

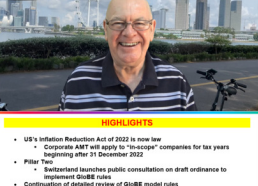
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19 August 2022



**HIGHLIGHTS**

- **US's Inflation Reduction Act of 2022 is now law**
  - Corporate AMT will apply to "in-scope" companies for tax years beginning after 31 December 2022
- **Pillar Two**
  - Switzerland launches public consultation on draft ordinance to implement GloBE rules
- **Continuation of detailed review of GloBE model rules**
  - Today: Art. 4.8.1 on post-filing adjustments

**HAPPY FRIDAY!**

Sanna goes clubbing, Elon dreams of Manchester United, Liz loses ... but don't call Seoul!

Meanwhile, in the tax world...

President Biden signs his second tax bill; Switzerland is temporarily ready for the globe; Accugas retrospectively wins; China joins the party; Mauritius discourages remote work, while Colombia discourages mega investments; and the US defers yet again!

But at the end of the week, the most important question is this: "Will there be a 'Kim Wexler show'?"

Have a great weekend!  
Steve

**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. Pillar Two
3. Accugas case
4. Other global developments
5. GloBE model rules: detailed review
6. Asia Pacific
  - Malaysia, Singapore
7. Europe
  - Finland
8. Africa
  - Botswana, Mauritius
9. Americas
  - Colombia, US

**ITB series on Pillars One & Two**

- **GloBE model rules:**
  - Art. 4.8.1: Post-filing adjustments (ITB: 19 August 2022)
  - 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: 8, 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**

- Rahul K Mitra  
"Transfer Pricing in India – Obsession With The Term, 'International Transaction'." Taxcutsa, 10 August 2022 (subscription service)
- Niels Bammens and Filip Debever  
"What is Tax on Capital for the Purposes of a Tax Treaty? An Analysis of Two Recent Belgian Supreme Court Decisions on the Belgian Net Asset Tax" Bulletin for International Taxation, IBFD, 2022 (Vol. 70), Issue No. 8 (subscription service)
- Vladimir Starikov and Alexis Jin  
"A Tough Call? Comparing Tax Revenues to Be Raised by Developing Countries from the Amount A and the UN Model Treaty Article 12B Regimes" Research Paper 156, South Centre and Coalition for Dialogue on Africa (freely available at [www.southcentre.int](http://www.southcentre.int))

**INTERNATIONAL TAX QUIZ**

**THIS WEEK'S NEW QUIZ**

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

The jurisdiction B corporate income tax has a 15% standard rate and allows the indefinite carryforward of tax losses.

In Year 1, BCo incurs:

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

The difference of 50 between the pre-tax accounting loss and the tax loss is due to a permanent difference: 200% deductions for certain expenses.

For financial accounting purposes, BCo does not recognise a deferred tax asset.

In Year 2, BCo derives:

- GloBE Income of 150,
- Pre-tax accounting profit of 150 in its financial statements, and
- Taxable profits of 150 (before deduction of the carried forward tax loss)

Jurisdiction B has no Substance-based Income Exclusion 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 B in Year 1 and Year 2?

**Answer in next ITB email alert!**

**LAST WEEK'S QUESTION**

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 recognise a deferred tax asset.

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 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?

**LAST WEEK'S ANSWER**

**If the MNE Group does not make a GloBE Loss Election under Art. 4.5:**

Year 1:

Due to the GloBE Loss, jurisdiction A has no ETR (Art. 5.1) and no Top-up Tax computed under Art. 5.2.

ACo's Adjusted Covered Taxes:

- a. Current tax: nil
- b. Total Deferred Tax Adjustment Amount (after 15% recast and applying Art. 4.4.2(c)): (15)
- c. Total Adjusted Covered Taxes: (15)

Expected Adjusted Covered Taxes Amount (defined in Art. 4.1.5) is (15).

Thus, Art. 4.1.5 does not apply to determine an amount of Additional Current Top-up Tax.

Therefore, no Top-up Tax in Year 1.

Year 2:

ACo's Adjusted Covered Taxes:

- a. Current tax: nil
- b. Total Deferred Tax Adjustment Amount: 15
- c. Total Adjusted Covered Taxes: 15

GloBE Income: 100

ETR: 15 / 100 = 15%

Thus, no Top-up Tax in Year 2.

**If the MNE Group makes a GloBE Loss Election under Art. 4.5:**

Year 1:

Due to the GloBE Loss, jurisdiction A has no ETR (Art. 5.1) and no Top-up Tax computed under Art. 5.2.

ACo's Adjusted Covered Taxes:

- a. Current tax: nil
- b. Total Deferred Tax Adjustment Amount: nil (Art. 4.4 rules do not apply)
- c. Total Adjusted Covered Taxes: nil

Expected Adjusted Covered Taxes Amount (defined in Art. 4.1.5) is (15).

Thus, Art. 4.1.5 does not apply to determine an amount of Additional Current Top-up Tax.

Therefore, no Top-up Tax in Year 1.

Also, under Art. 4.5.1, jurisdiction A has a GloBE Loss Deferred Tax Asset = 15.

Year 2:

All 15 of the GloBE Loss Deferred Tax Asset is used in Year 2 (Art. 4.5.3).

That causes ACo to have an addition of 15 to Covered Taxes in Year 2 (Art. 4.1.2(b)).

ACo's Adjusted Covered Taxes:

- a. Current tax: nil
- b. Total Deferred Tax Adjustment Amount: nil
- c. Addition to Covered Taxes (Art. 4.1.2(b)): 15
- d. Total Adjusted Covered Taxes: 15

GloBE Income: 100

ETR: 15 / 100 = 15%

Thus, no Top-up Tax in Year 2.



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