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# Mizuho Country Focus

## [Global] GloBE Rule Implementations and Its Impact to FDI Incentive Programmes

**Summary**

- The OECD's Inclusive Framework for BEPS has agreed to, and will implement, a new global tax framework under BEPS2.0 to tackle current challenges such as the taxation of the digital economy
- The new framework is made up of two pillars; Pillar One seeks to address and reallocate certain taxable income amounts from large multinational groups to market jurisdictions, while Pillar Two aims to ensure appropriate taxation via the implementation of a Global Minimum Tax
- While some potential challenges remain, various jurisdictions have started announcing the deadline for implementing the new rules under Pillar Two
- Corporations will need to prepare for these changes, and jurisdictions which rely heavily on FDI and tax incentive programmes to attract investors will need to relook their strategies

### 1. Introduction: Overview of BEPS2.0 Framework

While base erosion and profit shifting (BEPS) measures have been implemented previously, the Organization for Economic Cooperation and Development (OECD) issued a statement on July 1, 2021, on reworking the framework for international tax reform, now commonly known as BEPS2.0, in order to tackle new challenges and risks emerging from the digitalization of the global economy. Following the statement, several commentaries, technical guidelines and publications have been released since, with the latest dated February 2, 2023, providing technical guidance to assist governments in implementation.

BEPS2.0 is made up of two main pillars. Pillar One seeks to address and reallocate certain amounts of taxable income from large multinational groups (MNEs) to market jurisdictions (see Fig. 1), while Pillar Two aims to ensure appropriate taxation via a global minimum tax, to be implemented through Global Anti-Base Erosion (GloBE) rules.

(Fig. 1) Pillar One: Overview

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| **Applicable Entities** | MNEs with consolidated global revenues greater than EUR 20 billion and a profit margin (before tax) of at least 10% |
| **General Framework** | Revenue generated from consumers in one jurisdiction (market jurisdiction) will be subjected to new taxing rights, regardless of whether MNE has physical presence. Tax amounts will be implemented via a formulaic approach |

Source: OECD, Various Public Sources, compiled by Global Strategic Advisory Department, Mizuho Bank, Ltd.

## 2. Pillar Two: GloBE Rules and Implementation of Global Minimum Tax

The aim of Pillar Two is to ensure that MNEs pay a global minimum effective tax rate of 15%. The global minimum tax or GloBE rules consists of three main principles: (1) the income inclusion rule (IIR), (2) the undertaxed payments rule (UTPR), and (3) the Qualified Domestic Minimum Top-up Tax (QDMTT). These three rules work together to grant jurisdictions additional taxation rights to MNEs and its constituents which falls within the GloBE rules scope (See Fig. 2). It is important to note that not all of Pillar Two's details are set in stone, and there may be possible changes to the scope after time of writing.

(Fig. 2) Pillar Two: Overview

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|---|---|---|
| **Applicable Entities** | | MNEs with consolidated global revenues greater than EUR 75 million, for 2 of the 4 preceding Fiscal Years. Some exceptions apply, such as governmental entities and non-profit organizations etc. |
| **Model Rules Under Pillar Two** | | |
| **GloBE Rules** | **Income Inclusion Rule (IIR)** | This rule imposes a top-up tax to Ultimate Parent Entities (UPEs) in respect to income of subsidiaries under it that are taxed at less than 15%. The UPE's jurisdiction has the first right to apply the IIR rules. IIR takes precedence over the UTPR |
| | **Undertaxed Payments Rule (UTPR)** | Entities in a jurisdiction with a UTPR pay top-up tax in respect of entities in a low tax jurisdiction by disallowing deductions or other similar mechanisms. UTPR will not apply if the UPE is qualified and applies the IIR |
| | **Qualified Domestic Minimum Top-up Tax (QDMTT)** | Jurisdictions are free to introduce QDMTTs or not. MNEs' subsidiaries located in jurisdictions which has this option will be able to make up any tax liability domestically. With application of QDMTT, this will switch off other jurisdictions' IIR and UTPR. Essentially, this will impact the MNE as to where the tax is paid, but not the overall principle of ensuring the MNE to have paid 15% tax globally in the jurisdictions it operates from |
| **Others** | **Subject to Tax Rule (STTR)** | STTR is treaty-based rule that allows certain jurisdictions to apply additional tax on qualified related-party payments that are not subjected to a minimum 9% tax rate in the hands of the recipient. Qualified payments will likely include royalties, interest etc. |

Source: OECD, Various Public Sources, compiled by Global Strategic Advisory Department, Mizuho Bank, Ltd.

While there is still uncertainty over how some specific tax policies (such as US GILTI) will be regarded or treated to co-exist with GloBE rules, the implementation of GloBE rules have been agreed by OECD members and will be eventually be rolled out.

## 3. Varying Timelines from Jurisdictions: Considerations

Although jurisdictions have largely agreed to the implementation of GloBE rules, there are differences with each jurisdiction's timelines. For example, the UK, most of Europe, South Korea and Japan have responded that they will make GloBE rules effective from 2024 onwards. On the other hand, Singapore, Hong Kong, Malaysia and Thailand have announced their implementation to be from January 1, 2025. These locations also happen to be jurisdictions which hold many of the world's MNE's regional headquarters.

The gap between implementation dates will have technical implications the relevant stakeholders. MNEs which have presence in multiple jurisdictions that differ in their implementation timeline of the GloBE rules have to carefully navigate their overall tax liabilities. For example, a MNE that is headquartered in Japan and has subsidiaries in Singapore or Thailand will potentially have to deal with IIR in 2024, and then consider if they want to switch to the QDMTT option in 2025. From the jurisdiction's point of view, those which are implementing in 2025 would also equate to potential missed opportunities of tax income, as they could have MNEs contribute via the QDMTT.

As of date of writing, the US, Mainland China, and various tax haven jurisdictions have not made any formal announcements to their timeline or implementation of GloBE rules.

## 4. ASEAN's Tax Incentive Programmes: Potential Changes

With the GloBE rules in place, the other potential change to the investment environment is the treatment of current tax incentives. Jurisdictions like Singapore, Thailand and Malaysia actively offers various tax incentive programmes to attract foreign direct investment (FDI), often lowering their corporate tax rates, or in some cases tax exemptions for a limited period of time, which are below 15%. With GloBE rules requiring MNEs to eventually top-up to the minimum stipulated tax rate of 15%, the effectiveness of these tax incentive programmes will be greatly impacted.

In Budget 2023, Singapore's Government has announced that it will "review and update its broader suite of industry development schemes to ensure that Singapore remains competitive in attracting and retaining investments". We expect that with better clarity to the GloBE rules' implementation, jurisdictions like Singapore will then evaluate and update their incentive programmes. The strengthening of other benefits will be the spotlight, and some jurisdictions have already been practicing such benefits actively. For example, Thailand has been offering fast track services for expatriate passes. Experts suggest taxable cash grants to help support business spending, and refundable tax credits as some alternatives to the current tax incentives.

## 5. Conclusion: Holistic Approaches to Global Business Strategies

The implementation of BEPS2.0 will prove to be complex and many jurisdictions will have to navigate carefully around these changes. It is understandable why jurisdictions relying heavily on FDI are taking a step backward to implement their changes in 2025, and potentially losing out on some revenue described above, in the hope to get some clues into the workings of BEPS2.0 as changes take place in 2024 instead of hastily jumping in.

Pillar Two of BEPS2.0 also has conditions with regards to size, and there will be a pool of companies which will not be affected by such measures. As such, tax incentives may not disappear completely, but be revised to become more dynamic, or complemented by non-tax incentives to provide other advantages to investors.

Lastly, it should be reminded that incentives are not permanent and do not discount the importance of other factors which may prove to be more fundamental, such as regulatory and business climate, infrastructure and availability of talent pool. It is thus vital that investors pay attention to the merits and potential risks of each investment location, in line with their global supply chain and business strategies, while Governments should understand their strengths against regional neighbours to constantly stay competitive in this changing global landscape.