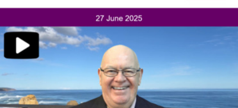
ITB International Tax Bytes by Steve Towers

"International tax news, explained"

27 June 2025



HIGHLIGHTS

- **US wins on GloBE rules**
  - **Proposed section 899 is the price**
- **2 international tax cases**
  - **Hong Kong**
  - **Privy Council**

HAPPY FRIDAY!

Stealth (possibly) succeeds; **Daddy** uses strong language; and **Elizabeth MacDonough** applies the **Byrd rule** ...

Meanwhile, in the tax world...

US buys **UTPR** for **899**; **Methanex** is not fictitious or artificial; **Hungary** hasn't changed; **France's DST** might be unconstitutional; and **Oman** targets expats!

But at the end of a week in which the Fordo damage assessment is challenged, the most important question is this: **"Who do you believe? US or Iran?"**

Have a great weekend!
Steve

THIS WEEK'S PODCAST

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

1. GloBE news
2. Asia Pacific
   - Australia, China, Hong Kong, India, Malaysia
3. Europe
   - EU, France, Finland, Slovak Republic, UK
4. Africa
   - South Africa
5. Middle East & Central Asia
   - Bahrain, Oman
6. Americas
   - Brazil, Canada, Trinidad and Tobago, US
7. 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, 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:**
  - **January 2025 Administrative Guidance on GloBE rules: Application of Article 9.1 to deferred tax assets arising from tax benefits provided by General Government (Parts 1 & 2) (ITB, 30 May & 13 June 2025)**
  - **June 2024 Administrative Guidance on GloBE rules: Treatment of Securitisation Vehicles (ITB, 23 May 2025)**
  - **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

Raffaele Petruzzi and Argyro Myzithra
"Remote Work vs. Corporate Income Tax: Navigating the New Normal"
Tax Notes Today International, Tax Analysts, 24 June 2025.

Jérôme Monsenego
"The Compatibility with the Freedom of Establishment and the State Aid Rules of IP Boxes Designed According to the Modified Nexus Approach"
Intertax, Kluwer, Vol. 53, Issues 8 & 9.

J. Harold McClure
"ATO Loses Pricing Challenge in Australian Alumina Transaction Case"
Tax Notes Today International, Tax Analysts, 23 June 2025.

INTERNATIONAL TAX QUIZ

LAST WEEK'S QUESTION

ACo, a company located in jurisdiction A, is a Constituent Entity in an MNE Group which is "within scope" of the GloBE rules. It is the only Constituent Entity located in jurisdiction A.

ACo uses the calendar year as its Fiscal Year. ACo owns and operates a large manufacturing plant in jurisdiction A.

In 2023, ACo made a significant capital investment in expanding the size of the plant. Under the jurisdiction A CIT law, if a company makes a large capital investment and that investment is pre-approved by a government agency, the company is given a choice of tax treatment: either (1) a reduced CIT rate for 5 years, or (2) tax depreciation based on 200% of the capital investment.

ACo initially chose option (1). However, it then sought approval from the government agency (which was granted) to change to option (2). Despite the tax depreciation, ACo did not incur a tax loss (for jurisdiction A CIT purposes) in any of the relevant years.

For financial accounting purposes, ACo established a deferred tax asset of 2,000 at the beginning of 2024. The 2,000 reflected the jurisdiction A standard CIT rate of 10%. ACo then reversed that deferred tax asset by 200 in each of the years 2024 to 2033.

Please assume that ACo does not qualify for the Transitional CbCR Safe Harbour.

Jurisdiction A has not implemented a QDMTT.

In the residence jurisdiction of the UPE of the MNE Group, the GloBE rules have been implemented, effective 1 January 2025.

Based on this information, what impact will the annual reversals of the deferred tax asset have on ACo's Adjusted Covered Taxes in each of 2025, 2026, and 2027?

LAST WEEK'S ANSWER

Transition Year, for jurisdiction A, is 2025.

For financial accounting purposes, at the beginning of 2025 ACo discloses a deferred tax asset of 1,800 (i.e., the original 2,000, minus 200 reversal in 2024).

Prima facie, that deferred tax asset would be taken into account (under Art. 9.1.1) in determining ACo's Adjusted Covered Taxes.

However, the key issue is: what is the impact of Art. 9.1.2? See paras. 8.2 to 8.12 of Comm to Art. 9.1.2.

Pre-approval of investment by government agency: The facts suggest that the pre-approval falls within subpara. (a) of para. 8.5. That is, the facts do not indicate that "the grant of [the] relief [merely] requires a decision or acknowledgement that the taxpayer has satisfied or is obligated to satisfy the statutory criteria for that [tax relief]."

Initial exercise of choice by ACo: This would not fall within subpara. (b) of para. 8.5, because the "retroactively" limb would not be satisfied.

Approval from government agency to change to option (2): The "approval" aspect of the change to option (2) does not fit neatly into either subpara. (a) or (b) of para. 8.5.

ACo's change to option (2): This might fall within subpara. (b) of para. 8.5, depending on whether an assessment had been made or a tax return was already filed at the time ACo exercised its change to option (2).

The following assumes: (1) that the facts fall within either or both of subpara. (a) & (b) of para. 8.5; and (2) the 2 government approvals, ACo's initial exercise of choice, and ACo's change to option (2) all occur on or before 18 November 2024 ...

The "Grace Period" is 2025. The "Grace Period Limitation" is 400 (i.e., 2,000 x 20%).

2025: 200 reversal. As this is within the Grace Period Limitation, the full 200 qualifies as ACo's Adjusted Covered Taxes for 2025.

2026 & 2027: Grace Period has ended. Thus, no part of 200 reversal qualifies as ACo's Adjusted Covered Taxes for each year.

Do you agree?

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