

BEPS Pillar 2 Bytes

Can a member of BEPS Inclusive Framework deviate from GloBE Model Rules?

- Pillar 2 intends end of “race to bottom” in corporate taxation rates across jurisdictions. This led to the adoption of a “common approach” to target low/ no taxed profits as agreed by the BEPS Inclusive Framework (IF).
- Global Anti-Base Erosion (GloBE) Model Rules and its commentary lay down a comprehensive set of technical rules for minimum taxation based on a consensus agreement by BEPS IF. Model rules serve as a common template for coordinated and consistent implementation in the respective domestic laws.
- GloBE Rules are not mandatory but have been agreed as a “**common approach**”. This means that while jurisdictions are not required to adopt the GloBE Rules, but if they choose to do so, they agree to implement and administer them in a way that is consistent with the agreed outcomes set out under the GloBE Model Rules and its commentary. Even if a jurisdiction chooses not to implement the rules, it must accept the application of GloBE Rules by another in respect of MNEs operating in its jurisdiction.
- In addition to tackling base erosion, the above approach facilitates coordinated outcomes for both tax administrations and MNE Groups.
- In continuation of its commitment to implement Pillar 2 as a part of BEPS IF, UAE recently amended its Corporate Tax Law¹ to enable levy of additional tax on large MNE Groups.

While UAE Ministry of Finance ('MoF') has clarified that Pillar 2 will not apply in UAE in 2024 and public consultation is planned in Quarter 1 of 2024², one may expect that the Rules will be in adherence to the GloBE Model Rules as part of the "common approach".

Accordingly, till the final rules and related modalities are released by the MoF, in-scope MNE Groups headquartered/ having operations in UAE must prepare for minimum tax regulations in line with GloBE Model Rules. Further, MNE Groups should engage with the MoF once public consultation begins in UAE.

¹ Refer MMJS Alert 'UAE Corporate Tax law's first amendment to introduce BEPS 2.0 Pillar 2' dated 4 December 2023

² Source: FAQ published by UAE's Ministry of Finance (www.mof.gov.ae)

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

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