



SESSION 3: QUALIFIED DOMESTIC MINIMUM TOP-UP TAX - QDMTT

Bali – 25 September 2024



QDMTT IN THE GLOBE RULES

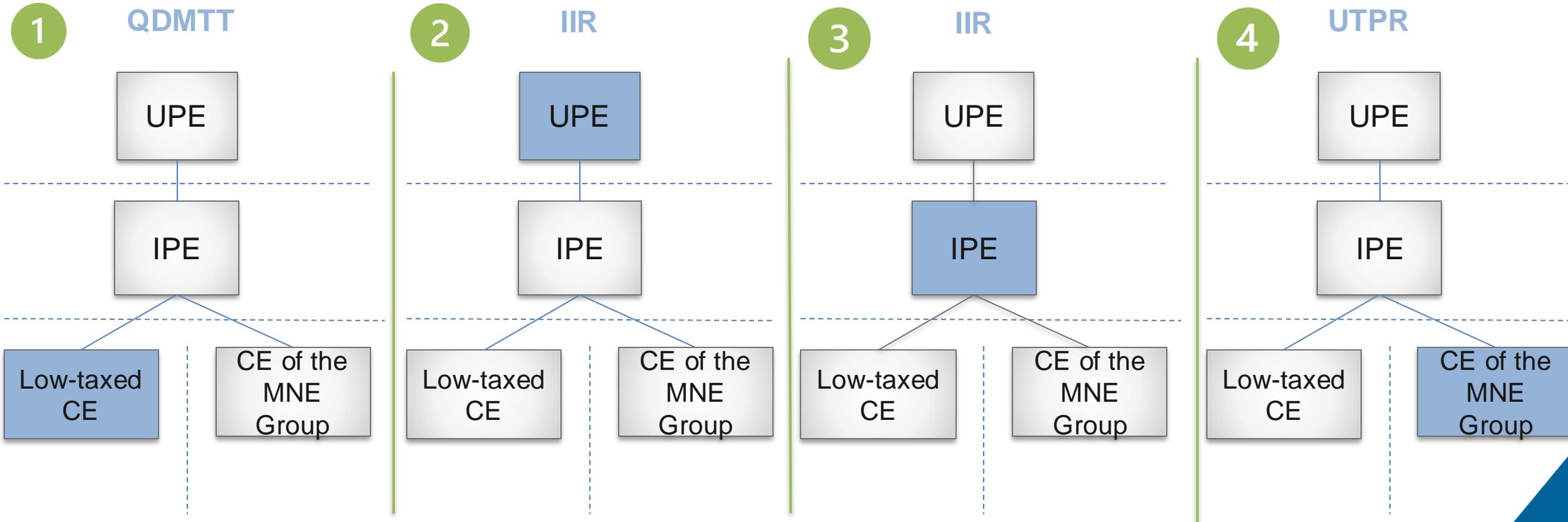


What is a QDMTT?

- QDMTT is a domestic top up tax
- Closely aligned to the GloBE Rules
- Tops up the tax of local Constituent Entities to the minimum rate
- Designed to ensure that source countries retain primary taxing rights on any low-taxed profits in their jurisdiction

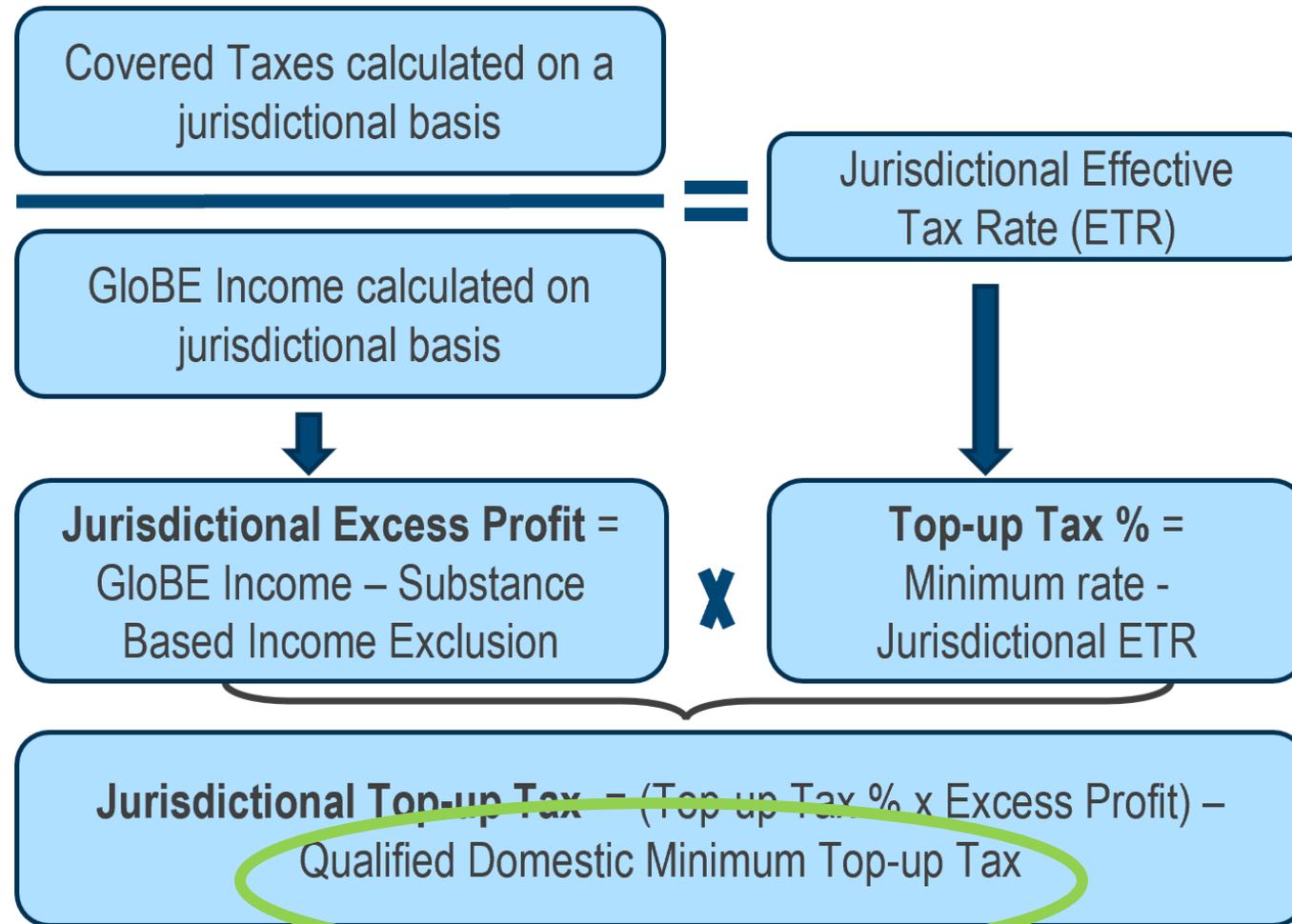


How does the QDMTT fit in



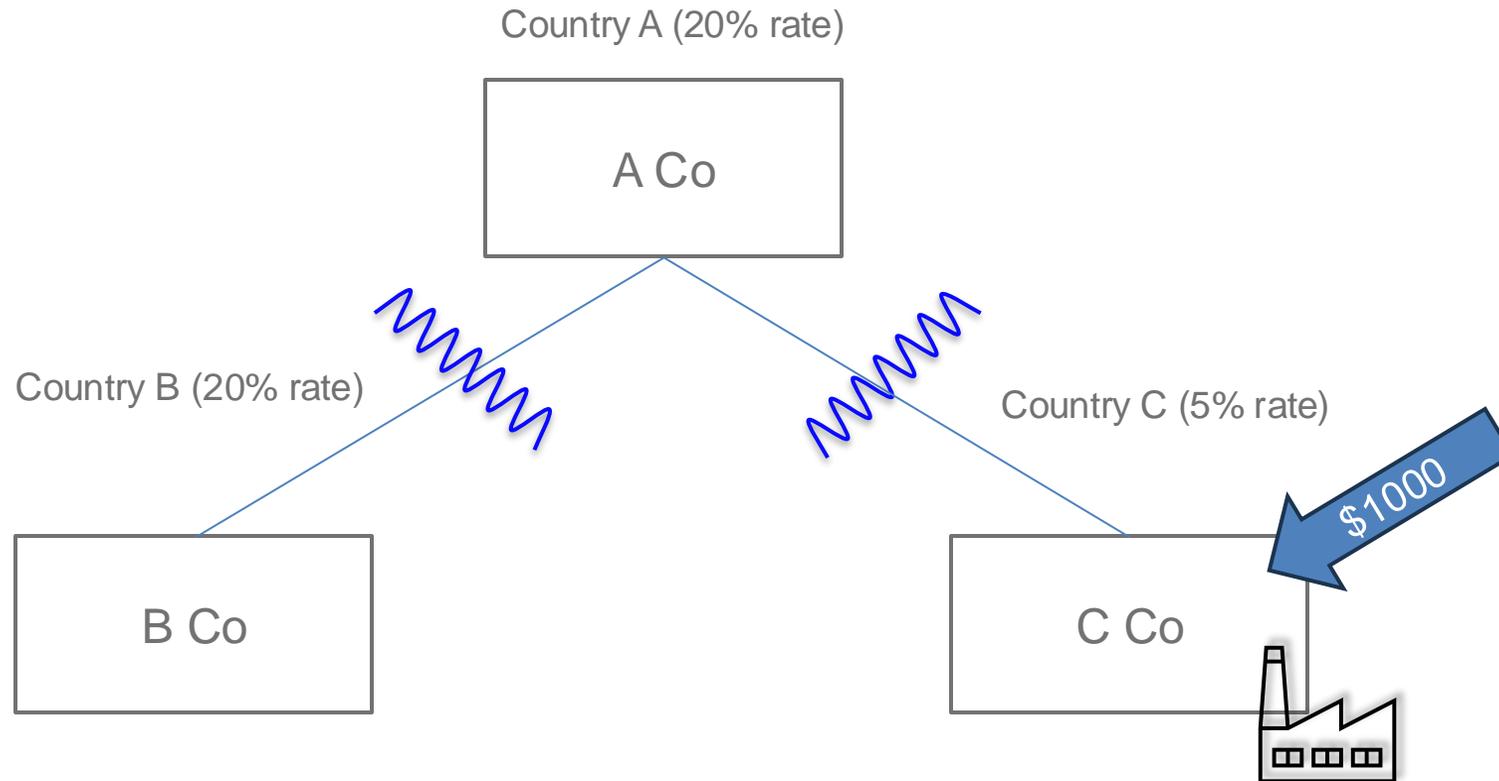


Impact of QDMTT on GloBE tax liability





Example – Benefits of QDMTT





Example – Country C raises tax rate to 15%

Country C CIT	
Income	1000
CIT Rate	15%
Total Tax due	150
Credit	-
Covered Tax*	150

IIR Tax - Country A	
GloBE Income	1000
SBIE	(200)
Jurisdictional Excess Profit	800
Top-up Tax [15%-(Covered Tax / GloBE income)]	0%
IIR Top-up Tax	0



Example – Country C introduces QDMTT

Country C CIT	
Income	1000
CIT Rate	5%
Total Tax due	50
Credit	-
Covered Tax*	50

QDMTT - Country C	
F. GloBE Income	1000
G. SBIE	200
H. Jurisdictional Excess Profit	800
I. Top-up Tax %	10%
J. IIR Top-up Tax	80

IIR Tax - Country A	
GloBE Income	1000
SBIE	(200)
Jurisdictional Excess Profit	800
Top-up Tax	10%
IIR Top-up Tax	80
Credit QDMTT	(80)
Final Top-up Tax liability	0

Country C only collects a total tax of 50 CIT + 80 QDMTT giving an effective tax rate of 13% on GloBE Income.

QDMTT fully creditable against top-up tax reducing IIR tax to 0



QDMTT REQUIREMENTS



Optional variations from the GloBE Rules

- General rule is that QDMTT must achieve functional equivalence with GloBE rules

Variation that does not result in systematically lower tax outcomes

GloBE rules are not relevant (i.e. deal with entities or protect certain income concessions that do not exist under local law)
Where local law is more restrictive (e.g. deductibility of fines has a lower threshold)

Limited or no variation

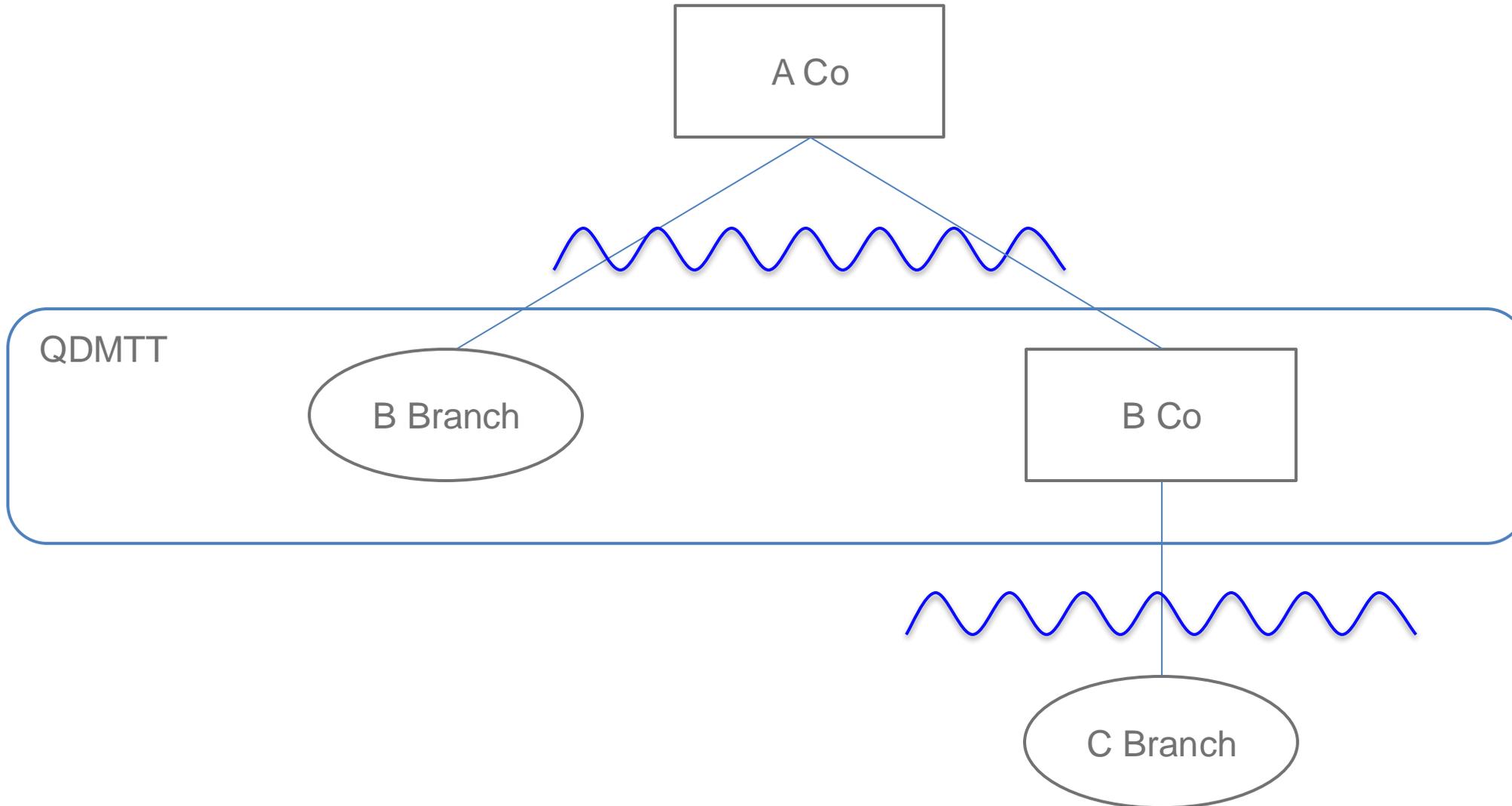
- Scope
- Location of entities and allocation of profit
- Elections
- Safe harbours

Mandatory elements

- Limitation on cross border taxes
- Applies to all income of all CE

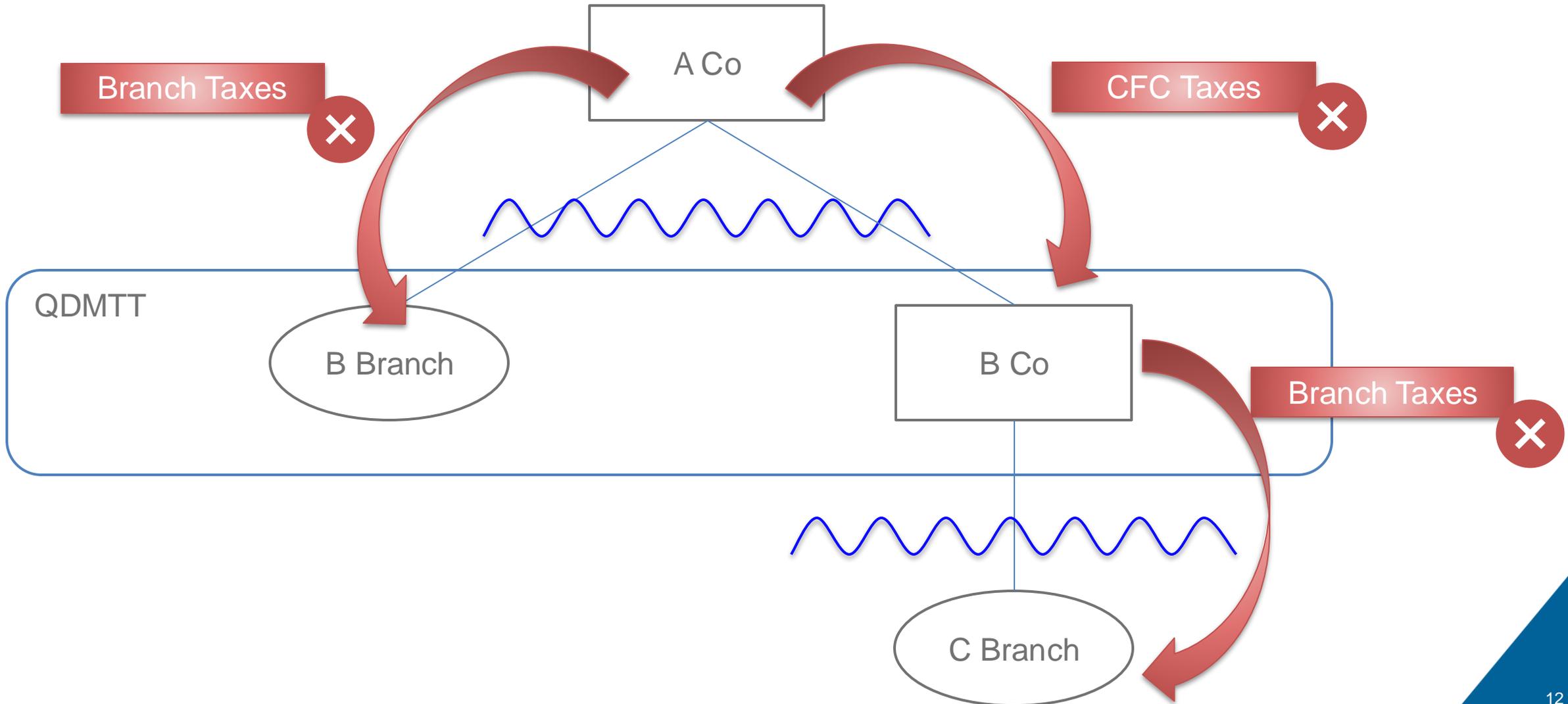


Limitation on Cross-Border Taxes



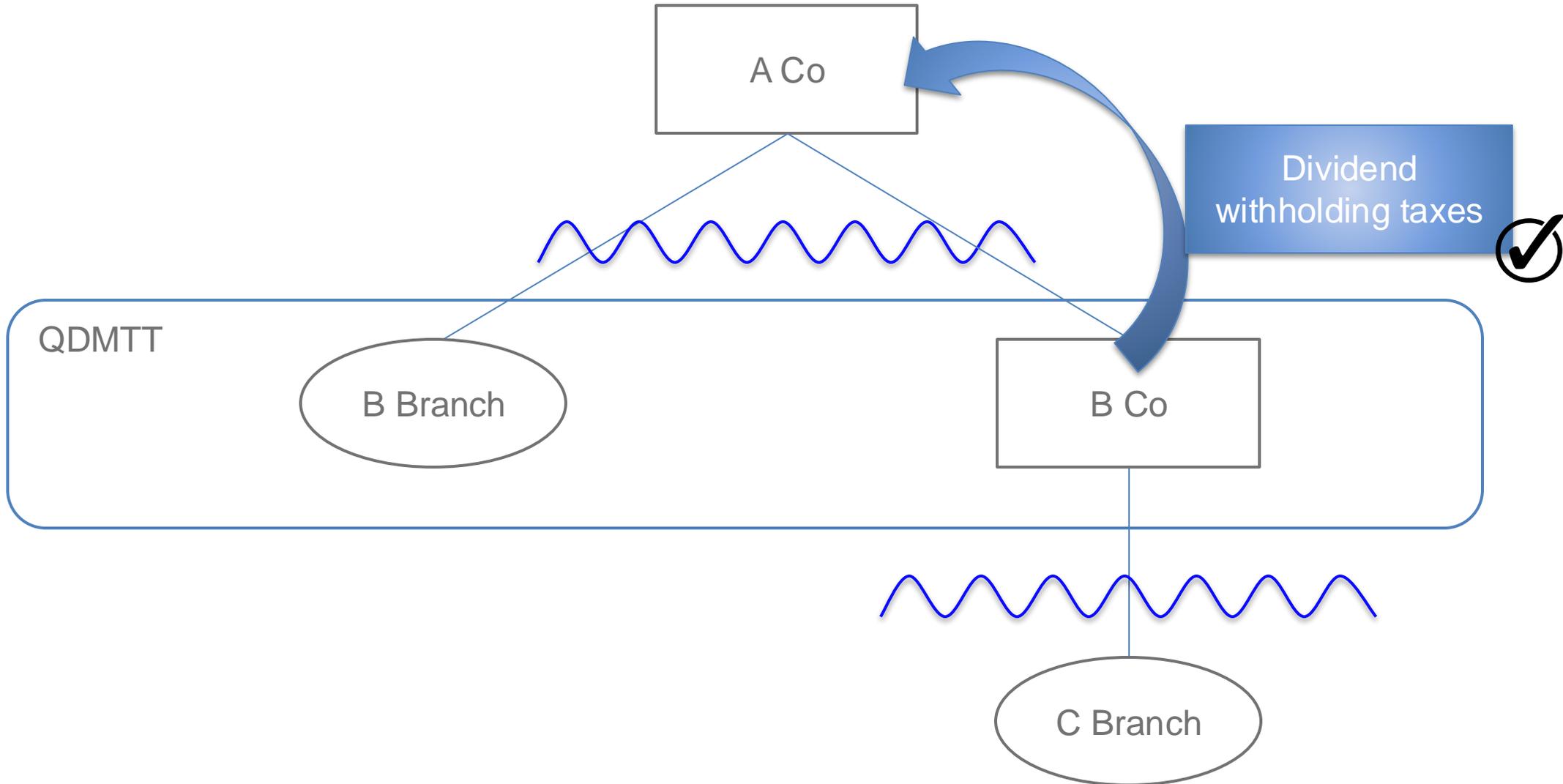


Limitation on Cross-Border Taxes



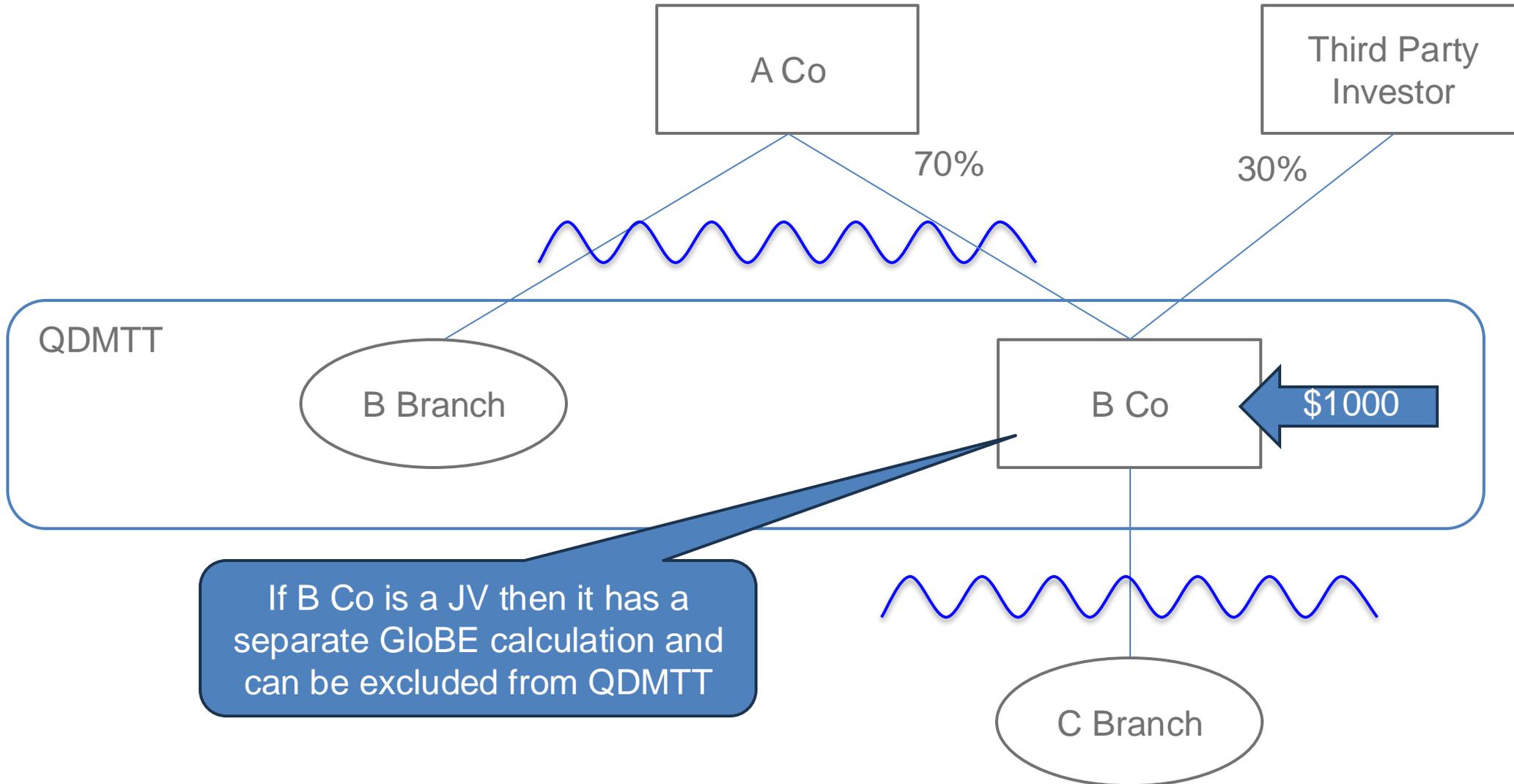


Limitation on Cross-Border Taxes





QDMTT applies to all income of all CEs





QDMTT SAFE HARBOUR



QDMTT Safe Harbour

What is the QDMTT Safe Harbour?

Exempts the QDMTT country from the scope of the IIR/UTPR

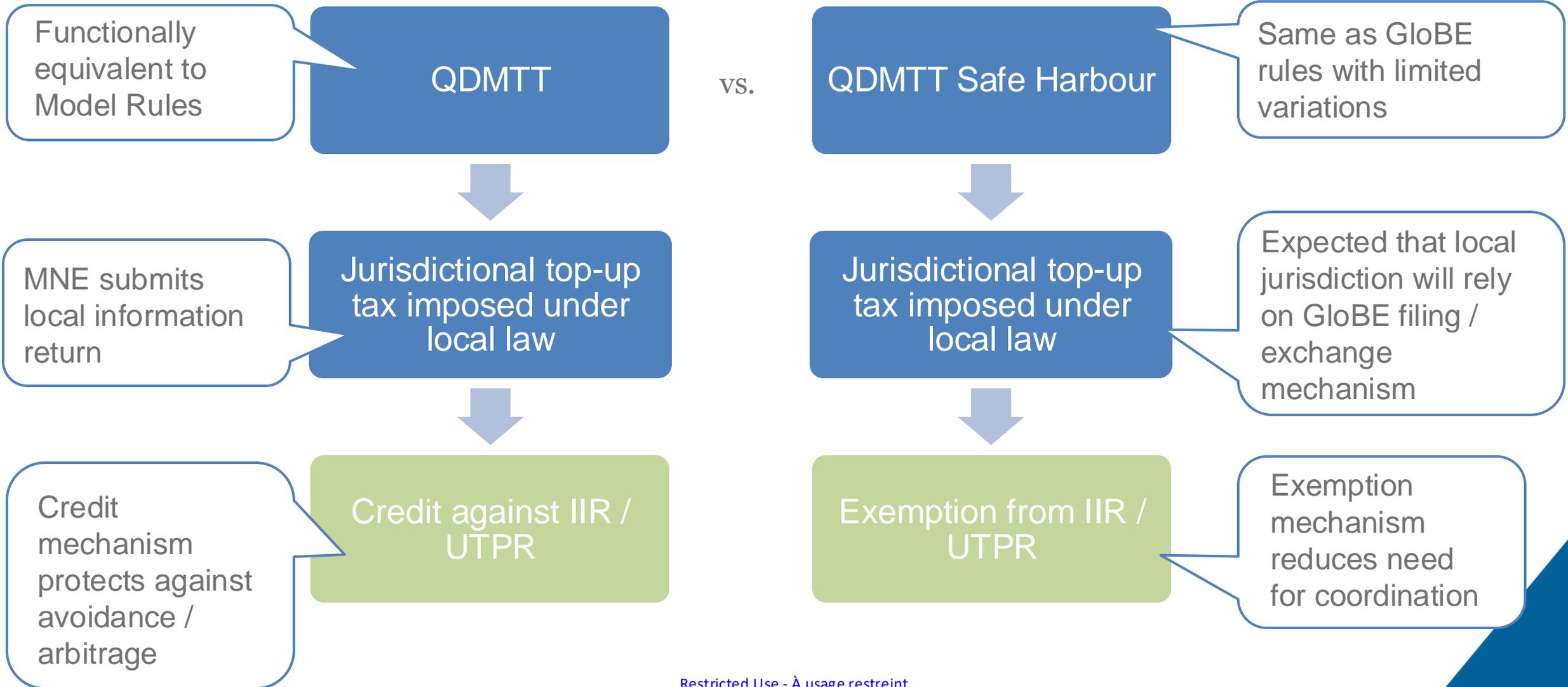
Only available where QDMTT closely aligned with the GloBE Rules

Permitted and required variations

Switch-off rule



QDMTT vs QDMTT safe harbour





Qualifying for the QDMTT Safe Harbour



Consistency standard

Tests consistency of QDMTT legislation with the GloBE Rules



QDMTT accounting standard

Either:

- Follow the same rules as the GloBE Rules, or
- Use the Local Financial Accounting Standard Rule



Administration standard

Comply with return filing and ongoing monitoring process requirements



Consistency Standard

- QDMTT must be the same as the GloBE rules

QDMTT must be same as GloBE rules

- Computations under the QDMTT must be the same as those required under the GloBE Rules except where Commentary allows or requires
- A QDMTT will not meet the Consistency Standard where the QDMTT legislation does not include all the adjustments required in Chapter 3.

Limited Variations allowed

- Exclusion of certain parts of MNE Group
- Sub-national or CE-by-CE blending of income and taxes
- Application to MNEs in initial stages of international expansion
- Non-application of rules due to taxpayer challenge



Switch-off Rule



Accounting Standard

Local Accounting Standard

- Must be
 - an **acceptable accounting standard** or
 - generally accepted accounting standard adjusted to remove 'material competitive distortions
- Local CEs must prepare accounts in local standard for corporate tax or audit purposes.
- May facilitate audit - comparability with local tax returns
- Increased risk of arbitrage

Consolidated Financial Accounting Standard

- Better alignment with GloBE outcomes in UPE jurisdiction
- Lower compliance costs for MNE
- Facilitates joint risk assessment / audit with other implementing countries
- Less scope for arbitrage

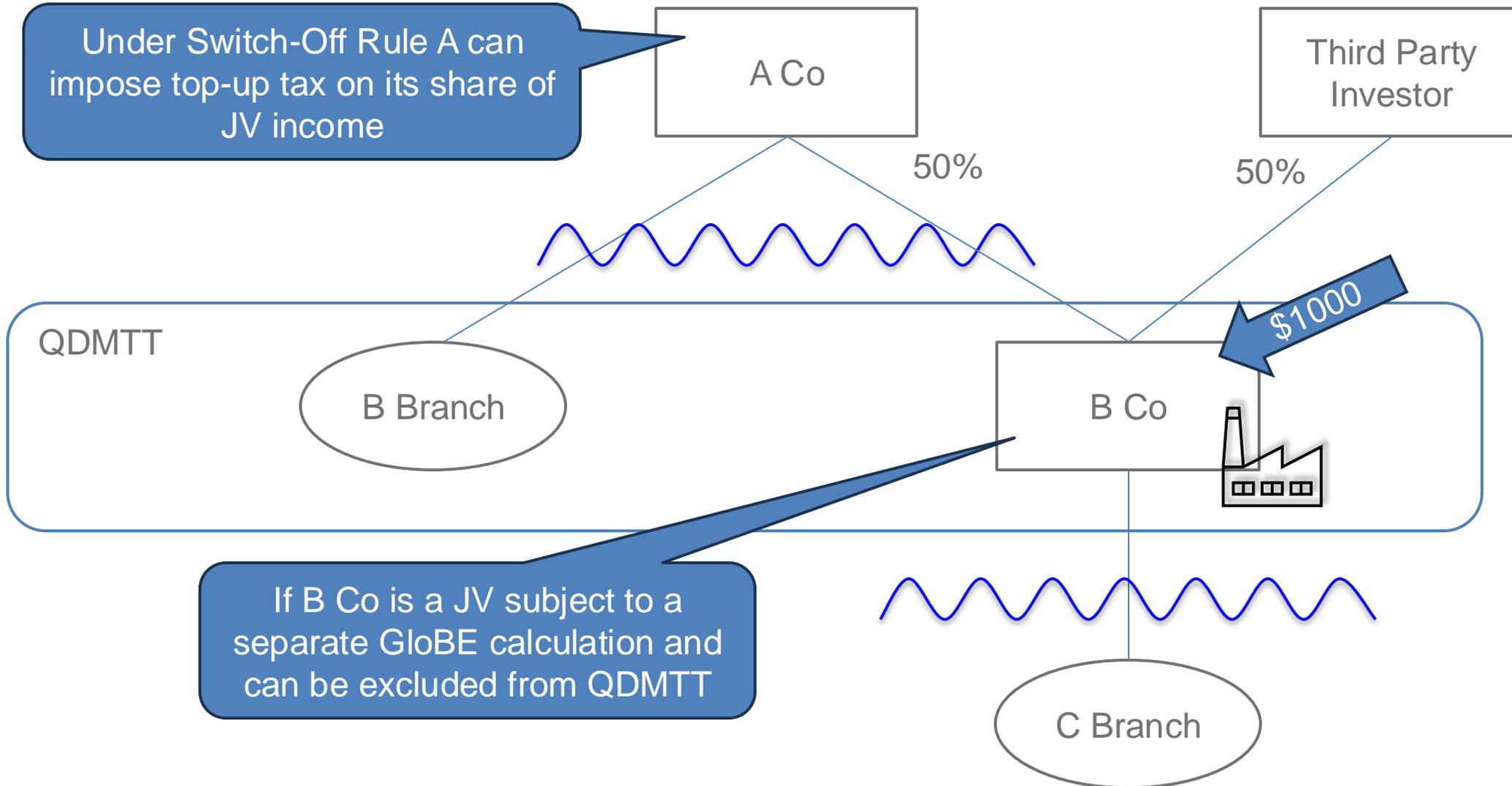


Switch-off rule

- Allows countries to take advantage of certain permitted variations without failing the consistency standard
- Turns off the safe harbour for MNEs that are not subject to the QDMTT while allowing other MNEs to still benefit

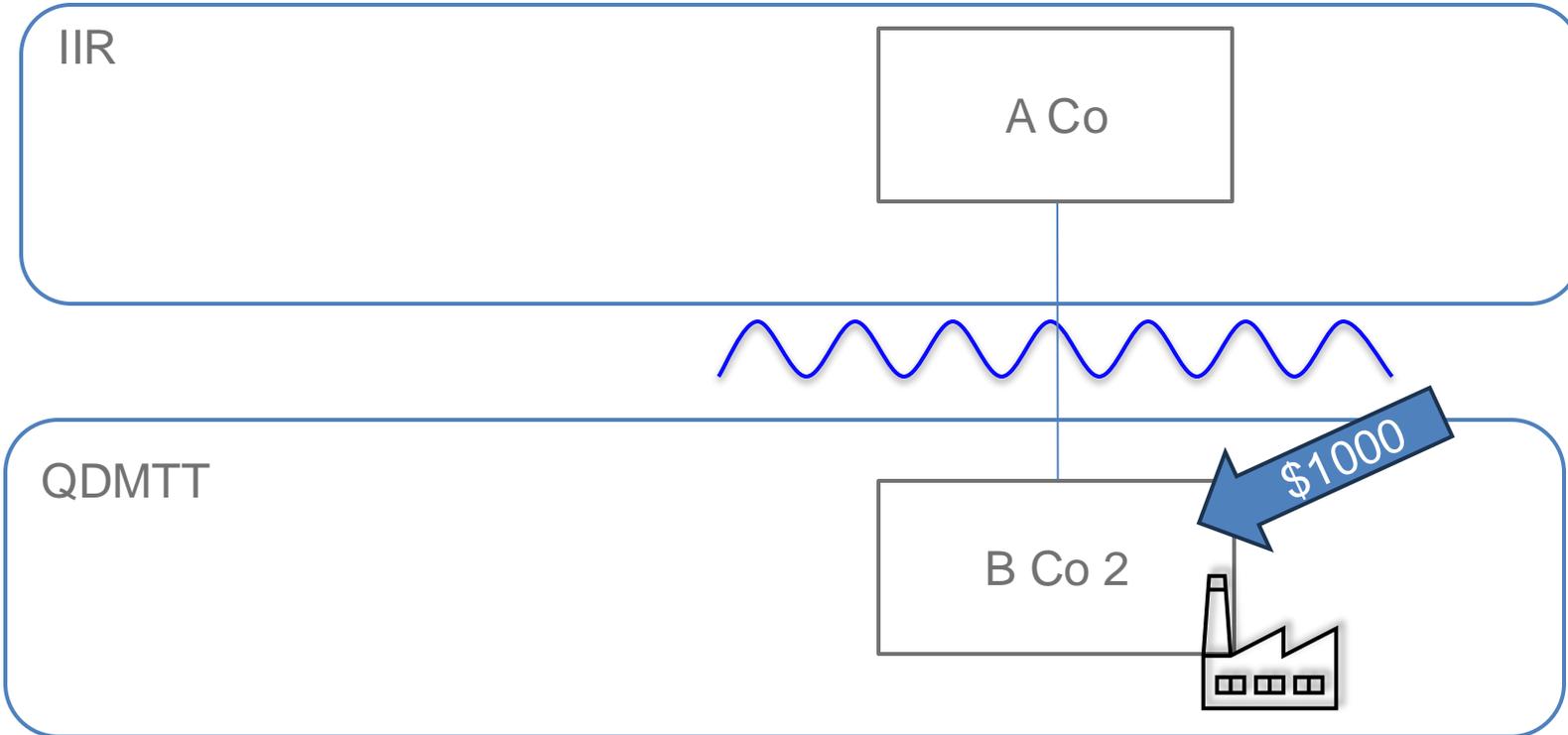


Application of Switch-Off Rule





Application to tax concessions





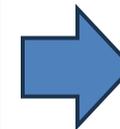
Example – MNE challenges imposition of top-up tax

Country B CIT	
Income	1000
CIT Rate	5%
Total Tax due	50
Credit	-
Covered Tax*	50

QDMTT - Country B	
GloBE Income	1000
SBIE	(200)
Jurisdictional Excess Profit	800
Top-up Tax %	10%
IIR Top-up Tax	80

IIR Tax - Country A	
GloBE Income	1000
SBIE	(200)
Jurisdictional Excess Profit	800
Top-up Tax	10%
IIR Top-up Tax (Switch-off rule)	80
Credit QDMTT	-
Final Top-up Tax liability	80

MNE challenges imposition of top-up tax under Country B law



IIR applies due to MNE's challenge of top-up tax in Country C. No credit for QDMTT



ADMINISTRATION OF THE QDMTT



Administration of the QDMTT - Overview

1. Filing and payment

- File local tax return and pay top-up taxes in jurisdiction
- Largely a domestic question

2. Information Collection

- GloBE information return (GIR) filled centrally received from the UPE jurisdiction
- Local filing of the QDMTT information
- Further inquiries (requests for information, audits)

3. Controls and Audit

- Risk assessment
- Coordination mechanisms with other jurisdictions with taxing rights



1. Filing of tax return and payment of taxes

Tax return under the domestic law

- Tax return filing and payment obligations still left to each implementing jurisdiction (in line with existing procedures)
- Jurisdictions should refrain from asking data points beyond the GIR

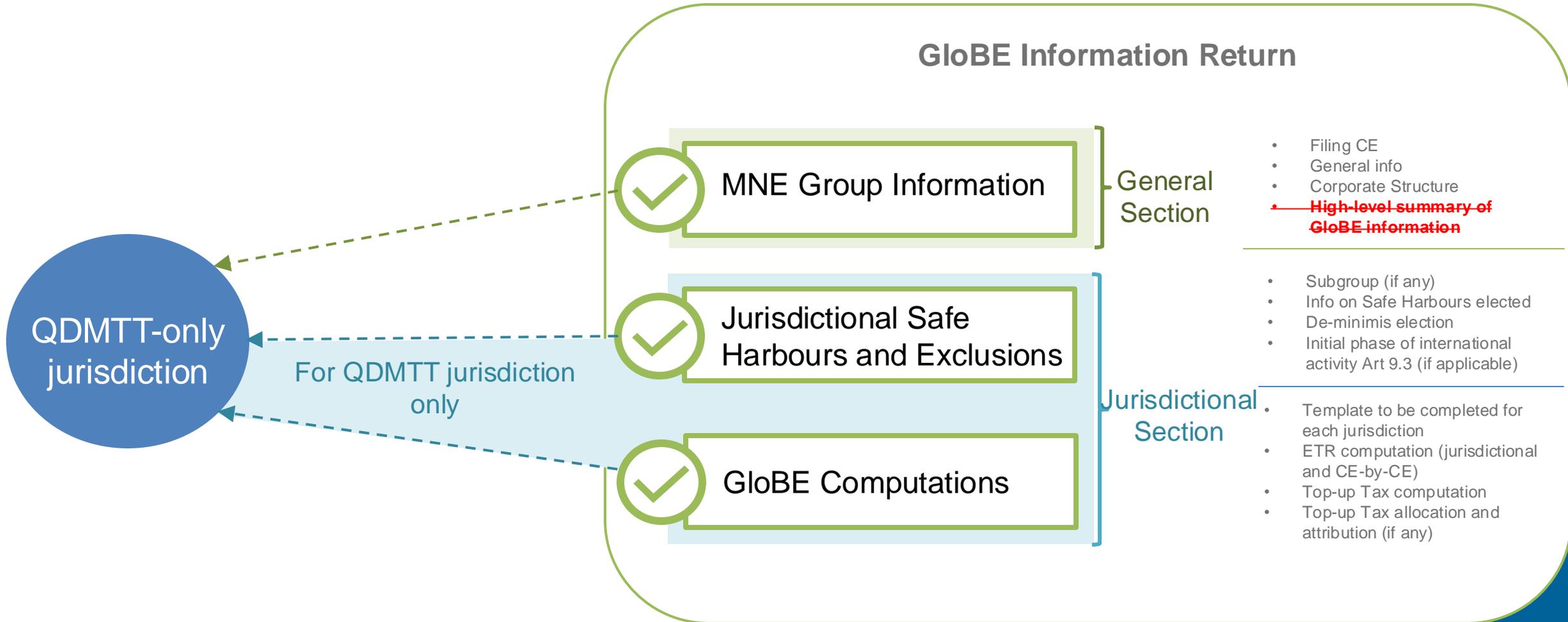
Issues to consider

- Incorporation of tax return / assessment into existing CIT compliance
- Timing of return and payment
- Penalties



2. Information Collection

GloBE Information return (GIR)





3. Controls and Audit

Risk systems

- Building upon single GIR
- Risk filters for facilitating compliance and streamline the audits

Further inquiries

- Existing instruments: request for information, EOIR, audits

Coordinated administrative framework

- Dispute prevention
- Dispute resolution
 - Ongoing work, looking at scope, legal basis and mechanisms



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