

BEPS Pillar 2 Bytes

Does Pillar 2 apply in a jurisdiction with Corporate Tax Rate higher than 15%?

Myth: Pillar 2 does not impact multinational groups present in high tax jurisdiction with corporate tax rate of more than 15%

- Pillar 2's Global Anti-Base Erosion Model Rules (GloBE Rules) targets to achieve minimum tax of 15% in each jurisdiction in which an in-scope¹ Multinational Enterprise (MNE) Group operates.
- GloBE rules are based on an effective tax rate (ETR) and not headline rate as per the domestic corporate tax legislation in a jurisdiction.
- In many high tax jurisdictions where headline tax rate is more than 15%, MNE groups could enjoy various fiscal incentives or benefits under the domestic law resulting in low taxes actually paid (e.g. by way of exemptions, deductions and/or credits etc.).
- GloBE rules target such low taxed income to ensure minimum tax is paid. The underlying objective is to restore a level playing field and eliminate the need for countries to offer excessive tax incentives to compete for inbound investment.
- Further, ETR computation under GloBE Rules could be significantly different from computation of domestic tax rate. So, entities in high tax jurisdictions will need to be tested for any additional levy.

- Independently, high taxed entities should explore safe harbor reliefs which, if available, can eliminate the need for detailed computation of ETR and additional levy under the GloBE Rules.
- So, what do in-scope MNE Groups need to consider in relation to entities in high tax jurisdictions?
- MNE Groups will need to evaluate safe harbor reliefs, computation of ETR and compliance requirements under the GloBE Rules even in high tax jurisdictions.

¹ Refer MMJS Pillar 2 Bytes – Are you an in-scope MNE Group under Pillar 2 Rules dated 24 January 2024.

For more information, please get in touch with our team.

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