 50 (= 200 – (100 + 50)).

3. The adjustment required under Article 3.3.1 is illustrated in the following table.

Computation of the GloBE Income of the Constituent Entity	Net Income
[A] Financial Accounting Net Income or Loss	200
[B] Income (other than shipping)	40
[C] International Shipping Income	100
[D] Qualified Ancillary International Shipping Income	60
[D] Negative adjustment under Article 3.3.4 that limits [D] to 50% x [C]	(10)
[E] Adjustment under Article 3.3.1 = [C+D+D]	150
GloBE Income = [A] – [E]	50

Example 3.3.1 - 3

Exclusion of International Shipping Loss and Qualified Ancillary International Shipping Loss

1. This example illustrates how the exclusion of International Shipping Income and Qualified Ancillary International Shipping Income provided under Article 3.3 operates when they are negative (i.e. they generate a Loss).

2. The facts are the same as in Example 3.3.1 – 1, except that the Constituent Entity has an income of EUR 360 that was derived from performing an activity that is not covered by Article 3.3 and that, in addition, this Constituent Entity has International Shipping loss of EUR 100 and Qualified Ancillary International Shipping loss of EUR 60. Although the Financial Accounting Net Income of the Constituent Entity is EUR 200, the GloBE Income of the Constituent Entity is EUR 360 (= 200 - (-100 - 60) = 200 + 160).

3. The adjustment required under Article 3.3.1 is illustrated in the following table.

Computation of the GloBE Income of the Constituent Entity	Net Income
[A] Financial Accounting Net Income or Loss	200
[B] Income (other than shipping)	360
[C] International Shipping Income	(100)
[D] Qualified Ancillary International Shipping Income	(60)
[E] Adjustment under Article 3.3.1 = [C+D]	(160)
GloBE Income = [A] – [E]	360

Chapter 4 – Examples

Article 4.1.3

Example 4.1.3 – 1

Net Basis Taxes

1. A Co is member of an MNE Group that is subject to the GloBE Rules and it is located in Country A, which imposes a 20% corporate income tax. In a Fiscal Year, A Co receives a dividend of 100 that is excluded from the computation of GloBE Income or Loss under Article 3.2.1(b). The dividend, however, is included in the computation of the taxable income in Country A.

2. In the same Fiscal year, A Co earns an additional 100 of Country A taxable income that is also GloBE Income. Accordingly, for Country A tax purposes, A Co records taxable income of 200 (Dividend of 100 + Operating Income of 100) and Country A tax of 40 (20% x 200).

	Year 1
A Co Domestic Taxable Income:	
Dividend	100
Operating Income	100
Total Country A Taxable Income	200
Country A Tax (20%)	40
A Co GloBE Income:	
Dividend	0
Operating Income	100
Total A Co's GloBE Income	100

3. Article 4.1.3(a) requires that the amount of current tax expense with respect to income excluded from the computation of GloBE Income or Loss must reduce Covered Taxes for a Constituent Entity. Accordingly, the Country A tax relating to the dividend that has been excluded for GloBE purposes must be removed from the Adjusted Covered Taxes of A Co for GloBE purposes.

4. To determine the amount of Article 4.1.3(a) reduction attributable to the excluded income, the amount of excluded income shall be divided by the taxable income for the jurisdiction and then multiplied by the current tax expense.

5. In this case, there is excluded income of 100 (the dividend received) and taxable income of 200 (Dividend of 100 + Operating Income of 100). Dividing 100 by 200 results in a 50% reduction of A Co's taxable income in Country A. This percentage is then multiplied by the 40 of A Co's Country A tax, to remove 20 of tax from the Covered Tax computation for A Co.

6. As a result, for the Fiscal Year, A Co has GloBE Income of 100 (since the dividend is excluded) and an ETR of 20% (20 Covered Tax / GloBE Income of 100).

Article 4.1.5

Example 4.1.5 – 1

Imposition of top-up tax in loss year

1. A Co is a Constituent Entity of an MNE Group that is subject to the GloBE Rules. A Co is the only Constituent Entity located in Country A. The only tax imposed on A Co under Country A law is corporation tax which is imposed at the rate of 15%. Country A provides for the carry-forward of tax losses, which allows a taxpayer to carry forward such losses into a subsequent period to be used to reduce taxable income in future years.

2. In Year 1, A Co has income of 120 and expenditure of (220) under the GloBE Rules resulting in a total GloBE Loss for the period of (100). However, under the tax laws of Country A, A Co is only treated as having taxable income of 100. This is due to the fact that 20 of A Co's income results from a capital gain that is excluded from tax under Country A law. The table below illustrates the tax position of A Co for local tax and GloBE purposes. The table on the left shows A Co's loss as determined for local tax purposes while the table on the right shows the same calculation as determined under the GloBE Rules.

Local Tax		**GloBE**	
Income	100	Income	100
		Capital gain excluded under local law	20
Expenditure	(220)	Expenditure	(220)
Total Profit (Loss)	(120)	Total Profit (Loss)	(100)
Tax (Tax benefit)	(18)	Expected Adjusted Covered Taxes Amount	(15)

3. The local tax loss of A Co is greater than the loss that has been recorded for GloBE purposes. The additional tax loss of 20 under Country A law results from the fact that Country A law does not include the 20 of capital gain (i.e. the additional loss is a permanent difference in respect of a non-economic loss). A Co's tax loss gives rise to a deferred tax asset for financial accounting purposes equal to the tax loss multiplied by the corporate tax rate (120 x 15% = 18). The generation of this deferred tax asset is incorporated into A Co's Total Deferred Tax Adjustment Amount under Article 4.4.1 and treated as a reduction to A Co's Adjusted Covered Taxes under Article 4.1.1. When the loss carry-forward is used in a subsequent year in Country A, the deferred tax asset is treated as an addition to A Co's Adjusted Covered Taxes under the mechanics of the same provisions.

4. In a Fiscal Year in which there is no Net GloBE Income for a jurisdiction, if the Adjusted Covered Taxes for a jurisdiction are less than zero and less than the Expected Adjusted Covered Taxes Amount, the Constituent Entities in that jurisdiction shall be treated as having Additional Current Top-up Tax for the jurisdiction under Article 5.4 arising in the current Fiscal Year equal to the difference between these amounts. The Expected Adjusted Covered Taxes Amount is equal to the GloBE Income or Loss for a jurisdiction multiplied by the Minimum Rate.

5. In this case A Co has a GloBE Loss and it is the only Constituent Entity located in Country A. This means there is no Net GloBE Income in Country A. A Co's Expected Adjusted Covered Taxes Amount for the year is A Co's GloBE Loss of (100) multiplied by the Minimum Rate of 15% [(100) x 15% = (15)].

6. A Co's Adjusted Covered Taxes (18) are less than A Co's Expected Adjusted Covered Taxes Amount (15. A Co therefore has additional Top-up Tax of EUR 3 in Year 1 under Article 4.1.5. Imposing an immediate tax charge on A Co in Year 1 means that the additional tax asset generated for local tax purposes can be recognised in the Adjusted Covered Taxes Amount while preserving the adherence between the deferred tax expense of A Co under the financial accounting rules and the GloBE Rules (i.e.

the EUR 18 deferred tax asset determined for financial accounting purposes is also used for GloBE purposes). Article 4.1.5 thereby ensures that the permanent difference giving rise to the inflated tax loss does not result in an overstated ETR for Country A when the deferred tax attribute is later used.

7. Assume that, in Year 2, A Co has 220 of income and (100) of expenditure resulting in 120 of profit that is included in both GloBE Income and taxable income. As A Co uses EUR 120 loss carry-forward under local tax rules from Year 1, A Co has 120 of GloBE Income, zero taxable income and zero current tax expense in Year 2. The full deferred tax asset of EUR 18, however, is included in the Adjusted Covered Taxes in Year 2 under Article 4.4 and no Top-up Tax is expected to arise.

8. The table below illustrates the tax position of A Co for local tax and GloBE purposes in Year 2. The table on the left shows A Co's position for local tax purposes while the table on the right shows the ETR calculation under the GloBE Rules.

Local Tax		**GloBE**	
Income Expenditure Loss offset	220 (100) (120)	Income Expenditure	220 (100)
Total Profit (Loss)	0	Total Profit	120
		Adjusted Covered Taxes -	18
		GloBE ETR	15%

Example 4.1.5 – 2

Adjusted Covered Taxes

1. The facts are the same as in Example 4.1.5 - 1, except that:

   a. A Co 1 and A Co 2 are Constituent Entities of an MNE Group that is subject to the GloBE Rules and are both located in Country A;

   b. In Year 1, A Co 1 has the same tax implications as A Co (GloBE Loss (100); deferred tax asset of 18); and

   c. In Year 1, A Co 2 has a total GloBE Income of 50.

2. Under this scenario, if the Adjusted Covered Taxes in Country A are less than zero and less than the Expected Adjusted Covered Taxes Amount, A Co 1 and A Co 2 are treated as having Additional Current Top-up Tax arising in Year 1 and equal to the difference between these two amounts under Article 4.1.5.

3. A Co 1 and A Co 2's Expected Adjusted Covered Taxes Amount for Year 1 is equal to the GloBE Income or Loss for the jurisdiction multiplied by the Minimum Rate. For this reason, A Co 1's deferred tax asset of (18) has to be added to A Co 2's Covered Taxes of 7.5 (15% * 50), which results in Adjusted Covered Taxes for Country A of (10.5). A Co 1 and A Co 2's Expected Adjusted Covered Taxes Amount for Year 1, is A Co 1 and A Co 2's GloBE Loss of (50) multiplied by the Minimum Rate of 15% [(50) x 15% = (7.5)].

4. As the Adjusted Covered Taxes (10.5) are less than zero and less than the Expected Adjusted Covered Taxes Amount (7.5), an Additional Current Top-up Tax of 3 arises under Article 4.1.5. The Additional Current Top-up Tax of 3 is then allocated to A Co 1 under Article 5.4.3 as A Co 1 recorded an Adjusted Covered Taxes amount that is less than zero and less than the GloBE Income or Loss multiplied by the Minimum Rate.

5. A table illustrating the numerical results of this example is set out below.

	A Co 1	A Co 2	Jurisdictional (Country A)
GloBE Income or (Loss)	(100)	50	(50)
Deferred Tax Asset	(18)	-	
Covered Taxes	-	7.5	
Expected Adjusted Covered Taxes Amount			(7.5)
Adjusted Covered Taxes Amount	(18)	7.5	(10.5)
Additional Current Top-up Tax			3

Example 4.1.5 – 3

Adjusted Covered Taxes

6. The facts are the same as in Example 4.1.5 - 2, except that Country A has an income tax rate of 25%.

7. In this scenario, A Co 2 has Adjusted Covered Taxes of 12.5 (50 * 25%). The Expected Adjusted Covered Taxes Amount of Country A in Year 1 remains (7.5) because the GloBE Loss is always multiplied by the Minimum Rate (15% * (50)). As the deferred tax asset of A Co 1 was recast at the Minimum Rate in accordance with Article 4.4.1, it remains (18) and is added to the Adjusted Covered Taxes of A Co 2 of 12.5, which results in Adjusted Covered Taxes for Country A of (5.5).

8. Because the Adjusted Covered Taxes amount for Country A of (5.5) is not less than the Expected Adjusted Covered Taxes Amount of (7.5), no adjustment is required in this case under Article 4.1.5. The taxes accrued by A Co 2 in Year 1 are sufficient to shelter the permanent difference in A Co 1 from Top-up Tax. A table illustrating the numerical results of this example is set out below:

	A Co 1	A Co 2	Jurisdictional (Country A)
GloBE Income or (Loss)	(100)	50	(50)
Deferred Tax Asset	(18)	-	
Covered Taxes	-	12.5	
Expected Adjusted Covered Taxes Amount			(7.5)
Adjusted Covered Taxes Amount	(18)	12.5	(5.5)
Additional Current Top-up Tax			0

Example 4.1.5 - 4

Excluded Dividends under Article 4.1.5

1. A Co is located in Country A, which imposes a domestic corporate income tax rate of 25%. The tax base in Country A is the same as the GloBE base. In a Fiscal Year, A Co receives dividend income of 100, which is excluded from GloBE Income or Loss under Article 3.2(b). A Co also incurs expenses of 150, which directly relate to the dividend income, during the Fiscal Year. Because Article 3.2(b) only excludes dividend income, A Co has a GloBE Loss of (150) for the Fiscal Year, since the dividend is excluded. No

Top-up Tax under Article 4.1.5 will arise, because the Expected Adjusted Covered Taxes Amount for A Co is (22.5) and the actual deferred tax asset established for GloBE purposes is also (22.5) (i.e., the domestic tax loss of (150) multiplied by the 15% Minimum Rate).

Article 4.3.3

Example 4.3.3 - 1

Adjusted Covered Taxes (CFC Tax push-down limitation)

1. A Co is a Constituent Entity of a MNE Group in Country A. Country A imposes a 25% CIT rate and has a Controlled Foreign Company (CFC) Tax Regime which imposes Taxes on shareholders in respect of Passive Income derived by foreign (CFC) subsidiaries.

2. A Co wholly owns B Co, which is located in Country B. Country B imposes a 5% CIT rate. B Co is the only Constituent Entity located in Country B.

3. In Year 1, B Co has GloBE Income of EUR 100, of which EUR 50 is Passive Income that is subject to the CFC Tax Regime of Country A.

4. Country A imposes its CFC charge on the EUR 50 of Passive Income earned by B Co. This CFC charge is computed by applying the Country A CIT rate of 25% to the Passive Income earned by B Co, less any applicable foreign tax credit (FTC). Accordingly, the Country A CFC charge is 10 ((25% x 50) – (5% x 50)). A Co has no other operating income in Year 1. The table below illustrates the tax calculation for both A Co and B Co.

A Co (Country A)	
Country A Income	
Operating Income	0
CFC Inclusion (B Co)	50
Total Taxable Income	50
Country A Tax	
Tax on Operating Income (25%)	0
Tax on CFC Inclusion (25%)	12.5
Foreign Tax Credit (CFC Inclusion)	-2.5
Total Country A Tax*	10
**Entirely attributable to CFC inclusion since there is no other income*	

B Co (Country B)	
Country B Income	
Operating Income	50
Passive Income	50
Total Taxable Income	100
Country B Tax	
Tax on Operating Income (5%)	2.5
Tax on Passive Income (5%)	2.5
Total Country B Tax	5

5. The amount of any CFC Taxes included in the financial accounts of a direct or indirect Constituent Entity-owner on its share of the Controlled Foreign Company's income is allocated to such CFC under Article 4.3.2(c). The allocation of CFC Taxes, however, is subject to the limitations of Article 4.3.3.

6. Under Article 4.3.3, the allocation of CFC Taxes is limited to the lesser of:

(a) the actual amount of Covered Taxes in respect of such Passive Income; or

(b) the Top-up Tax Percentage that applies in the subsidiary jurisdiction, multiplied by the amount of the subsidiary's Passive Income that is includible under the CFC Tax Regime.

For the purposes of this formula, the Top-up Tax Percentage is determined without regard to the Covered Taxes to be allocated to the subsidiary under the CFC Tax Regime.

7. The maximum amount of CFC Taxes that can be allocated from Country A to Country B (to increase its ETR) under Article 4.3.3 is therefore computed as follows:

- Step 1: the Top-up Tax Percentage for Country B is determined without regard to any Covered Taxes of the Constituent Entity-owner on such Passive Income. This amount is 10% (15% - 5%).
- Step 2: the Top-up Tax Percentage calculated under Step 1 is multiplied by the amount of the Constituent Entity's Passive Income includible under the CFC Tax Regime of Country A. This amount is EUR 5 (10% x EUR 50).
- Step 3: the lesser of the Step 2 amount or the actual CFC Taxes with respect to the Passive Income is allocated to B Co.

8. In this case the Step 2 amount is 5, while the actual CFC Tax amount is 10. Therefore, Covered Tax of 5 may be allocated under Article 4.3.3 from Country A to Country B. Absent the limitation in Article 4.3.3, Article 4.3.2 (c) would have allocated the full CFC Tax of EUR 10 to Country B. Article 4.3.3 ensures that the CFC Tax allocated from Country A to Country B is sufficient to reach the Minimum Rate with respect to the income brought into charge under the CFC Tax Regime. The remaining Covered Tax of EUR 5 in Country A stays with A Co and is included in its Adjusted Covered Taxes for purposes of determining the ETR in Country A. The table below illustrates the GloBE Calculations after Application of Article 4.3.3:

A Co (Country A)	
GloBE Income	0
Covered Taxes	
Country A Tax	10
CFC Tax Allocated to Country B	-5
Total Country A Adjusted Covered Taxes	5
ETR	-
Top-up Tax	**-**

B Co (Country B)	
GloBE Income	100
	50
Covered Taxes	
Country B Tax	5
CFC Tax Allocated from Country A	5
Total Country B Adjusted Covered Taxes	10
ETR	10%
Top-up Tax	**5**

Article 4.4.1

Example 4.4.1 - 1

Total Deferred Tax Adjustment Amount – generation of tax credits

1. A Co is a Constituent Entity of an MNE Group that is subject to the GloBE Rules. A Co is the only Constituent Entity located in Country A. The only tax imposed on A Co under Country A law is corporation tax which is imposed at the rate of 25%. The tax base of Country A is the same as the GloBE tax base. Country A has a minimum tax regime that provides at least 17% corporate income tax must be paid in a taxable year.

2. In Year 1, A Co earns GloBE Income of 100 in Country A. The initial tax liability for A Co is therefore 25 but Country A provides an incentive tax credit to A Co of 15. Because of the Country A minimum tax regime, only 8 of the incentive tax credit may be used in Year 1 given the 17% minimum rate requirement. The remaining 7 of incentive tax credit is available for carry-forward to a future tax year. A Co therefore pays 17 of Country A tax in Year 1 and carries-forward an excess credit of 7.

3. In Year 2, A Co earns GloBE Income of 100 and has an initial tax liability in Country A of 25. A Co applies its remaining 7 tax credit carry-forward from Year 1 and pays 18 of Country A tax in Year 2.

4. Because Article 4.4.1(e) excludes deferred tax expense with respect to the generation and use of tax credits, the carry-forward of 7 generated in Year 1 does not give rise to a deferred tax asset for GloBE purposes, and therefore does not reduce the Adjusted Covered Taxes for Country A in Year 1. Applying the same rule, the use of the credit carry-forward of 7 in Year 2 does not increase Adjusted Covered Taxes for Country A in Year 2. As a result, the Country A ETR is 17% in Year 1 (17/100) and 18% in Year 2 (18/100). A table illustrating the numerical results of this example is set out below.

	Year 1	Year 2
GloBE Income/ (Loss)	100	100
Country A Tax (25%)	(25)	(25)
Tax Credit Generated	15	0
Carry-forward Tax Credit Applied	0	7
Minimum Tax Adjustment	(7)	0
Final Country A Tax	(17)	(18)
Country A ETR	17%	18%
Top-up Tax	0	0
Excess Tax Credit Carry-forward	7	0

5. Absent the rule in Article 4.4.1(e), the Country A results would have been distorted by the generation of excess tax credits in Year 1, as the credit carry-forward would give rise to a deferred tax asset that would otherwise reduce Adjusted Covered Taxes below the Minimum Rate.

Chapter 5 - Examples

Article 5.3.7 (a)

Example 5.3.7 - 1

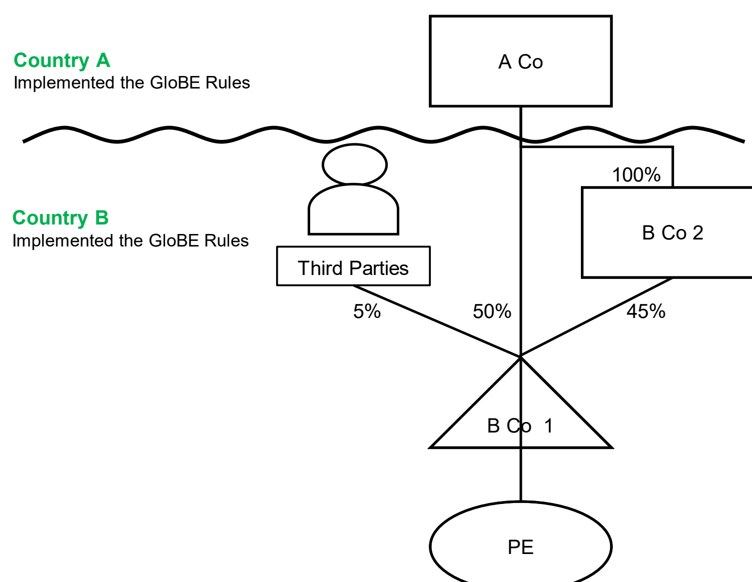
Substance-based Income Exclusion

1. This example illustrates the application of the Substance-based Income Exclusion in the situation in which a Flow-through Entity has Eligible Payroll Costs and Eligible Tangible Assets.

2. A Co is located in Country A and is the UPE of the AB Group. A Co owns 50% of the Ownership Interests of B Co 1 and 100% of the Ownership Interests of B Co 2. The remaining Ownership Interests of B Co 1 are held by B Co 2 (45%) and non-Group Entities (5%).

3. Furthermore, B Co 1 is a Flow-through Entity and conducts business operations in Country B. A Co has a PE in Country B as a result of the business being carried out by B Co 1 in Country B. A Co, B Co 1, B Co 2 and the PE are Constituent Entities of the AB Group.

4. B Co 1 earns EUR 1,000 of GloBE Income in Year 1, incurs EUR 200 of Eligible Payroll Costs in respect of employees that work in Country B and has EUR 400 of Eligible Tangible Assets located in Country B.



5. B Co 1's GloBE Income is reduced and allocated as follows. First, B Co 1's GloBE Income is reduced by EUR 50, the amount allocable to persons that are not Group Entities, under Article 3.5.3. Next, EUR 500 of B Co 1's GloBE Income is allocated to the PE in accordance with Article 3.4 and reduced from

its GloBE Income under Article 3.5.1 (a). Finally, the remaining EUR 450 of B Co 1's GloBE Income is allocated to B Co 2 under Article 3.5.1 (b).

6. B Co 1's Eligible Payroll Costs and Eligible Tangible Assets are allocated as follows. 50% of B Co 1's Eligible Payroll Costs (EUR 100) and Eligible Tangible Assets (200) are allocated to the PE under Article 5.3.6. Under Article 5.3.7(a), 45% of B Co 1's Eligible Payroll Costs (EUR 90) and Eligible Tangible Assets (EUR 180) are then allocated to B Co 2 because B Co 2 is located in Country B. The remainder of B Co 1's Eligible Payroll Costs (EUR 10) and Eligible Tangible Assets (EUR 20) are not included in the computation of a Constituent Entity's Substance-based Income Exclusion under Article 5.3.7 (c).

Article 5.5.2

Example 5.5.2 - 1

De minimis exclusion – short Fiscal Years taken into account in the average

1. This example illustrates how the computation of the Average GloBE Revenue and Average GloBE Income is adjusted in the situation where there is a short Fiscal Year.

2. Assume the ABC Group uses the calendar year as its Fiscal Year and has only one Constituent Entity in Jurisdiction B, B Co. B Co was created on 1 July in Year 1 and it had GloBE Revenue of EUR 1 million and a GloBE Income of EUR 50,000 in Year 1. Assume that in Year 2, B Co has GloBE Revenue of EUR 1 million and a GloBE Income of EUR 100,000. In Year 3, B Co has GloBE Revenue of EUR 3 million and a GloBE Loss of EUR 200,000. B Co only generates GloBE Revenue, GloBE Income, and GloBE Loss in Jurisdiction B. This example illustrates how the computation is performed and assesses whether the Top-up Tax for B Co may be deemed to be zero for Fiscal Year 3.

3. The computation of the average amounts under Article 5.5.2 relies on the assumption that Fiscal Years have the same duration. If one Fiscal Year is shorter, the average shall be computed by adjusting the corresponding GloBE Revenue and GloBE Income (or Loss) calculations in proportion to the period covered by the short Fiscal Year over a 12 month period. Therefore, in Year 1, as B Co's GloBE Revenue and GloBE Income were only realized over 6 months (1 July - 31 December), the GloBE Revenue and the GloBE Income of Year 1 will be multiplied by 2 (= 12/6) for the purposes of determining the average annual GloBE Revenue and GloBE Income.

4. The computation of the average is made as follows:

5. The three-year Average GloBE Revenue for this jurisdiction is:

$$\frac{(2 \text{ x } 1 \text{ million}) + 1 \text{ million} + 3 \text{ million}}{3} = \text{EUR } 2 \text{ million}$$

And the three-year Average GloBE Revenue or Loss for this jurisdiction is:

$$\frac{(2 \text{ x } 50{,}000) + 100{,}000 + (-200{,}000)}{3} = \text{EUR } 0$$

6. The Average GloBE Revenue of Jurisdiction B is less than EUR 10 million and the Average GloBE Income or Loss of Jurisdiction B is less than EUR 1 million. As a consequence, the Top-up Tax for B Co shall be deemed to be zero for Year 3 if the Filing Constituent Entity elects for it under the GloBE Rules.

Chapter 6 - Examples

Article 6.2.1 (e)

Example 6.2.1 - 1

Constituent Entities joining and leaving an MNE Group

1. ABC Group sells all the shares of its wholly-owned Constituent Entity, C Co, to DEF Group at a price of EUR 200 on 30 September in Year 2. C Co holds a single asset, which is an Eligible Tangible Asset that has a carrying value of EUR 100 as recorded for the purposes of preparing ABC Group's Consolidated Financial Statements at the end of Year 1 (which is also the carrying value at the beginning of the Year 2). The carrying value of the asset at the end of Year 2 is EUR 20 because C Co claimed EUR 80 of depreciation in respect of the asset during the period that it was owned by ABC Group in Year 2. The Fiscal Years end in December.

2. The computation of the carrying value of the asset for purposes of Article 5.3.4 has to be based on the average of the carrying value at the beginning and ending of the Reporting Fiscal Year as recorded for purposes of preparing the Consolidated Financial Statements of the UPE (see Article 5.3.5). Under Article 6.2.1(e), the carrying value must be adjusted proportionally to the length of the relevant Fiscal Year that C Co was a member of the ABC Group. The carrying value of the asset for ABC Group is therefore EUR 45 [((EUR 100+EUR 20)/2) x (9/12)].

3. In the case of DEF Group, the carrying value of the Eligible Tangible Asset of the acquired C Co at the beginning of the Reporting Fiscal Year (Year 2) is zero. However, at the end of Year 2 the carrying value is EUR 200 because the UPE's Consolidated Financial Statements reflect the fair value of the asset based on the indirect acquisition cost of the asset adjusted for accumulated depreciation by the DEF Group. Taking into account the carrying value of the asset at the beginning and end of DEF Group's Reporting Fiscal Year (Year 2) and the length of Year 2 that C Co was a member of the DEF Group, the carrying value of the asset under Article 6.2.1(e), is equal to EUR 25 [((EUR 0+EUR 200)/2) x (3/12)].

Chapter 7 – Examples

Article 7.1.1 (a)

Example 7.1.1(a) - 1

Ultimate Parent Entity that is a Flow-through Entity

1. A Co is a Flow-through Entity that is the UPE of an MNE Group. A Co is located in Country A and has a Fiscal Year that ends on 31 January. Person 1 is an individual tax resident in Country A while Person 2 is an individual tax resident in Country B. Person 1 and Person 2 each hold a 50% of the Ownership Interests in A Co. For the Fiscal Year ended 31 January Year 1, A Co reports EUR 140,000 of income both for domestic income tax and GloBE purposes.

2. Under the tax laws of Country A, EUR 70,000 of A Co's income is included in the taxable income of Person 1 for the calendar year ended 31 December Year 1. The computation of the taxable income of Person 1 also includes a loss of EUR 50,000 from another business conducted in Country A. The taxable income of Person 1 under the tax laws of Country A is EUR 20,000 (= 70,000 – 50,000) and Person 1 is subject to tax in Country A at a rate of 20% on such taxable income.

3. Under the tax laws of Country A, Person 2 is treated as having a PE in Country A and the taxable income of that PE includes EUR 70,000 of A Co's taxable income. Person 2 is subject to tax in Country A at a rate of 20% on the income of its PE for the calendar year ended 31 December Year 1.

4. A Flow-Through Entity that is the UPE reduces its GloBE Income pursuant to Article 7.1.1(a)(i) by the amount of GloBE Income attributable to an Ownership Interest if (1) the holder is subject to tax on that income for a taxable period that ends within 12 months of the end of the MNE Group's Fiscal Year and (2) the holder of the Ownership Interest is subject to tax on the full amount of such income at a nominal rate that equals or exceeds the Minimum Rate.

5. Person 1 is subject to tax on his/her share of A Co's GloBE Income for a taxable period that ends on 31 December Year 1, which is within 12 months of the end of A Co's Fiscal Year ended on 31 January Year 1, notwithstanding that payment of Person 1's tax liability is not due within 12 months of the end of A Co's Fiscal Year. Further, Person 1 is subject to tax on his/her share of A Co's GloBE Income at a nominal rate that equals or exceeds the Minimum Rate. Person 1 is subject to tax on the full amount of such income notwithstanding that he/she was allowed to offset his/her share of A Co's GloBE Income with a loss from another business in computing his/her Country A taxable income. Accordingly, A Co reduces its GloBE Income for the Fiscal Year ended 31 January Year 1 pursuant to Article 7.1.1(a)(i) by EUR 70,000 in respect of the Ownership Interests held by Person 1. A Co will reduce its Covered Taxes proportionately under Article 7.1.3.

6. Person 2 is subject to tax on his/her share of A Co's GloBE Income for a taxable period that ends within 12 months of the end of A Co's Fiscal Year. Person 2 is also subject to tax on the full amount of such income at a nominal rate that equals or exceeds the Minimum Rate. Accordingly, A Co reduces its GloBE Income for the Fiscal Year ended 31 January Year 1 pursuant to Article 7.1.1(a)(i) by EUR 70,000

in respect of the Ownership Interests held by Person 2. A table illustrating the results of this example is set out below.

	Person 1	Person 2
GloBE Income	70,000	70,000
Tax at Minimum Rate	15%	15%
Nominal Rate	20%	20%
GloBE Income reduction Article 7.1.1 (a)(i)	Yes	Yes

Example 7.1.1(a) - 2

UPE that is a Flow-through Entity

1. C Co is a Flow-through Entity and a Tax Transparent Entity that is the UPE of an MNE Group. C Co is located in Country C where a 5% CIT rate applies. C Co's taxable income and GloBE Income for the Fiscal Year ended on 31 December Year 1 is EUR 200,000. The Adjusted Covered Taxes of C Co on its income are EUR 10,000 (= 5%* EUR 200,000) and such taxes meet the definition of Covered Taxes (see Article 4.2).

2. Person 3 is an individual tax resident in Country C that holds a 50% Ownership Interest in C Co. Person 3's share of C Co's income for Year 1 is EUR 95,000 (= 50% * [EUR 200,000 – 10,000]). Person 3 is subject to a nominal 11% personal income tax rate on a calendar year basis. Person 3's share of C Co's income for the Fiscal Year ended on 31 December Year 1 is included in Person 3's Country C taxable income for the calendar year that ended 31 December Year 1. Person 3 is not entitled to reduce its Country C tax imposed on its share of C Co's income as a result of Country C taxes imposed on such income.

3. C Co cannot reduce its GloBE Income pursuant to subparagraph (i) of Article 7.1.1(a) because the personal income tax rate applicable to Person 3 is 11%, which is a nominal rate below the Minimum Rate. However, a Flow-Through Entity that is the UPE reduces its GloBE Income pursuant to subparagraph (ii) of Article 7.1.1(a) by the amount of GloBE Income attributable to an Ownership Interest if (1) the holder is subject to tax on that income for a taxable period that ends within 12 months of the end of the MNE Group's Fiscal Year and (2) it can reasonably be expected that the aggregate amount of Adjusted Covered Taxes of the UPE and Taxes of the holder of the Ownership Interest on such income equals or exceeds the amount that results from multiplying the full amount of such income by the Minimum Rate (see Article 7.1.1 (a)(ii)).

4. Person 3 is reasonably expected to pay EUR 10,450 of Taxes (= 11% * EUR 95,000 after-tax income of C Co) in Country C. The sum of the Taxes paid by Person 3 and C Co on the EUR 100,000 of GloBE Income attributable to Person 3 is EUR 15,450 (= EUR 10,450 paid by Person 3 + EUR 5,000 paid by C Co), which exceeds the amount (EUR 15,000) that results from multiplying the full amount of such income by the Minimum Rate (EUR 100,000 * 15%). C Co will therefore reduce its EUR 200,000 GloBE Income in Year 1 by the EUR 100,000 GloBE Income attributable to Person 3's Ownership Interest. C Co will reduce its Covered Taxes proportionally under Article 7.1.3. A table illustrating the numerical results of this example is set out below.

	EUR
GloBE Income	100,000
Tax at Minimum Rate	15,000
Taxes (C Co)	5,000
Taxes (Person 3)	10,450

Aggregate Taxes	15,450
GloBE Income reduction Article 7.1.1 (a)(ii)	Yes

5. C Co would not have been entitled to reduce its GloBE Income if Person 3 was granted a tax credit in Country C equal to the amount of Taxes paid by C Co. In that case, it would not be reasonable to expect the aggregate amount of Taxes (EUR 11,000) paid by Person 3 (EUR 6,000) and C Co (EUR 5,000) to equal or exceed the amount that results from multiplying the full amount of GloBE Income by the Minimum Rate. A table illustrating the numerical results of this paragraph is set out below.

	EUR
GloBE Income	EUR 100,000
Tax @ Minimum Rate	EUR 15,000
Taxes (C Co)	EUR 5,000
Taxes (Person 3)	EUR 6,000
Aggregate Taxes	EUR 11,000
GloBE Income reduction Article 7.1.1 (a)(ii)	No

Article 7.1.4

Example 7.1.4 - 1

UPE that is a Flow-through Entity

1. A Co is the UPE of ABC Group. A Co is a Flow-through Entity and a Tax Transparent Entity created in Country A with two owners, each of whom holds 50% of its Ownership Interests. A Co conducts business operations in Countries A and B. The place of business through which A Co carries out business operations in Country B creates a PE in Country B. Overall, A Co generated GloBE Income of EUR 300 in Countries A and B during a Fiscal Year.

2. Under the rules of Articles 3.4 and 3.5, EUR 100 of A Co's income is allocated to a PE located in Country B (see Article 3.5.1 (a)). Country B imposes tax on the owners of A Co in respect of the EUR 100 income allocated to PE at a 15% nominal rate and each owner paid EUR 7.5 of tax to Country B (total EUR 15).

3. In Country B, the holders of A Co's Ownership Interests are subject to tax at a nominal rate that equals the Minimum Rate and it is reasonable to expect that the EUR 7.5 tax paid by each holder equals the amount of each holders' share of the PE's income multiplied by the Minimum Rate, or EUR 7.5 (= 50 income x 15% Minimum Rate). Accordingly, PE's GloBE Income is reduced by EUR 100 in Country B pursuant to Article 7.1.4.

4. A table illustrating the numerical results of this example is set out below.

A Co	Country B
Allocation income	EUR 100
Tax rate	15%
Tax paid	EUR 15
Tax above/(below) Minimum Rate	EUR 0
Tax reduction Article 7.1.4	Yes

Article 7.3

Example 7.3.4 - 1

Eligible Distribution Tax Regime

1. A Co is a Constituent Entity of an MNE Group and it is located in a jurisdiction with an Eligible Distribution Tax Regime. Distributions (and deemed distributions) are subject to tax at a 15% rate. An election pursuant to Article 7.3.1 is made for Year 1, Year 2, and Year 3 with respect to the jurisdiction. A Co makes no actual or deemed distributions in Year 1, Year 2, or Year 3.

2. In Year 1, A Co earns GloBE Income of EUR 100 and records Deemed Distribution Tax of EUR 15 pursuant to Article 7.3.2(a). Accordingly, the balance of the Deemed Distribution Tax Recapture Account at the end of Year 1 is EUR 15 (see Article 7.3.4).

3. In Year 2, A Co incurs a Net GloBE Loss of EUR 120. Under Article 7.3.3, the Net GloBE Loss is multiplied by the Minimum Rate (i.e., EUR 120 x 15% = EUR 18) and EUR 15 is applied to reduce the Deemed Distribution Tax Recapture Account to EUR 0 (Article 7.3.3(b)). The excess over the Deemed Distribution Tax Recapture Account, EUR 3 (= EUR 18 – EUR 15), is added to a Recapture Account Loss Carry-forward.

4. In Year 3, A Co earns GloBE Income of EUR 100 and Deemed Distribution Tax of EUR 15 is recorded to achieve the Minimum Rate (see Article 7.3.2(a)). The Deemed Distribution Tax Recapture Account is increased by EUR 15 and then reduced by EUR 3, the balance of the Recapture Account Loss Carry-forward from Year 2, leaving a balance of EUR 12 in the Deemed Distribution Tax Recapture Account established for Year 3.

	Year 1	Year 2	Year 3
GloBE Income (or Loss)	EUR 100	(EUR 120)	EUR 100
Tax at Minimum Rate	EUR 15	(EUR 18)	EUR 15
Deemed Distribution Tax Recapture Account	EUR 15	EUR 0	EUR 12
Recapture Account Loss Carry-forward	EUR 0	EUR 3	EUR 0

OECD/G20 BASE EROSION AND PROFIT SHIFTING PROJECT

Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) Examples

INCLUSIVE FRAMEWORK ON BEPS

A key part of the OECD/G20 BEPS Project is addressing the tax challenges arising from the digitalisation of the economy. In October 2021, over 135 jurisdictions joined a ground breaking plan to update key elements of the international tax system which is no longer fit for purpose in a globalised and digitalised economy. The Global Anti-Base Erosion Rules (GloBE), published in December 2021, are a key component of this plan and ensure large multinational enterprise pay a minimum level of tax on the income arising in each of the jurisdictions where they operate. More specifically, the GloBE Rules provide for a co-ordinated system of taxation that imposes 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. These examples illustrate the application of the Model GloBE Rules to certain fact patterns.

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