KPMG

KPMG - CFO Club

Session 1 –
Global minimum tax – BEPS 2.0 Pillar Two

November 2021

CFO Club
Positioned to thrive

Today's speakers

Yusuf Hassan
Advisory Partner
KPMG Lower Gulf

Shabana Begum
Tax Partner
KPMG Lower Gulf

Grant Wardell-Johnson
Global Tax Policy Leader
KPMG International

Today's agenda

- GCC tax profile update
- GMT developments
- Examples of GMT taxing rights and potential tax changes
- Next steps
- Q&A and closing remarks

GCC tax profile update

OECD's BEPS Inclusive Framework

Minimum standards - UAE, Qatar, Oman, Bahrain,

All 15 Actions – KSA (G20 members)

Value Added Tax

Excise Tax

Custom Duty

Increased complexity with introduction of VAT in the GCC

Foreign ownership restriction relaxed

Encouraging foreign investment

Online tax compliance

DTTs

New tax treaties signed

BEPS 2.0 developments

International tax / Global minimum tax developments

2015

Oct: OECD presents BEPS 1.0; Action 1 - Addressing the Tax Challenges of the Digital Economy

2016

Jun: Inclusive Framework on BEPS established

2017

Implementation of BEPS 1.0

2018

Mar: Interim report published on Tax Challenges Arising from Digitalisation

UAE became an Inclusive Framework Member

2019

UAE introduced Economic Substance Regulations and Country by Country Reporting

Oct: Proposal for a Unified Approach to the nexus and profit allocation challenges arising from digitalization published for public consultation (BEPS 2.0)

2020

Oct: Publication of Pillar One and Two blueprints for consultation

2021

Nov: OECD presents final BEPS 2.0 rules

Future actions?

- **Changes to dometic tax regimes**
- **Potential introduction of domest CIT in low tax jurisdictions**

Regional landscape has evolved with the introduction of VAT, excise tax, economic substance rules, CbCR, AML/ UBO reporting and increasing controversy trends.

BEPS 2.0 developments

- In line with its commitment to international standards the **UAE joined the Inclusive Framework on the BEPS program ('IF') in 2018.**

- As of 23 November 2021, 137 members of the IF (including the UAE) are signatories to the October Statement which agreed key aspects of the OECD BEPS 2.0 proposals to be adopted further:

  - **Pillar One** deals with the allocation of taxing rights between jurisdictions and nexus rules
  - **Pillar Two** proposes a set of rules **(GloBE)** to ensure that large MNEs pay a minimum level of tax regardless of where they are headquartered or operate**.**

- **Pillar One**
- applies to MNEs with more than EUR 20 billion of global turnover and profitability above 10%.
- It is likely to impact the world's largest 100 companies.

- **Pillar Two**
- applies to MNEs with revenues exceeding the €750m as determined under BEPS Action 13 (country by country reporting).
- Prescribes top-up tax approach where the jurisdictional Effective Tax Rate ('ETR') is less than global minimum tax of 15%
- anticipated IF member jurisdictions may bring into law in 2022, with effect from 2023 (under a 'common approach')

In response, nil/low tax countries may make an announcement to introduce CIT.

BEPS 2.0 - At a glance

Pillar one

Focuses on allocation of taxing rights between jurisdictions through new **profit allocation** and **nexus** rules

Scope: Global top 100 companies (Turnover in excess of **Euros 20bn**)

Approach will look to accommodate **new business models** and expand taxing rights of market jurisdictions (e.g. location of users/ end consumers) and introduce a mandatory dispute resolution mechanism

Opportunity for the market jurisdictions to benefit from the reallocation of profits

Pillar two

Also referred to as the Global Anti-Base Erosion (**GloBE**) proposal and seeks to comprehensively address remaining BEPS issues

Scope: MNE Groups with consolidated revenue in excess of **Euros 750M**

Co-ordinated set of rules to provide jurisdictions with right to "**tax back**" where other jurisdictions have **not exercised** their primary taxing rights (like UAE) or income is **subject to low rate of tax**

Proposed as a "top-up" tax to a minimum **ETR of 15%** to provide a **level playing field** for jurisdictions and taxpayers, and avoid cliff effects

Overview of the Pillar Two rule set

Pillar Two is designed to ensure that large MNEs (annual revenue ≥EUR 750 million in the preceding year) pay **a 15% minimum tax**

Income inclusion rule (IIR)

IIR is the principal mechanism to achieve the policy outcome.

The operation of the IIR is, in some respects, based on traditional CFC rules and triggers an inclusion at the level of the Parent where the income of a controlled foreign entity is taxed at below the effective minimum tax rate.

"Parent" country measures

Undertaxed payments rule (UTPR) and subject to tax rule (STTR)

The **UTPR is a secondary rule** and is likely to apply where the profits of an entity are not already subject to an IIR. It operates by denying deductions or imposes source-based taxation for payments if that payment was not subject to tax above the minimum tax rate.

It is uncertain as to whether it will apply to related party payments only.

The **STTR "complements" the other rules**. It denies treaty benefits and imposes additional WHT where interest, royalties or "mobile" payments to related parties are subject to no or low tax.

The STTR is set at a minimum rate of 9%

"Source" country measures

IIR and UTPR are collectively referred to as Global anti-Base Erosion (GloBE) Rules

BEPS 2.0 + potential domestic consequences

Oct 20 -Jan 21

— BEPS Blueprints and OECD Consultation

Jun -Jul 21

— G7, G20 and OECD Consensus

Nov / Dec 21

— Technical update and issuance of Final BEPS 2.0 rules

Jan 22

— Update of legislation and DTTs

Jan 23

— Effective implementation of BEPS 2.0

— Effective expected date of any corporate tax changes (in response to BEPS 2.0)

Examples

Practical example for application of IIR

15% IIR

UAE
(Headquartered group)

KSA

If Effective Tax Rate (under Zakat) > **15%, IIR Impact = Nil**

If Effective Tax Rate (under Zakat) = **7%**

8% Top-up to be paid in UAE by UAE entity

UK

Effective Tax Rate = **15%**

IIR Impact = Nil

Bahrain

Cayman Islands

Effective Tax Rate = **0%**

IIR Impact = 15% tax

Top-up to be paid in UAE by UAE entity

Assumptions

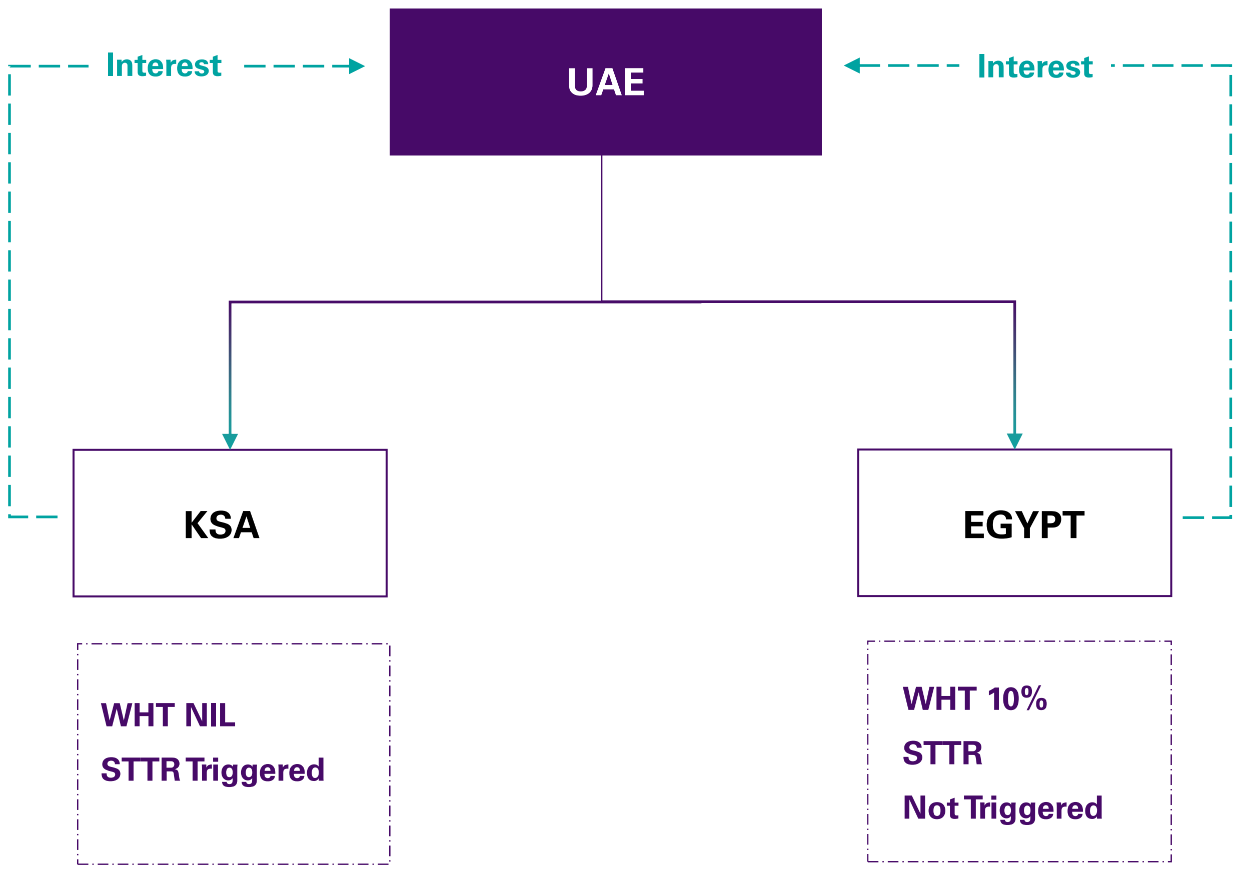
Minimum tax rate under Pillar Two is assumed to be **15%**

UAE implements the IIR at **15%**

The Group has subsidiaries in many jurisdictions, including the UK, KSA, Bahrain and the Cayman Islands.

Bahrain and the Cayman Islands continue to have no corporate taxes and do not apply IIR / UTPR

Practical example for application of STTR - Interest bearing loans



Assumptions

- UAE does not implement the IIR or change and domestic tax rules
- STTR Trigger Rate is 9%
- STTR incorporated in UAE's treaties with KSA and Egypt

Pillar 2 impact

Payment by KSA:

Treaty rate on interest payments to UAE is NIL

KSA gets to levy top-up tax of 9% (i.e. 9% less 0%)

Payment by Egypt:

Treaty rate on interest payments to UAE is 10% which is greater than 9%

No top-up tax levied in Egypt

Next steps

Next steps for governments - Global minimum tax

Actions - **2021**

- Final Pillar 2 rules

Actions - **2022**

- Final Pillar 1 rules
- OECD clarifications
- Jurisdictional public consultations
- Individual jurisdictional responses

Actions - **2023**

- Effective implementation of the majority of BEPS 2.0 taxing rights

Actions - **2024**

- Filing / submission of first BEPS 2.0 tax returns

Next steps for groups - Global minimum tax

Impact assessment

- Calculate the jurisdictional ETR impact and potential tax outflows (identifying jurisdictions where there may be an additional tax liability)
- Identify the gaps in the group's supply chain and operating model from a tax perspective
- Review of key intra-group transactions to ensure adherence to transfer pricing/ arms' length principles

Information required

- Organization structure chart
- Operating structure
- Group financial statements (consolidated and stand-alone)
- Details of material intra-group transactions
- Internal policies governing intragroup transactions

Output and stakeholder engagement

- Recommendations on:
  - Entity rationalization
  - Restructuring of intra group transactions
  - New tax policies or documentation required
  - Special treatment of certain accounting items/ transactions
- **Informing key stakeholders of likely cash flow and compliance impact as well as any changes to the operating structure required**

Q&A

Future events

Contact us

Yusuf Hassan
Advisory Partner
KPMG Lower Gulf
YusufHassan@Kpmg.Com

Shabana Begum
Tax Partner
KPMG Lower Gulf
shabanabegum@kpmg.com

Thank you

www.kpmg.com/ae
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