The Global Minimum Tax and its effects on countries' tax regimes
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Guide for Developing Countries on How to Understand and Adapt to the Global Minimum Tax

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Purpose of Guide

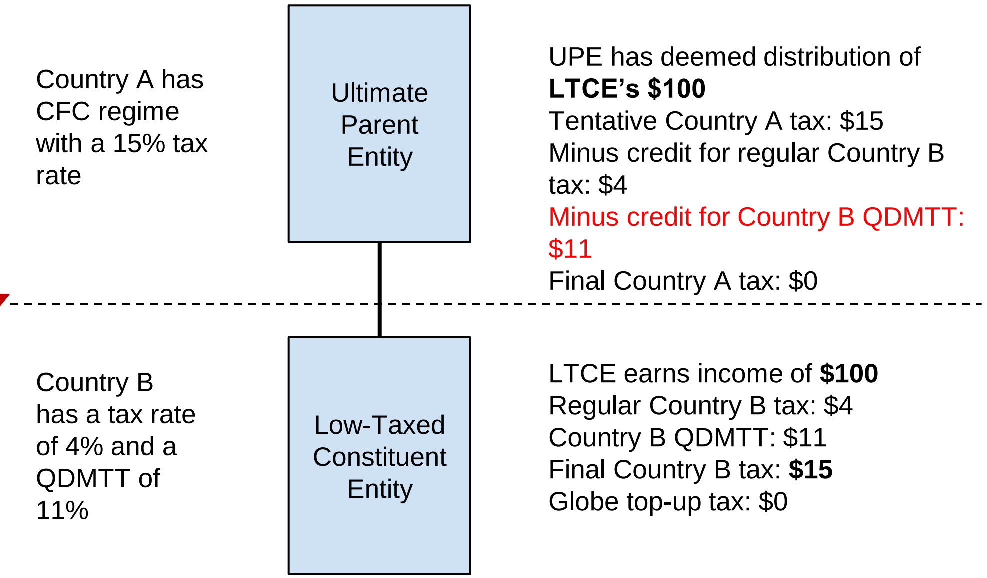
- Provide framework for a country to examine
  - the potential applicability of GloBE to its taxpayers, and
  - the interplay of GloBE rules with its domestic tax system

  to make informed decisions about whether and in what manner to respond.
- Describes how Pillar Two works.
- Describes possible country responses to Pillar Two; outlines impact on kinds of tax incentives.
- Provides step-by-step approach to assess likely economic impact of Pillar Two on a country.
- Identifies potential legal constraints on domestic tax reforms.

Designed to support country including, as needed, technical assistance.

How Pillar 2 Works and Possible Responses

- Key Pillar Two elements:
  - IIR default and QDMTT response
  - Covered Taxes (including CFC taxes)
  - UTPR backstop to IIR
  - SBIE
- Possible Country Responses
  - Adopt QDMTT (note CFC tax stacking and creditability issue and OIT tax issue)
  - Reconsider tax incentives
  - Adopt broader Alt. Min. tax



Responses: Tax Incentives; Legislative Reforms

Table 1. Impact of GloBE on Types of Tax Incentives

Tax Incentive Types	Likely Impact of GLoBE
Profit based incentives	
Income Tax Holidays and Export Processing Zones	High – Will significantly reduce the GloBE ETR for periods in which applicable and likely lead to the payment of top up tax, depending on the size of the carve-out for payroll and tangible assets.
Reduced Tax Rates, Business Credits, Withholding Tax Relief, Preferential Treatment of Long-Term Capital Gains	Medium - Will in many cases reduce GloBE ETR but the ETR reduction may not always lead to the payment of top-up tax.
Cost Based Incentives	
Tax Deferrals, Investment Allowances, Extended Carry forward Periods, Deductions for Qualifying Expenses	Limited – Likely not to reduce GloBE ETR and lead to the payment of top-up tax. The GloBE rules use a version of deferred tax accounting mechanisms to adjust for timing differences. There are however limitations to the use of deferred tax accounting and in some cases the GloBE rules may lead to top up tax because of timing differences.
Payroll Tax Incentives, Property Tax Reductions, Exemptions from Indirect Taxes	No impact – Payroll taxes and other employment-based taxes, as well as social security contributions, are not covered taxes under the GloBE rules. Taxes based on ownership of specified items or categories of property are distinguishable from taxes based on a corporation's equity and should not be covered taxes under the GloBE rules. Consumption taxes, such as sales taxes and value-added taxes (VATs), are not covered taxes under the GloBE rules

- Incentives:
  - Review,
  - If retained, consolidate, consider conforming to GloBE.
- Consider alternative minimum tax.
- Retain DST.

[1] When an item of income is recognised for GLoBE purposes before it is recognised for local tax purposes, credit is given at the minimum rate for the tax that will be paid in the future with respect to such income. Because credit is given for tax to be paid in the future, the timing difference will most likely not give rise to top up taxes under GloBE.

Likely Impact of Pillar Two

General Assessment from public data:

- Most GloBE top-up tax likely generated in developed economies and low-tax developing economies
- Still a significant amount at stake for developing economies, which can only be captured by increasing /adjusting taxation at source ahead of IIR or UTPR
- Country specific conclusions not possible without firm specific data.

Step-by-Step Country Approach:

1. Compile a list of all large taxpayers in the country
2. Identify the parent company of each taxpayer
3. Find the annual turnover of the MNE group represented by the parent company for the last four years
4. Calculate the SBIE
5. Sensitivity analysis on: MNE turnover

Potential legal constraints on reforms

- Fiscal stabilization in domestic law
- Fiscal stabilization in investor-state contracts
  - Require a unilateral acknowledgment from the taxpayer
  - Renegotiate stabilized fiscal terms in investment contracts
- Bilateral Investment Treaties (BITs)
  - Expropriation, national treatment, MFN, fair and equitable treatment; Tax carve-outs.
- Proactive Responses to Limit Stabilization Cut-Backs on Pillar Two
  - Corporate disclosure
  - Inclusive Framework: Assure creditability of stabilization waiver tax; require corporate disclosure of stabilization waiver requests; multilateral agreement to carve out GloBE from reach of stabilization, BIT's ISDS.