

# Release of compilation of qualified legislation and information filing and exchange tools for Globe Rules (Pillar Two)

#### 17 January 2025

On January 15, 2025, the Inclusive Framework on BEPS ("IF") released a series of documents (running to approximately 330 pages) on the application of the Global Anti-Base Erosion ("GloBE") Rules. The primary focus is compliance and reporting obligations, though there was also some limited additional Administrative Guidance ("AG") that amends certain aspects of the Commentary to the GloBE Model Rules.

The release covered five items:

- 1. Revised GloBE Information Return ("GIR") including AG on Articles 8.1.4 and 8.1.5, covering the rules that should be relied upon to complete the GIR.
- 2. <u>GIR Multilateral Competent Authority Agreement ("GIR MCAA")</u> which will provide a framework for jurisdictions that are signatories to the Convention on Mutual Administrative Assistance in Tax Matters to automatically exchange the GIR.
- 3. <u>GIR XML Schema and User Guide for Tax Administrations</u>, which has been designed to facilitate the exchanges of GIR information between tax administrations but can also be used for domestic GIR filings where permitted by tax administrations.
- 4. <u>Central Record of Legislation with Transitional Qualified Status</u> listing the jurisdictions that have Qualified Income Inclusion Rules ("QIIRs") or Qualified Domestic Minimum Top-up Taxes ("QDMTT") that apply for financial years beginning in 2024.
- 5. AG on Article 9.1, which is covered in a separate KPMG report.

The remainder of this report focuses on items 1-4.



# **Revised GloBE Information Return ("GIR")**

The OECD released the <u>initial version</u> of the GIR in July 2023 (see <u>KPMG summary</u>). The GIR is a standardized information return that is designed to facilitate the compliance and administration of the GloBE Rules, primarily by enabling MNE Groups to file a single information return. The GIR has three sections (Section 1 is also referred to as the "General Section", while Sections 2 and 3 collectively are referred to as the "Jurisdiction Section"):

- 1. MNE Group Information provides general information on the MNE Group as a whole.
- **2. Jurisdictional Safe Harbours and Exclusions** contains information on the safe harbours and exclusions relevant for a jurisdiction.
- 3. GloBE Computation provides details on the GloBE Computation on a jurisdictional or Constituent Entity ("CE") level.

The original GIR also outlined what information different jurisdictions that adopt the GloBE Rules, including the QDMTT, would receive (the "dissemination approach"). Two approaches to filing the GIR were provided:

- 1. Central filing, where the GIR is filed with a single jurisdiction and disseminated to other tax administrations based on automatic exchange of information provisions.
- 2. Local filing, where the relevant sections of the GIR are filed by a local CE with its local tax administration.

The revised version of the GIR released by the OECD contains a number of important amendments and clarifications to the prior document, not all of which are immediately apparent from the introduction.

#### 1.1. Completing the GIR

As a general principle, the GIR will be completed based on the GloBE Model Rules and Commentary (as amended by any AG). This is designed to ensure that the GIR is completed using a single data source. There is an exception to this general principle where only a single jurisdiction has taxing rights under the GloBE Rules in respect of a specific jurisdiction or subgroup and where the QDMTT Safe Harbour applies (and the switch off rule doesn't apply). In these scenarios, an MNE Group will be required to prepare the relevant jurisdictional sections of the GIR based on the relevant jurisdiction's domestic law.

#### **KPMG** observation

The IF may continue to issue AG in the coming years. This raises the question of what AG should be used when preparing the GIR. Is it the AG that had been published at the beginning of a reporting period for which the GIR is being submitted, the end of a reporting period, any AG that has been published prior to the submission of the GIR, or some other date? This issue would seem to warrant clarification from the OECD.

Where more than one jurisdiction has taxing rights over another jurisdiction (e.g., in scenarios where the UTPR applies) the MNE Group will be required to determine whether a jurisdiction's domestic law diverges from the GloBE Model Rules and Commentary and, where there are differences, to report a series of additional data points under a jurisdiction's domestic legislation, such as GloBE Income, Adjusted Covered Taxes, Top-up Tax liability etc.

The guidance anticipates that some jurisdictions may have constitutional or administrative law constraints that mean it is not possible to accept data that does not correspond directly to their domestic legislation. In this circumstance, the jurisdiction can collect further information through an additional domestic filing requirement, provided that this information is collected specifically for the purpose of obtaining more specific information about the differences disclosed in the GIR.

#### **KPMG** observation

The clarification that the GIR should be completed based on the GloBE Model Rules and Commentary addresses an area of uncertainty. However, businesses are likely to be concerned that they need to identify variances between a country's domestic legislation and the OECD Model Rules and Commentary, and to separately compute various datapoints based on these diverging standards. This will create a significant additional compliance burden. Initially, the burden may be limited to identifying variances between the Transitional CbCR Safe Harbour ("TSH") rules adopted by a jurisdiction and the GloBE Model Rules and Commentary (e.g., the application of the hybrid arbitrage rules).

However, in jurisdictions where an MNE Group does not qualify for the TSH and hence needs to apply the full GloBE Rules, it will need to determine whether there are any divergences between that jurisdiction's domestic legislation and the GloBE Model Rules and Commentary that affect its GloBE computation for that jurisdiction. This will be most challenging for MNE Groups that are not subject to the Income Inclusion Rule ("IIR") at the Ultimate Parent Entity ("UPE") level, and hence that are more likely to be subject to 30+ different UTPRs. It should also be noted that divergences in legislation will likely include instances where more recent AG has yet to be implemented (more straightforward to identify) and errors or omissions (less straightforward to identify). Differences will need to be reviewed and identified annually when the GIR is filed.

#### **Actions for companies**

Companies should consider what processes they need to put in place to identify and track divergences between jurisdictions' domestic legislation and the GloBE Model Rules and Commentary. This may well be an activity that is outsourced to a third party.

### 1.2. Jurisdictions where no jurisdiction has a taxing right

MNE Groups will not be required to complete the GIR for jurisdictions where no jurisdiction has a taxing right (see Note 1.4).

#### **KPMG** observation

This is a welcome clarification that is particularly relevant for Chinese, Indian, or U.S. groups, where the parent jurisdiction has not yet adopted a QDMTT. There has been uncertainty whether these groups were required to apply the TSH in financial periods where the parent jurisdiction was not subject to a GloBE charging provision to be able to apply the TSH in periods where the UTPR applied. This guidance implies that this is not the case.

#### 1.3. Dissemination Approach

Jurisdictions that have only adopted the QDMTT ("QDMTT-only Jurisdictions") will be entitled to receive the MNE Group Information but not the high-level summary of the GloBE Information (Section 1.4), including ETR range and Top-up Tax payable, except in respect of their jurisdiction when an MNE Group has a CE located in that jurisdiction. Jurisdictions that have implemented the IIR, UTPR, or both ("Implementing Jurisdiction") will be entitled to receive the high-level summary of GloBE Information for all jurisdictions, when an MNE Group has a CE located in that jurisdiction.

#### **KPMG** observation

Businesses are likely to continue to have concerns about the confidentiality of the high-level summary of the GloBE Information, as this information will be shared with every jurisdiction that adopts either an IIR or UTPR.

These limitations on the information provided to jurisdictions builds on the initial GIR, which provided that only jurisdictions with taxing rights under the GloBE rule order would receive more detailed jurisdictional information contained in Sections 2 and 3 of the GIR. For this purpose, a QDMTT-only Jurisdiction will only have a taxing right in respect of CEs located in its jurisdiction. An Implementing Jurisdiction may have a taxing right in respect of other jurisdictions, but only where this right is not superseded by others due to the GloBE rule order. For example, where a UPE is subject to a QIIR, then a jurisdiction in which another CE is located that has adopted the UTPR will not be considered to have a taxing right.

# 1.4. Notification that the GIR will be received under Exchange of Information

MNE Groups will be required to notify a local tax administration when they intend to rely on central filing to fulfil their obligation to file the GIR in a jurisdiction. The guidance recognizes that this filing may be performed by the UPE or a Designated Filing Entity ("DFE").

Annex B provides a standard notification template that sets out the information that IF members have agreed should be part of the notification form. However, it also notes that jurisdictions are not obliged to adopt this template while encouraging them "to refrain from asking additional information".

More helpfully, the guidance notes that while the GIR will be filed annually, jurisdictions could only require that notification forms are filed when there are changes to a previous form. This would mean that where the entities covered and entity filing the notification form remain unchanged, a group would not be required to refile its notification forms every year.



# **GIR Multilateral Competent Authority Agreement ("GIR MCAA")**

As outlined above, the IF has agreed two approaches for filing the GIR: central filing and local filing. Central filing is only possible where the jurisdiction in which an MNE Group files its GIR (the jurisdiction of its UPE or DFE) has a Qualified Competent Authority Agreement ("QCAA") with the other jurisdictions that have adopted the GloBE Rules and in which the MNE Group has CEs. If the jurisdiction of the UPE or DPE has a QCAA with all jurisdictions that have implemented the GloBE Rules, then MNE Groups would be able to rely on central filing to fulfil their obligation to file the GIR in every jurisdiction.

The GIR MCAA, based on Article 6 of the Convention on Mutual Administrative Assistance in Tax Matters ("Convention"), provides a framework to establish a multilateral network of QCAAs that would underpin the central filing model. As shown in Table 1 (below) the 30 jurisdictions that have adopted either a QIIR or QDMTT in 2024 are all signatories to the Convention, and hence by signing the GIR MCAA would be able to exchange the GIR automatically with other Competent Authorities.

The MCAA specifically outlines the information to be exchanged; the time and manner of exchange; corrections and collaboration on compliance and enforcement; confidentiality and data safeguards and other mechanisms dealing with consultation and a Co-ordinating Body Corporate.

There are five elements of the GIR MCAA that are worth highlighting:

- **Dissemination Approach:** The approach included in the GIR MCAA is consistent with the approach outlined in the GIR (see 1.3 above).
- Activation: In order to activate exchange relationships based on the GIR MCAA, on signature a jurisdiction will
  be required to provide a list of jurisdictions with which they wish to exchange information (both send and
  receive). A list of Competent Authorities between which there is an active exchange relationship will be made
  available on the OECD website.
- **Timing:** The jurisdiction where the GIR is filed will be expected to exchange the relevant sections of the GIR with other jurisdictions no later than three months after the filing deadline. This deadline is extended to six months in the first Reporting Fiscal Year. Given that the filing deadline for the GIR is 18 months for the first fiscal year an MNE Group is in-scope of the GloBE Rules, this means that GIR information in respect of calendar year 2024 may not be received by a CE jurisdiction (from the UPE jurisdiction) until the end of 2026.
- Confidentiality: All information exchanged would be subject to confidentiality rules provided in the Convention. Where GIR information is exchanged based on the GIR MCAA, it will be transmitted through the OECD Common Transmission System, in compliance with the related encryption and file preparation standards.
- Alternative exchange relationships: Jurisdictions can also establish automatic exchange relationships via other means, e.g., bilateral tax treaties, tax information exchange agreements, or self-standing intergovernmental agreements.

#### **KPMG** observation

The GIR MCAA represents a step towards the establishment of a legal framework for the coordinated exchange of GIRs, but jurisdictions still need to take further steps before businesses can be confident that they will be able to file their GIR in a single jurisdiction. The first filings are expected to occur in June 2026, just under 18 months away.

Questions have previously been raised as to whether the central GIR filing could be made with the tax authorities in a UPE jurisdiction which has not (or not yet) adopted an IIR, UTPR and / or QDMTT, such as China, India and the United States. The GIR MCAA does not prevent such jurisdictions from participating in the GIR MCAA, but does require them to have a legal and operational framework to enable them to exchange GIRs. It goes on to note that this framework will be subject to a GIR MCAA peer review process to ensure that jurisdictions are fulfilling their obligations under the MCAA.

#### **Actions for companies**

MNE Groups will need to continue to monitor whether they will be able to centrally file their GIR in their respective UPE jurisdictions.



# **GIR XML Schema and User Guide**

The IF released a final version of a new <u>GIR XML Schema and User Guide for Tax Administrations</u>. This will facilitate the exchange of GIR information in a technical format that is intended to produce more uniform and standardized reporting. The GIR XML schema is mainly designed for use by tax administrations to facilitate the automatic exchange of GIR information; however, it may also be used for domestic GIR reporting by CEs to the extent authorized by the domestic rules of the relevant jurisdiction.

The User Guide is divided into sections that align with the GIR XML schema and provides detailed information on specific data elements and their attributes. It should be noted that validation elements must be present for all data records, and senders are advised to do a technical check to make sure these elements are complete before sending, otherwise the receiver may reject the file. The User Guide helpfully includes references to explanatory notes on the GIR template to ensure consistency with the information reporting guidance.



# **Central Record of Legislation with Transitional Qualified Status**

As part of the "common approach" to the GloBE Rules, the IF members that implement the GloBE rules have committed to do so in a consistent and coordinated manner. The GloBE Rules include a specific rule order where the effect of the GloBE Rules in one jurisdiction is adjusted or turned off where there are qualified rules in another jurisdiction that have priority under the agreed rule order. For example, where a jurisdiction adopts a QDMTT that is eligible for the QDMTT Safe Harbour, this has the effect of switching off the IIR or UTPR in other jurisdictions.

#### 4.1. Peer Review Process

The status of a jurisdiction's legislation will be determined through a peer review process that will assess the qualified rule status of the IIR, UTPR and Domestic Minimum Top-up Tax ("DMTT"), as well as the eligibility for the QDMTT Safe Harbour. This process is outlined in a <a href="Qualified Status under the Global Minimum Tax - Questions">Qualified Status under the Global Minimum Tax - Questions</a> and Answers.

The peer review process has two parts. As a first step, jurisdictions self-certify their status under a transitional qualification mechanism with a limited review / objection period for other IF members to raise questions. The transitional qualified status should be recognized within 12 months of the legislation's effective date. As a second step, a full legislative review and ongoing monitoring will be undertaken by the IF. This should be initiated within 2 years of the legislation taking effect. The qualified status review process is summarized in Figure 1 below.

Legislative review initiated

Self-certification

Within two years

Determination of transitional qualified status

Within two years

Ongoing monitoring

Qualified status

Ongoing monitoring

Figure 1: Qualified Status Process

Source: OECD, Qualified Status under the Global Minimum Tax – Questions and Answer, January 2025

Where the transitional qualified status of a jurisdiction's legislation is confirmed then its treatment will be consistent across periods. It is feasible that following a legislative review, legislation that was deemed to be "qualified" under the transitional qualification mechanism ceases to be "qualified". If this were to occur, then an MNE Group applying the GloBE Rules would treat the jurisdiction as having qualified rule status until the start of the first fiscal period following the qualified status being revoked or expiring. For example, assume an implementing jurisdiction's transitional qualified status expires on 31 December 2026, then an MNE Group that has a Reporting Fiscal Year that starts on 1 April would still be treated as being subject to qualified rules in respect of that jurisdiction if its Reporting Fiscal Year began on 1 April 2026 and ended on 31 March 2027.

#### 4.2. Central Record

The IF will publish a central record of legislation with transitional qualified status on its website. This record will be updated as jurisdictions submit their self-certification to the IF and the transitional qualification mechanism process has been completed.

The central record of jurisdictions with QIIR and QDMTT that are eligible for the QDMTT Safe Harbour as of January 13, 2025, is replicated below.

	QIIR	QDMTT / QDMTT Safe Harbour	Convention in force
1. Australia	✓	✓	✓
2. Austria	✓	✓	✓
3. Barbados	No IIR	✓ (Conditional DMTT)¹	✓
4. Belgium	✓	✓	✓
5. Bulgaria	✓	✓	✓
6. Canada	✓	✓	✓
7. Croatia	✓	✓	✓
8. Czechia	✓	✓	✓
9. Denmark	✓	✓	✓
10. Finland	✓	✓	✓
11. France	✓	✓	✓
12. Germany	✓	✓	✓
13. Greece	✓	✓	✓
14. Hungary	✓	✓	✓
15. Ireland	✓	✓	✓
16. Italy	✓	✓	✓
17. Japan	✓	DMTT in process of implementation	✓
18. Korea	✓	No DMTT	✓
19. Liechtenstein	<b>√</b>	✓	✓
20. Luxembourg	<b>√</b>	✓	✓

<sup>&</sup>lt;sup>1</sup>The IF has agreed that Barbados' DMTT which is conditional, in that it only applies to CEs when the MNE Group is subject to the GloBE Rules in another jurisdiction, can only be recognized as qualified for 2024 if it is not conditional in any other year.

21. Netherlands	✓	✓	✓
22. Norway	✓	✓	✓
23. Romania	✓	✓	✓
24. Slovak Republic	Deferred implementation of IIR under EU Directive	<b>√</b>	<b>√</b>
25. Slovenia	✓	✓	✓
26. Sweden	✓	✓	✓
27. Switzerland	IIR effective from 2025	✓	✓
28. Türkiye	✓	✓	✓
29. United Kingdom	✓	✓	✓
30. Viet Nam	✓	✓	✓

#### **KPMG** observation

There are a number of jurisdictions that have implemented a DMTT or IIR for 2024 but have not yet been determined to have "qualified Status". This includes, but is not limited to, the following jurisdictions:

- Bahamas (DMTT)
- Cyprus (IIR)
- Gibraltar (DMTT)
- Poland (DMTT and IIR, with optional application to 2024)
- Portugal (DMTT and IIR)
- South Africa (DMTT and IIR)
- Spain (DMTT and IIR)

The majority of these jurisdictions' legislation was enacted late in 2024 and hence there may not have been time to complete the transitional qualification mechanism review. However, it is notable that Cyprus is not an IF member and hence it is unclear whether its legislation will be subject to the peer review process.



# AG on Article 9.1

Article 9.1 deals with the use of deferred tax assets and liabilities under the GloBE transitional rules. The revised AG rules 'undo' the benefit of certain deferred tax assets relating to transactions that occurred after 30 November 2021 that are perceived to give rise to tax advantages which are not considered to be 'economic'. A separate brief on this issue is outlined here.



The IF is continuing to work on further AG to clarify or amend various aspects of the GloBE Model Rules and Commentary.

The AG on Article 9.1 states that the IF is currently developing guidance that will clarify how to identify "Related Benefits", which can impact the "qualified" status of a jurisdiction's DMTT and consider how they impact on the qualified status of a jurisdiction's rules and the ETR of MNE Groups that receive such benefits.

Separately the OECD have indicated, in various public statements and media reports, that they contemplate the development of further AG covering issue such as the integration of anti-arbitrage rules included in the Transitional CbCR Safe Harbour into the full GloBE rules, the application of the Substance-Based Income Exclusion ("SBIE") to mobile assets, and the handling of prior year adjustments, among other items.

#### **KPMG** observation

It will be interesting to see how the change in U.S. Administration may impact the development of future AG, particularly as it relates to priority U.S. items, such as the detrimental treatment of the U.S. research and development ("R&D") tax credit provided in the current GloBE Model Rules and Commentary.

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