

Countdown to global minimum taxation

In February 2023, the OECD/G20 released technical guidance on the Inclusive Framework on BEPS to assist governments with the implementation of the landmark reform to the international tax system, which will ensure that multinational enterprises (MNEs) will be subject to a 15 percent effective minimum tax rate.¹³ The framework will introduce coordinated outcomes and greater certainty for businesses as they move to apply the global minimum corporate taxes rules from the beginning of 2024.



The OECD Inclusive Framework and BEPS package of reforms

In 2016, the OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) was established to ensure interested countries and jurisdictions could participate on an equal footing in the development of standards on BEPS-related issues while reviewing and monitoring the implementation of the OECD/G20 BEPS project.

Two pillars, one unifying global tax rate

While the BEPS 1.0 initiatives led to many changes to the

international tax rules to limit profit shifting, some authorities believed that it did not adequately address the challenges of digitalization of the global economy. Many countries started to impose unilateral tax measures, including new legislation to tax companies that are active in a jurisdiction via online platforms, online sales, or via other means, with the introduction of a digital services tax.

The purpose of the BEPS 2.0 project is to consolidate these types of unilateral efforts into a consensus position, avoid double taxation and to generally address the tax challenges arising from

the digitalization of the global economy. The BEPS 2.0 project also aims to ensure that multinational enterprises pay a fair share of tax wherever they operate by introducing a global minimum corporate tax rate that countries can use to protect their tax bases.

GLoBE rules for a common implementation approach

On 20 December 2021, the OECD/G20 Inclusive Framework on BEPS, involving 135 countries, released Model Rules (also referred to as the “GloBE” rules) covering both pillars — Pillar 1 establishing the right for

The below illustration highlights the key components to be considered when determining the effective tax rate (ETR) under the GloBE rules.





jurisdictions to apply taxation, and Pillar 2 establishing a global minimum corporate tax of 15 percent.¹⁴ The adoption of the new rules is based on a 'common approach' which means that jurisdictions are not required to adopt the rules, but if they choose to do so, they will implement the rules consistently with the model.

The above calculation of the ETR is further complicated by the fact that the GloBE rules allow taxpayers to make certain elections (16 in total) on how these individual components are treated. Some of these elections are time bound (i.e., the taxpayer commits to treat this component the same way for the next five



Adoption of the OECD framework will ensure a fairer and more transparent tax environment and align Saudi Arabia with developments in international taxation.

years). Some elections will need to be held annually and some as one-offs. Obviously, any election needs to be assessed in detail for its further implications regarding the GloBE rules.

Implications for banking industry

As a G20 member, Saudi Arabia is committed to supporting the BEPS initiative and, as such, we should expect an implementation of the Pillar 2 rules in the Kingdom in due course.

Financial services businesses will need to perform certain exercises for their impact assessments, a requirement of the OECD framework. For example, the additional tax that Pillar 2 stipulates, and with it the additional compliance burden, which will include additional resource requirements in proving the effective tax rate is greater than the minimum requirement.

Mergers and acquisitions

Medium to long-term commercial and project financing will be impacted; the future tax profile/tax cash flows of borrowers might change. There will be challenges in modeling and forecasting for preparation of M&A prospectuses. Generally, additional information will need to be disclosed on jurisdiction of entities, as well as the impact of any domestic minimum tax regimes on the global tax contingent. Companies offering M&A advisory services may need to review and amend deal structures accordingly, and account for how disposal of tax-exempt capital gains are treated.

There will also be minor changes in shareholding which are likely to place subsidiaries within the scope of IIR (e.g., >20% sales to third party). Minority shareholders might indirectly bear a portion of top up tax, and this could create further issues in apportioning indemnity cover.

Consideration will also need to be made for convertible debt, share schemes, and joint venture arrangements. There will also be additional requirements for new M&A provisions regarding ongoing entry and exits between jurisdictions, (tax havens and low tax jurisdictions) which could extend the time it takes to complete accounts.

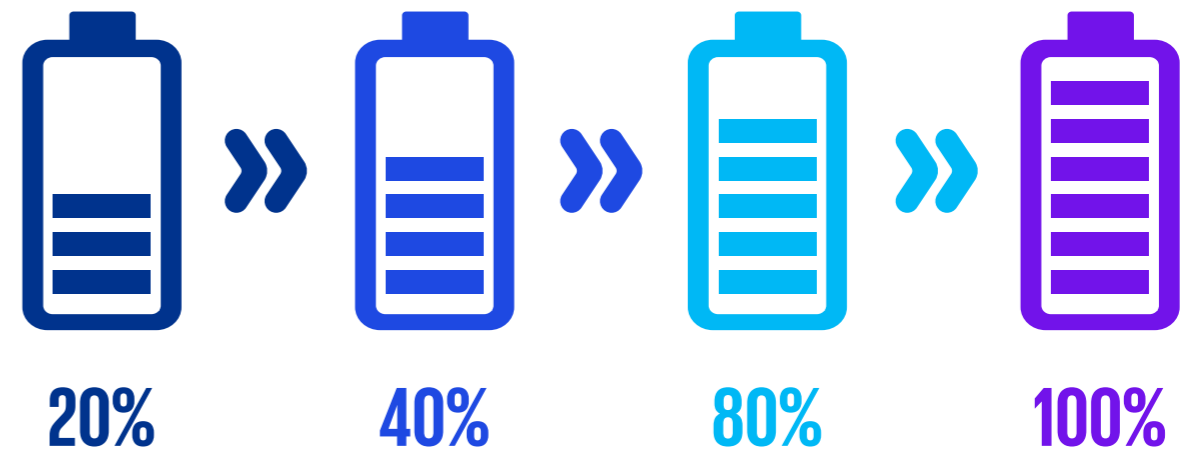
However, the GLoBE rules will eventually simplify group structures and financing arrangements, leading to greater transparency in M&A reporting.

Next steps

Now that the OECD framework is established, MNEs are advised to pursue implementation and integration strategies in readiness for industry-wide adoption of the landmark reform. A simplified roadmap could comprise the stages outlined in the diagram below:



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Data requirements

What data exists, what new data is required, and where is the data held.

Process design

Design of process and solution for pillar 2 reporting and compliance

Implementation

System changes, local rules, pilot runs, and return format

Automation

Ability to extract, verify and compute data automatically