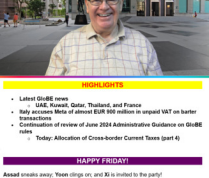


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13 December 2024



HIGHLIGHTS

- Latest GloBE news
- UAE, Kuwait, Qatar, Thailand, and France
- Italy accuses Meta of almost EUR 900 million in unpaid VAT on barter transactions
- Continuation of review of June 2024 Administrative Guidance on GloBE rules
- Today: Allocation of Cross-border Current Taxes (part 4)

HAPPY FRIDAY!

Assad sneaks away, Yoon clings on, and Xi is invited to the party!

Meanwhile, in the tax world...

Middle East countries are no longer tax havens; Australia wants to make news a money-spinner; EU decides to go FASTER (but not until 2030); Italy wants to enter into a barter deal with Meta; access to Italy, in return for tax; and in the US, Top Cop Shop says "STOP!"

But at the end of the week, the most important question is this: "When will Manchester City win a game?"

Have a great weekend!

Steve

THIS WEEK'S PODCAST

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

- 1. GloBE news
2. June 2024 Administrative Guidance on GloBE rules: Allocation of Cross-border Current Taxes (part 4)
3. Asia Pacific
- Australia, Singapore
4. Europe
- Denmark, EU, France, Greece, Ireland, Italy, Netherlands, Turkey
5. Africa
- Nigeria, Seychelles
6. Middle East & Central Asia
- Azerbaijan, UAE
7. Americas
- US
8. Treaty news

ITB series on Pillar One

- Report on Amount B in Pillar One (ITB, 23 February 2024)
Consultation document on Amount B in Pillar One (ITB, 28 July 2023)
Draft MLC provisions for commitments on DSTs and other relevant similar measures (ITB, 6 January 2023)
Consultation document on Amount B in Pillar One (ITB, 16 December 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, 16 June 2022)
- Regulated Financial Services exclusion from scope (ITB, 13 May 2022)
- Extractives exclusion from scope (ITB, 22 April 2022)
- Scope (ITB, 8 April 2022)
- Tax base determinations (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)

ITB series on Pillar Two

- GloBE Implementation Framework:
- GloBE Information Return (ITB, 28 July 2023)
- Tax Certainty for the GloBE rules (ITB, 13 January 2023)
- GloBE Information Return (ITB, 13 January 2023)
- Guidance on Safe Harbours and Penalty Relief (ITB, 6 January 2023)
GloBE model rules:
- June 2024 Administrative Guidance on GloBE rules: Allocation of Cross-border Current Taxes (Parts 1 to 4) (ITB, 15 & 22 November; 6 & 13 December 2024)
- June 2024 Administrative Guidance on GloBE rules: Divergences between GloBE and accounting carrying values (Parts 1 to 7) (ITB, 23 & 30 August; 6 & 13 September; 4, 11 & 18 October 2024)
- June 2024 Administrative Guidance on GloBE rules: DTL recapture (Parts 1 to 4) (ITB, 28 June; 5, 12 & 19 July 2024)
- December 2023 Administrative Guidance on GloBE rules: Transitional filing deadlines, and Simplified Calculation Safe Harbour (ITB, 26 April 2024)
- December 2023 Administrative Guidance on GloBE rules: Allocation of blended CFC taxes (Parts 1 & 2) (ITB, 5 & 12 April 2024)
- December 2023 Administrative Guidance on GloBE rules: Additional guidance on application of GloBE rules (ITB, 22 March 2024)
- December 2023 Administrative Guidance on GloBE rules: Transitional CbCR Safe Harbour (Parts 1 to 4) (ITB, 19 January; 16 February; 1 & 8 March 2024)
- GloBE rules commence operation in 2024 (ITB, 12 January 2024)
- December 2023 Administrative Guidance on GloBE rules: overview (ITB, 22 December 2023)
- July 2023 Administrative Guidance on GloBE rules: Transitional UTPR Safe Harbour & Summary of Safe Harbours (ITB, 8 December 2023)
- July 2023 Administrative Guidance on GloBE rules: QDMTT Safe Harbour (Parts 1 & 2) (ITB, 19 & 17 November 2023)
- July 2023 Administrative Guidance on GloBE rules: QDMTTs (Parts 1 to 6) (ITB, 15, 22 & 29 September; 6 & 27 October; 3 November 2023)
- July 2023 Administrative Guidance on GloBE rules: Substance-based Income Exclusion (Parts 1 & 2) (ITB, 18 & 25 August 2023)
- July 2023 Administrative Guidance on GloBE rules: Tax credits (Parts 1 to 3) (ITB, 4, 11 & 18 August 2023)
- July 2023 Administrative Guidance on GloBE rules: overview (ITB, 28 July 2023)
- Administrative Guidance on GloBE rules: Transition (Parts 1 to 3) (ITB, 16 & 23 June; 14 July 2023)
- Administrative Guidance on GloBE rules: Income & taxes (Parts 1 to 8) (ITB, 31 March, 14, 21 & 28 April; 5, 12 May; 2 & 9 June 2023)
- Administrative Guidance on GloBE rules: Scope (Parts 1 to 3) (ITB, 16, 17 & 24 March 2023)
- Administrative Guidance on GloBE rules: Allocation of taxes arising under Blended CFC Tax Regimes (ITB, 3 March 2023)
- Administrative Guidance on GloBE rules: QDMTTs (Parts 1 & 2) (ITB, 10 & 24 February 2023)
- Art. 7.4 on ETR computation for Investment Entities (ITB, 2 December 2022)
- Corporate Restructurings and Holding Structures (Parts 1 to 7) (ITB, 23 & 30 September; 7, 14 & 21 October; 11 & 18 November 2022)
- Scope (Parts 1 & 2) (ITB, 24 June; 1 July 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, 16 & 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 9) (ITB, 11, 18 & 25 February; 29 July; 5, 12, 19 & 26 August; 16 September 2022)
- Computation of GloBE Income or Loss (Parts 1 to 4) (ITB, 7, 14, 21 & 28 January 2022)
Subject to Tax Rule (STTR):
- STTR (Part 4) (ITB, 15 December 2023)
- STTR (Parts 1 to 3) (ITB, 6 & 20 October; 3 November 2023)
- Subject to Tax Rule (STTR): overview (ITB, 28 July 2023)

WORTH READING

Mindy Herzfeld "Tariffs and the Great Upcoming Tax Debate of 2025" Tax Notes International, Tax Analysts, 9 December 2024.

Mohamed Herdan and Karolina Telak "The Influence of Remote Work on the Place of Effective Management under Article 4(3) of the OECD Model, Remote Work, Remote POEM?" Bulletin for International Taxation, IBFD, 2025 (Vol. 79), No. 1.

INTERNATIONAL TAX QUIZ

THIS WEEK'S NEW QUIZ

XCo 1, a company located in jurisdiction X, has a branch located in jurisdiction Y. The branch operates a business.

In a particular fiscal year:

- The branch derives 1,000 of revenue, and it has expenses of 600.
Included in the 1,000 of revenue are: (i) 100 of interest income derived from ACo, a related company located in jurisdiction A; (ii) 150 of royalties derived from XCo 2, an unrelated company located in jurisdiction X; and (iii) 200 of service fees derived from the XCo 1 head office in jurisdiction X.
100 of interest income derived from ACo: 10% interest withholding tax (IWT) is deducted in jurisdiction A. The branch claims a full foreign tax credit for the IWT in its branch income tax return in jurisdiction Y.
150 of royalties derived from XCo 2: The 150 is treated as domestic source income in jurisdiction X. 10% royalty withholding tax (RWT) is deducted in jurisdiction X. The branch claims a full foreign tax credit for the RWT in its branch income tax return in jurisdiction Y.
200 of service fees derived from XCo 1 head office: The 200 is not recognised under the jurisdiction X corporate income tax (CIT) law.
In its jurisdiction Y income tax return, the branch reports taxable income of 400, and an income tax liability (after claiming the 2 foreign tax credits) of 50.

For the same fiscal year:

- XCo 1 derives revenue of 2,000, and it has directly related expenses of 1,600.
Included in the 2,000 of revenue is 300 of royalties derived from ZCo, a related company located in jurisdiction Z. 10% RWT is deducted in jurisdiction Z. XCo 1 claims a full foreign tax credit for the RWT in its CIT return.

Under the jurisdiction X CIT law:

- Tax (20% rate) is imposed on both domestic source income and foreign source income
Credit is given for foreign tax paid on foreign source income
Cross-crediting is allowed and there is only one "basket" - i.e., credit is calculated on total foreign tax paid on total foreign source income
Credit is limited to the lower of foreign tax paid and X CIT on foreign income (credit limitation)
In determining the credit limitation, only expenses which directly relate to foreign source income are taken into account
Credit cannot be used against X CIT on domestic source income

Based on this limited information, what are the "Cross-Crediting Allocation Keys" (for the purposes of the allocation of cross-border current taxes under Art. 4.3.2) for the branch and XCo 1 head office for this fiscal year?

Answer in next ITB email alert!

LAST WEEK'S QUESTION

ACo, a company located in jurisdiction A, owns 100% of the shares in XCo, a company located in jurisdiction X.

XCo is treated as a disregarded entity for jurisdiction A corporate income tax (CIT) purposes.

Under the jurisdiction A CIT law:

- Tax (15% rate) is imposed on both domestic source income and foreign source income
Credit is given for foreign tax paid on foreign source income
Cross-crediting is allowed and there is only one "basket" - i.e., credit is calculated on total foreign tax paid on total foreign source income
Credit is limited to the lower of foreign tax paid and A CIT on foreign income (credit limitation)
In determining the credit limitation, only expenses which directly relate to foreign source income are taken into account
Credit cannot be used against A CIT on domestic source income

In a particular fiscal year:

- ACo directly derives 2,000 of domestic source revenue, and incurs 1,400 of expenses directly related to that revenue.
ACo is entitled to a Qualified Refundable Tax Credit of 30. ACo uses this credit to reduce its A CIT liability.
XCo derives 1,000 of revenue, and incurs 500 of expenses.
Included in XCo's 1,000 of revenue is a payment of 200 from ACo. This amount is disregarded under the A CIT law. Therefore, the resulting net amount of XCo's profits (1,000 - 200 - 500 = 300) is included in ACo's taxable income for A CIT purposes.

Based on this limited information, what amount of "Allocable Covered Taxes" (for the purposes of the allocation of cross-border current taxes under Art. 4.3.2) does ACo have for this fiscal year?

LAST WEEK'S ANSWER

References are to paras. 52.13 to 52.23 of Comm to Art. 4.3.2.

Para. 52.13: Allocable Covered Taxes = A - B - C, where A = total current tax expense accrued by Main / Parent Entity with respect to applicable tax regime; B = domestic tax liability without regard to any foreign source income; and C = Blended CFC Taxes.

Item C is 0 in this example.

Item B ...

Actual domestic source income: 2,000 - 1,400 = 600.

Deemed domestic source income (after adjustment for QRTC): 600 + 30 = 630 (para. 52.16).

Deemed domestic source income (after adjustment for disregarded payment): 630 - 200 = 430 (para. 52.16).

Item B = 430 x 15% = 64.5.

Item A ...

Actual taxable income: (2,000 - 1,400) + (1,000 - 200 - 500) = 900 (See Note).

Actual current tax expense: (900 x 15%) - 30 = 105.

Item A = 105 + 30 = 135.

Therefore, Allocable Covered Taxes = 135 - 64.5 - 0 = 70.5.

Note: Although the 200 disregarded payment is taken into account in determining "foreign source income" in Step 1 (para. 52.6), I cannot find a requirement to take it into account in determining the total current tax expense in Step 2 - cf. the adjustment in the calculation of the domestic tax liability (para. 52.16).

Do you agree?



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