



International Fiscal Association
Hong Kong Branch

PILLAR TWO: DEVELOPMENTS & PRACTICAL ISSUES

IFA Hong Kong

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International tax reforms

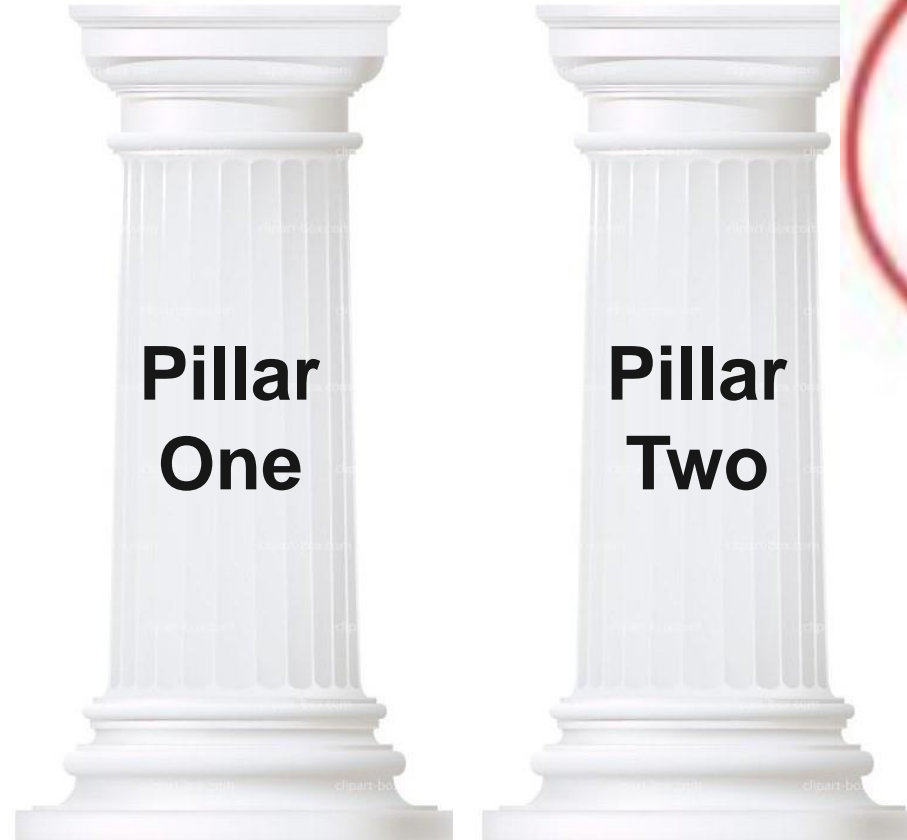
Overview of the Two-Pillar Solution

Amount A

Allocates new taxing rights to market jurisdictions on the profits of the largest and most profitable MNEs

Amount B

Provides for a simplified and streamlined approach to the application of the arm's length principle to in-country baseline marketing and distribution activities



Global Minimum Tax

Creates a global minimum effective corporate tax rate of 15%. Includes: Income Inclusion Rule, UTPR and Qualified Domestic Minimum Top-Up Tax

Subject-to-Tax Rule

A treaty-based rule that targets risks to source jurisdictions on a defined set of intra-group payments where there are low nominal rates of taxation



Global Minimum Tax

Overview

15% effective tax rate

- Applied on a jurisdictional basis
- MNE Groups with turnover > EUR 750m

Based on Financial Accounts

- With adjustments agreed to bring financial accounts into alignment with the local tax base

Substance-based income exclusion

- Starts at 8% of tangible assets and 10% payroll
- >10 years, 5% of tangible assets and payroll

Common approach

- Agreed by >135 countries & jurisdictions
- Not required to adopt, but will align with agreed rules & accept adoption by others

Interlocking rules

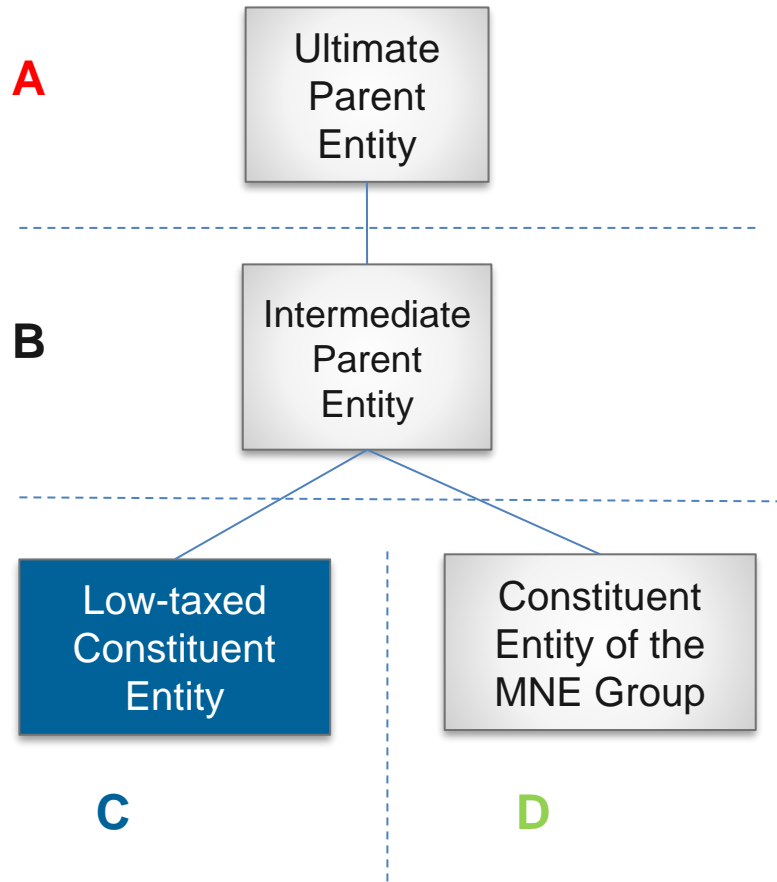
- Income Inclusion Rule
- UTPR
- Qualified Domestic Minimum Top-Up Tax



Interlocking rules: agreed rule order

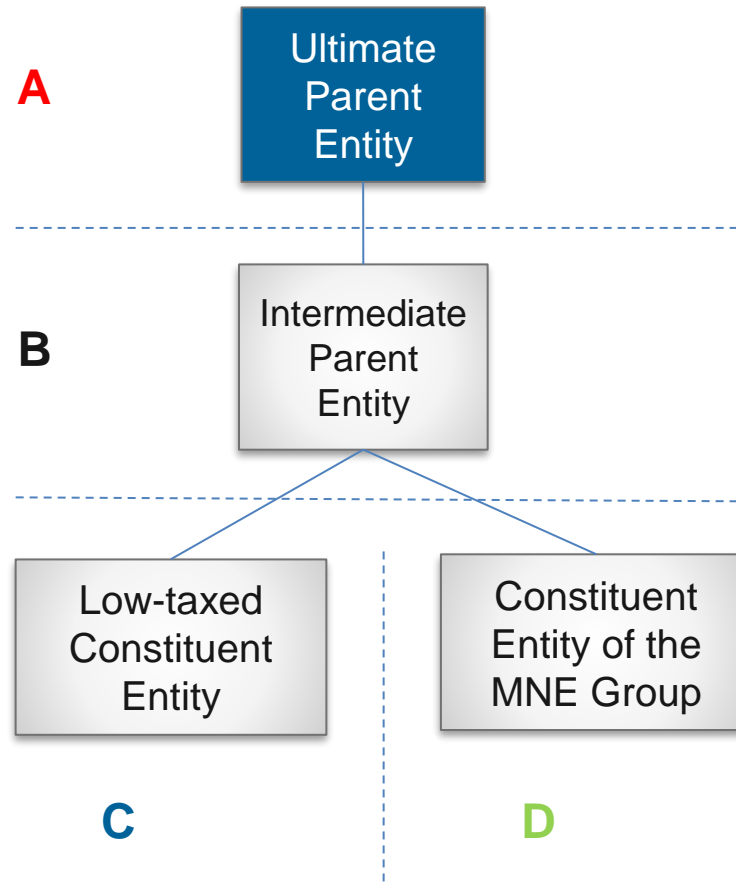
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Qualified Domestic Top-Up Tax



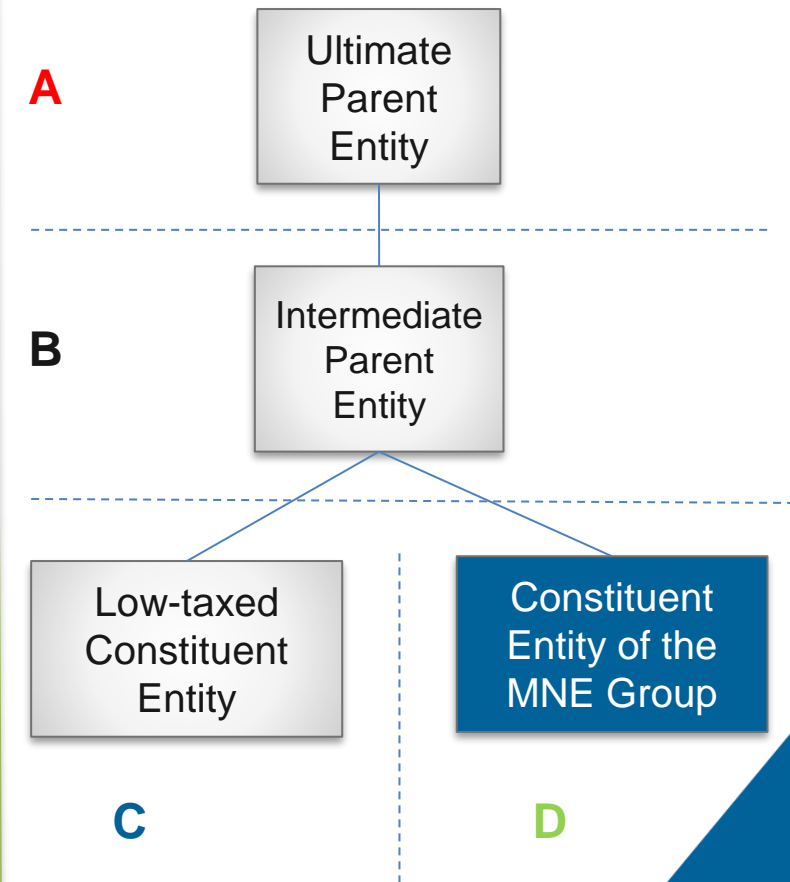
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Income Inclusion Rule



3

UTPR





Status of implementation

- **The Global Minimum Tax is already a reality**
 - **Around 45 jurisdictions** have implemented or will implement the global minimum tax taking effect in 2024 or 2025 (approx. 35 for 2024 only)
 - **About 10 jurisdictions** are taking steps towards implementation at a later stage
 - **Around 60% of large MNEs** (above EUR 750million turnover) will be in-scope **by the end of 2024**
 - **Around 90% of large MNEs** will be in-scope **by 2025 when the UTPR comes into effect**



Implementation of the GMT in the region

Number	Jurisdiction	Implementation status	IIR	UTPR (2025)	DMTT
Implementation as of 2024					
4	Japan	Enacted legislation	Yes		
	Korea	Enacted legislation	Yes	Yes	
	Vietnam	Enacted legislation	Yes		Yes
	Australia	Draft legislation	Yes	Yes	Yes
Implementation as of 2025					
5	Malaysia	Enacted legislation	Yes		Yes
	New Zealand	Enacted legislation	Yes	Yes	
	Thailand	Draft legislation	Yes	Yes	Yes
	Hong Kong (China)	Stated intention to implement	Yes	Yes	Yes
	Singapore	Stated intention to implement	Yes		Yes
Other concrete steps					
1	Indonesia	Framework legislation in place	TBD	TBD	TBD



Other developments

- **Consistent implementation:**
 - third set of **administrative guidance** (Dec 2023);
 - guidance on the application of deferred tax liability recapture rules and the allocation of deferred taxes relating to cross-border taxes such as CFC Tax Regimes (first half of 2024);
 - ongoing work to develop and implement the peer review process
- **Administration & Tax Certainty:**
 - **GloBE Information Return** (July 2023);
 - ongoing work on a framework for purposes of facilitating central filing and exchange of information;
 - development of further mechanisms to prevent and resolve disputes
- **Capacity building: OECD handbook on the implementation of the global minimum tax** (October 2023)