International Tax Bytes *by Steve Towers*

"International tax news, explained"

9 May 2025

HIGHLIGHTS

- **Tariff wars**
  - **US and UK agree trade deal**
  - **President Trump threatens 100% tariffs on foreign films**
  - **US and China break the ice in Switzerland**
- **Continuation of review of June 2024 Administrative Guidance on GloBE rules**
  - **Today: Allocation of profits and taxes in structures including Flow-through Entities (part 5)**

HAPPY FRIDAY!

US and **China** practise fondue diplomacy; **Leo** is elevated; and **Melania** goes missing!

Meanwhile in the tax world …

UK drives a good deal; **Sweden** is accused; **small Pacific islands** are included in another list in **Europe**; **Kenya** expands SEP; **Pakistan** wants its money immediately; and **Donald Trump** doesn't like foreign films!

But at the end of the week, the most important question is this: **"Have you ever taken advice from a water sommelier?"**

Have a great weekend!
Steve

THIS WEEK'S PODCAST

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

1. Tariff wars
2. GloBE news
3. June 2024 Administrative Guidance on GloBE rules: Allocation of profits and taxes in structures including Flow-Through Entities (part 5)
4. Asia Pacific
   - Australia, Singapore, Taiwan
5. Europe
   - EU, France, Ukraine
6. Africa
   - Kenya
7. Middle East & Central Asia
   - Oman, Pakistan, UAE
8. Americas
   - US

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, 10 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 profits and taxes in structures including Flow-through Entities (Parts 1 to 5) (ITB, 28 March; 4 & 11 April; 2 & 9 May 2025)**
  - **June 2024 Administrative Guidance on GloBE rules: Allocation of profits and taxes in structures including Flow-through Entities (Parts 1 to 4) (ITB, 28 March; 4 & 11 April; 2 May 2025)**
  - **June 2024 Administrative Guidance on GloBE rules: Allocation of Cross-border Current Taxes (Parts 1 to 5) (ITB, 15 & 22 November; 6, 13 & 20 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, 10 & 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, 10, 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, 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 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

Allison Christians
"Tarrifying! A Brief US History"
Tax Notes Today International, Tax Analysts, 1 May 2025.

Frank P.G. Pötgens, Elena M.L. Kooi, and Barend J.M. Huisebosch
"The Dutch Supreme Court on the Status of the OECD Commentaries, Qualification Conflicts and the Concept of 'Employer' for Tax Treaty Purposes: Finally Clarity!"
European Taxation, IBFD, 2025 (Vol. 65), No. 5.

Jinyan Li, Michael Conroy, Sebastian Tuli, Kitty Wang, and Patrick White
"Canada's New GAAR Preamble: Pivoting Toward Fairness and Parliamentary Contemplation"
Tax Notes Today International, Tax Analysts, 17 April 2025.

INTERNATIONAL TAX QUIZ

THIS WEEK'S NEW QUIZ

XCo (located in jurisdiction X) owns 100% of YCo (located in jurisdiction Y).

The jurisdiction X corporate income tax (CIT) treats XCo as opaque.

YCo is treated as transparent for the purposes of the jurisdiction X CIT, but it is treated as opaque for the purposes of the jurisdiction Y CIT.

YCo owns 100% of ZCo, which is formed in jurisdiction Z.

ZCo is treated as opaque for jurisdiction Y CIT purposes, but ZCo is treated as transparent for the purposes of both the jurisdiction X CIT and the jurisdiction Z CIT.

ZCo derives a profit of 100.

XCo pays 10 of jurisdiction X CIT on ZCo's 100 profit.

YCo pays 5 of jurisdiction Z CIT on ZCo's 100 profit.

ZCo does not pay any jurisdiction Z CIT on its (ZCo's) 100 profit.

What will be the allocation of ZCo's profit of 100, YCo's CIT of 5, and XCo's CIT of 10? Please answer this question (1) under the GloBE rules, and (2) under ZCo's QDMTT.

Please assume that YCo does not have a PE (as defined in the GloBE rules) in jurisdiction Z.

Answer in next ITB email alert!

LAST WEEK'S QUESTION

ACo (located in jurisdiction A) owns 100% of BCo (located in jurisdiction B).

The jurisdiction A corporate income tax (CIT) treats ACo as opaque.

BCo is treated as transparent for the purposes of the jurisdiction A CIT, but it is treated as opaque for the purposes of the jurisdiction B CIT.

BCo owns 100% of CCo, which is formed (and has a place of business) in jurisdiction C.

CCo is treated as transparent for the purposes of both the jurisdiction A and the jurisdiction B CITs.

Jurisdiction C does not have a CIT.

CCo has a Financial Accounting Net Income or Loss of 100.

BCo pays 10 of jurisdiction B CIT on CCo's FANIL.

ACo pays 7 of jurisdiction A CIT (after a credit for the jurisdiction B CIT) on CCo's FANIL.

What will be the allocation of CCo's FANIL of 100, BCo's CIT of 10, and ACo's CIT of 7?

Please ignore Art. 4.3.3.

LAST WEEK'S ANSWER

CCo is not a "Flow-through Entity", as defined in Art. 10.2.1, because the jurisdiction where it was created does not have a CIT (and therefore, CCo is not fiscally transparent in that jurisdiction): see para. 160 of Comm to Art. 10.2.1.

As CCo is not a "Flow-through Entity" under Art. 10.2.1, it cannot be a "Tax Transparent Entity" under Art. 10.2.1(a).

Also, CCo is not deemed to be a "Flow-through Entity" or a "Tax Transparent Entity" under Art. 10.2.4, because it does not satisfy para. (b): CCo does have a place of business in jurisdiction C.

CCo is a "Hybrid Entity", as defined in Art. 10.2.5: see para. 169 of Comm to Art. 10.2.5.

CCo's FANIL of 100 stays with CCo.

As CCo is not a "Tax Transparent Entity", Art. 3.5.1(b) does not apply.

Both ACo's tax of 7 and BCo's tax of 10 will be allocated to CCo, under Art. 4.3.2(d): see paras. 59 to 59.3 of Comm to Art. 4.3.2(d).

Do you agree?