KNAV
PARTNERS BEYOND BOUNDARIES

Global Anti-Base Erosion Model, Pillar Two: Accounting for the Global Minimum Tax

www.knavcpa.com

The OECD released its much-anticipated Pillar Two guidance package on February 2, 2023. In addition to the guidance, a revised version of the Commentary will be released later this year to replace the original Commentary released in March 2022.

According to the OECD, this guidance, along with the December 2022 releases (i.e., safe harbors, penalty relief, information return, and tax certainty), completes the Implementation Framework set out in October 2021. This first tranche of additional guidance addresses key issues regarding Pillar Two implementation. One of the crucial characteristics of the guidance is its treatment of certain non-refundable tax credits arising from equity method investments, including:

- Many renewable energy tax credits and the low-income housing tax credit
- Tax allocation under US global intangible low-tax income (GILTI) regimes and other blended CFC regimes
- A design element for qualified domestic minimum top-up taxes (QDMTT) which is needed to assess whether a domestic minimum tax meets qualified status requirements
- QDMTT-specific rules

The guidance has minimum standards for QDMTTs, and the tax base and rate for QDMTTs can differ from those governing IIRs. Although QDMTTs may deviate from GloBE rules, they generally must produce a tax rate that equals or exceeds GloBE's minimum rate of 15%.

Accordingly, QDMTTs are required to exclude tax paid by domestic constituent entities from foreign constituent entity income under their respective CFC or taxable branch regimes. Due to this, the ETR of QDMTTs cannot be impacted by GILTI and Subpart F taxes.

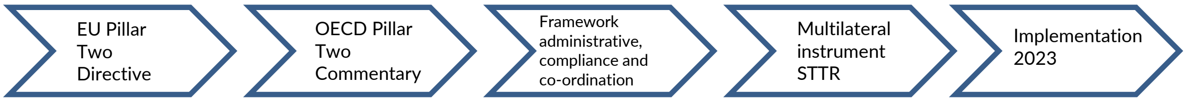
Background

Resulting from the digitalization of the global economy, Inclusive framework- Base erosion and Profit shifting (BEPS) of OECD addresses the tax challenges associated with it, and it seeks to restore investor confidence by ensuring that profits are taxed at the point of economic activity and value creation.

As a result, the OECD released a model rule for a global minimum tax based on Pillar Two, Global Anti-Base Erosion (GloBE), for multinational enterprises (MNEs) with revenues over EUR750 million. For GloBE rules to take effect, individual jurisdictions must enact local legislation. GloBE rules are expected to be adopted by OECD member countries in 2023 and to go into effect on January 1, 2024.

South Korea became the first to enact legislation aligned with the GloBE rules on December 31, 2022. Starting in the fiscal year 2024, the law will be effective.

Illustration 1: Image



Source: shorturl.at/dCHMV

Tax Accounting considerations

The FASB staff responded to a technical question at the FASB meeting on February 1, 2023, about whether entities should record deferred taxes for the GloBE tax by recognizing GloBE-specific deferred taxes or by recalculating existing deferred taxes at the GloBE minimum tax rate based on the GloBE minimum tax. As stated in the inquiry, the staff believes the GloBE minimum tax is an alternative minimum tax as discussed in ASC 740; therefore, deferred tax assets & liabilities would not be recognized for its estimated future effects.

This conclusion is supported by ASC 740-10-30-10 and 30-12, along with ASC 740-10-55-31 and 55-32. To ensure that all taxpayers pay at least a minimum amount of income tax, GloBE has instituted a separate yet parallel tax system.

A multinational corporation should monitor developments relating to the enactment of the GloBE tax rules in all of the jurisdictions in which it works, whether through wholly- or partially owned subsidiaries, joint ventures, flow-through entities, or permanent establishments. To implement the GloBE rules, countries need to pass tax laws. Thus, entities need to examine the provisions of laws enacted in each jurisdiction to determine if they are aligned with the OECD's model rules. In addition, to apply the accounting recommended by FASB staff, entities must evaluate the provisions of laws enacted by each jurisdiction.

For queries, please contact

Kavit Sanghvi

Director

Tax Services

kavit.sanghvi@knavcpa.com

+ 91 9833220174

USA Office:
One Lakeside Commons, 990 Hammond Drive NE #850, Atlanta, GA, 30328

Other offices: India | Singapore | UK | Netherlands | Canada

KNAV

PARTNERS BEYOND BOUNDARIES

KNAV International Limited is a global association of independent firms. Its key objective is to serve accounting and consulting member forms with an internationally recognized presence as a charter international umbrella organization experienced in all phases to offer a complete suite of public accounting services which includes set up, accounting, assurance, taxation, international transfer pricing, global risk consulting, and business advisory services. It also aims to facilitate seamless business growth through mergers and acquisitions. In assurance services, it offers attest (audit under various country GAAS and certification services) and accounting advisory (US GAAP, IFRS, Indian GAAP, IND As, various country GAAP & accounting opinions). Under Tax & regulatory services, it provides domestic & international, direct & indirect tax advisory; compliance and outsourcing (including payroll, accounting & secretarial); transfer pricing (including documentation study and country by country reporting, global search, accountant's report); and inbound & outbound. Further to that, KNAV offers specialist advisory services for transaction support (due diligence & valuations), lead advisory, strategic advisory & fiduciary services. KNAV also provide risk advisory services, which encompasses internal audits & management assurance; assessment of internal financial controls (IFCs/IFCR in India, SoX, SOC); enterprise-wide risk management; forensic & investigative services; primary and secondary research services and human resource advisory (including recruitments).