

Want to learn more about ITB? Sign up for a free trial by emailing us

[Free Trial](#)

Check out our suite of subscription plans: individual (standard), student, university faculty, young professional, and enterprise

[Subscribe](#)

12 August 2022



HIGHLIGHTS

- **Proposed US Corporate AMT**
 - Relationship with GloBE rules
- **Euromoney case**
 - Tax planning is alive and well in the UK
- **Continuation of detailed review of GloBE model rules**
 - Today: GloBE Loss Election in Art. 4.5

HAPPY FRIDAY!

The **FBI** raids; **Japan** encounters man-eating dolphins; and **Shakira** finds out that residency does matter (whenever, wherever)

Meanwhile, in the tax world...

Corporate AMT is back in town (even if the globe awaits); **Euromoney** confirms that tax planning is alive and well in the **UK**; the new government wastes no time in **Colombia**; **Taiwan** sets out its limits; **Mozambique** helps the farmers; **Canada** sharpens its GAAR pencil; rulings are mixed in **Chile**; and the **US** shows that, when the "CHIPS" are down ...

But at the end of the week, the most important question is this: "Are you a 'Last Worder' – one of those people who insist on having the last word on WhatsApp messages?"

Have a great weekend!
Steve

P.S. Credit for the Shakira line goes to Kelly Phillips Erb – thank you!

THIS WEEK'S PODCAST

(For ITB video subscribers, please log in to access the video and documents/reports)

1. US: Inflation Reduction Act of 2022
2. Euromoney case
3. GloBE model rules: detailed review
4. Asia Pacific
 - Singapore, Taiwan
5. Europe
 - Belarus, Germany, Ireland
6. Africa
 - Mozambique
7. Americas
 - Canada, Chile, Colombia, US
8. Treaty news

ITB series on Pillars One & Two

- **GloBE model rules:**
 - **GloBE Loss Election in Art. 4.5 (ITB: 12 August 2022)**
 - **Deferred tax liability recapture rules in Arts. 4.4.4 and 4.4.5 (ITB: 5 August 2022)**
 - **Art. 4.4: mechanism to address temporary differences (ITB: 29 July 2022)**
 - **Scope: Art. 1.5 (definition of "Excluded Entity") (ITB: 1 July 2022)**
 - **Scope: Arts. 1.1 to 1.4 (ITB: 24 June 2022)**
 - **Charging Provisions (parts 1 to 5) (ITB: 6, 13 & 20 May; 10 & 17 June 2022)**
 - **Computation of Effective Tax Rate and Top-up Tax (Parts 1 to 6) (ITB, 18 & 25 March; 1, 8, 22 & 29 April 2022)**
 - **Flow-through Entities and Hybrid Entities (ITB, 4 March 2022)**
 - **Computation of Adjusted Covered Taxes (Parts 1 to 3) (ITB, 11, 18 & 25 February 2022)**
 - **Computation of GloBE Income or Loss (Parts 1 to 4) (ITB, 7, 14, 21 & 28 January 2022)**
- **Progress Report on Amount A in Pillar One (ITB, 22 July 2022)**
- **Draft model rules for Amount A in Pillar One:**
 - **Tax certainty (ITB, 10 June 2022)**
 - **Regulated Financial Services exclusion from scope (ITB, 13 May 2022)**
 - **Extractives exclusion (ITB, 22 April 2022)**
 - **Scope (ITB, 8 April 2022)**
 - **Tax base determination (ITB, 25 February 2022)**
 - **Nexus and revenue sourcing (ITB, 11 February 2022)**
- **Inclusive Framework's final agreement on Pillars One & Two (ITB, 15 October 2021)**

WORTH READING

Reuven S. Avi-Yonah and Bret Wells
"Pillar 2 and the Corporate AMT"
Tax Notes Today International, Tax Analysts, 8 August 2022 (subscription service)

Annet Wanyana Oguflu
"Preventing Tax Base Erosion and Profit Shifting Occasioned by Offshore Indirect Transfer of Assets: Perspectives from Africa"
World Tax Journal, IBFD, 2022 (Vol. 14), Issue No. 4 (subscription service)

Luc De Broe
"Tax Abuse in the European Union: The Current State of Affairs"
World Tax Journal, IBFD, 2022 (Vol. 14), Issue No. 3 (subscription service)

INTERNATIONAL TAX QUIZ

THIS WEEK'S NEW QUIZ

ACo is the only Constituent Entity (within an "in-scope" MNE Group) which is located in jurisdiction A.

The jurisdiction A corporate income tax has a 5% standard rate and allows the indefinite carryforward of tax losses.

In Year 1, ACo incurs:

- GloBE Loss of 100,
- Pre-tax accounting loss of 100 in its financial statements, and
- Tax loss of 100

For financial accounting purposes, ACo does not recognize a deferred tax asset in regard to the pre-tax accounting loss of 100.

In Year 2, ACo derives:

- GloBE Income of 100,
- Pre-tax accounting profit of 100 in its financial statements, and
- Taxable profits of 100 (before deduction of the carried forward tax loss)

Jurisdiction A has no Substance-based Income Exclusion, no Additional Current Top-up Tax, and no Qualified Domestic Minimum Top-up Tax, in either Year 1 or Year 2.

What amounts of Top-up Tax (if any) will arise for jurisdiction A in Year 1 and Year 2?

Answer in next ITB email alert!

LAST WEEK'S QUESTION

ACo, a company located in jurisdiction A, is a Constituent Entity in a "within scope" MNE Group.

ACo is a special purpose company which has been formed to undertake a large construction project in jurisdiction A.

The project is expected to produce total pretax accounting profits and taxable income of 10,000 over its 10 years duration (i.e., Years 1 to 10).

For financial accounting purposes, ACo recognizes profit on a "percentage of completion" (POC) basis. Under the POC basis, ACo expects to recognize 1,000 of pretax profit in each of Years 1 to 10.

For jurisdiction A corporate income tax purposes, profit on long-term projects is recognized on a "completed contract" (CC) basis. Under the CC basis, ACo expects to recognize no taxable income in each of Years 1 to 9, but it will recognize 10,000 of taxable income in Year 10.

The jurisdiction A corporate income tax rate is 15%.

In each year, ACo's GloBE income is equal to its financial accounting pretax profit.

Q1: What amounts of Top-up Tax (if any) will be triggered in each of Years 1 to 10?

Q2: Would your answer to Q1 be different if the MNE Group made an election under Article 4.4.7 for each of Years 1 to 4?

LAST WEEK'S ANSWER

Q1:

Year 1: (a) GloBE Income (GI): 1,000; (b) Current tax (CT): nil; (c) Deferred tax (Total Deferred Tax Adjustment Amount under Art. 4.4.1) (DT): 150; (d) Recaptured deferred tax (Art. 4.4.4) (RDT): (150); (e) Adjusted Covered Tax (ACT): nil; (f) ETR: 0% (g) Top-up Tax (Additional Current Top-up Tax in Year 1): 150.

Year 2: (a) GI: 1,000; (b) CT: nil; (c) DT: 150; (d) RDT: (150); (e) ACT: nil; (f) ETR: 0%; (g) Top-up Tax (Additional Current Top-up Tax in Year 2): 150.

Year 3: (a) GI: 1,000; (b) CT: nil; (c) DT: 150; (d) RDT: (150); (e) ACT: nil; (f) ETR: 0%; (g) Top-up Tax (Additional Current Top-up Tax in Year 3): 150.

Year 4: (a) GI: 1,000; (b) CT: nil; (c) DT: 150; (d) RDT: (150); (e) ACT: nil; (f) ETR: 0%; (g) Top-up Tax (Additional Current Top-up Tax in Year 4): 150.

For each of Years 5 to 9: (a) GI: 1,000; (b) CT: nil; (c) DT: 150; (d) RDT: nil; (e) ACT: 150; (f) ETR: 15%; (g) Top-up Tax: nil.

Year 10: (a) GI: 1,000; (b) CT: 1,500; (c) DT: (1,350); (d) RDT: nil; (e) ACT: 150; (f) ETR: 15%; (g) Top-up Tax: nil.

Thus, total tax paid = (1) Jurisdiction A tax: 1,500 + (2) Top-up Tax: 600 = 2,100

Effective tax rate: 2,100 / 10,000 = 21%

Q2:

Assuming an Art. 4.4.7 election is validly made in respect of each of Years 1 to 4 ...

For each of Years 1 to 4: (a) GI: 1,000; (b) CT: nil; (c) DT: nil (see Note 1 below); (d) RDT: nil; (e) ACT: nil; (f) ETR: 0%; (g) Top-up Tax: 150.

For each of Years 5 to 9: (a) GI: 1,000; (b) CT: nil; (c) DT: 150; (d) RDT: nil; (e) ACT: 150; (f) ETR: 15%; (g) Top-up Tax: nil.

Year 10: (a) GI: 1,000; (b) CT: 1,500; (c) DT: (750) (see Note 2 below); (d) RDT: nil; (e) ACT: 750; ETR: 75%; (g) Top-up Tax: nil.

Note 1: By virtue of the Art. 4.4.7 elections (assuming they are valid), the increase in deferred tax liability is excluded from the Total Deferred Tax Adjustment Amount. In regard to validity, note that Art. 4.4.7 refers to "paid", not "reversed".

Note 2: In Year 10, there should be 2 movements in the Total Deferred Tax Adjustment Amount: (i) reduction of 1,350 as the deferred tax liability in the financial accounts reverses; and (ii) increase of 600 under Art. 4.4.2(a) (see Note 3 below). These 2 movements result in a net reduction of 750.

Note 3: Art. 4.4.2(a) refers to "paid", not "reversed".

Thus, total tax paid = (1) Jurisdiction A tax: 1,500 + (2) Top-up Tax: 600 = 2,100

Effective tax rate: 2,100 / 10,000 = 21%

Do you agree? In particular, do you agree (in Year 2) with the net reduction of 750 in the Total Deferred Tax Adjustment Amount?



If you have a friend or colleague who you think might find this email alert interesting, please forward it to them.

Watch ITB video podcasts anytime, anywhere with our App!



UNSUBSCRIBE

If you no longer wish to receive emails from us, please click [here](#)