OECD/G20 BASE EROSION AND PROFIT SHIFTING PROJECT

Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) Examples

Inclusive Framework on BEPS

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This document was revised on 2 May 2025 to include the illustrative examples that were developed as part of the various pieces of Administrative Guidance approved by the Inclusive Framework before the end of January 2025.

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Abbreviations and acronyms

BEPS	Base Erosion and Profit Shifting
CFC	Controlled foreign company
CIT	Corporate income tax
ETR	Effective tax rate
FX	Foreign exchange
FXGL	Foreign currency gains or losses
GloBE	Global Anti-Base Erosion
IIR	Income Inclusion Rule
LTCE	Low-Taxed Constituent Entity
MNE	Multinational Enterprise
OECD	Organisation for Economic Co-operation and Development
PE	Permanent Establishment
POPE	Partially-Owned Parent Entity
UPE	Ultimate Parent Entity

Introduction

1. The Global Base Erosion rules (GloBE Rules) have been developed as part of the solution for addressing the tax challenges of the digital economy. They are designed to ensure large multinational enterprises (MNEs) pay a minimum level of tax on the income arising in each jurisdiction where they operate. The Commentary to the GloBE Rules provides tax administrations and taxpayers with guidance on the interpretation and application of those rules. The Commentary is intended to promote a consistent and common interpretation of the GloBE Rules that will facilitate co-ordinated outcomes for both tax administrations and MNE Groups. The Commentary explains the intended outcomes under the rules and clarifies the meaning of certain terms.

2. This document, which has been prepared by the OECD Secretariat, sets out a number of examples that illustrate application of the GloBE Rules. The numbering of the examples is consistent with the relevant provisions of the GloBE Rules and the Articles in the Commentary to the GloBE Rules Articles. The examples are intended to be used for illustrative purposes only and do not form part of the Commentary. Additional examples may be developed and published in the future to illustrate the application of the same or other aspects of the GloBE Rules and the explanations given in the Commentary.

Chapter 2 – Examples

Article 2.1.3

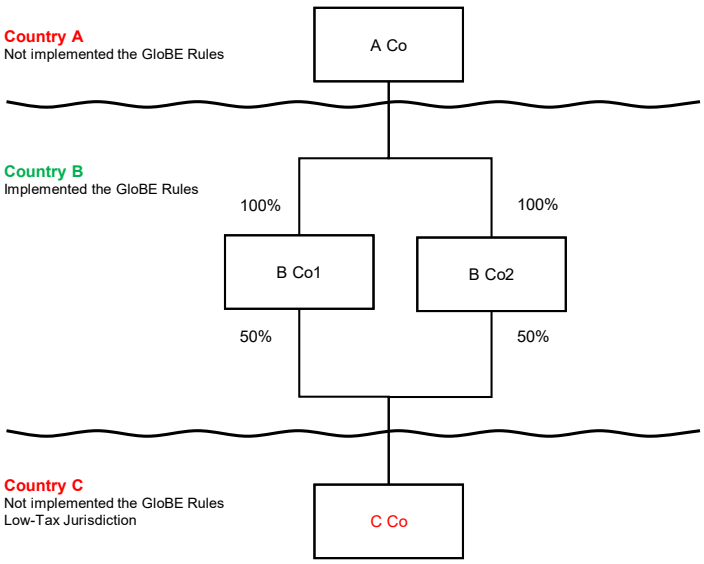
Example 2.1.3 - 1

Application of Top-down Approach

1. This example illustrates the application of the top-down approach under Article 2.1.3 in a situation where the UPE is not required to apply a Qualified IIR.

2. A Co is located in Country A and is the UPE of the ABC Group. A Co directly owns B Co 1 and B Co 2, both located in Country B. B Co 1 and B Co 2 each hold 50% of the Ownership Interests in C Co, which is a Constituent Entity located in Country C. The Ownership Interests of C Co are ordinary common stock that carry an equal right to profit distributions and capital. A Co, B Co 1, B Co 2 and C Co are the only Constituent Entities in the ABC Group.

3. A Co, B Co 1 and B Co 2 all have an ETR for the Fiscal Year that is above the Minimum Rate, however, C Co is an LTCE located in a Low-Tax Jurisdiction. Of the three jurisdictions, only Country B has implemented a Qualified IIR. A diagram illustrating the holding structure and location of the members of the ABC Group is set out below.



4. Country C is a Low-Tax Jurisdiction and C Co is a LTCE for the purposes of the GloBE Rules and any Top-up Tax determined for C Co under Chapter 5 will therefore be subject to charge under an applicable IIR.

5. A Co is the UPE and would have the priority to apply the IIR under Articles 2.1.1 and 2.1.3 if Country A had introduced a Qualified IIR. In this case, however, only Country B has introduced a Qualified IIR and thus, the Intermediate Parent Entities (B Co 1 and B Co 2) are required to apply the IIR in accordance with Article 2.1.2 because the conditions in Article 2.1.3(a) are not met. B Co 1 and B Co 2 must apply the IIR in accordance with Article 2.1.2 based on their Allocable Share of the Top-up Tax (50% each) of C Co. B Co 1 and B Co 2 pay the Top-tax under the IIR equal to the full amount of C Co's Top-up Tax.

Example 2.1.3 - 2

Application of Top–down Approach and Offset Mechanism

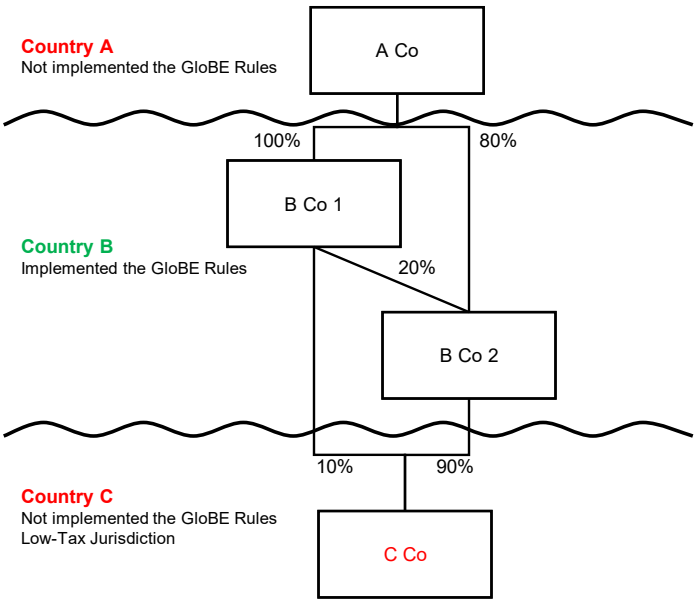
1. This example illustrates the application of the top-down approach under Article 2.1.3 in a situation where an Intermediate Parent Entity required to apply a Qualified IIR owns an Ownership Interest in another Intermediate Parent Entity that is also required to apply a Qualified IIR with respect to the same LTCE.

2. The facts are the same as in example 2.1.3 - 1, except that:

   a. A Co directly holds 80% of the Ownership Interests in B Co 2 with the balance of B Co 2's Ownership Interests held by B Co 1; and

   b. Rather than B Co 1 and B Co 2 each holding 50% of the Ownership Interests of C Co, B Co 1 has 10% of the Ownership Interests in C Co and B Co 2 holds 90% of the Ownership Interests.

3. A diagram illustrating the holding structure and location of the members of the ABC Group is set out below.



4. In this example, one of the Intermediate Parent Entities (B Co 1) that is required to apply the IIR holds some of the Ownership Interests of another Intermediate Parent Entity (B Co 2). However, Article 2.1.3(b) does not prevent the lower-tier Entity (B Co 2) from applying the IIR because B Co 1 does not own a Controlling Interest in B Co 2. Thus, both B Co 1 and B Co 2 are required to apply the IIR under Article 2.1.2 based on their Allocable Share of the Top-up Tax in accordance with Article 2.2.

5. In this case, it is assumed that B Co 2's Allocable Share of C Co's Top-up Tax is 90% (based on its direct shareholding in C Co) and that B Co 1's Allocable Share of the Top-up Tax is 28% (10% due to its direct ownership and 18% due to its indirect ownership). However, in order to avoid double taxation, Article 2.3 requires B Co 1 to reduce the Top-up Tax attributable to its indirect ownership in C Co by the amount that will be brought into charge by B Co 2.

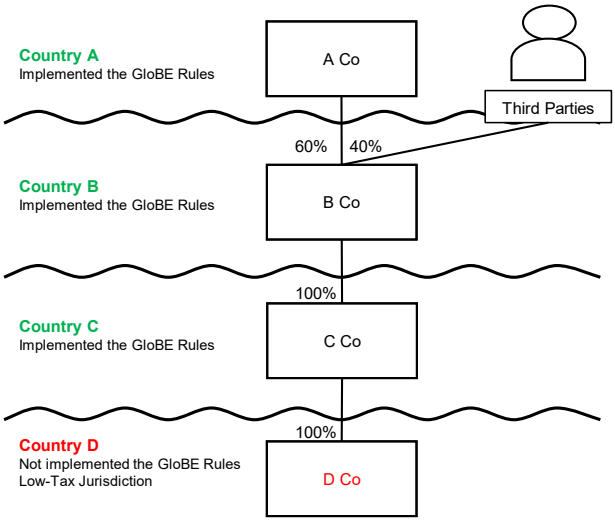
Article 2.1.5

Example 2.1.5 - 1

Application of the IIR - POPE

1. This example illustrates the application of the split-ownership rules and the top-down approach in a situation where the UPE and POPE are required to apply a Qualified IIR with respect to the same LTCE.

2. A Co is located in Country A and is the UPE of the ABCD Group. A Co owns the Controlling Interests in three Constituent Entities: B Co, C Co and D Co, respectively located in Countries B, C and D. A Co owns 60% of the Ownership Interests in B Co, while the remaining 40% are held by third parties. B Co, in turn, wholly owns C Co and C Co wholly owns D Co. The Ownership Interest of B Co, C Co, and D Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the ABCD Group is set out below.



3. D Co is located in a Low-Tax Jurisdiction for the purposes of the GloBE Rules and therefore any Top-up Tax determined for D Co under Chapter 5 will be subject to charge under an applicable IIR.

4. In accordance with Article 10.1, a POPE is a Constituent Entity that: (a) owns (directly or indirectly) an Ownership Interest in another Constituent Entity of the same MNE Group; and (b) more than 20% of its Ownership Interests (in its profits) are held directly or indirectly by persons that are not Constituent Entities of the MNE Group. The indirect ownership test does not consider the Ownership Interests owned by non-Constituent Entities through the UPE. B Co is a POPE because (a) it owns an Ownership Interest in C Co and (b) 40% of its Ownership Interests are owned by persons that are not Constituent Entities of the ABCD Group. C Co also meets the definition of a POPE because (a) it owns an Ownership Interest in D Co and (b) 40% of its Ownership Interests are owned indirectly by persons that are not Constituent Entities of the ABCD Group (through B Co). However, D Co is not a POPE because, while 40% of its Ownership Interests

are owned indirectly by person that are not Constituent Entities of the MNE Group (through B Co and C Co), D Co does not own an Ownership Interest in any Constituent Entity of the MNE Group.

5. In accordance with Article 2.1.4, a POPE is required to apply the IIR based on its Allocable Share of the Top-up Tax of the LTCE notwithstanding that the UPE or an Intermediate Parent Entity is also required to apply the IIR. Thus, both B Co and C Co would be required to apply the IIR under Article 2.1.4 because they have an Ownership Interest in D Co. However, Article 2.1.5 restricts C Co from applying the IIR because it is wholly owned by another POPE (B Co). Consequently, B Co applies the IIR in accordance with Article 2.1.4 and pays tax equal to 100% of the Top-up Tax of D Co.

6. The existence of a POPE does not preclude the UPE from also applying a Qualified IIR. However, the IIR offset mechanism in Article 2.3 requires the UPE to reduce its Allocable Share of the Top-up Tax by the portion that is brought into charge by the POPE. Accordingly, A Co is required to reduce its Allocable Share of the Top-up Tax of D Co to zero in accordance with Article 2.3.

Example 2.1.5 - 2

Application of the IIR - POPE

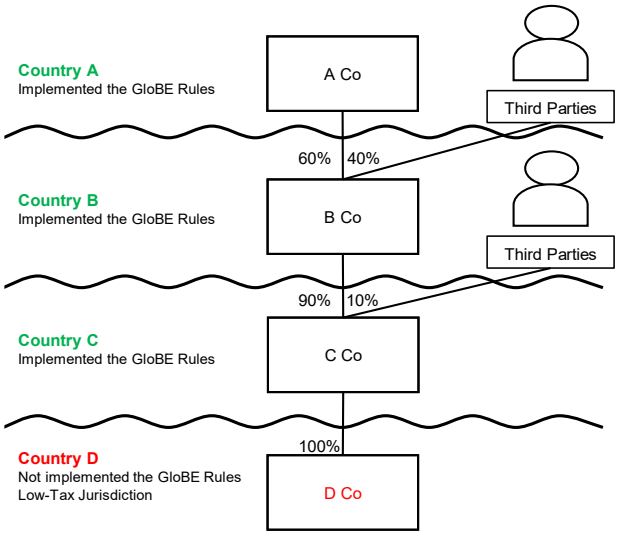
1. This example illustrates the application of the split-ownership rules and the top-down approach under Articles 2.1.4 and 2.1.5 in a situation where two POPEs are required to apply a Qualified IIR with respect to the same LTCE.

2. The facts are the same as Example 2.1.5 - 1, except that:

   a. 10% of the Ownership Interest in C Co is held directly by third parties; and

   b. the remaining 90% is still held by B Co.

3. A diagram illustrating the holding structure and location of the members of the ABCD Group is set out below.



4. B Co and C Co are POPEs because more than 20% of their Ownership Interests are held by persons that are not Constituent Entities of the ABCD Group. B Co is a POPE because 40% of its Ownership Interests are held directly by non-Group Members and C Co is also a POPE because 46% of its Ownership Interests are held directly (10%) or indirectly (40%*90% = 36%) by third parties .

5. Under this scenario, however, Article 2.1.5 does not restrict C Co from applying the IIR because it is not wholly owned by another POPE.

6. Therefore, C Co applies the IIR under Article 2.1.4 with respect to 100% of the Top-up Tax of D Co because that is its Allocable Share of the Top-up Tax. In this case, B Co is still required to apply the IIR in accordance with Article 2.1.4 (with a different Allocable Share of the Top-up Tax) and is not restricted by Article 2.1.5. However, the IIR offset mechanism of Article 2.3 would eliminate any potential double taxation due to A Co's and B Co's application of the IIR in respect of D Co.

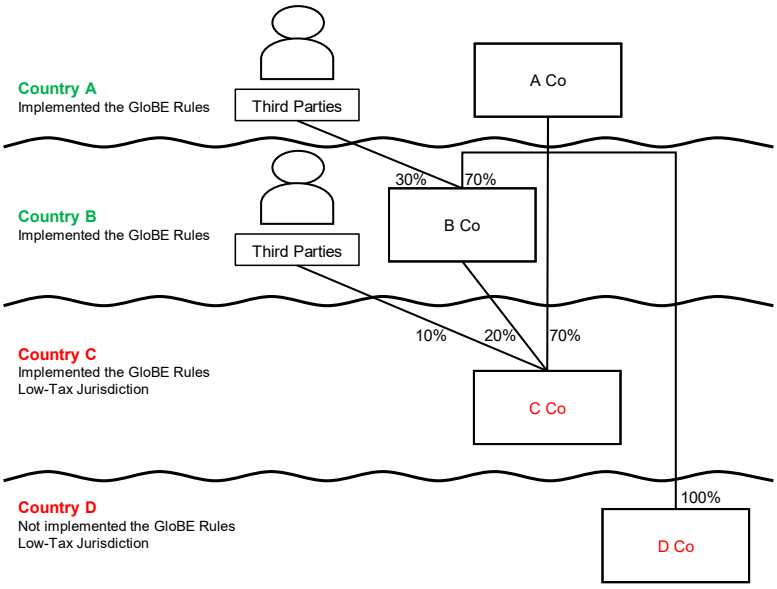
Article 2.2.3

Example 2.2.3 - 1

Allocation of Top-up Tax under the IIR

1. This example illustrates the computation of the Inclusion Ratio and a Parent Entity's Allocable Share of the Top-up Tax Amount.

2. A Co is the UPE of an MNE Group and owns 70% of the Ownership Interests in B Co, a POPE located in Country B. The remaining 30% of the Ownership Interests in B Co are owned by persons that are not Group Entities. B Co owns 20% of the Ownership Interests in C Co, an LTCE located in Country C. A Co directly owns 70% of the Ownership Interests in C Co. A person that is not a Group Entity owns the remaining 10% of the Ownership Interests in C Co. A Co owns 100% of the Ownership Interests in D Co, an LTCE located in Country D. The Ownership Interest of B Co, C Co, and D Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



3. The Top-up Tax computed for Country C and allocated to C Co for the Fiscal Year is 1,000. The Top-up Tax computed for Country D and allocated to D Co for the Fiscal Year is 500. The Financial Accounting Net Income of C Co and D Co reflected in the Consolidated Financial Statements of A Co is 18,000 and 0, respectively. C Co's GloBE Income is 20,000 and D Co's GloBE Income is 35,000. The difference between C Co's GloBE Income and the income reflected in the Consolidated Financial Statements is attributable to 2,000 of expenses that are not taken into account in computing GloBE Income or Loss. The difference between D Co's GloBE Income and its income reflected in the Consolidated Financial Statements is attributable to the fact that all of its transactions were conducted with Group Entities located outside of Country D.

Entity	Consolidated income	GloBE Income	Difference
C Co	18,000	20,000	2,000
D Co	0	35,000	35,000

4. B Co's Allocable Share of the Top-Up Tax of C Co is computed as follows:

   a. If B Co actually prepared Consolidated Financial Statements pursuant to UPE's financial accounting standard, it would not consolidate the income and expenses of C Co because B Co only owns a 20% Ownership Interest in C Co. However, pursuant to Article 2.2.3(a), B Co assumes that it owns a Controlling Interest in C Co such that it would be required to consolidate its income, expense, assets, liabilities and cash flows with C Co for purposes of the hypothetical Consolidated Financial Statements.

   b. The first step in determining B Co's Inclusion Ratio is computing the amount of GloBE Income attributable to Ownership Interests held by "other owners" in accordance with Article 2.2.3, which includes the Ownership Interests held by A Co. Under paragraph (d), Ownership Interests held by A Co are treated as Ownership Interests held by non-Group Entities for purposes of applying the UPE's financial accounting standard for allocating income to non-Group Entities that do not have a Controlling Interest in the LTCE. In this case, 16,000 of the GloBE Income is attributed to Ownership Interests held by other owners (2,000 in relation to the 10% owned by a person that is not a Group Entity and 14,000 in relation to the 70% owned by A Co).

   c. The second step is to compute B Co's "Inclusion Ratio" for C Co in accordance with Article 2.2.2. B Co's Inclusion Ratio is 20% (= [20,000 GloBE Income – 16,000 other owners' interest] / 20,000 GloBE Income).

   d. The final step is calculating B Co's Allocable Share of the Top-up Tax of C Co in accordance with Article 2.2.1. B Co's Allocable Share of the Top-up Tax is 200 (= 1,000 Top-up Tax x 20% Inclusion Ratio).

5. A Co's Allocable Share of the Top-Up Tax of C Co is computed as follows:

   a. The first step is computing the amount of GloBE Income attributable to the Ownership Interests held by "other owners" in accordance with Article 2.2.3. In this case, 3,200 of the GloBE Income is attributed to Ownership Interests held by other owners (2,000 in relation to the 10% Ownership Interests owned directly by non-Group Entities and 1,200 in relation to the 6% Ownership Interests indirectly owned by other non-Group Entities through B Co). This amount is different from the amount attributed to persons that are non-Group Entities as reflected in the Consolidated Financial Statements because Article 2.2 uses the GloBE Income and not the Financial Accounting Net Income.

   b. The second step is to compute A Co's "Inclusion Ratio" for C Co in accordance with Article 2.2.2. A Co's Inclusion Ratio is 84% (= [20,000 GloBE Income – 3,200 other owners' interest] / 20,000 GloBE Income).

   c. The final step is to calculate A Co's Allocable Share of the Top-up Tax of C Co in accordance with Article 2.2 and Article 2.3. A Co first computes a tentative Allocable Share of the Top-up Tax under Article 2.2.1 of 840 (= 1,000 Top-up Tax x 84% Inclusion Ratio). Then, A Co reduces its Allocable Share by an amount equal to the portion that is brought to charge under the IIR applicable to B Co, or 14% (= B Co 20% x 70%). Thus, A Co's Allocable Share of the Top-up Tax for purposes of applying Chapter 2 is 700 (= 840 tentative Allocable Share – 140 offset).

6. Finally, A Co's Allocable Share of the Top-Up Tax of D Co is computed as follows:

   a. The first step is computing the amount of GloBE Income attributable to Ownership Interests held by "other owners" in accordance with Article 2.2.3. In this case, that amount is zero because D Co is wholly-owned by A Co.

   b. The second step is to compute A Co's Inclusion Ratio with respect to D Co. A Co's Inclusion Ratio is 100% (= [35,000 GloBE Income – 0 other owners' interest] / 35,000 GloBE Income). The fact that D Co's income was eliminated in the actual consolidation process does not change the outcome of the hypothetical allocation because Article 2.2.3(c) requires an allocation on the basis of the GloBE Income and not the Constituent Entity's income reflected in the Consolidated Financial Statements of A Co.

   c. The final step is to calculate A Co's Allocable Share of the Top-up Tax of D Co in accordance with Article 2.2.1. A Co's Allocable Share of the Top-up Tax is 500 (= 500 Top-up Tax x 100 % Inclusion Ratio).

7. The following table illustrates each Parent Entity's Allocable Share of the Top-up Tax of each LTCE and the Article 2.3 Offset Mechanism.

	A Co	**B Co**	**Non-Group**	**Total**
Allocable Share of C Co Top-up Tax	840	200	100	1,140
Article 2.3 Offset	(140)	-	-	(140)
Allocable Share of D Co Top-up Tax	500	-	-	500
Total Top-up Tax allocated	1,200	200	100	1,500

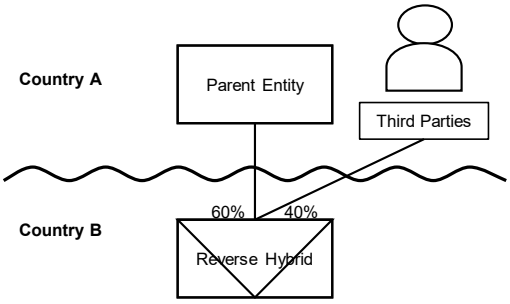
Article 2.2.4

Example 2.2.4 - 1

Allocation of Top-up Tax under the IIR

1. This example illustrates the determination of the Inclusion Ratio and the Allocable Share of the Top-up Tax in a situation where some of the LTCE's income is allocated to non-Group Entities under Article 3.5.3.

2. Reverse Hybrid Entity is a company incorporated in Country B that is treated as fiscally transparent under the tax laws of Country B but not under the tax laws of Country A. A Parent Entity of the MNE Group, located in Country A, owns 60% of the Ownership Interests of Reverse Hybrid Entity and the remaining 40% of the Ownership Interests are owned by non-Group Entities. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



3. Prior to the application of Article 3.5.1, Reverse Hybrid Entity's GloBE Income or Loss is reduced by 40%, the amount allocable to non-Group Entities. The remaining 60% of its GloBE Income or Loss is allocated to itself pursuant to Article 3.5.1(c). For purposes of determining the Parent Entity's Allocable Share of the Top-up Tax under Article 2.2, Article 2.2.4 provides that Reverse Hybrid Entity's income does not include any income allocated to non-Group Entities under Article 3.5.3. Accordingly, the Parent Entity's Inclusion Ratio for purposes of determining its Allocable Share of the Top-up Tax of Reverse Hybrid Entity is 100% after the adjustment pursuant to Article 3.5.3. In other words, because the GloBE Income allocable to the non-Group Entities has been removed from the Reverse Hybrid Entity's GloBE Income pursuant to Article 3.5.3, all of the remaining GloBE Income is attributable to the Parent Entity's Ownership Interest.

Article 2.3.2

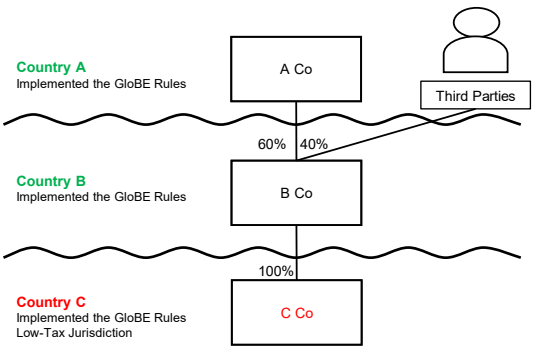
Example 2.3.2 - 1

IIR Offset Mechanism – POPE

1. This example illustrates the application of the IIR offset mechanism in Article 2.3.2 in a situation where a UPE and a POPE apply a Qualified IIR with respect to the same LTCE.

2. A Co is the UPE of ABC Group. A Co is located in Country A that directly or indirectly owns Controlling Interests in two subsidiary companies: B Co and C Co, respectively located in Countries B and C. C Co is an LTCE located in a Low-Tax Jurisdiction. A Co, B Co and C Co are the only Constituent Entities in the ABC Group.

3. A Co has a 60% Ownership Interest in B Co while third parties own the remaining 40%. B Co, in turn, wholly owns C Co. The Ownership Interest of B Co and C Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



4. The Top-up Tax of C Co is EUR 10 million. B Co is a POPE because it has Ownership Interests in another Constituent Entity of the ABC Group and 40% of its Ownership Interests are held by third parties (i.e. non-group Entities). B Co is therefore required to apply the IIR in accordance with Article 2.1.4 because it is a POPE that owns an Ownership Interest in a LTCE. A Co is also required to apply the IIR in accordance with Article 2.1.1 because it is the UPE. To prevent double taxation, however, Article 2.3.1 reduces the Top-up Tax that has been allocated to A Co because it owns an Ownership Interest in an LTCE (C Co) through a POPE (B Co). The reduction of Top-up Tax is limited to "the portion" of the Top-up Tax that has been allocated to the upper-tier Parent Entity (A Co) and that "is brought into charge" by the lower-tier Intermediate Parent Entity or POPE (B Co) in accordance with Article 2.3.2.

5. Therefore, B Co is required to apply the IIR and its Allocable Share of the Top-up Tax is EUR 10 million. A Co is also required to apply the IIR but its Allocable Share of the Top-up Tax (EUR 6 million) is reduced to zero by the Top-up Tax brought into charge by B Co. A table illustrating the numerical results of this example is set out below.

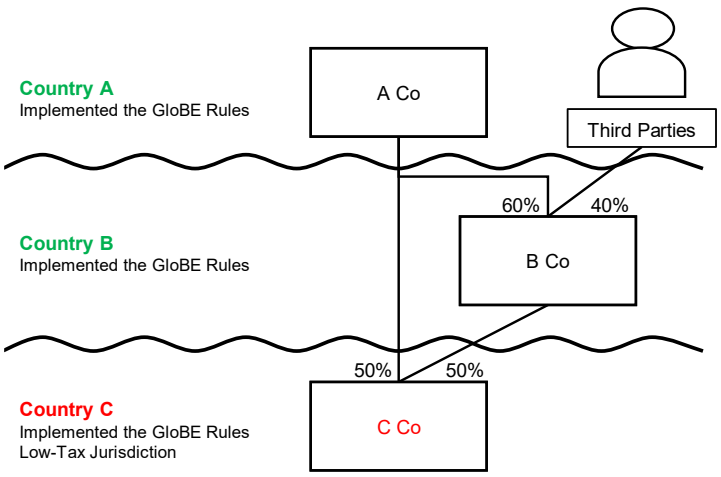
Entity	Direct Ownership Interest in C Co	Indirect Ownership Interest in C Co	Inclusion Ratio	Allocable Share of Top-up Tax	IIR offset	Final Top-up Tax Liability
B Co	100%	-	1	EUR 10 million	-	EUR 10 million
A Co	-	60% (60%*100%)	0.6	EUR 6 million	EUR 6 million	EUR 0

Example 2.3.2 - 2

IIR Offset Mechanism – POPE

1. This example illustrates the application of the IIR offset mechanism in Article 2.3.2 in a situation where a UPE has a direct Ownership Interest in an LTCE and an indirect Ownership Interest in the LTCE that is owned through a POPE and both the UPE and the POPE apply a Qualified IIR with respect to the LTCE.

2. The facts are the same as Example 2.3.2 - 1, except that A Co has a 50% direct Ownership Interest in C Co while the remaining 50% is held by B Co. The Ownership Interests of B Co and C Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



3. The Top-up Tax of C Co is EUR 10 million. B Co is required to apply the IIR because it is a POPE that owns 50% of an LTCE (C Co). A Co is also required to apply the IIR because it is a UPE that owns, directly and indirectly, 80% of an LTCE (C Co). A Co's Allocable Share of Top-up Tax, however, is reduced by an amount equal to the portion that is brought into charge by the lower-tier Parent Entity (B Co). A table illustrating the numerical results of this example is set out below.

Entity	Direct Ownership Interest in C Co	Indirect Ownership Interest in C Co	Inclusion Ratio	Allocable Share of Top-up Tax	IIR offset	Final Top-up Tax liability
B Co	50%	-	0.5	EUR 5 million	-	EUR 5 million
A Co	50%	30% (60%*50%)	0.8	EUR 8 million	EUR 3 million	EUR 5 million

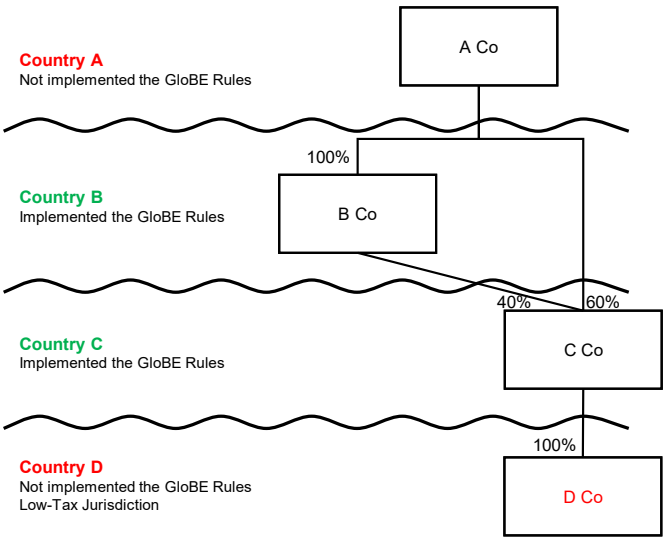
Example 2.3.2 – 3

IIR Offset Mechanism – Intermediate Parent Entity

1. This example illustrates the application of the IIR offset mechanism in Article 2.3.2 in a situation where two Intermediate Parent Entities apply a Qualified IIR with respect to the same LTCE.

2. A Co is the UPE of ABCD Group. A Co is a company located in Country A that owns Controlling Interests in three subsidiary companies: B Co, C Co and D Co, respectively located in Countries B, C and D. D Co is an LTCE located in a Low-Tax Jurisdiction. A Co, B Co, C Co and D Co are the only Constituent Entities in the ABCD Group. Only Countries B and C have implemented the GloBE Rules.

3. A Co has a 100% Ownership Interest in B Co and a 60% Ownership Interest in C Co. B Co has the remaining 40% Ownership Interest in C Co, which is not a Controlling Interest for the purposes of this example. C Co, in turn, has a 100% Ownership Interest in D Co. The Ownership Interests of C Co are ordinary common stock that carry an equal right to profit distributions and capital. A diagram illustrating the holding structure and location of the members of the MNE Group is set out below.



4. The Top-up Tax of D Co is EUR 10 million. The UPE (A Co) is not required to apply the IIR as Country A has not implemented the GloBE Rules.

5. C Co is an Intermediate Parent Entity and is therefore required to apply the IIR in accordance with Article 2.1.2 because it owns an Ownership Interest in an LTCE (D Co). C Co's obligation to apply the IIR

is not switched-off under Article 2.1.3 because the Parent Entity holding its Controlling Interests (A Co) is not required to apply the IIR.

6. B Co is also required to apply the IIR because it is an Intermediate Parent Entity that owns 40% of an LTCE (D Co) and its Controlling Interests are not held by a Parent Entity that is required to apply the IIR (A Co is not required to apply the IIR). B Co's Allocable Share of the Top-up Tax, however, is reduced by the amount that is equal to the portion brought into charge by the lower-tier Parent Entity (C Co) through which its Ownership Interest in D Co is held. A table illustrating the numerical results of this example is set out below.

Entity	Direct Ownership Interest in D Co	Indirect Ownership Interest in D Co	Inclusion Ratio	Allocable Share of Top-up Tax	IIR off-set	Final Top-up Tax liability
A Co	-	100% (60%+40%)	-	-	-	
B Co	-	40%	0.4	EUR 4 million	EUR 4 million	EUR 0
C Co	100%	-	1	EUR 10 million	-	EUR 10 million

Article 2.4.1

Example 2.4.1 - 1

Application of the UTPR – Additional Cash Tax Expense (reduction of loss carry-forward)

1. This example illustrates how to assess whether Constituent Entities located in a UTPR Jurisdiction have an additional cash tax expense equal to the UTPR Top-up Tax Amount allocated to that jurisdiction for purposes of applying Article 2.4.1. Assessing whether Constituent Entities have had an additional cash tax expense equal to that UTPR Top-up Tax Amount may also be relevant for the purposes of applying Article 2.4.2 (availability of the carry-forward mechanism) and 2.6.3 (effect on the UTPR Percentage of a UTPR Jurisdiction).

2. Assume a Constituent Entity in a UTPR Jurisdiction earns revenue of EUR 200 and deductible expenses of EUR 300 (loss of EUR 100) in Year 1 and revenue of EUR 200 and deductible expenses of EUR 100 (profit of EUR 100) in Year 2. Assume the jurisdiction where the Constituent Entity is located allows losses to be carried forward indefinitely. Assume that the UTPR Top-up Tax Amount allocated to that jurisdiction is EUR 60 for Year 1, that the jurisdiction has a CIT rate of 20% and that there are no other Constituent Entities in that jurisdiction.

3. The additional cash tax expense is in addition to the amount of additional tax that the Constituent Entities would otherwise have been paid under the ordinary domestic rules for calculating their taxable income and tax liability. Therefore, the additional cash tax expense is determined by comparing the amount of tax that is due after the UTPR adjustment is made with the amount of tax that would have been paid under the ordinary domestic rules for calculating taxable income.

4. The jurisdiction denies EUR 300 of deductions (= 60 / 20%) under its UTPR in order to produce an additional tax expense of EUR 60, equal to the UTPR Top-up Tax Amount. In Year 1, the denial of a deduction for EUR 300 of expenses results in the elimination of the loss carry-forward of EUR 100 and in a profit of EUR 200. On the profit of EUR 200, the Constituent Entity is subject to EUR 40 of tax in respect of Year 1, whereas it would not have been liable for any tax in the absence of a UTPR adjustment. The EUR 40 of additional tax is the additional cash tax expense incurred in respect of Year 1, and the full additional cash tax expense (60) is not paid in Year 1. The EUR 40 of additional tax is lower than the EUR

60 of UTPR Top-up Tax Amount allocated to this jurisdiction, but an additional cash tax expense may arise in respect of a future year because of the elimination of the loss carry-forward.

5. In this example, the UTPR adjustment made in respect of Year 1 will result in another additional cash tax expense in Year 2. Because the UTPR adjustment has eliminated the loss carry-forward of EUR 100, the Constituent Entity will have an additional cash tax expense of EUR 20 on the profits generated in Year 2. If the loss carry-forward of EUR 100 was not eliminated in Year 1 as a result of the UTPR adjustment, it would have offset the taxable income in Year 2 and resulted in no income tax liability in Year 2 absent the application of the UTPR.

6. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction before the UTPR adjustment.

Before UTPR adjustment	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
Profit or loss (before UTPR adjustment)	(100)	100
Loss carry-forward generated or (used) (before UTPR adjustment)	100	(100)
Loss carry-forward balance (before UTPR adjustment)	100	0
Tax due in the jurisdiction (before UTPR adjustment)	0	0

7. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction after the UTPR adjustment.

After UTPR adjustment	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
UTPR Adjustment (denial of deduction)	300	-
Profit or loss (after UTPR adjustment)	200	100
Loss carry-forward generated or (used) (after UTPR adjustment)	0	0
Loss carry-forward balance (after UTPR adjustment)	0	0
Tax due in the jurisdiction (after UTPR adjustment)	40	20

8. The following table illustrates the computations that are made to assess the additional cash tax expense that the Constituent Entity had in respect of Year 1 and Year 2.

Computation of the additional cash tax expense	**Year 1**	**Year 2**
[A] Tax due in the jurisdiction (before UTPR adjustment)	0	0
[B] Tax due in the jurisdiction (after UTPR adjustment)	40	20
[C] Additional cash tax expense, where [C] = [B] – [A]	40	20

9. As illustrated in this example, a reduction to loss carry-forward does not result in additional cash tax expense until corresponding income has arisen in a subsequent period. On this basis, the additional

cash tax expense incurred by the Constituent Entity amounts to EUR 40 in respect of Year 1 and EUR 20 in respect of Year 2. Therefore, this Constituent Entity has an additional cash tax expense of EUR 60 over the period.

Article 2.4.2

Example 2.4.2 - 1

Application of the UTPR – Additional Cash Tax Expense (no loss carry-forward)

1. This example illustrates a situation where the carry-forward mechanism provided under Article 2.4.2 is necessary for the Constituent Entities located in a UTPR Jurisdiction to have an additional cash tax expense equal to the UTPR Top-up Tax Amount allocated to that jurisdiction for the purposes of applying Article 2.4.1.

2. In Example 2.4.1 - 1, the application of the UTPR in Year 1 eliminates the loss that can be carried forward to Year 2 and results in an additional cash tax expense over the two-year period that equals the UTPR Top-up Tax Amount. Therefore, no additional UTPR adjustment is needed in Year 2.

3. The facts are the same as in Example 2.4.1 - 1, except that the UTPR jurisdiction does not allow the carry forward of losses in the computation of taxable income.

4. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction before the UTPR adjustment.

Before UTPR adjustment	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
Profit or loss (before UTPR adjustment)	(100)	100
Loss carry-forward (before UTPR adjustment) – not available	0	0
Tax due in the jurisdiction (before UTPR adjustment)	0	20

5. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction after the UTPR adjustment made in respect of Year 1.

After UTPR adjustment made in Year 1	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
UTPR Adjustment (denial of deduction)	300	-
Profit or loss (after UTPR adjustment)	200	100
Loss carry-forward (after UTPR adjustment) – not available	0	0
Tax due in the jurisdiction (after UTPR adjustment)	40	20

6. In this example, the additional cash tax expense incurred by the Constituent Entity amounts to EUR 40 in respect of Year 1 and EUR 0 in respect of Year 2 unless an additional adjustment is made

under Article 2.4.2 (see below). There is no additional cash tax expense in Year 2 that results from the UTPR adjustment made in Year 1.

7. Therefore, to impose an additional cash tax expense under the UTPR in Year 2, the UTPR Jurisdiction will need to deny another EUR 100 of deductions in Year 2 to increase the profit to EUR 200 (thereby imposing an additional EUR 20 of tax by virtue of the application of the UTPR).

8. The following table summarises the income tax liability of the Constituent Entity in the UTPR Jurisdiction after the UTPR adjustment made in respect of Year 1 and the additional adjustment made in respect of Year 2.

After UTPR adjustment in Year 1 and 2	**Year 1**	**Year 2**
Revenue	200	200
Deductible Expenses	(300)	(100)
UTPR Adjustment (denial of deduction)	300	100
Profit or loss (after UTPR adjustment)	200	200
Loss carry-forward (after UTPR adjustment) – not available	0	0
Tax due in the jurisdiction (after UTPR adjustment)	40	40

9. The following table illustrates the computations that are made to assess the additional cash tax expense that the Constituent Entity had in respect of Year 1 and Year 2.

Computation of the additional cash tax expense	**Year 1**	**Year 2**
[A] Tax due in the jurisdiction (before UTPR adjustment)	0	20
[B] Tax due in the jurisdiction (after UTPR adjustment)	40	40
[C] Additional cash tax expense, where [C] = [B] – [A]	40	20

10. In this example, the additional cash tax expense incurred by the Constituent Entity amounts to EUR 40 in respect of Year 1 and EUR 20 in respect of Year 2. Therefore, this Constituent Entity has an additional cash tax expense of EUR 60 over the period, but, unlike in Example 2.4.1-1, an additional UTPR adjustment was necessary in respect of Year 2 to achieve this outcome. This additional adjustment is made under Article 2.4.2.

Article 2.5.3

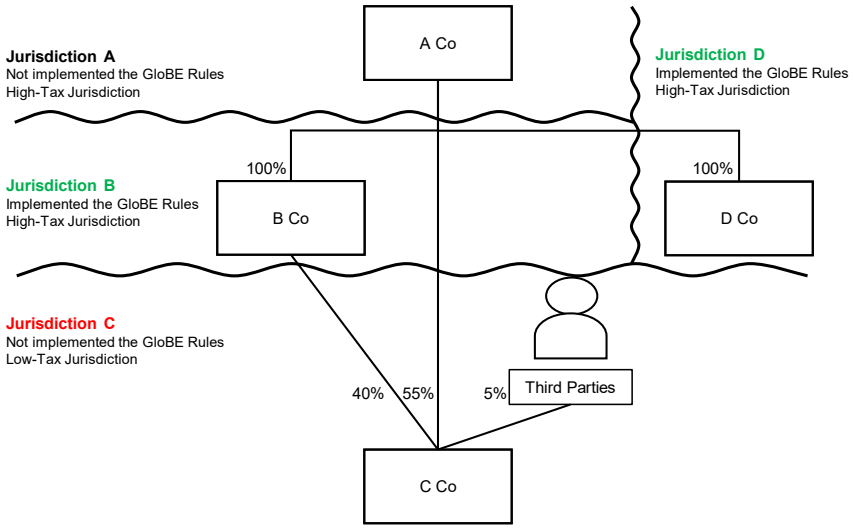
Example 2.5.3 – 1

UTPR Top-up Tax Amount

1. This example illustrates how to compute the UTPR Top-up Tax Amount under Article 2.5.3.

2. Assume A Co is the UPE of the ABC Group. A Co is located in Jurisdiction A. A Co directly owns 100% of B Co, 55% of C Co and 100% of D Co, respectively located in Jurisdictions B, C and D. Assume B Co has a 40% Ownership interest in C Co, and that the remaining 5% ownership interests of C Co are held by minority shareholders. A diagram illustrating the holding structure and location of the members of the ABC Group is set out below.

3. Assume C Co is a LTCE and Jurisdictions A and C have not implemented the GloBE Rules whereas Jurisdictions B and D both have a Qualified IIR and a Qualified UTPR. Assume the Top-up Tax of C Co is EUR 100.



4. A Co is not required to apply a Qualified IIR. B Co's allocable share of the Top-up Tax of C Co equals 40%. Therefore, as provided under Article 2.1.2, B Co is required to apply a Qualified IIR with respect to 40% of the Top-up Tax of C Co. B Co is liable for a Top-up Tax of EUR 40.

5. A Co's Ownership Interest in C Co equals to 95% in total (40% indirectly held via B Co and 55% directly held). Therefore, not all of A Co's Ownership Interest in C Co are held by a Parent Entity that is required to apply a Qualified IIR with respect to C Co and Article 2.5.3 applies respectively.

6. Article 2.5.3 provides that the Top-up Tax of EUR 100 of C Co is reduced by the amount of B Co's allocable share of C Co's Top-up Tax (EUR 40) to compute the UTPR Top-up Tax Amount that is allocated under the UTPR. In this example, the UTPR Top-up Tax Amount is EUR 60 (= 100 – 40).

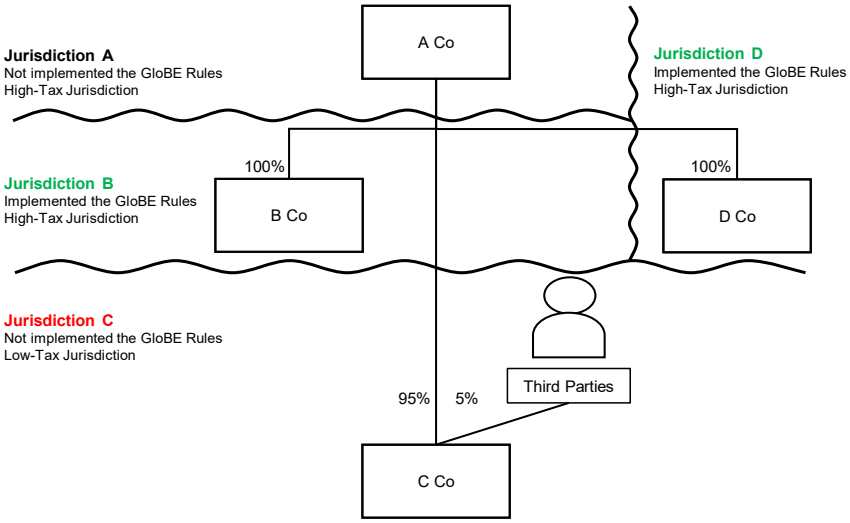
Article 2.6.4

Example 2.6.4 – 1

Allocation of Top-up Tax for the UTPR

1. This example illustrates the effect of Article 2.6.4 on the UTPR Percentages of the UTPR Jurisdictions.

2. The fact pattern is similar to the one presented in Example 2.5.3 – 1 but B Co does not own any Ownership Interest in C Co and A Co holds its Ownership Interest in C Co directly. A diagram illustrating the holding structure and location of the members of the ABC Group is set out further below.



3. No Constituent Entity is required to apply a Qualified IIR with respect to the Top-up Tax of C Co because Jurisdiction A has not implemented the GloBE Rules and B Co and D Co do not have Ownership Interests in C Co. Therefore, the total amount of Top-up Tax is allocated under the UTPR.

4. Assume the UTPR Top-up Tax Amount in respect of C Co is EUR 100 for each of Fiscal Years 1 to 4 and that the UTPR Percentages of Jurisdictions B and D are 50% each over the same period based on the formula under Article 2.6.1.

5. For Fiscal Year 1, Jurisdiction B and D are each allocated an amount of Top-up Tax of EUR 50. Assume that Jurisdiction B is not able to collect the whole amount of EUR 50 for the taxable year in which Fiscal Year 1 ends. Article 2.6.3 provides that Jurisdiction B's UTPR Percentage is deemed to be zero for Year 2 (and following Years) as long as the UTPR Top-Up Tax Amount of EUR 50 allocated to Jurisdiction B in Year 1 has not resulted in B Co having an equivalent additional cash tax expense. This means that no more UTPR Top-up Tax Amount is allocated to Jurisdiction B until it has been able to impose the relevant Tax.

6. In Fiscal Year 2, Jurisdiction B has a UTPR percentage of zero. As a consequence, the whole UTPR Top-up Tax calculated for Fiscal Year 2 (EUR 100) is allocated to Jurisdiction D. Assume that Jurisdiction B is again not able to collect the whole amount of UTPR Top-up Tax of EUR 50 (allocated in respect of Fiscal Year 1) for the taxable year in which Fiscal Year 2 ends. Further, Jurisdiction D is also not able to collect the whole amount of EUR 100 (allocated in respect of Fiscal Year 2) for the taxable year in which Fiscal Year 2 ends. As provided in Article 2.6.3, both Jurisdictions B and D would have a UTPR percentage of zero for Fiscal Year 3.

7. However, Article 2.6.4 stipulates that Article 2.6.3 would not apply when it would result in all UTPR Jurisdictions' UTPR percentages being reduced to zero. Pursuant to Article 2.4.2, in Fiscal Year 3, the Total UTPR Top-up Tax Amount of EUR 100 is therefore allocated to Jurisdictions B and D in respect of their UTPR Percentage based on the formula under Article 2.6.1 (50%/50%) without the application of Article 2.6.3. An amount of EUR 50 of Top-up Tax is added to the other UTPR Top-up Tax Amounts that are still to be collected by each Jurisdiction.

8. Finally, assume that all remaining UTPR Top-up Tax Amounts are collected in both Jurisdictions for the taxable year in which Fiscal Year 3 ends. In Fiscal Year 4, the UTPR Top-up Tax Amount of 100 is allocated to Jurisdictions B and D based on their respective UTPR Percentages determined using the formula in Article 2.6.1.

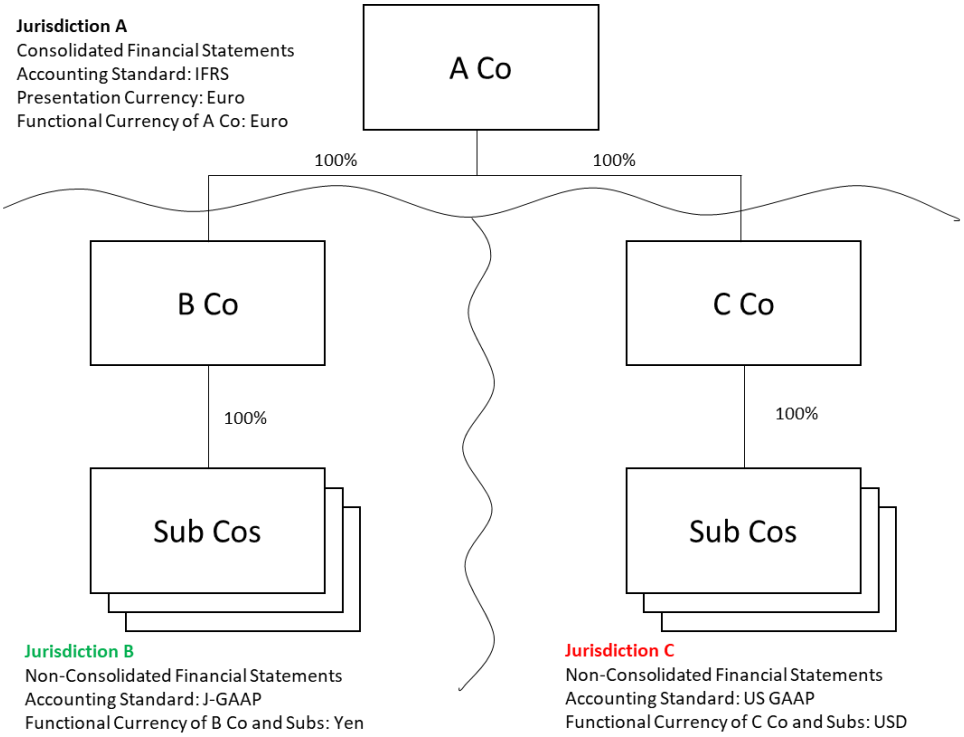
9. The following table summarises the amount of UTPR Top-up Tax allocated to each Jurisdiction under this example.

Year	UTPR Top-up Tax Amount	Allocation Jurisdiction B	Allocation Jurisdiction D
1	EUR 100	EUR 50 (UTPR Percentage of 50%)	EUR 50 (UTPR Percentage of 50%)
2	EUR 100	EUR 0 (UTPR Percentage of 0%)	EUR 100 (UTPR Percentage of 100%)
3	EUR 100	EUR 50 (UTPR Percentage of 50%)	EUR 50 (UTPR Percentage of 50%)
4	EUR 100	EUR 50 (UTPR Percentage of 50%)	EUR 50 (UTPR Percentage of 50%)

Chapter 3 – Examples

Article 3.1.2

Example 3.1.2 – 1



1. An MNE Group's UPE is A Co, located in jurisdiction A. The MNE Group's Consolidated Financial Statements are prepared using IFRS and the presentation currency is Euro.

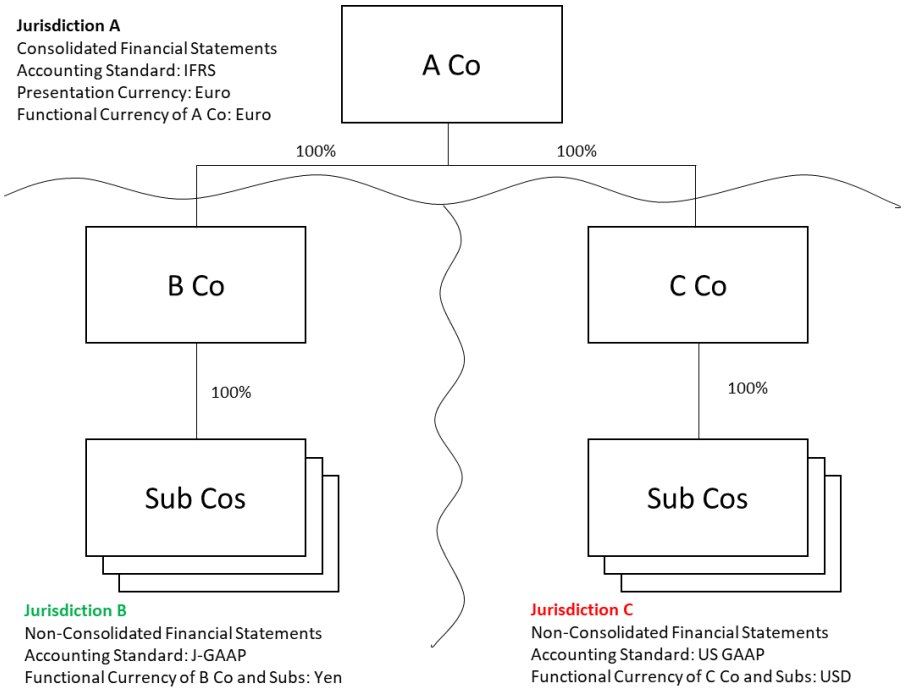
2. A Co has two subsidiaries, B Co (located in jurisdiction B) and C Co (located in jurisdiction C). Both B Co and C Co have subsidiaries also located in jurisdiction B and C respectively. The non-consolidated accounts for B Co and its subsidiaries are prepared in accordance with Japanese GAAP (J-GAAP). The functional accounting currency of B Co and its subsidiaries is Japanese Yen. The non-consolidated accounts for C Co and its subsidiaries are prepared in accordance with US GAAP. The functional accounting currency of C Co and its subsidiaries is USD. None of the subsidiaries are located in a hyperinflationary economy.

3. The MNE Group's accounting consolidation system is set up to contemporaneously translate and record all entity level postings in local functional currency to the Consolidated Financial Statements-currency (Euro). As a result, all of the detailed data relevant for the GloBE Income and Loss of each Constituent Entity is readily available in the presentation currency of the Consolidated Financial Statements (Euro). The MNE Group's accounting consolidation system uses spot rates at the date of

transaction for income statement items and closing rates for balance sheet items. This foreign exchange translation logic is consistent with the relevant principles of IFRS.

4. The principles of IFRS may also support other foreign exchange translation logics. However, the foreign exchange translation logic used in the MNE Group's accounting consolidation system should be respected under the GloBE Rules because it is consistent with the relevant IFRS principles.

Example 3.1.2 – 2



1. An MNE Group's UPE is A Co, located in jurisdiction A. The MNE Group's Consolidated Financial Statements are prepared using IFRS and the presentation currency is Euro.

2. A Co has two subsidiaries, B Co (located in jurisdiction B) and C Co (located in jurisdiction C). Both B Co and C Co have various subsidiaries also located in jurisdiction B and C respectively. The non-consolidated accounts for B Co and its subsidiaries are prepared in accordance with J-GAAP. The functional accounting currency of B Co and its subsidiaries is Japanese Yen. The non-consolidated accounts for C Co and its subsidiaries are prepared in accordance with US GAAP. The functional accounting currency of C Co and its subsidiaries is USD. None of the subsidiaries are located in a hyperinflationary economy.

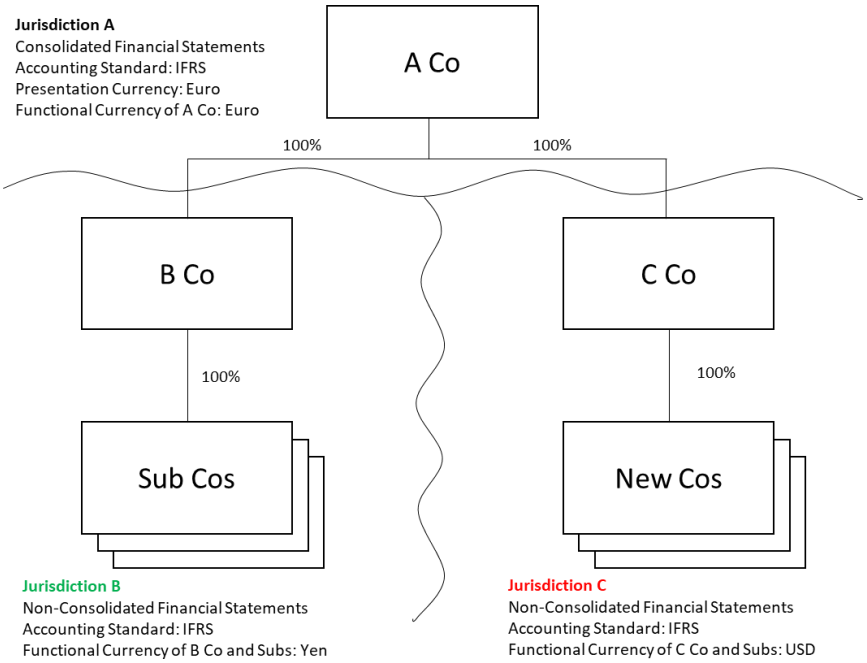
3. The MNE Group's accounting consolidation system is set up to record the entity level data in the local accounting functional currency and translate to the Consolidated Financial Statements presentation currency (Euro) in accordance with IFRS during the monthly consolidation process. The consolidation of the local data is completed at an aggregate account balance level (i.e., not per posting or transaction) using the monthly average rate for income statement items and closing rate for balance sheet items. As a result, most of the detailed data required to calculate each Constituent Entity's GloBE Income or Loss is only available in the local functional currency (i.e., JPY and USD).

4. The MNE Group's accounting system cannot determine the portion of the annual amount the income or expense that was posted in each month and thus cannot apply monthly translation rates to different portions of the income or expense. For practical reasons, the MNE Group therefore uses yearly average rates when converting the relevant profit and loss GloBE data points from local currency to the

presentation currency. Using a yearly average rate for these adjustment items is appropriate under the relevant principles of IFRS.

5. As the foreign exchange translation logic used to determine each Constituent Entity's GloBE Income or Loss is consistent with the relevant principles of IFRS, the conversion logic should be respected under the GloBE Rules.

Example 3.1.2 – 3



1. The MNE Group's consolidated financial statements are prepared using IFRS and the Group's presentation currency is Euro. The accounts for B Co and its subsidiaries are prepared in accordance with IFRS. The accounting functional currency of B Co and its subsidiaries is Japanese Yen. The accounts for C Co and its subsidiaries are prepared in accordance with IFRS. The accounting functional currency of C Co and its subsidiaries is US Dollars. None of the subsidiaries are located in a hyperinflationary economy.

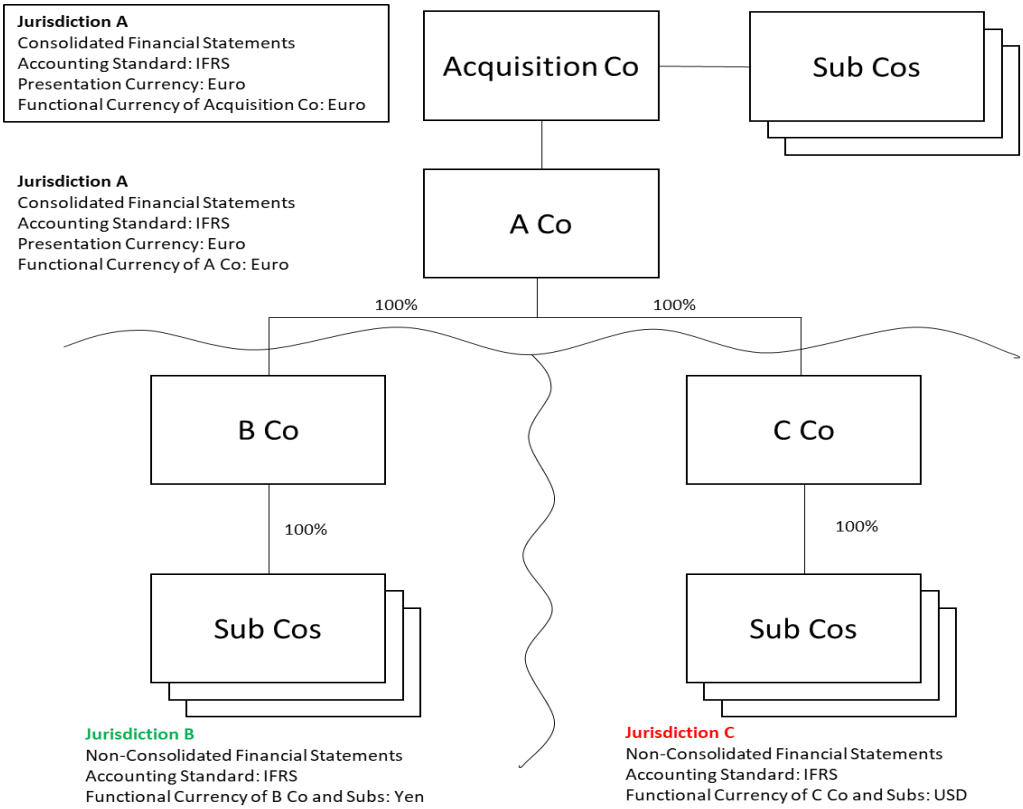
2. The MNE Group's consolidation system is set up to contemporaneously translate and record all entity level postings in local functional currency to the presentation-currency of the MNE Group (i.e., it uses the first conversion paradigm). Consequently, the detailed data relevant for calculating each Constituent Entity's GloBE Income or Loss is readily available in the presentation-currency of the MNE Group (i.e., Euro). The MNE Group's accounting consolidation system uses spot rates at the date of transaction for income statement items and closing rates for balance sheet items.

3. Due to a recent acquisition (New Cos), certain subsidiaries are not part of the consolidation system. For commercial reasons (e.g., system costs and the low materiality of these entities), it is decided not to incorporate these entities into the MNE Group's accounting consolidation system. The entity level postings for these entities are therefore completed in the local accounting functional currency and then translated to the presentation currency on an aggregated basis in the monthly consolidation process.

4. For these Constituent Entities, the detailed data relevant for determining their GloBE Income or Loss is only available in local functional currency (i.e., USD). The MNE Group's accounting system cannot determine the portion of the annual amount the income or expense that was posted in each month and thus cannot apply monthly translation rates to different portions of the income or expense. Therefore, the MNE Group uses a yearly average rate when converting from local currency to the presentation currency

for these Constituent Entities. As the foreign currency translation logic is compliant with the accounting standard applicable to the Consolidated Financial Statements, the foreign currency translation logic should be respected for determining the GloBE Income or Loss for these Constituent Entities.

Example 3.1.2 – 4



1. The A Co Group's consolidated financial statements are prepared using IFRS and the Group's presentation currency is Euro. The accounts for B Co and its subsidiaries are prepared in accordance with IFRS. The accounting functional currency of B Co and its subsidiaries is Japanese Yen. The accounts for C Co and its subsidiaries are prepared in accordance with IFRS. The accounting functional currency of C Co and its subsidiaries is US Dollars. None of the subsidiaries are located in a hyperinflationary economy.

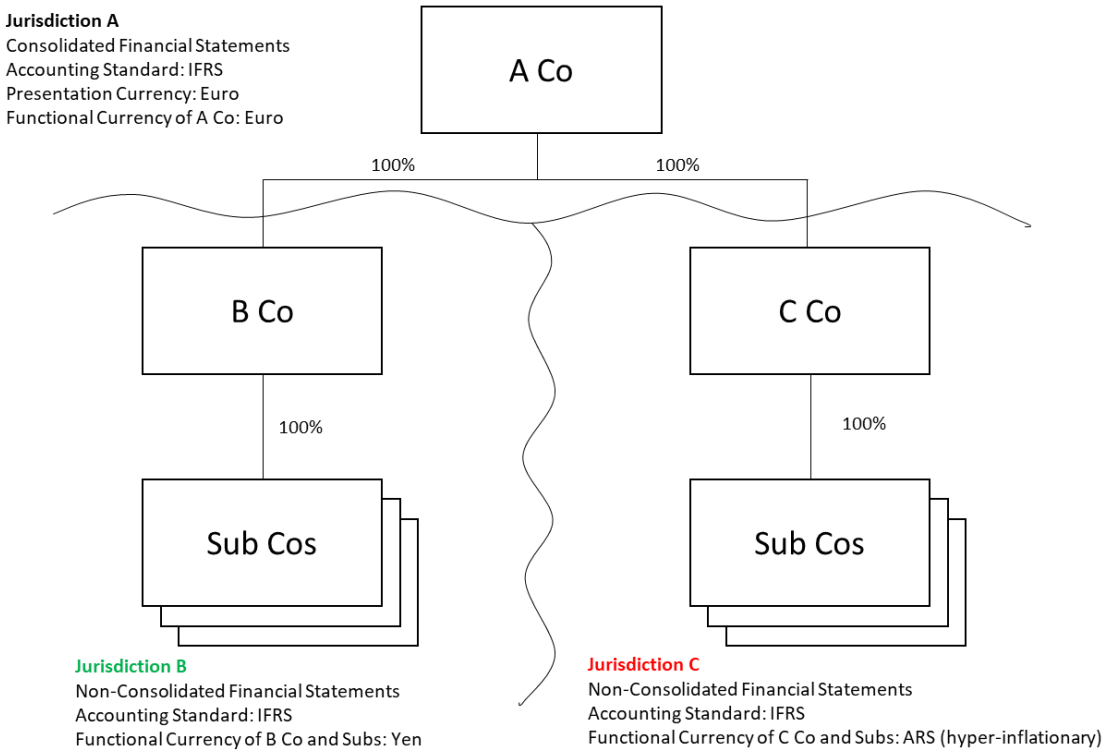
2. The A Co Group's accounting consolidation system is set up to record the entity level data in the local functional currency and translate to the presentation-currency during the monthly consolidation process. The consolidation of the local data has been done at an aggregate account balance level (i.e., not per posting or transaction) using monthly averages for Profit and Loss items and closing rate for Balance Sheet items. Consequently, the detailed data relevant for determining each Constituent Entity's GloBE Income or Loss is only available in local functional currency (i.e., JPY and USD). As in Example 2, the MNE Group uses yearly average rates to convert from local currency to presentation-currency for GloBE calculation purposes.

3. Due to a recent acquisition, the A Co Group has become part of a larger MNE Group and the new UPE-entity for GloBE purposes is Acquisition Co. Acquisition Co Group uses IFRS and its presentation currency is the Euro. Acquisition Co Group's consolidation system is set up to contemporaneously translate and record all entity level postings in local functional currency to the presentation currency. It has been decided to incorporate the A Co Group into Acquisition Co's consolidation system, which is planned to take 3 years. During that period, Acquisition Co will continue to use the A Co Group's foreign currency translation logic in parallel to the logic used by the Acquisition Co Group. That is, Acquisition Co will

maintain its current foreign currency translation logic for Sub-Cos, while it will maintain A Co Group's (and its subsidiary) different foreign currency translation logic during the 3-year period. These different logics will be applied even where the A Co Group and the Acquisition Co Group have subsidiaries located in the same jurisdiction. Upon incorporation of the A Co Group into Acquisition Co Group's consolidation system, it will use the same foreign currency translation logic (i.e., contemporaneous translation) as the Acquisition Co Group.

4. Given the foreign currency translation logics used both before and after the system implementation are in accordance with the accounting standard applicable to the Consolidated Financial Statements of the MNE Group, the foreign currency translation logics should be respected for the purposes of determining each Constituent Entity's GloBE Income or Loss.

Example 3.1.2 – 5



1. The MNE Group' s consolidated financial statements are prepared using IFRS and the Group's presentation currency is Euro. The accounts for B Co and its subsidiaries are prepared in accordance with IFRS. The accounting functional currency of B Co and its subsidiaries is Japanese Yen. The accounts for C Co and its subsidiaries are prepared in accordance with IFRS. The accounting functional currency of C Co and its subsidiaries is Argentine Peso. The C Co Group is located in a hyperinflationary economy.

2. The MNE Group's consolidation system is set up to record the entity level data in the local functional currency and translate to the presentation currency of the Consolidated Financial Statements during the monthly consolidation process (i.e., it uses the second conversion paradigm). The consolidation of the local data is completed at an aggregate account balance level (i.e., not per posting or transaction) using monthly averages for income statement items and closing rates for balance sheet items.

3. As a result, more granular data required to calculate each Constituent Entity's GloBE Income or Loss is only available in the local functional currency (i.e., JPY and ARS). A requirement to use monthly averages to convert these more granular adjustments would be un-administrable for the MNE Group,

whose accounting consolidation processes are not designed to track the time and applicable foreign exchange rate for each individual posting performed at an unconsolidated entity level.

4. For practical reasons, the MNE Group therefore uses yearly average rates when converting the relevant profit and loss GloBE data points from local currency to the presentation -currency. Whereas using a yearly average rate is an appropriate foreign currency translation logic under the accounting standards and should be respected under the GloBE rules for the B Co Group, this is not appropriate for the C Co Group. For the C Co Group, the foreign currency translation logic should follow a similar set of principles as those set out for hyperinflationary economies in the Group's Financial Accounting Standards (in this case, IFRS).

Article 3.2.1(b)

Example 3.2.1(b) - 1

Excluded Dividend and Short-term Portfolio Shareholding

1. This example illustrates how to test the period during which a Portfolio Shareholding was held.

2. Assume A Co is a Constituent Entity of an MNE Group that is subject to the GloBE Rules. B Co is unrelated to A Co. B Co has 10,000 ordinary shares on issue that carry an equal right to profit distributions and capital. A Co acquires 200 common shares in B Co on 1 July in Year 1 and acquires an additional 100 common shares in B Co on 31 March in Year 2. B Co has only one class of shares and distributes a dividend of EUR 0.10 per share on 31 December of Year 2. A time line showing the period A Co held the two tranches of B Co shares and the receipt of the dividend is set out below.

Year 1				**Year 2**			
Jan.-March	April -June	July – Sept.	Oct. – Dec.	Jan.-March	April -June	July – Sept.	Oct. – Dec.
		200 Shares					
					100 Shares		
		1 July Acquisition 200		**31 March** Acquisition 100			**31 December** Dividend 30

3. A Co is a member of an MNE Group that holds less than 10% of the shares in B Co. Therefore, A Co holds a Portfolio Shareholding in B Co at the date the dividend is paid. One hundred of these shares are treated as a Short-term Portfolio Shareholding under the GloBE Rules because A Co has held those shares for less than 12 months at the dividend date. The dividends received on those shares (10 = 100 shares x 0.10) will be taken into account in calculating A Co's GloBE income and only 20 of the dividends received by A Co in respect of the remaining 200 shares will be treated as an Excluded Dividend under Article 3.2.1(b) of the GloBE Rules.

Example 3.2.1(b) - 2

Excluded Dividend and Short-term Portfolio Shareholding

1. The facts are the same as in Example 3.2.1(b) - 1, except that A Co disposes of 40 B Co shares on 30 September in Year 2. In accordance with the Commentary to Article 3.2.1, the sale of B Co shares is deemed to be a sale of those shares of the same class of shares that were most recently acquired by A Co. Therefore, A Co is treated as having disposed the B Co common shares that were acquired on 31

March in Year 2. B Co distributes a dividend of EUR 0.10 per share on 31 December of Year 2. A timeline showing the period A Co held the B Co shares and the receipt of the dividend is set out below.

Year 1				**Year 2**			
Jan.- March	April -June	July – Sept.	Oct.-Dec.	Jan.-March	April -June	July – Sept.	Oct. – Dec.
		200 Shares					
					60 Shares		
					40 Shares		
		1 July Acquisition 200		**31 March** Acquisition 100		**30 September** Sale 40	**31 December** Dividend 26

2. At the date of the distribution, 60 of the 260 shares that are held are treated as a Short-term Portfolio Shareholding under the GloBE Rules because A Co has held those 60 shares for less than 12 months at the dividend date. The dividend received on those shares (6 = 60 shares x 0.10) will be taken into account in calculating A Co's GloBE income and only 20 of the dividends received by A Co in respect of the remaining 200 shares will be treated as an Excluded Dividend under Article 3.2.1 of the GloBE Rules.

Example 3.2.1(b) - 3

Excluded Dividend and Short-term Portfolio Shareholding

1. The facts are the same as Example 3.2.1(b) - 1 but assume that A Co disposes of 50 shares on 31 December of Year 1. In accordance with the Commentary to Article 3.2.1, the sale of B Co shares is deemed to be a sale of those shares that were most recently acquired by A Co. In this case A Co is treated as having disposed the B Co shares that were acquired on 1 July in Year 1. B Co distributes a dividend of EUR 0.10 per share on 31 December of Year 2. A timeline showing the period A Co held the B Co shares and the receipt of the dividend is set out below.

Year 1				**Year 2**			
Jan.- March	April - June	July – Sept.	Oct. – Dec.	Jan. - March	April - June	July – Sept	Oct. – Dec.
		150 Shares					
		50 Shares			100 Shares		
		1 July Acquisition 200	**31 December** Sale 50	**31 March** Acquisition 100			Dividend 25

2. At the date of the distribution, 100 of these shares are treated as a Short-term Portfolio Shareholding under the GloBE Rules because A Co has held those shares for less than 12 months as at the dividend date. The dividend received on these shares (10 = 100 shares x 0.10) will be taken into account in calculating A Co's GloBE income and only 15 of the dividends received by A Co in respect of the remaining 150 shares will be treated as an Excluded Dividend under Article 3.2.1 of the GloBE Rules.

Article 3.2.1(c)

Example 3.2.1(c)-1

1. This example illustrates how to allocate the Excluded Equity Gains or Loss on hedging instruments that hedge the currency risk in Ownership Interests other than Portfolio Shareholdings in cases where the hedging instrument is issued by a Constituent Entity (the issuing Constituent Entity) other than the Constituent Entity that holds the hedged Ownership Interest.

2. Group A prepares its Consolidated Financial Statements in US Dollars while Group B prepares its Consolidated Financial Statements in Euro. Group A acquires Group B, which becomes Subgroup B, and enters into an external loan denominated in Euro to hedge the fluctuations in the value of assets and liabilities of the newly acquired Group B that arise from translating those assets and liabilities from Euro to US Dollars for its Consolidated Financial Statements. The loan is considered an effective hedge under the Authorised Financial Accounting Standard used in the preparation of the Consolidated Financial Statements of Group A, which continue to be prepared in US Dollars after the acquisition.

3. As the loan is designated in the Consolidated Financial Statements of Group A as a net investment hedge against the investment in the newly acquired Group B, any currency fluctuations on the loan are reflected in the Other Comprehensive Income (OCI) rather than in the Income Statement. This ensures that foreign exchange movements between the value of the Euro and Dollar do not affect the financial results for Subgroup B in Group A's Consolidated Financial Statements.

4. The loan was entered into by TC Co, a Constituent Entity of Group A located in Country A that performs treasury functions for Group A. The investment in the newly acquired Group B, however, is held by Subgroup B Hold Co, a separate Constituent Entity of Group A that is located in Country B. The functional currency of both TC Co and Subgroup B Hold Co is the US Dollar and both Countries A and B have a 25% CIT rate.

5. The financial accounts of the former Group B Entities are maintained in Euro and translated to US Dollars for consolidation. Net investment hedge accounting is not available in the entity accounts of TC Co because TC Co does not have foreign exchange exposure in respect of Subgroup B so from the entity perspective the external loan is not a hedge. Consequently, currency fluctuations on the loan are reflected in the Income Statement in its financial accounts. To avoid large currency fluctuations on the external loan affecting taxable profits, TC Co (lender) and Subgroup B Hold Co (borrower) enter into an intra-group loan denominated in Euro for the same value of the external loan taken out by TC Co. Any currency fluctuations in the external loan will therefore be offset by equal and opposite fluctuations in the intra-group loan ensuring that there is no net income or loss in respect of the external loan included in either TC Co's financial accounts or its taxable profit. From Subgroup B Hold Co's perspective, the currency fluctuations on the intragroup loan are included in its financial accounts. This is because net investment hedge accounting is not available in its entity accounts because its financial investment in Subgroup B is measured at cost and does not reflect movements in the value of the ownership interests attributable to currency fluctuations. The movement on the intra-group loan is consequently not hedging any currency movement in the Income Statement from an entity perspective. However, under Country B's tax laws, the currency fluctuations on the intra-group loan are not included in taxable profits on the basis that they relate to a loan used to hedge Subgroup B Hold Co's investment in the newly acquired Subgroup B. The intragroup loan therefore prevents the external loan affecting the taxable profit of Group A, when there is no net income from the overall arrangement from the consolidated perspective.

6. In Year 1, TC Co and Subgroup B, including Subgroup B Hold Co, have USD 1 000 of profit each before any foreign currency fluctuations are considered. Due to foreign currency fluctuations, however, the value of the Euro denominated external loan increases by USD 100 so that it gives rise to an expense of USD 100 for TC Co. In the Consolidated Financial Statements of Group A, this USD 100 is reflected in the

OCI (and therefore it is not included in the profits). The same currency fluctuation applies on the intra-group loan so that the impact on the profit and loss statement of TC Co determined based on its entity accounts (without regard to consolidation adjustments) is neutralised (i.e. the USD 100 expense on the external loan is offset by the USD 100 income arising from the intra-group loan). Under the tax laws of jurisdiction B, the USD 100 expense arising from the intra-group loan is reflected in Subgroup B Hold Co's financial accounts but is excluded from the computation of its taxable profits. Therefore, USD 250 of tax (= USD 1 000 x 25% CIT) is paid both in Jurisdictions A and B, irrespective of the fact that the overall accounting profit of TC Co is USD 1 000 while the accounting profit of Subgroup B is 900 (= USD 1 000 Subgroup B profit – USD 100 Subgroup B Hold Co expense arising from intra-group loan).

7. As currency fluctuations are reflected in the OCI and the external loan is considered an effective hedge under the Authorised Financial Accounting Standard used in the preparation of the Consolidated Financial Statements of Group A, the USD 100 expense of TC Co is an Excluded Equity Gain or Loss for the purposes of Article 3.2.1 (c). As TC Co does not hold the investment in Subgroup B, however, the USD 100 expense is actually excluded from the GloBE Income or Loss of Subgroup B Hold Co. Therefore, TC Co has GloBE Income of USD 1 000 and a GloBE ETR of 25% (= 250 Adjusted Covered Taxes / USD 1 000 GloBE Income) in Year 1. Subgroup B also has GloBE Income of USD 1 000 (= USD 900 accounting profit + USD 100 Excluded Equity Loss) and a GloBE ETR of 25% (= 250 Adjusted Covered Taxes / USD 1 000 GloBE Income) in Year 1.

Article 3.2.1(f)

Example 3.2.1(f) - 1

Asymmetric Foreign Currency Gains or Losses

1. A Co, located in Country A, is member of an MNE Group that is subject to the GloBE Rules. A Co has an accounting and tax reporting period that corresponds to the calendar year. A Co uses Euros for its tax functional currency and US Dollars for its accounting functional currency. At the start of Year 1, A Co holds a non-interest bearing bond with a face value of $1,000. At the beginning of the year the EUR€ : US$ exchange rate is €1:$1, however by the end of the year the Euro has strengthened against the US$ and the exchange rate is €1:$1.25. The fall in the value of the bond in euro terms (- €200 = [€1,000 / 1.25] - €1,000) is taken into account in Year 1 as a deduction for the purposes of calculating A Co's taxable income under Country A law. However there is no change to A Co's accounting income because the bond is denominated in the same currency as the financial accounts.

2. The table below illustrates the effect of the movement in the exchange rate in Year 1. The table on the left shows A Co's profit and ETR for local tax purposes (calculated in Euros) while the table on the right shows the same calculations for accounting purposes (calculated in dollars). Other income and Country A tax are converted based on the year-end exchange rate of €1:$1.25.

Tax Functional Currency (Euros)		**Accounting Functional Currency (Dollars)**	
Other income	500	Other income	625
Foreign currency gain (loss)	(200)	Foreign currency gain (loss)	-
Total profit	300	Total profit	625
Country A Tax	60	Country A Tax	75
ETR	20%		12%

3. In this case, the strengthening of the Euro results in a decrease in profit for A Co in EUR terms (and a corresponding decrease in tax expense), however the financial accounts do not show a foreign

currency loss on the bond because both the bond and the accounts are denominated in the same currency. Accordingly, while A Co's ETR in its tax functional currency is 20%, the ETR is 12% (i.e. 75/625) in its financial accounting functional currency.

4. The foreign currency loss that arises for tax purposes is attributable to fluctuations in the exchange rate between its accounting and tax functional currency. Accordingly, this loss falls within paragraph (a) of the definition of Asymmetric Foreign Currency Gains or Losses. The amount of the loss that is recognised for tax purposes must be translated into dollars at the relevant exchange rate (€1:$1.25) and then included as a negative adjustment to the Financial Accounting Net Income or Loss of A Co. The table below shows the effect of including the Asymmetric Foreign Currency Loss in the GloBE ETR calculation.

Accounting Functional Currency (Dollars)	
Other income	625
Asymmetric Foreign Currency Gain (Loss) Adj.	(250)
Total profit	375
Country A Tax	(75)
ETR	20%

Example 3.2.1(f) - 2

Asymmetric Foreign Currency Gains or Losses

1. A Co, located in Country A, is member of an MNE Group that is subject to the GloBE Rules. A Co has an accounting and tax reporting period that corresponds to the calendar year. A Co uses Euros for its tax functional currency and US Dollars for its accounting functional currency. At the start of Year 1, A Co enters into a loan agreement denominated in Euros and at the end of Year 1 it accrues EUR 500 of interest expense that translates to $500 interest expense in the Consolidated Financial Statements because the EUR€ : US$ exchange rate is €1:$1 for Year 1.

2. In Year 2, A Co pays EUR 500 of interest expense accrued at the end of Year 1, which translates to $625 in the financial accounts because the Euro has strengthened against the US$ and the exchange rate is now €1:$1.25. The difference between the amount of interest expense accrued ($500) and the amount paid ($625), or $125, is reflected as a foreign currency loss or additional interest expense in the Consolidated Financial Statements. However, that difference does not result in any tax gain or loss because the loan and the interest expense are denominated in Euros, which is the tax functional currency.

3. The table below illustrates the effect of the movement in the exchange rate between Year 1 and Year 2. The table on the left shows A Co's profit and ETR for local tax purposes (calculated in Euros) in Year 2 while the table on the right shows the same calculations for accounting purposes (calculated in dollars). Other Income and Tax are converted based on the year-end exchange rate of €1:$1.25.

Tax Functional Currency (Euros)		Accounting Functional Currency (Dollars)	
Other income	1,000	Other income	1,250
Foreign currency gain (loss)	-	Foreign currency gain (loss)	(125)
Total profit	1,000	Total profit	1,125
Tax	(200)	Tax	(250)
ETR	20%		22.2%

4. In this case, the strengthening of the Euro results in a foreign currency loss or an increase of interest payable for A Co in dollar terms but the tax accounts do not show a foreign currency loss for A Co

on the interest payable because both the interest payable and the tax accounts are denominated in the same currency. Accordingly, while A Co's ETR when calculated based on its tax accounts is 20%, the ETR is 22.2% (i.e. 250/1,125) when calculated based on its financial accounts.

5. The foreign currency loss that arises for accounting purposes is attributable to fluctuations in the exchange rate between its tax and accounting functional currency. Accordingly, this loss falls within paragraph (b) of the definition of Asymmetric Foreign Currency Gains or Losses. The amount of the loss that is recognised for accounting purposes must be included as a positive adjustment to the Financial Accounting Net Income or Loss of A Co. The table below shows the effect of including the Asymmetric Foreign Currency Loss in the GloBE Income or Loss and ETR calculation.

Accounting Functional Currency (Dollars)	
Other income	1250
Foreign Currency Gain (Loss)	(125)
Asymmetric Foreign Currency Gain (Loss) Adj.	125
Total profit	1,250
Country C Tax	(250)
ETR	20%

Example 3.2.1(f) - 3

Asymmetric Foreign Currency Gains or Losses

1. A Co, located in Country A, is member of an MNE Group that is subject to the GloBE Rules. A Co has an accounting and tax reporting period that corresponds to the calendar year. A Co uses Euros for its tax functional currency and US Dollars for its accounting functional currency. In Year 1, the GBP£ : EUR€ exchange rate is £1:€1.1, the GBP£ : US$ exchange rate is £1:$1.8, and the US$: EUR€ exchange rate is $1:€0.61. In Year 1, A Co sells merchandise on account for £100 and accrues a receivable of €110 for local tax purposes and a receivable of $180 in the financial accounts.

2. In Year 2, A Co receives £100 in respect of the receivable recorded in Year 1, which translates to €121 and $198 because the British Pound Sterling has strengthened: (i) against the Euro so that the exchange rate is now £1:€1.21; and (ii) against the US Dollar so that the exchange rate is now £1:$1.98. (In Year 2, the US$: EUR€ exchange rate remains $1:€0.61.)

3. The strengthening of the British Pound Sterling results in a €11 (= 121 – 110) gain for tax purposes because A Co received British Pounds Sterling worth €121 in respect of a receivable that was recorded at €110 in the tax accounts. Furthermore, the strengthening results in a $18 (= 198 - 180) gain for accounting purposes because A Co received British Pounds Sterling worth $198 in respect of a receivable that was recorded at $180 in the financial accounts. The gain in euro terms, however, is not taken into account for the purposes of calculating A Co's taxable income under Country A law.

4. The table below illustrates the effect of the movement in the exchange rate between Year 1 and Year 2. The table on the left shows A Co's profit and ETR for local tax purposes (calculated in Euros) in Year 2 while the table on the right shows the same calculations for accounting purposes (calculated in Dollars). Other Income and Tax are converted based on the year-end exchange rates of £1:€1.21 and £1:$1.98.

Tax Functional Currency (Euros)		Accounting Functional Currency (Dollars)	
Other income	200	Other income	328
Foreign currency gain (loss)	-	Foreign currency gain (loss)	18
Total profit	200	Total profit	346
Tax	30	Tax	49
ETR	15%	ETR	14%

5. In this case, the strengthening of the British Pound Sterling results in an increase of profit for A Co in dollar terms. The foreign currency gain that arises for accounting purposes is attributable to fluctuations in the exchange rate between a third currency (GBP) and the accounting functional currency of A Co. Accordingly, this gain falls within paragraph (c) of the definition of Asymmetric Foreign Currency Gains or Losses. Therefore, the amount of the gain that is recognised for accounting purposes must be included as a negative adjustment to the Financial Accounting Net Income or Loss of A Co.

6. The foreign currency gain that is attributable to fluctuations in the exchange rate between a third currency (GBP) and the tax functional currency of A Co falls within paragraph (d) of the definition of Asymmetric Foreign Currency Gains or Losses. Paragraph (d) requires an adjustment to the Financial Accounting Net Income or Loss when there is a gain or loss attributable to such fluctuations irrespective of whether such gain or loss is included in the taxable income of A Co. Accordingly, the amount of the gain in respect of the tax functional currency must be translated into the accounting functional currency and included as a positive adjustment to the Financial Accounting Net Income or Loss of A Co. The table below shows the effect of including the adjustments under paragraphs (c) and (d) of the Asymmetric Foreign Currency Gain adjustments under paragraphs (c) and (d) in the GloBE ETR calculation.

Accounting Functional Currency	(Dollars)
Other Income	328
Foreign currency gain (loss)	18
Asymmetric FXGL Adj. (paragraph (c))	(18)
Asymmetric FXGL Adj. (paragraph (d))	18
Total profit	346
Country A Tax	49
ETR	14%

Article 3.2.1(i)

Example 3.2.1(i) - 1

Accrued Pension Expense Adjustment

1. This example illustrates the adjustment to a Constituent Entity's Financial Accounting Net Income or Loss for Accrued Pension Expenses under Article 3.2.1(i).

2. A Co is located in Country A, which implemented the GloBE Rules. A Co is a Constituent Entity of ABC Group, which is in scope of the GloBE Rules. A Co established a pension fund in Country A for its employees, which operates exclusively to administer and provide retirement benefits to the employees of A Co. Country A imposes a 15% corporate income tax (CIT) and under the local tax rules of Country A deductions for pension liabilities are allowed in the taxable Year in which the amount is contributed to a

pension fund or, in the case of pension benefits that are not administered through a pension fund, when paid to pension beneficiaries.

3. In Year 1, A Co has income of EUR 100 and accrues pension expenses for accounting purposes of 20. In Year 2, A Co has income of EUR 100 and effects a contribution of EUR 15 to its pension fund.

4. In Year 1, A Co has taxable income of EUR 100, which results in a tax liability of EUR 15. For Country A tax purposes, the accrual of pension expenses for accounting purposes is disregarded as no contribution is made to the pension fund. A Co created a deferred tax asset of EUR 3 (= EUR 20 x 15%) because the EUR 20 pension liability is not deductible for tax purposes until it is contributed and the carrying value of the liability for accounting purposes exceeds that of the liability for tax purposes by EUR 20. The timing difference will be resolved when the EUR 20 is contributed to the pension fund. Because of the deferred tax asset created for financial accounting purposes, A Co's income tax expense for Year 1 is 12 (= EUR 15 – EUR 3), which produces an ETR for accounting purposes of 15% (= EUR 12 income tax expense / EUR 80 pre-tax income).

5. In Year 1, A Co has Financial Accounting Net Income or Loss of EUR 68 (= EUR 100 income – EUR 20 pension expense – 12 income tax).

6. For GloBE purposes, pension liabilities are only allowed as expenses in the computation of GloBE Income or Loss to the extent of contributions to a Pension Fund during the fiscal Year. Under Article 3.2.1(i), A Co's Financial Accounting Net Income or Loss must be adjusted according to the following formula:

7. GloBE Adjustment = (Accrued Income or Expense for fiscal Year + payment for fiscal Year) x (-1)

8. Where

- Accrued income is expressed as a positive amount
- Accrued expense is expressed as a negative amount
- Payment is expressed as a positive amount

9. The GloBE Adjustment for Year 1 is EUR +20 (= (EUR -20) + (0) x (-1)), which results in a GloBE Income of EUR 100 (= EUR 68 FANIL + 20 pension adjustment + 12 income tax). Although A Co created a deferred tax asset of 3 for accounting purposes, the creation of that asset is ignored for purposes of determining A Co's Adjusted Covered Taxes as there is no longer a temporary difference between the local tax position and GloBE Income after the GloBE adjustment under Article 3.2.1(i). Thus, the ABC Group's GloBE ETR for Country A is 15% (= 15 Adjusted Covered Taxes / 100 GloBE Income). Tables illustrating the numerical results of this example for Year 1 are set out below.

Income	Accrued Pension Expense	Contributions to Pension Fund	Taxable Income	Tax Liability
EUR 100	EUR 20	EUR 0	EUR 100	EUR 15

Deferred Tax Asset	Tax Expense	FANIL	GloBE Adjustment	GloBE Income
EUR 3	EUR 12	EUR 68	EUR 20	EUR 100

10. In Year 2, A Co has pre-tax income of EUR 100 and pays EUR 15 to its pension fund, but accrues 0 pension expense in its financial accounts. A Co also reduces its deferred tax asset in respect of pension expenses from 3 to 0.75 giving rise to a deferred tax expense of 2.25. For local tax purposes A Co has

taxable income of EUR 85 as the contribution of EUR 15 to the pension fund is allowed as a deduction from taxable income, which results in a local tax liability of EUR 12.75. A Co's Financial Accounting Net Income or Loss is 85 (= EUR 100 income – EUR 12.75 of current tax expense – EUR 2.25 of deferred tax expense). Under Article 3.2.1(i), the pension expense has to be adjusted according to the formula set out above. This results in an adjustment to A Co's Financial Accounting Net Income or Loss of EUR -15 ((EUR 0 + EUR 15) x (-1)), which in turn results in GloBE Income of EUR 85 (= EUR 85 FANIL -15 pension adjustment + 12.75 income tax + 2.25 deferred tax expense). Although A Co reduced its deferred tax asset by 2.25 for accounting purposes, the movement in that asset is ignored for purposes of determining A Co's Adjusted Covered Taxes. Thus, the ABC Group's GloBE ETR for Country A is 15% (EUR 12.75 Adjusted Covered Taxes / EUR 85 GloBE Income). Tables illustrating the numerical results of this example for Year 2 are set out below.

Income	Accrued Pension Expense	Contributions to Pension Fund	Taxable Income	Tax Liability
EUR 100	EUR 0	EUR 15	EUR 85	EUR 12.75

Deferred Tax Asset	Tax Expense	FANIL	GloBE Adjustment	GloBE Income
EUR 0.75	EUR 15	EUR 85	EUR (- 15)	EUR 85

Example 3.2.1(i) - 2

Accrued Pension Expense Adjustment

1. The facts are the same as in Example 3.2.1(i)-1, except that

   a. in Year 3, A Co has 100 of income,

   b. the pension plan earns EUR 40,

   c. A Co's pension liabilities for the Year are EUR 10, and

   d. A Co reduced its deferred tax asset by 0.75.

2. The deferred tax asset reverses because the income earned by the pension plan has meant that A Co no longer needs to make the further EUR 5 of cash contributions based on the pension expense calculated in Year 1, as a result there are no future tax deductions, given tax deductions are based on cash contributions in this jurisdiction. A Co's Financial Accounting Net Income or Loss for Year 3 includes the net pension surplus of EUR 30 as income. No deferred tax is reflected on the pension surplus for accounting purposes so there is just the deferred tax expense of EUR 0.75 arising from the reversal of the existing deferred tax asset.

3. In Year 3, the net pension income of EUR 30 for accounting purposes is not taken into account by A Co for Country A tax purposes, and thus A Co's taxable income is EUR 100 and tax liability is EUR 15. A Co's Financial Accounting Net Income or Loss is EUR 114.25 (= EUR 100 income + EUR 30 pension income – EUR 15 income tax – EUR 0.75 deferred tax expense).

4. Article 3.2.1(i) also applies in situations where there is a pension surplus or pension income recognised in the Financial Accounting Net Income or Loss. Article 3.2.1(i) requires an Accrued Pension Expense Adjustment of A Co's Financial Accounting Income or Loss in Year 3 according to the following formula:

5. GloBE Adjustment = (Accrued Income or Expense for fiscal Year + payment for fiscal Year) x (-1)

6. Where

- Accrued income is expressed as a positive amount
- Accrued expense is expressed as a negative amount
- Payment is expressed as a positive amount

7. The GloBE Adjustment for Year 3 is EUR -30 (EUR 30 + EUR 0 x (-1)), which results in a GloBE Income of EUR 100 (= EUR 114.25 FANIL – 30 adjustment + 15 income tax + 0.75 deferred tax expense). Although A Co reduced its deferred tax asset for accounting purposes, the movement in that asset is ignored for purposes of determining A Co's Adjusted Covered Taxes. Thus, the ABC Group's GloBE ETR for Country A is 15% (EUR 15 Adjusted Covered Taxes / EUR 100 GloBE Income). Tables illustrating the numerical results of this example for Year 3 are set out below.

Income	Accrued Pension Expense	Net Pension Surplus	Taxable Income	Tax Liability
EUR 100	EUR 0	EUR 30	EUR 100	EUR 15

Deferred Tax Asset	Tax Expense	FANIL	GloBE Adjustment	GloBE Income
EUR 0	EUR 15.75	EUR 114.25	EUR (- 30)	EUR 100

Article 3.2.3[1]

Example 3.2.3 - 1

Arm's Length Requirement for Cross-border Transactions

1. A Co, which is located in Jurisdiction A, and B Co, which is located in Jurisdiction B, are Constituent Entities of the same MNE Group. The nominal tax rate in Jurisdiction A is 25% and Jurisdiction B does not impose an income tax on Entities located therein. B Co provides services to A Co in Year 1. The financial accounts of A Co reflect an expense of 100 and the financial accounts of B Co reflect income of 100 in respect of the transaction. For tax purposes, however, A Co deducts 150 in respect of the services.

2. Article 3.2.3 requires transactions between Group Entities to be at the same price and consistent with the Arm's Length Principle. Where necessary to prevent double taxation or double non-taxation under the GloBE Rules, Article 3.2.3 requires an adjustment to the Financial Accounting Net Income or Loss when a Constituent Entity claims an amount of income or expense in a tax return attributable to a controlled transaction that differs from the amount reflected in the financial accounts.

3. In this scenario, A Co reported 150 of expense in its Jurisdiction A tax return for Year 1 and 100 of expense in its financial accounts for Year 1. B Co reported 100 of income in its financial accounts in Year 1. As a result, 50 of the MNE Group's income is not subject to tax in Jurisdiction A and is not exposed

[1] Examples 3.2.3 – 1, 3.2.3 – 2 and 3.2.3 – 3 do not implicate Article 4.6.1 because the adjustments are made contemporaneously with the filing of the relevant tax returns.

to Top-up Tax in Jurisdiction B. To avoid double non-taxation under the GloBE Rules, Article 3.2.3 requires A Co to include the 50 of additional expense in the computation of its GloBE Income or Loss for Year 1 and B Co to include 50 of additional income in the computation of its GloBE Income or Loss for Year 1.

Example 3.2.3 - 2

Arm's Length Requirement for Cross-border Transactions

1. The facts are the same as in Example 3.2.3 – 1, except that A Co reported 80 of expense from the transaction with B Co in its Jurisdiction A tax return in accordance with a unilateral Advance Pricing Agreement concluded with Jurisdiction A.

2. In this scenario, A Co reported 80 of expense in its Jurisdiction A tax return for Year 1 and 100 of expense in its financial accounts for Year 1. B Co reported 100 of income in its financial accounts in Year 1. As a result, A Co is subject to tax in Jurisdiction A on 20 of income that is also exposed to Top-up Tax in Jurisdiction B. To avoid double taxation under the GloBE Rules, Article 3.2.3 requires A Co to reduce the expense by 20 in the computation of its GloBE Income or Loss and B Co to include 20 less income in the computation of its GloBE Income or Loss.

Example 3.2.3 - 3

Arm's Length Requirement for Cross-border Transactions

1. The facts are the same as in Example 3.2.3 – 1, except that Jurisdiction B has a corporate income tax that has a nominal rate of 7.5% and B Co reported 50 of income from the transaction with A Co in Jurisdiction B in accordance with a unilateral Advance Pricing Agreement concluded with Jurisdiction B.

2. In this scenario, B Co reported 50 of income in its Jurisdiction B tax return for Year 1 and 100 of income in its financial accounts for Year 1. A Co reported 100 of expense in its Jurisdiction A tax return and its financial accounts in Year 1. The 50 of income that is both deducted in A Co's Jurisdiction A taxable income and excluded from B Co's Jurisdiction B taxable income is exposed to Top-up Tax in Jurisdiction B under the GloBE Rules because it is included in B Co's GloBE Income or Loss. An adjustment to conform to B Co's local tax treatment would cause double non-taxation under the GloBE Rules because the income would not be subject to tax in Jurisdiction A or exposed to Top-up Tax in Jurisdiction B. Accordingly, Article 3.2.3 neither requires not permits an adjustment to the GloBE Income or Loss of A Co nor B Co.

Article 3.2.6

Example 3.2.6 - 1

Election to Spread Capital Gains Over Five Years

1. A Co is a Constituent Entity of an MNE Group. A Co is incorporated and tax resident in Country A and holds Local Tangible Assets. In Year 3, A Co disposed of a Local Tangible Asset and incurred a Net Asset Loss of EUR 25. In Year 5, A Co disposed of its remaining Local Tangible Assets for EUR 300. The carrying value of the Local Tangible Assets disposed of in Year 5 was EUR 100. As a result, a Net Asset Gain of EUR 200 was realised in Year 5. A Co made an Annual Election under Article 3.2.6 with respect to the Net Asset Gain in Year 5.

2. As discussed in the Commentary on Article 3.2.6, with the disposal of its Local Tangible Assets in Year 5, A Co realised an Aggregate Asset Gain of EUR 200. Because A Co also had incurred a Net Asset Loss of EUR 25 in Year 3, A Co first must allocate EUR 25 of the Aggregate Asset Gain to Year 3 under

Article 3.2.6 (b). This is because Article 3.2.6(b) provides that Aggregate Asset Gain in the Election Year must first be carried-back to the earliest Loss Year and set-off against any Net Asset Loss.

3. Then, pursuant to Article 3.2.6(d), A Co must allocate the remaining EUR 175 evenly to each Fiscal Year in the Look-back Period, which consists of the four prior Fiscal Years and the Election Year. This results in a carry-back of EUR 35 to each Fiscal Year in the Look-back Period.

4. Article 3.2.6 is an ETR Adjustment Article. Pursuant to Article 5.4.1, A Co's GloBE Income or Loss, ETR and Top-up Tax must be recalculated for each of the prior Fiscal Years in the Look-back Period by including all of the Aggregate Asset Gain allocated to each year under Article 3.2.6(d).

5. The allocation of the Aggregate Asset Gain over the five years of the Look-back Period can be summarised as follows:

Aggregate Asset Gain	Year 1	Year 2	Year 3	Year 4	Year 5 / Election year
EUR 200	EUR 35	EUR 35	EUR 60	EUR 35	EUR 35

Article 3.2.7

Example 3.2.7 - 1

Special Rule for Intra-Group Financing Arrangements

1. A Co is a Constituent Entity located in Country A where a 10% CIT rate applies. B Co is a Constituent Entity of the same MNE Group located in Country B where a 30% CIT rate applies. Prior to the transaction described below, the ETR of Country A for the MNE Group is 10% and for Country B is 30%.

2. A Co issues an interest bearing instrument to B Co in exchange for cash (i.e., A Co borrows from B Co), that is treated as debt for financial account purposes, but as equity for tax purposes in both Country A and Country B. As a result, payments on the instrument reduce the GloBE Income or Loss of A Co, while not reducing the Country A domestic tax liability of A Co. This is because the interest payments are included in income or expense for GloBE purposes, but dividends are not included in income or expense for tax purposes in Country A and Country B. Similarly, the payments on the instrument increase the GloBE Income or Loss of B Co, while not increasing the Country B domestic tax liability of B Co. As a result of the issuance of this instrument, the ETR for GloBE purposes of Country A will be increased and the ETR of Country B will be decreased.

3. This arrangement requires analysis under Article 3.2.7 to determine if it is an Intragroup Financing Arrangement. If the arrangement is an Intragroup Financing Arrangement, the operative provisions of Article 3.2.7 will apply.

4. Under Article 10.1, an Intragroup Financing Arrangement is an arrangement entered into between two or more members of the MNE Group whereby a High-Tax Counterparty directly or indirectly provides credit or otherwise makes an investment in a Low-Tax Entity.

5. Under Article 10.1, a High-Tax Counterparty is a Constituent Entity that is located in a jurisdiction that is not a Low-Tax Jurisdiction or that is located in a jurisdiction that would not be a Low-Tax Jurisdiction if its ETR were determined without regard to any income or expenses accrued by that Entity in respect of an Intragroup Financing Arrangement. A Low-Tax Jurisdiction is a jurisdiction where the MNE Group has Net GloBE Income and is subject to an ETR in that period lower than the Minimum Rate.

6. B Co is a High-Tax Counterparty because, notwithstanding this transaction, its ETR of 30% exceeds the Minimum Rate and therefore is not located in a Low-Tax Jurisdiction.

7. Because B Co is a High-Tax Counterparty, it must be determined if A Co is a Low-Tax Entity. A Low-Tax Entity means a Constituent Entity located in a Low-Tax Jurisdiction or that would be a Low-Tax Jurisdiction notwithstanding the transaction analysed. Since A Co has an ETR of 10% which is lower than the Minimum Rate notwithstanding this transaction, A Co is a Low-Tax Entity.

8. The final step of the Article 3.2.7 analysis is to determine whether, over the expected duration of the arrangement, it can be reasonably anticipated that:

a. the arrangement will increase the amount of expenses taken into account in calculating the GloBE Income or Loss of the Low-Tax Entity (A Co);

b. without resulting in a commensurate increase in the taxable income of the High-Tax Counterparty (B Co).

9. Because the instrument issued between B Co and A Co is treated as interest bearing debt for financial accounting purposes, it will increase the amount of expenses taken into account in calculating the GloBE Income or Loss of A Co, satisfying the first prong of the test described above.

10. The second prong of the Article 3.2.7 test is also satisfied because the instrument issued between B Co and A Co is treated as equity for tax purposes in Country B and accordingly will not increase the taxable income of B Co in Country B.

11. Since all requirements to apply Article 3.2.7 are met, the interest expense with respect to the instrument issued between B Co and A Co shall be excluded from the computation of GloBE Income or Loss for A Co.

Example 3.2.7 - 2

Special Rule for Intra-Group Financing Arrangements and use of tax attributes that would not otherwise be used to increase the ETR of a Low-Tax Entity

1. The facts are the same as in Example 1, except that the instrument issued between B Co and A Co is treated as debt for tax purposes in Country A and Country B. At the time the instrument is issued, A Co is highly-levered and cannot deduct any additional interest expense for Country A tax purposes. B Co is also highly-levered and has carried forward previously denied interest expense deductions for Country B tax purposes sufficient to shelter the interest income with respect to the instrument issued between B Co and A Co.

2. The interest expense incurred by A Co will satisfy the first prong of the Article 3.2.7 test because the interest expense increases the amount of expenses taken into account in calculating the GloBE Income or Loss of A Co.

3. The second prong of Article 3.2.7 is also satisfied because there is no commensurate increase in the taxable income of B Co. This is because B Co does not incur a commensurate increase in its Country B taxable income with respect to the interest income received from A Co given its excess interest expense carry-forward.

4. As in the previous example, since all requirements to apply Article 3.2.7 are met, the interest expense with respect to the instrument issued between B Co and A Co shall be excluded from the computation of GloBE Income or Loss for A Co

Article 3.3.1

Example 3.3.1 - 1

Exclusion of International Shipping Income and Qualified Ancillary International Shipping Income from GloBE Income or Loss

1. This example illustrates how the exclusion of International Shipping Income and Qualified Ancillary International Shipping Income provided under Article 3.3 operates. Assume a Constituent Entity has Financial Accounting Net Income of EUR 200. This Constituent Entity has an income of EUR 60 that was derived from performing an activity that is not covered by Article 3.3. In addition, this Constituent Entity has International Shipping Income of EUR 100 and Qualified Ancillary International Shipping Income of EUR 40. No adjustments other than the exclusion of International Shipping Income and Qualified Ancillary International Shipping Income are required to compute the GloBE Income of the Constituent Entity. The resulting GloBE Income of the Constituent Entity is EUR 60 (= 200 – (100 + 40)).

2. The adjustment required under Article 3.3.1 is illustrated in the following table.

Computation of the GloBE Income of the Constituent Entity	Net Income
[A] Financial Accounting Net Income or Loss	200
[B] Income (other than shipping)	60
[C] International Shipping Income	100
[D] Qualified Ancillary International Shipping Income	40
[E] Adjustment under Article 3.3.1 = [C+D]	140
GloBE Income = [A] – [E]	60

Example 3.3.1 - 2

Exclusion of International Shipping Income and Qualified Ancillary International Shipping Income when Qualified Ancillary International Shipping Income exceeds the limitation provided under Article 3.3.4

1. This example illustrates how the exclusion of International Shipping Income and Qualified Ancillary International Shipping Income provided under Article 3.3 operates when the amount of Qualified Ancillary International Shipping Income exceeds the limitation provided under Article 3.3.4. The facts are the same as in Example 3.3.1 – 1, except that the amount of income that was derived from performing an activity that is not covered by Article 3.3 is EUR 40 and the amount of Qualified Ancillary International Shipping Income is EUR 60.

2. Article 3.3.4 provides that the aggregated Qualified Ancillary International Shipping Income of all Constituent Entities located in a jurisdiction shall not exceed 50% of those Constituent Entities' International Shipping Income. Therefore, the total amount of Qualified Ancillary International Shipping Income is limited to EUR 50 in this example. The resulting GloBE Income of the Constituent Entity is EUR 50 (= 200 – (100 + 50)).

3. The adjustment required under Article 3.3.1 is illustrated in the following table.

Computation of the GloBE Income of the Constituent Entity	Net Income
[A] Financial Accounting Net Income or Loss	200

[B] Income (other than shipping)	40
[C] International Shipping Income	100
[D] Qualified Ancillary International Shipping Income	60
[D] Negative adjustment under Article 3.3.4 that limits [D] to 50% x [C]	(10)
[E] Adjustment under Article 3.3.1 = [C+D+D]	150
GloBE Income = [A] – [E]	50

Example 3.3.1 - 3

Exclusion of International Shipping Loss and Qualified Ancillary International Shipping Loss

1. This example illustrates how the exclusion of International Shipping Income and Qualified Ancillary International Shipping Income provided under Article 3.3 operates when they are negative (i.e. they generate a Loss).

2. The facts are the same as in Example 3.3.1 – 1, except that the Constituent Entity has an income of EUR 360 that was derived from performing an activity that is not covered by Article 3.3 and that, in addition, this Constituent Entity has International Shipping loss of EUR 100 and Qualified Ancillary International Shipping loss of EUR 60. Although the Financial Accounting Net Income of the Constituent Entity is EUR 200, the GloBE Income of the Constituent Entity is EUR 360 (= 200 - (-100 - 60) = 200 + 160).

3. The adjustment required under Article 3.3.1 is illustrated in the following table.

Computation of the GloBE Income of the Constituent Entity	**Net Income**
[A] Financial Accounting Net Income or Loss	200
[B] Income (other than shipping)	360
[C] International Shipping Income	(100)
[D] Qualified Ancillary International Shipping Income	(60)
[E] Adjustment under Article 3.3.1 = [C+D]	(160)
GloBE Income = [A] – [E]	360

Article 3.5.4

Example 3.5.4-1

1. A Co is the UPE of the MNE Group and a Flow-through Entity. It owns 80% of the Ownership Interests in B Co, a Flow-through Entity that is part of the same MNE Group. The remaining 20% of the Ownership Interests in B Co are owned by persons that are not Group Entities.

2. The profit of B Co is 100. In this case, Article 3.5.4(b) applies only with respect to the 80% of the Ownership Interests in B Co that are owned by the UPE (which represent 80 of B Co's profit). This means that Article 3.5.3 still applies with respect to the 20% of the Ownership Interests in B Co that are owned by the persons that are not Group Entities and therefore, B Co's profit should be reduced by 20 prior to the allocation of the profit in accordance with Article 3.5.1.

Chapter 4 – Examples

Article 4.1.3

Example 4.1.3 – 1

Net Basis Taxes

1. A Co is member of an MNE Group that is subject to the GloBE Rules and it is located in Country A, which imposes a 20% corporate income tax. In a Fiscal Year, A Co receives a dividend of 100 that is excluded from the computation of GloBE Income or Loss under Article 3.2.1(b). The dividend, however, is included in the computation of the taxable income in Country A.

2. In the same Fiscal year, A Co earns an additional 100 of Country A taxable income that is also GloBE Income. Accordingly, for Country A tax purposes, A Co records taxable income of 200 (Dividend of 100 + Operating Income of 100) and Country A tax of 40 (20% x 200).

	Year 1
A Co Domestic Taxable Income:	
Dividend	100
Operating Income	100
Total Country A Taxable Income	200
Country A Tax (20%)	40

A Co GloBE Income:	
Dividend	0
Operating Income	100
Total A Co's GloBE Income	100

3. Article 4.1.3(a) requires that the amount of current tax expense with respect to income excluded from the computation of GloBE Income or Loss must reduce Covered Taxes for a Constituent Entity. Accordingly, the Country A tax relating to the dividend that has been excluded for GloBE purposes must be removed from the Adjusted Covered Taxes of A Co for GloBE purposes.

4. To determine the amount of Article 4.1.3(a) reduction attributable to the excluded income, the amount of excluded income shall be divided by the taxable income for the jurisdiction and then multiplied by the current tax expense.

5. In this case, there is excluded income of 100 (the dividend received) and taxable income of 200 (Dividend of 100 + Operating Income of 100). Dividing 100 by 200 results in a 50% reduction of A Co's taxable income in Country A. This percentage is then multiplied by the 40 of A Co's Country A tax, to remove 20 of tax from the Covered Tax computation for A Co.

6. As a result, for the Fiscal Year, A Co has GloBE Income of 100 (since the dividend is excluded) and an ETR of 20% (20 Covered Tax / GloBE Income of 100).

Article 4.1.5

Example 4.1.5 – 1

Imposition of top-up tax in loss year

1. A Co is a Constituent Entity of an MNE Group that is subject to the GloBE Rules. A Co is the only Constituent Entity located in Country A. The only tax imposed on A Co under Country A law is corporation tax which is imposed at the rate of 15%. Country A provides for the carry-forward of tax losses, which allows a taxpayer to carry forward such losses into a subsequent period to be used to reduce taxable income in future years.

2. In Year 1, A Co has income of 120 and expenditure of (220) under the GloBE Rules resulting in a total GloBE Loss for the period of (100). However, under the tax laws of Country A, A Co is only treated as having taxable income of 100. This is due to the fact that 20 of A Co's income results from a capital gain that is excluded from tax under Country A law. The table below illustrates the tax position of A Co for local tax and GloBE purposes. The table on the left shows A Co's loss as determined for local tax purposes while the table on the right shows the same calculation as determined under the GloBE Rules.

Local Tax		**GloBE**	
Income	100	Income	100
		Capital gain excluded under local law	20
Expenditure	(220)	Expenditure	(220)
Total Profit (Loss)	(120)	Total Profit (Loss)	(100)
Tax (Tax benefit)	(18)	Expected Adjusted Covered Taxes Amount	(15)

3. The local tax loss of A Co is greater than the loss that has been recorded for GloBE purposes. The additional tax loss of 20 under Country A law results from the fact that Country A law does not include the 20 of capital gain (i.e. the additional loss is a permanent difference in respect of a non-economic loss). A Co's tax loss gives rise to a deferred tax asset for financial accounting purposes equal to the tax loss multiplied by the corporate tax rate (120 x 15% = 18). The generation of this deferred tax asset is incorporated into A Co's Total Deferred Tax Adjustment Amount under Article 4.4.1 and treated as a reduction to A Co's Adjusted Covered Taxes under Article 4.1.1. When the loss carry-forward is used in a subsequent year in Country A, the deferred tax asset is treated as an addition to A Co's Adjusted Covered Taxes under the mechanics of the same provisions.

4. In a Fiscal Year in which there is no Net GloBE Income for a jurisdiction, if the Adjusted Covered Taxes for a jurisdiction are less than zero and less than the Expected Adjusted Covered Taxes Amount, the Constituent Entities in that jurisdiction shall be treated as having Additional Current Top-up Tax for the jurisdiction under Article 5.4 arising in the current Fiscal Year equal to the difference between these amounts. The Expected Adjusted Covered Taxes Amount is equal to the GloBE Income or Loss for a jurisdiction multiplied by the Minimum Rate.

5. In this case A Co has a GloBE Loss and it is the only Constituent Entity located in Country A. This means there is no Net GloBE Income in Country A. A Co's Expected Adjusted Covered Taxes Amount for the year is A Co's GloBE Loss of (100) multiplied by the Minimum Rate of 15% [(100) x 15% = (15)].

6. A Co's Adjusted Covered Taxes (18) are less than A Co's Expected Adjusted Covered Taxes Amount (15. A Co therefore has additional Top-up Tax of EUR 3 in Year 1 under Article 4.1.5. Imposing an immediate tax charge on A Co in Year 1 means that the additional tax asset generated for local tax purposes can be recognised in the Adjusted Covered Taxes Amount while preserving the adherence between the deferred tax expense of A Co under the financial accounting rules and the GloBE Rules (i.e.

the EUR 18 deferred tax asset determined for financial accounting purposes is also used for GloBE purposes). Article 4.1.5 thereby ensures that the permanent difference giving rise to the inflated tax loss does not result in an overstated ETR for Country A when the deferred tax attribute is later used.

7. Assume that, in Year 2, A Co has 220 of income and (100) of expenditure resulting in 120 of profit that is included in both GloBE Income and taxable income. As A Co uses EUR 120 loss carry-forward under local tax rules from Year 1, A Co has 120 of GloBE Income, zero taxable income and zero current tax expense in Year 2. The full deferred tax asset of EUR 18, however, is included in the Adjusted Covered Taxes in Year 2 under Article 4.4 and no Top-up Tax is expected to arise.

8. The table below illustrates the tax position of A Co for local tax and GloBE purposes in Year 2. The table on the left shows A Co's position for local tax purposes while the table on the right shows the ETR calculation under the GloBE Rules.

Local Tax		**GloBE**	
Income Expenditure Loss offset	220 (100) (120)	Income Expenditure	220 (100)
Total Profit (Loss)	0	Total Profit	120
		Adjusted Covered Taxes -	18
		GloBE ETR	15%

Example 4.1.5 – 2

Adjusted Covered Taxes

1. The facts are the same as in Example 4.1.5 - 1, except that:

   a. A Co 1 and A Co 2 are Constituent Entities of an MNE Group that is subject to the GloBE Rules and are both located in Country A;

   b. In Year 1, A Co 1 has the same tax implications as A Co (GloBE Loss (100); deferred tax asset of 18); and

   c. In Year 1, A Co 2 has a total GloBE Income of 50.

2. Under this scenario, if the Adjusted Covered Taxes in Country A are less than zero and less than the Expected Adjusted Covered Taxes Amount, A Co 1 and A Co 2 are treated as having Additional Current Top-up Tax arising in Year 1 and equal to the difference between these two amounts under Article 4.1.5.

3. A Co 1 and A Co 2's Expected Adjusted Covered Taxes Amount for Year 1 is equal to the GloBE Income or Loss for the jurisdiction multiplied by the Minimum Rate. For this reason, A Co 1's deferred tax asset of (18) has to be added to A Co 2's Covered Taxes of 7.5 (15% * 50), which results in Adjusted Covered Taxes for Country A of (10.5). A Co 1 and A Co 2's Expected Adjusted Covered Taxes Amount for Year 1, is A Co 1 and A Co 2's GloBE Loss of (50) multiplied by the Minimum Rate of 15% [(50) x 15% = (7.5)].

4. As the Adjusted Covered Taxes (10.5) are less than zero and less than the Expected Adjusted Covered Taxes Amount (7.5), an Additional Current Top-up Tax of 3 arises under Article 4.1.5. The Additional Current Top-up Tax of 3 is then allocated to A Co 1 under Article 5.4.3 as A Co 1 recorded an Adjusted Covered Taxes amount that is less than zero and less than the GloBE Income or Loss multiplied by the Minimum Rate.

5. A table illustrating the numerical results of this example is set out below.

	A Co 1	A Co 2	Jurisdictional (Country A)
GloBE Income or (Loss)	(100)	50	(50)
Deferred Tax Asset	(18)	-	
Covered Taxes	-	7.5	
Expected Adjusted Covered Taxes Amount			(7.5)
Adjusted Covered Taxes Amount	(18)	7.5	(10.5)
Additional Current Top-up Tax			3

Example 4.1.5 – 3

Adjusted Covered Taxes

1. The facts are the same as in Example 4.1.5 - 2, except that Country A has an income tax rate of 25%.

2. In this scenario, A Co 2 has Adjusted Covered Taxes of 12.5 (50 * 25%). The Expected Adjusted Covered Taxes Amount of Country A in Year 1 remains (7.5) because the GloBE Loss is always multiplied by the Minimum Rate (15% * (50)). As the deferred tax asset of A Co 1 was recast at the Minimum Rate in accordance with Article 4.4.1, it remains (18) and is added to the Adjusted Covered Taxes of A Co 2 of 12.5, which results in Adjusted Covered Taxes for Country A of (5.5).

3. Because the Adjusted Covered Taxes amount for Country A of (5.5) is not less than the Expected Adjusted Covered Taxes Amount of (7.5), no adjustment is required in this case under Article 4.1.5. The taxes accrued by A Co 2 in Year 1 are sufficient to shelter the permanent difference in A Co 1 from Top-up Tax. A table illustrating the numerical results of this example is set out below:

	A Co 1	A Co 2	Jurisdictional (Country A)
GloBE Income or (Loss)	(100)	50	(50)
Deferred Tax Asset	(18)	-	
Covered Taxes	-	12.5	
Expected Adjusted Covered Taxes Amount			(7.5)
Adjusted Covered Taxes Amount	(18)	12.5	(5.5)
Additional Current Top-up Tax			0

Example 4.1.5 - 4

Excluded Dividends under Article 4.1.5

1. A Co is located in Country A, which imposes a domestic corporate income tax rate of 25%. The tax base in Country A is the same as the GloBE base. In a Fiscal Year, A Co receives dividend income of 100, which is excluded from GloBE Income or Loss under Article 3.2.1(b). A Co also incurs expenses of 150, which directly relate to the dividend income, during the Fiscal Year. Because Article 3.2.1(b) only excludes dividend income, A Co has a GloBE Loss of (150) for the Fiscal Year, since the dividend is

excluded. No Top-up Tax under Article 4.1.5 will arise, because the Expected Adjusted Covered Taxes Amount for A Co is (22.5) and the actual deferred tax asset established for GloBE purposes is also (22.5) (i.e., the domestic tax loss of (150) multiplied by the 15% Minimum Rate).

Example 4.1.5 – 5

Excess Negative Tax Expense administrative procedure

1. This example illustrates the Excess Negative Tax Expense administrative procedure under Article 4.1.5.

2. A MNE Group operating in jurisdiction X incurs a GloBE Loss of (100) in Year 1. However, under the domestic tax law of jurisdiction X, the MNE Group records a net operating loss of (300) in Year 1. The Expected Adjusted Covered Tax Amount for jurisdiction X is (15) and the actual Adjusted Covered Taxes are (45). The MNE Group elects to apply the Excess Negative Tax Expense administrative procedure and does not pay any Top-up Tax in Year 1. An Excess Negative Tax Expense carry-forward of 30 is established.

3. In Year 2 the MNE Group earns GloBE Income of 300 in jurisdiction X and applies its full net operating loss of 300 to offset the income for domestic tax purposes. For GloBE purposes, the deferred tax asset of (45) that was recorded in Year 1 will reverse due to usage of the loss carry-forward. However, because the Excess Negative Tax Expense administrative procedure was elected in Year 1, the Adjusted Covered Taxes for jurisdiction X are reduced by the Excess Negative Tax Expense carry-forward of 30 in Year 2. As a result, Adjusted Covered Taxes for Year 2 are equal to 15 and the ETR is 5% (= 15 Adjusted Covered Taxes / 300 GloBE Income). The jurisdictional Top-up Tax Percentage is 10% (= 15% Minimum Rate – 5% ETR) and Top-up Tax of 30 will apply in Year 2.

Article 4.3.2

Example 4.3.2 - 1

1. An MNE Group with a UPE in jurisdiction X is subject to a Blended CFC Tax Regime imposed by jurisdiction X. Under the jurisdiction X Blended CFC Tax Regime, shareholders of CFCs aggregate their proportionate share of the income and taxes of all CFCs in which they hold an Ownership Interest. The foreign effective tax rate must be 13.125% in order to generate sufficient foreign tax credits to prevent the imposition of a CFC charge under this Blended CFC Tax Regime. This is without reference to impacts of any foreign tax credit limitation formulas applicable in jurisdiction X.

2. The UPE owns CFCs in jurisdictions A (A Co), B (B Co), and C (C Co). For the Fiscal Year, A Co generates 100 of Attributable Income, B Co generates 50 of Attributable Income, and C Co generates 25 of Attributable Income. The UPE owns 100% of each CFC and all of each CFC's income is Attributable Income of the Entity.

3. The GloBE Jurisdictional ETR for the jurisdictions are as follows:

   a. jurisdiction A: 10%,

   b. jurisdiction B 20%, and

   c. jurisdiction C 5%.

4. Under the Blended CFC Tax Regime, the UPE incurs 20 of tax, which must be allocated to the CFCs.

5. The Blended CFC Allocation Key for each CFC is computed as set out below:

Entity	**Allocation Key Computation** (Attributable Income of Entity x (Appliable Rate – GloBE Jurisdictional ETR))	Blended CFC Allocation Key (Result of Allocation Key Computation)
A Co	100 x (13.125% - 10%)	3.125
B Co	50 x (13.125% - 20%)	No Allocation
C Co	25 x (13.125% - 5%)	2.031
Sum of All Blended Allocation Keys		5.156

6. The 20 of Blended CFC Tax Regime tax is then allocated as follows:

Entity	**Allocation Amount Computation** ((Blended CFC Allocation Key / Sum of All Blended CFC Allocation Keys) x Allocable Blended CFC Tax)	Blended CFC Tax Allocated (Result of Allocation Amount Computation)
A Co	(3.125 / 5.156) x 20	12.12
B Co	No Allocation	No Allocation
C Co	(2.031 / 5.156) x 20	7.88
Total Blended CFC Tax Allocated		20.00

Example 4.3.2 - 2

1. The facts are the same as Example 4.3.2-1, however, there are two Entities in Jurisdiction A. Entity A1 Co is a non-Constituent Entity and Entity A2 Co is a Constituent Entity. A1 Co earns 100 of total income and 25 of that income is Attributable Income of the Entity. A2 Co earns 75 of income, all of which is Attributable Income of the Entity.

2. The Blended CFC Allocation Key is computed as set out below:

Entity	**Allocation Key Computation** (Attributable Income of Entity x (Appliable Rate – GloBE Jurisdictional ETR))	Blended CFC Allocation Key (Result of Allocation Key Computation)
A1 Co	25 x (13.125% - 10%)	0.781
A2 Co	75 x (13.125% - 10%)	2.344
B Co	50 x (13.125% - 20%)	No Allocation
C Co	25 x (13.125% - 5%)	2.031

Total Allocation Key		5.156

3. The 20 of Blended CFC Tax Regime tax is then allocated as follows:

Entity	**Allocation Amount Computation** ((Blended CFC Allocation Key / Sum of All Blended CFC Allocation Keys) x Allocable Blended CFC Tax)	Blended CFC Tax Allocated (Result of Allocation Amount Computation)
A1 Co	(0.781 / 5.156) x 20*	Excluded Because A1 Co is a Non-Constituent Entity*
A2 Co	(2.344 / 5.156) x 20	9.09
B Co	No Allocation	No Allocation
C Co	(2.031 / 5.156) x 20	7.88
Total Blended CFC Tax Allocated		16.97*

4. *3.03 of Blended CFC Tax is attributable to A1 Co ((0.781 / 5.156) x 20) and is not included in Adjusted Covered Taxes of the MNE Group because A1 Co is not a Constituent Entity.

Example 4.3.2 - 3

1. An MNE Group with a UPE in Jurisdiction X is subject to a worldwide tax system applied by Jurisdiction X. Under this tax system, Jurisdiction X imposes tax on both domestic and foreign source income, including dividends received from foreign corporations, and allows a tax credit for taxes paid on foreign source income. Jurisdiction X has a cross-crediting foreign tax credit regime pursuant to which taxes paid in all foreign jurisdictions on all categories of foreign source income are creditable against the UPE's tax liability arising from foreign source income. Under the Jurisdiction X's domestic tax regime, the foreign tax credit allowed for any given Fiscal Year cannot exceed the tax liability arising from the income inclusion of foreign sources and the foreign tax credit limitation.

2. The UPE has PEs in jurisdictions A (PE1), B (PE2), and C (PE3) and owns a subsidiary (A Co) in jurisdiction A. The UPE owns 100% of A Co and all of A Co's after-tax profits are distributed to the UPE annually. For the Fiscal Year, UPE earns domestic source income of 400, PE1 generates income of 100, PE2 generates income of 250, PE3 has a loss of 50, and A Co generates income of 200. All of the PE income is active income. The UPE also derives a royalty income of 100 from a payment from a non-Constituent Entity (B Co) (which is in addition to its 400 of domestic income) and dividend income of 200 from a non-Constituent Entity C Co in jurisdiction B. Jurisdiction X also has a foreign tax credit limitation equal to its domestic tax liability multiplied by the proportion of foreign source income to total income. The dividend income from C Co is included in the UPE's taxable income under the cross-crediting regime but is not within the UPE's GloBE Income or Loss.

3. Tax rates in jurisdictions and Tax accrued with respect to the income of the UPE, each PE and the distributing Entity and royalty are as follows:

Jurisdiction	Entity	Income	Corporate income tax rate	Corporate income tax	Withholding tax rate	Withholding tax
Jurisdiction X	UPE	400	20%	80		
Jurisdiction A	PE1	100	5%	5		

	A Co	200	5%	10	5%	9.5
Jurisdiction B	PE2	250	10%	25		
	UPE's income from B Co payment*	100			20%	20
	C Co**	200	10%	20	0%	0
Jurisdiction C	PE3	-50	25%	0		

*Note that both the payment UPE receives from B Co and the dividend received from C Co are included in the taxable income of the UPE in addition to UPE's 400 of domestic source income.

**Note that the figures with respect to C Co in this table reflect UPE's proportionate share of the income and taxes of C Co. That is, they are 20% of the total income and taxes of C Co.

4. Under the cross-crediting tax system in jurisdiction X:

a. Taxable income of the UPE is 1200 = 400+100+200+250+100-50+200.

b. Pre-credit tax liability payable in Jurisdiction X is 240 = 1200×20%.

c. Tax accrued in foreign jurisdictions is 89.5 = 5+10+25+9.5+20+20.

d. Foreign tax credit limitation is 160 = 240×800/1200.

e. Allowed foreign tax credit is 89.5 which is the lower of c and d.

f. Tax payable in jurisdiction X is 150.5 = 240-89.5.

5. The Allocable Covered Taxes is determined as follows:

$$\begin{aligned}&Allocable\ Covered\ Taxes\\&= Total\ current\ tax\ expense\ accrued\ by\ the\ Main\ Entity\ with\ respect\ to\ the\ applicable\ tax\ regime\\&- domestic\ tax\ liability\ without\ regard\ to\ any\ foreign\ source\ income\\&-Blended\ CFC\ Taxes\end{aligned}$$

= (150.5 – (400 × 20%)) = 70.5.

6. The Cross-Crediting Allocation Keys for the PEs, distributing Entity and the Main Entity/Parent Entity are determined using the relevant formulae below:

$$\begin{aligned}&Cross-Crediting\ Allocation\ Key\ for\ a\ PE\\&= (Main\ Entity\ taxable\ income\ arising\ from\ the\ PE \times applicable\ tax\ rate)\\&- creditable\ foreign\ taxes\ accrued\ to\ the\ PE's\ income\end{aligned}$$

$$\begin{aligned}&Cross-Crediting\ Allocation\ Key\ for\ a\ distributing\ Entity\\&= (Parent\ Entity\ taxable\ income\ arising\ from\ distribution \times applicable\ tax\ rate)\\&- creditable\ foreign\ taxes\ accrued\ with\ respect\ to\ the\ distribution\end{aligned}$$

$$\begin{aligned}&Cross-Crediting\ Allocation\ Key\ for\ the\ Main\ Entity\ or\ Parent\ Entity\\&= (Main\ Entity\ taxable\ income\ arising\ directly\ from\ foreign\ source\ income\\&\times applicable\ tax\ rate)\\&- creditable\ foreign\ taxes\ accrued\ with\ respect\ to\ the\ foreign\ source\ income\end{aligned}$$

Entity	Main Entity taxable income arising from the foreign source income	Applicable tax rate	Tax accrued with respect to the foreign source income	Cross-Crediting Allocation Key
	[1]	[2]	[3]	[4] = ([1] × [2]) - [3]
PE1	100	20%	5	15S
PE2	250	20%	25	25
PE3	-50	20%	0	0
A Co	200	20%	19.5	20.5
C Co	200	20%	20	20
Main Entity	100	20%	20	0

In total	80.5

7. The Allocable Covered Taxes of 70.5 is allocated to the PEs, the distributing Entities and Main Entity as follows:

$$Allocation\ to\ each\ PE\ or\ Entity = Allocable\ Covered\ Taxes\ x \left(\frac{Cross - Crediting\ Allocation\ Key\ for\ the\ PE\ or\ Entity}{The\ sum\ of\ all\ Cross - Crediting\ Allocation\ Keys}\right)$$

Entity	Cross-Crediting Allocation key for the Entity	The sum of all Cross-Crediting Allocation Keys	Allocable Covered Taxes	Allocation to the Entity
	[1]	[2]	[3]	[4] = ([1] / [2]) × [3]
PE1	15	80.5	70.5	13.14
PE2	25			21.89
PE3	0			0
A Co	20.5			17.95
C Co	20			17.52
Main Entity	0			0
In total				70.5

8. The final result is that the Main Entity has accrued 150.5 in Covered Taxes, of which 13.14 is allocated to PE1, 21.89 is allocated to PE2, 17.95 is allocated to A Co and 17.52 is allocated to C Co. As C Co is not part of the MNE Group, this allocation of 17.52 to C Co is not included in the Adjusted Covered Taxes of the MNE Group. The remainder (80) is not reallocated.

Example 4.3.2 - 4

1. The facts are the same as Example 4.3.2-3, except that Jurisdiction X does not tax UPE's dividend income or grant any foreign tax credit with respect to foreign dividend income. The tax rates in jurisdictions and Tax accrued with respect to each PE, distributing Entity and royalty income are as follows:

Jurisdiction	Entity	Income	Corporate income tax rate	Corporate income tax	Withholding tax rate	Withholding tax
Jurisdiction X	UPE	400	20%	80		
Jurisdiction A	PE1	100	5%	5		
	A Co	200*	5%	10	5%	9.5
Jurisdiction B	PE2	250	10%	25		
	UPE's income from B Co payment	100			20%	20
	C Co	200*	10%	20	0%	0
Jurisdiction C	PE3	-50	25%	0		

*Note that distributions from A Co and C Co are not included in the UPE's taxable income under the UPE's domestic tax regime in this example.

**Note that the figures with respect to C Co in this table reflect UPE's proportionate share of the income and taxes of C Co. That is, they are 20% of the total income and taxes of C Co.

2. In this case, under the cross-crediting tax system:

a. Taxable income of the UPE is 800=400+100+250+100-50.

b. Pre-credit tax liability payable in Jurisdiction X is 160=800×20%.

c. Tax accrued in foreign jurisdictions is 50=5+25+20.

d. Foreign tax credit limitation is 80=160×400/800.

e. Allowed tax credit is 50 which is the lower of c and d.

f. Tax payable in jurisdiction X is 110=160-50.

3. The Allocable Covered Taxes is determined as follows:

$$\begin{aligned}&Allocable\ Covered\ Taxes\\&= Total\ current\ tax\ expense\ accrued\ by\ the\ Main\ Entity\ with\ respect\ to\ the\ applicable\ tax\ regime\\&- domestic\ tax\ liability\ without\ regard\ to\ any\ foreign\ source\ income\\&-Blended\ CFC\ Taxes\end{aligned}$$

(110 - (400×20%)) = 30

4. The Cross-Crediting Allocation Key for each Entity is computed as set out below:

Entity	Main Entity taxable income arising from the foreign source income	Applicable tax rate	Tax accrued with respect to the foreign source income	Cross-Crediting Allocation Key
	[1]	[2]	[3]	[4] = ([1]×[2]) - [3]
PE1	100	20%	5	15
PE2	250	20%	25	25
PE3	-50	20%	0	0
Main Entity	100	20%	20	0
In total				40

5. The Allocable Covered Taxes of 30 is allocated to each Entity as follows:

Entity	Cross-Crediting Allocation key for the Entity	The sum of all Cross-Crediting Allocation Keys	Allocable Covered Taxes	Allocation to the Entity
	[1]	[2]	[3]	[4] = ([1] / [2]) × [3]
PE1	15	40	30	11.25
PE2	25			18.75
PE3	0			0
Main Entity	0			0
In total				30

6. The final result is that the Main Entity has accrued 110 in Covered Taxes, of which 11.25 is allocated to PE1, 18.75 is allocated to PE2. The remainder (80) is not reallocated.

Example 4.3.2 - 5

1. An MNE Group with a UPE in Jurisdiction X is subject to a worldwide tax system applied by Jurisdiction X. Under this tax system, Jurisdiction X imposes tax on both domestic and foreign source income and allows a tax credit for taxes paid on foreign source income. Jurisdiction X allows cross-crediting of Taxes, but only within certain categories of foreign-source income, i.e., foreign branch income basket, passive income basket, etc. Foreign tax credit limitations are also computed based on the categories. The foreign branch income basket includes the income from all Permanent Establishments. The passive income basket includes the income from both royalty payments and distributions received by the UPE.

2. The UPE has PEs in jurisdictions A (PE1), and B (PE2) and owns a subsidiary (C Co) in jurisdiction C. The UPE owns 100% of C Co and all of C Co's after-tax profits are distributed to the UPE annually. For the Fiscal Year, UPE earns domestic income of 400, PE1 generates income of 100, PE2 generates income of 200. All of the PE income is active income. C Co earns income of 200. The UPE also derives a royalty income of 100 from a non-Constituent Entity (B Co) (which is in addition to its domestic income of 400) in jurisdiction B and a dividend of 200 from a non-Constituent Entity (D Co) in jurisdiction C.

3. Tax rates in jurisdictions and Tax accrued with respect to each PE, distributing Entity and royalty income are as follows:

Jurisdiction	Entity	Income	Corporate income tax rate	Corporate income tax	Withholding tax rate	Withholding tax
Jurisdiction X	UPE	400	20%	80		

Jurisdiction A	PE1	100	25%	25		
Jurisdiction B	PE2	200	30%	60		
	UPE's income from B Co payment	100			20%	20
Jurisdiction C	C Co	200	5%	10	5%	9.5
	D Co	200	5%	10	5%	9.5

4. In this case, under the cross-crediting tax system:

   a. Taxable income of the UPE is 1200 = 400+100+200+100+200+200.

   b. Pre-credit tax liability payable in Jurisdiction X is 240 = 1200×20%.

   c. With respect to the Branch Income basket:

      i. The Tax accrued is 85 (25 + 60).

      ii. The foreign tax credit limitation is 60 = 240 × ((100+200)/1200).

      iii. The allowed foreign tax credit is 60 (foreign tax credits are limited).

   d. With respect to the Passive Income basket:

      i. The Tax accrued is 59 = 20+10+9.5+10+9.5.

      ii. The foreign tax credit limitation is 100 = 240 × ((100+200+200)/1200).

      iii. The allowed foreign tax credit is 59 (foreign tax credits are not limited).

   e. Tax payable in jurisdiction X is 121 = 240 - 59 - 60.

5. The Allocable Covered Taxes are determined as follows:

$$\begin{aligned}&Allocable\ Covered\ Taxes\ for\ Basket\ A\\&= Total\ current\ tax\ expense\ accrued\ by\ the\ Main\ Entity\ with\ respect\ to\ the\ applicable\ tax\ regime\\&- domestic\ tax\ liability\ without\ regard\ to\ any\ foreign\ source\ income\\&-Blended\ CFC\ Taxes - domestic\ tax\ liability\ attributable\ to\ remaining\ baskets\end{aligned}$$

Allocable Covered Taxes for the Branch Income Basket

= 121 – (400 x 20%) – 41 = 0.

Allocable Covered Taxes for the Passive Income Basket

= 121 – (400 x 20%) – 0 = 41.

6. In this example, there have been no taxes imposed on the UPE with respect to the Branch Income Basket. This is because there were sufficient allowable foreign tax credits in the basket to fully displace any further taxation arising in the Main Entity/Parent Entity. Put differently, the allowable tax credits exceeded the pre-credit domestic tax liability that would have arisen with respect to the income in the Branch Income basket. However, there has been additional tax paid in Jurisdiction X with respect to income in the Passive Income Basket. The allowable foreign tax credits do not fully displace the pre-tax credit liability arising with respect to this income. Accordingly, 41 is allocable to the Passive Income Basket. The Passive Income basket is composed of three amounts – an amount from a taxable distribution from C Co (a CE), an amount from a taxable distribution from D Co (a Non-CE) and an amount attributable to the payment income from B Co (a 3rd party).

7. The Passive Income Basket does not contain a Permanent Establishment. However, there are distributions from a Constituent Entity (C Co) and a non-Constituent Entity (D Co). The Cross-Crediting Allocation Keys are given by the formulae:

$$Cross - Crediting\ Allocation\ Key\ for\ a\ distributing\ Entity = (Parent\ Entity\ taxable\ income\ arising\ from\ distribution \times applicable\ tax\ rate) - \text{creditable foreign taxes accrued with respect } to\ the\ distribution$$

Cross-Crediting Allocation Key for C Co = (200 × 20%) – 19.5 = 20.5.

Cross-Crediting Allocation Key for D Co = (200 × 20%) – 19.5 = 20.5

$$Cross - Crediting\ Allocation\ Key\ for\ the\ Main\ Entity\ or\ Parent\ Entity = (Main\ Entity\ taxable\ income\ arising\ directly\ from\ foreign\ source\ income \times applicable\ tax\ rate) - creditable\ foreign\ taxes\ accrued\ with\ respect\ to\ the\ foreign\ source\ income$$

Cross-Crediting Allocation Key for UPE = (100 × 20%) – 20 = 0.

8. Accordingly, allocations to C Co and D Co are given by the formula:

$$Allocation\ to\ each\ Entity = Allocable\ Covered\ Taxes\ for\ the\ Basket \times \left(\frac{Cross - Crediting\ Allocation\ Key\ for\ the\ Entity\ for\ the\ Basket}{The\ sum\ of\ all\ Cross - Crediting\ Allocation\ Keys\ in\ the\ Basket}\right).$$

Allocation to C Co = 41 x (20.5 / (20.5+20.5)) = 20.5.

Allocation to D Co = 41 × (20.5 / (20.5+20.5)) = 20.5.

9. The final result is that the UPE has accrued 121 in Covered Taxes, of which 20.5 is allocated to C Co, 20.5 is allocated to D Co which is not included in the Adjusted Covered Taxes of the MNE Group and the remainder (80) is not reallocated.

Example 4.3.2 - 6

1. UPE is located in Jurisdiction X. UPE has a PE (PE1) and a wholly-owned CFC (A Co) located in Jurisdiction A. UPE has a wholly owned CFC B1 Co (in Jurisdiction B) and C Co (in Jurisdiction C). It also has a 20% Ownership Interest in B2 Co (also located in Jurisdiction B). For the Fiscal Year, the income of these entities and the tax accrued with respect to the jurisdiction in which they are located are set out in the table below. None of the income is Passive Income for the purposes of Article 4.3.3.

Jurisdiction	Entity	Income	Corporate income tax rate	Corporate income tax
Jurisdiction X	UPE	300	30%	90
Jurisdiction A	PE1	50	20%	10
	A Co	150	20%	30
Jurisdiction B	B1 Co	200	25%	50
	B2 Co (20% owned by UPE)	500	25%	125
Jurisdiction C	C Co	200	5%	10

2. Jurisdiction X operates a worldwide tax system and includes both domestic and foreign income of foreign permanent establishments and CFCs. A Co, B1 Co, B2 Co and C Co are all CFCs under the tax regime applicable in Jurisdiction X and UPE is required to include in its taxable income the UPE's proportionate share of their respective income. Jurisdiction X allows for tax credits paid on foreign income and operates a cross-crediting system within certain categories of income. It has three relevant baskets. First, there is a basket for the income of foreign permanent establishments. Second, there is a basket for income of CFCs which are located in jurisdictions with nominal tax rates below 10% (low tax CFC basket). Third, there is a basket for income of CFCs which are located in jurisdictions with nominal tax rates above 10% (non-low tax CFC basket). The foreign tax credit limitation is applied separately with respect to each basket or category of income.

3. In this case, under the cross-crediting tax system:

   a. Taxable income of the UPE is 1000 (300 + 150 + 50 + 200 + (500×20%) + 200).

   b. Pre-credit tax liability payable in Jurisdiction X is 300 = 1000×30%.

   c. With respect to the Branch Income basket:

      i. The foreign source income is 50

      ii. The Tax accrued is 10.

      iii. The foreign tax credit limitation is 15 (300 x (50/1000)).

      iv. The allowed foreign tax credit is 10 (the foreign tax credits limitation does not apply).

      v. The branch income basket tax liability is 5 ((50 x 30%) – 10).

   d. With respect to the low tax jurisdiction CFC basket:

      i. The foreign source income is 200.

      ii. The Tax accrued is 10.

      iii. The foreign tax credit limitation is 60 (300 x (200/1000)).

      iv. The allowed foreign tax credit is 10 (the foreign tax credits limitation does not apply).

      v. The low tax jurisdiction CFC basket tax liability is 50 ((200 x 30%) – 10).

   e. With respect to the non-low tax jurisdiction CFC basket:

      i. The foreign source income is 450 (150 + 200 + (500 x 20%)).

      ii. The Tax accrued is 105 (30 + 50 + 25).

      iii. The foreign tax credit limitation is 135 (300 x (450/1000)).

      iv. The allowed foreign tax credit is 105 (the foreign tax credits limitation does not apply).

      v. The non-low tax jurisdiction CFC basket tax liability is 30 ((450 × 30%) – 105)

   f. Total tax payable in jurisdiction X is 175 (300 – 10 – 10 – 105).

4. The Allocable Covered Taxes for each basket is given by subtracting from the total tax liability accrued the domestic tax liability calculated without regard to any foreign source income as well as the allocations to the other relevant baskets. In this case, there is 175 of total tax payable and 90 (300 x 30%) is referable to domestic source income. The remaining 85 (175 – (300 x 30%)) must be allocated between the three baskets taking into account the design of the relevant tax system. In this case, the allocations for each basket are:

   a. 5 to the branch income basket (175 – (300 x 30%) – (50 + 30));

   b. 50 to the low tax jurisdiction CFC basket (175 – (300 x 30%) – (5 + 30); and

   c. 30 to the non-low tax jurisdiction CFC basket (175 – (300 x 30%) – (5 + 50)).

5. All 5 of Allocable Covered Taxes in the branch income basket is allocated to the PE as the PE is the only entity with foreign source income in that basket. Accordingly, there is 5 in Covered Taxes allocated from UPE to PE under Article 4.3.2(a).

6. All 50 of the Allocable Covered Taxes in the low tax jurisdiction CFC basket is allocated to C Co as C Co is the only entity with foreign source income in that basket. Accordingly, 50 in Covered Taxes is allocated from UPE to C Co under Article 4.3.2(c). None of the income is Passive Income so Article 4.3.3 does not apply.

7. The 30 of Allocable Covered Taxes in the non-low tax jurisdiction CFC basket must be allocated between A Co, B1 Co and B2 Co in accordance with their respective Cross-Crediting Allocation Keys. The Cross-Crediting Allocation Keys are as follows:

a. A Co is 15 ((150 x 30%) – 30).

b. B1 Co is 10 ((200 x 30%) – 50).

c. B2 Co is 5 ((500 x 20%) x 30%) – (125 x 20%).

8. Accordingly, the allocation to each entity is as follows:

a. The cross-crediting allocation formula makes an allocation to A Co of 15 (30 x 15/30). This is allocated from UPE to A Co under Article 4.3.2(c). None of this income is Passive Income and therefore Article 4.3.3 does not apply.

b. The cross-crediting allocation formula makes an allocation to B1 Co of 10 (30 x 10/30). This is allocated from UPE to B1 Co under Article 4.3.2(c). None of this income is Passive Income and therefore Article 4.3.3 does not apply.

c. The cross-crediting allocation formula makes an allocation to B2 Co of 5 (30 x 5/30). However, as B2 Co is not a Constituent Entity, there is no allocation of Covered Taxes to B2 Co under Article 4.3.2.

9. The income of B2 Co is not included in the GloBE Income of UPE. Accordingly, the 5 in Covered Taxes which has been allocated to B2 Co under the formula is excluded from the Adjusted Covered Taxes of UPE under Article 4.1.3(a).

Example 4.3.2 - 7

1. Jurisdiction X has a worldwide tax system with cross-crediting and a foreign tax credit limitation which is calculated by reference to baskets of foreign source income. A Main Entity operating in Jurisdiction X has PE1 operating in Jurisdiction A. PE1 has 200 of GloBE Income which is all included in the taxable income of Main Entity. PE1 has accrued 30 in Covered Taxes to Jurisdiction A on this income (at a 15% rate). The Main Entity also has 300 of domestic income (which takes into account 100 of domestic deductions which are allocated to the foreign source income both for the purposes of determining taxable income from foreign sources and applying the foreign tax credit limitation in Jurisdiction X but are not deductible under the tax system in the PE Jurisdiction).

2. The Main Entity's tax liability in Jurisdiction X is calculated as follows:

a. Taxable Income = 500 (100 + 400).

b. Tax rate = 20%.

c. Pre-foreign tax credit tax liability = 100.

d. Foreign Source Income after allocable expenses = 100 (200 – 100).

e. Gross foreign tax credits = 30.

f. Allowable foreign tax credits = 20 = 100×100/500.

g. Tax liability = 80 (100 – 20).

3. The GloBE calculation applies as follows:

   a. Step 1 - Calculate the foreign source income of each PE and Entity

      i. The foreign source income of PE1 is 100 (200 of income from PE1 is included in the Main Entity's taxable income but 100 of the expenses of the Main Entity are allocated to PE1 both for the purposes of calculating the taxable income from foreign sources and applying the foreign tax credit limitation).

      ii. The Main Entity has no foreign source income.

   b. Step 2 – determine the Allocable Covered Taxes for the foreign branch basket

      i. The Allocable Covered Taxes for the basket are determined by starting with the total tax liability (80) and subtracting the domestic tax liability calculated without regard to foreign source income. Where domestic expenses are allocated to foreign source income for the purposes of the foreign tax credit limitation, they are excluded from the determination of domestic source income. Accordingly, there is 400 of domestic source income (which is the domestic source income of 300 and then adding back 100 in expense allocated to foreign source income for the purposes of the foreign tax credit liability). The hypothetical domestic tax liability on this income is 80 (400 x 20%).

      ii. Accordingly, the Allocable Covered Taxes for the foreign branch basket is 0 (80 – 80). There are no Allocable Covered Taxes.

   c. As there are no Allocable Covered Taxes to be allocated, the remaining steps are unnecessary.

4. In this example, there is no amount of Main Entity taxation to allocate to the PE. Jurisdiction X's domestic tax system requires an allocation of expenses for the purposes of determining foreign source income and applying its foreign tax credit limitation (200 – 100). The PE has accrued 30 of tax with respect to this income which exceeds the pre-tax credit liability which arises with respect to this income. Accordingly, there is no amount to allocate to the PE.

Example 4.3.2 - 8

1. Jurisdiction X has a worldwide tax system with cross-crediting and a foreign tax credit limitation which is calculated by reference to baskets of foreign source income. A Main Entity operating in Jurisdiction X has PE1 and PE2 operating in Jurisdictions A and B respectively. PE1 has 100 of GloBE Income which is all included in the taxable income of Main Entity. PE1 has accrued 5 in Covered Taxes to Jurisdiction A on this GloBE Income (at a 5% rate). PE2 has 200 of GloBE Income which is all included in the taxable income of the Main Entity. PE2 has accrued 10 of Covered Tax (at a 5% rate). There are no expenses allocated to PE1 under this methodology. The Main Entity also has 300 of domestic income taking into account the 200 of deductions which are allocated to the foreign source income only for the purposes of applying the foreign tax credit limitation. The 200 of deductions allocated to the foreign branch basket.

2. The Main Entity's tax liability in Jurisdiction X is calculated as follows:

   a. Taxable Income = 600 (100 + 200 + 300).

   b. Tax rate = 20%.

   c. Pre-foreign tax credit tax liability = 120.

   d. Foreign Source Income after allocable expenses = 100 (300 – 200).

e. Gross foreign tax credits = 15 (5 + 10).

f. Allowable foreign tax credits = 20 (120×100/600).

g. Tax liability = 105 = (120 – 15).

3. The GloBE calculation applies as follows:

a. Step 1 - Calculate the foreign source income of each PE and Entity

i. The foreign source income of PE1 is 100 (100 of income from PE1 is included in the Main Entity's taxable income).

ii. The foreign source income of PE2 is 200 (200 of income from PE2 is included in the Main Entity's taxable income).

iii. The Main Entity has no foreign source income.

b. Step 2 – determine the Allocable Covered Taxes for the foreign branch basket.

i. The Allocable Covered Taxes for the basket is determined by starting with the total tax liability (105) and subtracting the domestic tax liability calculated without regard to foreign source income. Where domestic expenses are allocated to foreign source income for the purposes of the foreign tax credit limitation, they are excluded from the determination of domestic source income. Accordingly, there is 500 of domestic source income (which is the domestic source income of 300 and then adding back the 200 in expense allocated to foreign source income for the purposes of the foreign tax credit limitation). The hypothetical domestic tax liability on this income is 100 (500 x 20%).

ii. Allocable Covered Taxes is 5 (105 – 100).

c. Step 3 – determine the Cross-Crediting Allocation Key with respect to each Entity

i. The Cross-Crediting Allocation Key for a PE is given by the formula:

$$Cross-Crediting\ Allocation\ Key\ for\ a\ PE = (Main\ Entity\ taxable\ income\ arising\ from\ the\ PE \times applicable\ tax\ rate) - creditable\ foreign\ taxes\ accrued\ with\ respect\ to\ the\ PE's\ income$$

PE1's Cross-Crediting Allocation Key is 15 ((100 x 20%) – 5).

PE2's Cross-Crediting Allocation Key is 30 ((200 x 20%) – 10).

d. Step 4 – determine the allocation to each PE

i. The allocation to each Entity is given by the formula:

$$Allocation\ to\ each\ PE\ or\ Entity = Allocable\ Covered\ Taxes \times \left(\frac{Cross-Crediting\ Allocation\ Key\ for\ the\ PE\ or\ Entity}{The\ sum\ of\ all\ Cross-Crediting\ Allocation\ Keys}\right).$$

Accordingly, the allocation to each PE is as follows:

Allocation to PE1 = 5 x (15 / (15+30)) = 1.67.

Allocation to PE2 = 5 × (30 / (15+30)) = 3.33.

4. The final result is that the Main Entity has accrued 105 in Covered Taxes, of which 1.67 is allocated to PE1, 3.33 is allocated to PE2, and the remainder (100) is not reallocated.

Example 4.3.2 - 9

1. Parent Entity is located in Jurisdiction X and has Sub Co 1 located in Jurisdiction Y. Sub Co 1 earns 100 in profit in Jurisdiction Y and accrues 10 in tax (at a 10% tax rate). Sub Co 1 makes a distribution of 90 to Parent Entity. Under Jurisdiction X's tax system, Parent Entity includes the distribution of 90 in its taxable income. Jurisdiction X grants Parent Entity an indirect tax credit for the foreign taxes paid with respect to that distribution (10) but adds the amount of these indirect foreign tax credits to the taxable income of the Parent Entity. As a result, Parent Entity has an increase in taxable income of 100 and an indirect foreign tax credit of 10.

2. For the purposes of applying the above cross-crediting allocation formula, the foreign source income of Parent Entity is 100. This includes the received distribution of 90 and the 10 'gross-up' for the indirect foreign tax credit amount.

Example 4.3.2 – 10

1. Main Entity is located in Jurisdiction X and has PE1 (in Jurisdiction A) and PE2 (in Jurisdiction B). In Year 1, Main Entity makes domestic source income of 100. PE1 has a loss of 40 and PE2 has income of 40. In Year 2, the Main Entity has domestic source income of 100, PE1 has income of 40 and PE2 has income of 40. Under Jurisdiction X's tax system, Main Entity directly includes the income or loss of each PE in its taxable income. Jurisdiction X has a 20% tax rate. Jurisdiction A does not have a corporate income tax and Jurisdiction B has a tax rate of 10%. Jurisdiction X has a foreign tax credit limitation equal to 20% of net foreign source income. Any unused foreign tax credits are carried forward to a following year.

2. In Year 1, Main Entity's tax in Jurisdiction X is as follows:

   a. Taxable Income = 100 (100 - 40 + 40).

   b. Tax rate = 20%.

   c. Pre-foreign tax credit tax liability = 20 (100 x 20%).

   d. Foreign Source Income after allocable expenses = 0 (40 – 40).

   e. Gross foreign tax credits = 4.

   f. Allowed foreign tax credits = 0 (20×(0/100)). 4 in foreign tax credits is carried forward.

   g. Tax liability = 20 = (20 – 0).

3. In Year 2, Main Entity's tax in Jurisdiction X is as follows:

   a. Taxable Income = 180 (100 + 40 + 40).

   b. Tax rate = 20%.

   c. Pre-foreign tax credit tax liability = 36 (180 x 20%).

   d. Foreign Source Income after allocable expenses = 80 (40 + 40).

   e. Gross foreign tax credits = 8 (4 + 4) (this includes 4 in carried forward tax expense).

   f. Allowed foreign tax credits = 8 (as the foreign tax credit limitation is 16 (36 ×80/180)).

   g. Tax liability = 28 = (36 – 8).

4. In Year 1, there is no allocation of tax from the Main Entity to either PE. As Jurisdiction X's regime sets off PE1's loss against PE2's income in applying its foreign tax credit limitation, the Main Entity has no foreign source income for Year 1 and there is no amount of Allocable Covered Taxes to be allocated under

the formula. There is also no net loss to be taken into account by the Main Entity in determining its taxable income as the loss of PE1 is effectively cancelled out by the income in PE2. As a result, Article 3.4.5 does not apply to reallocate any GloBE Loss from PE1 to the Main Entity. The Adjusted Covered Taxes do not take into account any deferred tax expense for the carried forward foreign tax credits due to the operation of Article 4.4.1(e).

5. In Year 2, the Main Entity has foreign source income of 80. The Allocable Covered Taxes are 8 (28 - (100 x 20%)). This takes into account current taxes as well as the carried forward foreign tax credit. This amount is then allocated between PE1 and PE2 in accordance with their respective Cross-Crediting Allocation Keys (the Main Entity has no foreign source income of its own). PE1's Cross-Crediting Allocation Key is 8 ((40 x 20%) - 0) and PE2's Cross-Crediting Allocation Key is 4 (40 x 20%) – 4). For the purposes of calculating the Cross-Crediting Allocation Key, the taxes accrued by the PE include the current year taxes but do not take into account the unused foreign tax credits from the previous year which have been carried forward. As a result, 5.33 is allocated to PE1 (8 x (8/12)) and 2.67 is allocated to PE2 (8 x 4/12). PE1 has an ETR of 13.3% (5.33/40) and PE2 has an ETR of 16.7% ((4+2.67)/40).

Example 4.3.2 – 11

1. This example is identical to the example above except that Jurisdiction X's foreign tax credit limitation is calculated separately for each Permanent Establishment. That is, there is no netting of foreign branch income and loss in setting the foreign tax credit limitation. This means that there is still 40 in foreign source income (as there is no netting) and the 4 foreign tax credits are allowed for Year 1.

2. In Year 1, Main Entity's tax in Jurisdiction X is as follows:

   a. Taxable Income = 100 (100 - 40 + 40).
   b. Tax rate = 20%.
   c. Pre-foreign tax credit tax liability = 20 (100 x 20%).
   d. Foreign Source Income after allocable expenses = 40.
   e. Gross foreign tax credits = 4.
   f. Allowed foreign tax credits = 4 (as the foreign tax credit limitation is 8 (20×40/100).
   g. Tax liability = 16 = (20 – 4).

3. In Year 2, Main Entity's tax in Jurisdiction X is as follows:

   a. Taxable Income = 180 (100 + 40 + 40).
   b. Tax rate = 20%.
   c. Pre-foreign tax credit tax liability = 36 (180 x 20%).
   d. Foreign Source Income after allocable expenses = 80 (40 + 40).
   e. Gross foreign tax credits = 4.
   f. Allowed foreign tax credits = 4 (as the foreign tax credit limitation is 16 (36×80/180)).
   g. Tax liability = 32 (36 – 4).

4. In Year 1, PE2 has 40 of foreign source income (Step 1). The Allocable Covered Taxes are equal to the total tax liability (16) less the domestic tax liability calculated without regard to foreign source income but taking into account deductions for a foreign PE Loss which gives rise to a GloBE Loss under Article 3.4.5 (12 ((100 – 40) x 20%)). This results in Allocable Covered Taxes of 4 (16 – 12) (Step 2). As PE2 is

the only entity with foreign source income, all 4 in Allocable Covered Taxes are allocated to PE2 (Steps 3 and 4). Accordingly, PE2 has an ETR of 20% ((4 + 4) / 40).

5. Assuming the other conditions have been met, Art. 3.4.5 applies with respect to PE1 in Year 1. The Main Entity takes PE1's GloBE Loss into account in calculating its GloBE Income or Loss. Accordingly, the Main Entity's GloBE Income is only 60 for Year 1. It has an ETR of 20% (12/60). Due to the operation of Art. 3.4.5, PE1 has no GloBE Income or Loss. It also has no Covered Taxes.

6. In Year 2, there is foreign source income of 40 for PE2 (Step 1). PE1's 40 of income is treated as domestic source income of the Main Entity as it is income of a foreign PE which offsets a previously included loss for which there had been a GloBE reallocation under Article 3.4.5. The Allocable Covered Taxes are 4 (32 – (140 x 20%)). In calculating the Allocable Covered Taxes, the income of PE1 which is reallocated to the Main Entity under Art. 3.4.5 is treated as domestic source income which is relevant in determining the hypothetical domestic tax liability. As PE2 is the only entity with foreign source income, the 4 in Allocable Covered Taxes is allocated to PE2. As a result, in Year 2, the Main Entity has an ETR of 20% (28/140), PE1 has no GloBE Income or Loss (and no Covered Taxes) and PE2 has an ETR of 20% ((4 + 4)/40).

Example 4.3.2 – 12

1. The Main Entity (in Jurisdiction X) has PE1 (Jurisdiction A) and PE2 (Jurisdiction B). Jurisdiction X has a tax rate of 20% and Jurisdiction A has a tax rate of 5%. In Year 1, PE1 makes a loss of 40. There is no income or loss for Main Entity and PE2. In Year 2, Main Entity has income of 100, PE1 has income of 40 and PE2 has income of 40. In Year 2, PE1 accrues no tax despite the 5% tax rate because it has carried forward losses from the previous year under Jurisdiction A's tax system. PE2 accrues 4 of tax in Jurisdiction B (10% rate). Under its domestic tax system, Jurisdiction X takes into account carry-forward losses from foreign Permanent Establishments when determining the foreign tax credit limitation.

2. In Year 1, Main Entity's tax in Jurisdiction X is as follows:

   a. Taxable Income = -40.
   b. Tax rate = 20%.
   c. Pre-foreign tax credit tax liability = 0.
   d. Foreign Source Income after allocable expenses = 0.
   e. Gross foreign tax credits = 0.
   f. Allowed foreign tax credits = 0.
   g. Tax liability = 0.

3. In Year 2, Main Entity's tax in Jurisdiction X is as follows:

   a. Taxable Income = 140 (100 + 40 + 40 - 40) (including a carry-forward loss of 40).
   b. Tax rate = 20%.
   c. Pre-foreign tax credit tax liability = 28 (140 x 20%).
   d. Foreign Source Income after allocable expenses = 40 (this is PE2's foreign source income of 40. PE1's income of 40 has been reallocated to the Main Entity under Art. 3.4.5 along with the 40 carry forward loss which had previously been allocated to the Main Entity in Year 1).
   e. Gross foreign tax credits = 4.

f. Allowed foreign tax credits = 4 (as the foreign tax credit limitation is 8 (28 x 40/140. In this example, the Main Entity jurisdiction takes into account the carry forward loss in calculating the FTC limitation).

g. Tax liability = 24 = (28 – 4).

4. In Year 1, there is no tax liability to allocate from the Main Entity to either PE. PE1's loss is taken into account in determining the taxable income of the Main Entity and, assuming it meets the other criteria, Article 3.4.5 applies to allocate the GloBE Loss from PE1 to the Main Entity. In Year 1, there is a GloBE Loss of 40 in the Main Entity. There is also a GloBE Loss Deferred Tax Asset of 6 (40 x 15%).

5. In Year 2, the Allocable Covered Taxes is 4 (24 – (100 x 20%)). The total tax liability is 24. The domestic tax liability takes into account the 100 of domestic income less the 40 carry forward loss (from the previously allocated 40 loss from PE1 in Year 1) plus the reallocated 40 from PE1 under Article 3.4.5 in Year 2). Accordingly, the hypothetical domestic tax liability is 20 ((100 – 40 + 40) x 20%). PE1 has no foreign source income in Year 2 as its 40 of income is treated as domestic source income of the Main Entity and has been allocated under Art. 3.4.5. PE2 has foreign source income of 40. There is no foreign source income of the Main Entity itself. As a result, all of the Allocable Covered Taxes (4) are allocated to PE2.

6. In Year 2, the GloBE Income of Main Entity is 140 (100 + 40 under Article 3.4.5). Its Adjusted Covered Taxes are 26. This is 20 of domestic tax and 6 as a result of the reversed GloBE Loss DTA of 6 from Year 1 (calculated at 15% of the 40 loss). This is an ETR of 18.5%. This is the outcome of an effective blending of the 20% rate on the domestic income of 100 and the reversal of the GloBE Loss DTA of 6 which has been calculated as 15% of a 40 loss. PE1 has no GloBE Income (as its income is treated as domestic source income of the Main Entity and has been reallocated under Article 3.4.5) and no Covered Taxes. PE2 has 40 in GloBE Income and 8 in Covered Taxes (4 of its own taxes at a 10% rate and 4 of Main Entity taxes which have been allocated). Accordingly, PE2 has an ETR of 20%.

Example 4.3.2 – 13

1. An MNE Group with a UPE in Jurisdiction X is subject to a worldwide tax system applied by Jurisdiction X. Under this tax system, Jurisdiction X imposes tax on both domestic and foreign source income, including dividends received from foreign corporations, and allows a tax credit for taxes paid on foreign source income. Jurisdiction X has a cross-crediting foreign tax credit regime pursuant to which taxes paid in all foreign jurisdictions on all categories of foreign source income are creditable against the UPE's tax liability arising from foreign source income. Under the Jurisdiction X's domestic tax regime, the foreign tax credit allowed for any given Fiscal Year cannot exceed the tax liability arising from the income inclusion of foreign sources and the foreign tax credit limitation. The tax rate in Jurisdiction X is 20%.

2. The UPE has PEs in jurisdictions A (PE1), B (PE2) and owns a subsidiary (C Co) in jurisdiction C. The UPE owns 100% of C Co and all of C Co's after-tax profits are distributed to the UPE annually. C Co is not subject to the CFC Tax Regime of Jurisdiction X. The UPE wholly owns a CFC in jurisdiction A (A Co), which is a Constituent Entity. A Co's income is Passive Income. It also has a 20% Ownership Interest in B Co which is located in Jurisdiction B and is neither a Constituent Entity nor a CFC. The dividend income from B Co is included in the UPE's taxable income under the cross-crediting regime but is not within the UPE's GloBE Income or Loss.

Year 1

3. In year 1, UPE earns domestic source income of 400, PE1 generates income of 500, PE2 generates income of 100, and A Co (CFC) generates income of 100 which is passive income. All of the PE income is active income. The UPE derives dividend income of 200 from B Co and dividend income of 300 from C Co. The UPE also derives royalty income of 100 from a 3rd party company located in

Jurisdiction C. Jurisdiction X also has a foreign tax credit limitation equal to its domestic tax liability multiplied by the proportion of foreign source income to total income. Suppose that in Jurisdiction A, Jurisdiction B and Jurisdiction C, the financial income and taxable income are the same.

4. Tax rates and Tax accrued with respect to the income of the UPE, each PE, subsidiary, CFC and non-Constituent Entity in the jurisdiction where they are located are as follows:

Jurisdiction	Entity	Financial Income	Taxable Income	Corporate income tax rate	Corporate income tax	Withholding tax rate	Withholding tax
Jurisdiction X	UPE	400	400	20%	80		
Jurisdiction A	PE1	500	500*	5%	25		
	A Co (CFC)	100	100	5%	5		
Jurisdiction B	PE2	100	100*	25%	25		
	B Co** (Non-CE)	200	200	25%	50	10%	15
Jurisdiction C	C Co (Subsidiary)	300	300	5%	15	5%	14.25
	3rd party company	100				10%	10

**Note that the taxable income for these amounts differs between the tax system applicable in the jurisdiction of the PE and the tax system of the UPE under its worldwide system.*

***The figures with respect to B Co in this table reflect UPE's proportionate share of the income and taxes of B Co. That is, they are 20% of the total income and taxes of B Co.*

5. At the beginning of Year 1, PE1 purchases equipment with the carrying value of 400. For accounting purposes, the equipment is depreciated in 2 years and Jurisdiction A also depreciates such asset in 2 years under domestic tax regime. However, Jurisdiction X allows for immediate expense of the asset for tax purposes. In Year 1, PE 2 has recorded a reserve for bad debt of 100. However, the bad debt is only deductible in Jurisdiction X for tax purposes when the debt is proven to be uncollectible. Suppose there is no timing differences with respect to other foreign source income or domestic income of the UPE. As a result, there are differences between the taxable income of PE1 and PE2 as calculated under the tax regime in the jurisdiction of the PE and as calculated under Jurisdiction X's tax regime as applicable to foreign Permanent Establishments.

Allocation of cross-border current tax expense

6. Step 1: determine the amount of each foreign source income which in included in the taxable income of the UPE.

	Jurisdiction A		Jurisdiction B		Jurisdiction C	
	PE1	A Co	PE2	B Co	C Co	3rd Party Company
Taxable Income	300	100	200	200	300	100

Note: Because equipment in PE1 can be expensed immediately in Jurisdiction X, the taxable income of PE 1 included in Jurisdiction X is 300 while its accounting income is 500. This is because for tax purposes, PE1 has a 400 deduction in Year 1 (immediate expensing) while for accounting purposes the 400 carrying value is treated as an expense of 200 in Year 1 and 200 in Year 2. Because the reserve for bad debt is not allowed to be deducted in Jurisdiction X in Year 1, the taxable income of PE2 included in Jurisdiction X is 200 rather than the 100 accounting profit.

7. Step 2: Calculate the Allocable Covered Taxes

a. Taxable income of the UPE is 1600 = 400+300+100+200+200+300+100

b. Pre-credit tax liability payable in Jurisdiction X is 320 = 1600×20%

c. Tax accrued in foreign jurisdictions is 159.25 = 25+5+25+50+15+15+14.25+10

d. Foreign tax credit limitation is 240 = 320×(1200/1600)

e. Allowed foreign tax credit is 159.25 which is the lower of c and d

f. Tax payable in Jurisdiction X is 160.75 = 320-159.25

g. Allocable Covered Taxes = 160.75- (400×20%) = 80.75

8. Step 3: Determine the Cross-crediting Allocation Key for each PE and Entity's foreign source income

Entity	Main Entity taxable income arising from the foreign source income	Applicable tax rate	Tax accrued with respect to the foreign source income	Cross-Crediting Allocation Key
	[1]	[2]	[3]	[4] = ([1]×[2]) - [3]
PE1	300	20%	25	35
A Co	100		5	15
PE2	200		25	15
B Co	200		65	0
C Co	300		29.25	30.75
Main Entity	100		10	10
In total				105.75

9. Step 4: Determine allocation to each PE and Entity

Entity	Allocable Covered Taxes	Cross-Crediting Allocation key for the Entity	The sum of all Cross-Crediting Allocation Keys	Allocation to the Entity
	[1]	[2]	[3]	[4] = [1] x ([2]/[3])
PE1	80.75	35	105.75	26.73
A Co		15		11.45
PE2		15		11.45
B Co		0		0
C Co		30.75		23.48
Main Entity		10		7.64
In total				80.75

10. For purposes of Article 4.3.3, the ETR for Jurisdiction A (ignoring any CFC Tax Regimes and tax transparency regimes) would have been 5% (= (5+25)/(100+500)) and thus the Top-up Tax Percentage for Jurisdiction A is 10%(=15%-5%). Therefore, the current tax expense of 10 is allocated to A Co and the remaining amount of 1.45 (=11.45-10) is included in the Adjusted Covered Taxes of the UPE.

11. As a result, of the 160.75 in current taxes accrued by the Main Entity (UPE), 71.66 (=80.75 – 7.64 – 1.45) is allocated between its PE1, A Co, PE2, B Co and C Co. The remaining 89.09 is not reallocated and remains as Covered Tax of UPE.

Allocation of deferred tax expense or benefit

12. At the end of Year 1, the carrying value of the equipment of PE1 is 200, and the tax basis of the equipment is 0. The timing difference is 200 and the UPE records a DTL of 40(=200×20%) with respect to the equipment based on the timing difference. There is no creditable tax credit in relation to the equipment. The deferred tax expense arising from the recognition of the DTL is recast to 30 and allocated to PE1.

13. With respect to the reserve for bad debt in PE2, there is a deductible timing difference of 100 in the UPE. The UPE records a DTA of 20(=100×20%) accordingly. The deferred tax benefit arising from the recognition of the DTA is recast to 15 and allocated to PE2.

Adjusted Covered Taxes after allocation

14. The calculation of Adjusted Covered Taxes is as follows:

Jurisdiction	Entity	Tax accrued in each jurisdiction	Allocation of Current tax expense	Current tax expense after allocation	Deferred tax expense after recast before allocation	Allocation of Deferred tax	Deferred tax expense included	Adjusted Covered Taxes
		[1]	[2]	[3]=[1]+[2]	[4]	[5]	[6]=[4]+[5]	[7]=[3]+[6]
X	UPE	160.75	-71.66+10*	99.09	15	-15	0	99.09
A	PE1	25	26.73	51.73		30	30	81.73
	A Co (CFC)	5	10	15				15
B	PE2	25	11.45	36.45		-15	-15	21.45
	B Co (Non-CE)	65	0	65				65
C	C Co (Subsidiary)	29.25	23.48	52.73				52.73

**Note: The 10 of withholding tax paid in jurisdiction C with respect to the royalty income of UPE shall be added to the Adjusted Covered Taxes of the UPE.*

ETR for each jurisdiction

15. The calculations of the Year 1 ETR for each jurisdiction are as follows:

	Jurisdiction X	Jurisdiction A	Jurisdiction B	Jurisdiction C
GloBE Income	400+100*	600	100	300
Adjusted Covered Taxes	99.09	96.73	21.45	52.73
ETR	19.82%	16.12%	21.45%	17.58%

**Note: The 100 of royalty income derived from a 3rd party company in Jurisdiction C shall be added to the GloBE Income of the UPE.*

Year 2

16. The facts are the same as Year 1, except that the bad debt in PE 2 has been proven to be uncollectible in year 2 and is allowed as a deduction for tax purposes in Jurisdiction X.

Allocation of cross-border current tax expense

17. Step 1: determine the amount of foreign source income which is included in the taxable income of the UPE.

	Jurisdiction A		Jurisdiction B		Jurisdiction C	
	PE1	A Co	PE2	B Co	C Co	3rd Party Company
Taxable Income	700*	100	0*	200	300	100

**Note: As all of the depreciation of the equipment in PE1 was claimed in Year 1 (under immediate expensing), there are no further deductions for this equipment under Jurisdiction X's tax law in Year 2. Accordingly, the taxable income of PE1 included in Jurisdiction X is 700 (500 + 200). Furthermore, the bad debt of PE2 which had been taken as an expense for accounting purposes in Year 1 is allowed as a deduction for tax purposes in Jurisdiction X in Year 2. Accordingly, the taxable income of PE2 included in Jurisdiction X is 0 (100 – 100).*

18. Step 2: Calculate the Allocable Covered Taxes

a. Taxable income of the UPE is 1800 = 400+700+100+0+200+300+100
b. Pre-credit tax liability payable in Jurisdiction X is 360 = 1800×20%
c. Tax accrued in foreign jurisdictions is 159.25 = 25+5+25+50+15+15+14.25+10
d. Foreign tax credit limitation is 280 = 360×(1400/1800)
e. Allowed foreign tax credit is 159.25 which is the lower of c and d

f. Tax payable in jurisdiction X is 200.75 = 360-159.25

g. Allocable Covered Taxes = 200.75 – (400×20%) = 120.75

19. Step 3: Determine the Cross-crediting Allocation Key for each PE and Entity.

Entity	Main Entity taxable income arising from the foreign source income	Applicable tax rate	Tax accrued with respect to the foreign source income	Cross-Crediting Allocation Key
	[1]	[2]	[3]	[4] = ([1]×[2]) - [3]
PE1	700	20%	25	115
A Co	100		5	15
PE2	0		25	0
B Co	200		65	0
C Co	300		29.25	30.75
Main Entity	100		10	10
In total				170.75

20. Step 4: Determine allocation to each PE and Entity

	Allocable Covered Taxes	Cross-Crediting Allocation key for the Entity	The sum of all Cross-Crediting Allocation Keys	Allocation to the Entity
	[1]	[2]	[3]	[4] = [1] x ([2]/[3])
PE1	120.75	115	170.75	81.32
A Co		15		10.61
PE2		0		0
B Co		0		0
C Co		30.75		21.75
Main Entity		10		7.07
In total				120.75

21. For purposes of Article 4.3.3, assume that the Top-up Tax Percentage for Jurisdiction A is 10%. Therefore, the current tax expense of 10 is allocated to A Co and the remaining amount of 0.61 (=10.61-10) is included in the Adjusted Covered Taxes of the UPE.

22. As a result, of the 200.75 in current taxes accrued by the Main Entity (UPE), 113.07 (120.75 – 7.07 – 0.61) is allocated between its PE1, A Co, PE2, B Co and C Co. The remaining 87.68 is not reallocated and remains as Covered Tax of UPE.

Allocation of deferred tax expense or benefit

23. At the end of Year 2, the carrying value of the equipment of PE1 is 0, and the tax basis of the equipment is 0. There is no timing difference and the UPE records a reversal of the DTL that was recast to 30 with respect to the equipment based on the timing difference. The deferred tax benefit of 30 arising from this DTL reversal is allocated to PE1.

24. With respect to the reserve for bad debt in PE2, there is no longer a timing difference at the end of Year 2 and the UPE records a reversal of the DTA that was recast to 15 accordingly. The deferred tax expense of 15 arising from this DTA reversal is allocated to PE2.

Adjusted Covered Taxes after allocation

25. The calculation of Adjusted Covered Taxes are as follows:

Jurisdiction	Entity	Tax accrued in each jurisdiction	Allocation of Current tax expense	Current tax expense after allocation	Allocable deferred tax expense for GloBE purposes	Allocation of deferred tax	Deferred tax expense included	Adjusted Covered Taxes
		[1]	[2]	[3]=[1]+[2]	[4]	[5]	[6]=[4]+[5]	[7]=[3]+[6]
X	UPE	200.75	-113.07+10*	97.68	-15	+15	0	97.68
A	PE1	25	81.32	106.32		-30	-30	76.32
	A Co (CFC)	5	10	15				15
B	PE2	25	0	25		15	15	40
	B Co (Non-CE)	65	0	65				65
C	C Co (Subsidiary)	29.25	21.75	51				51

**Note: The 10 of withholding tax paid in jurisdiction C with respect to the royalty income of UPE shall be added to the Adjusted Covered Taxes of the UPE.*

ETR for each jurisdiction

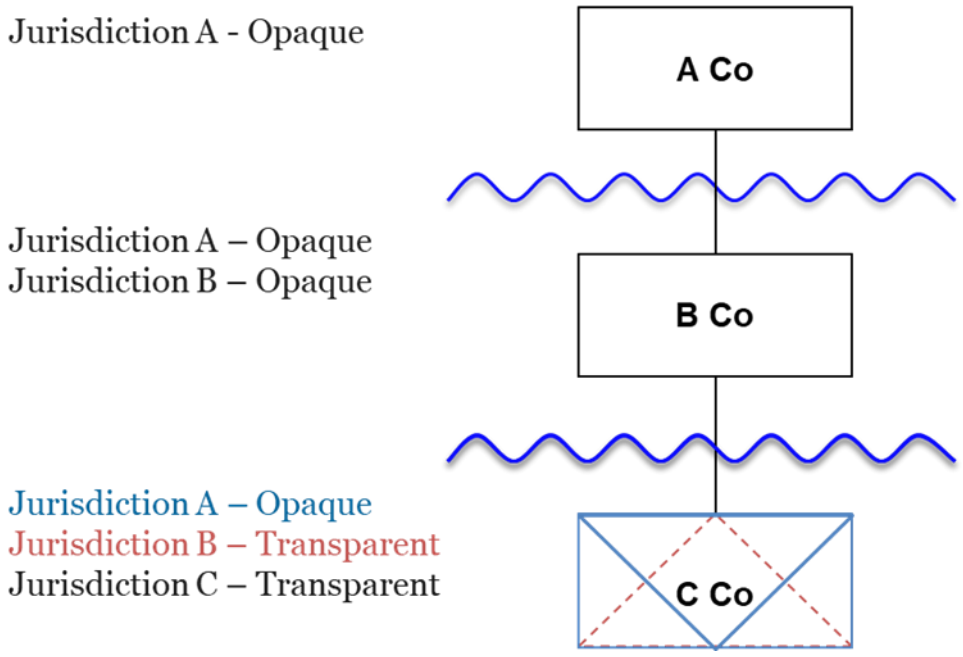
26. The calculations of the Year 2 ETR for each jurisdiction are as follows:

	Jurisdiction X	Jurisdiction A	Jurisdiction B	Jurisdiction C
GloBE Income	400+100*	600	100	300
Adjusted Covered Taxes	97.68	91.32	40	51
ETR	19.54%	15.22%	40%	17%

**Note: The 100 of royalty income derived from a 3rd party company in Jurisdiction C shall be added to the GloBE Income of the UPE.*

Example 4.3.2-14 CFC taxes paid in respect of a Tax Transparent Entity

1. A Co owns B Co, and B Co owns C Co. The jurisdiction in which A Co is located, jurisdiction A, does not treat A Co, B Co or C Co as fiscally transparent. The jurisdiction in which B Co is located, jurisdiction B, treats B Co as not fiscally transparent and C Co as fiscally transparent. The jurisdiction in which C Co is created treats C Co as fiscally transparent. See illustration below.

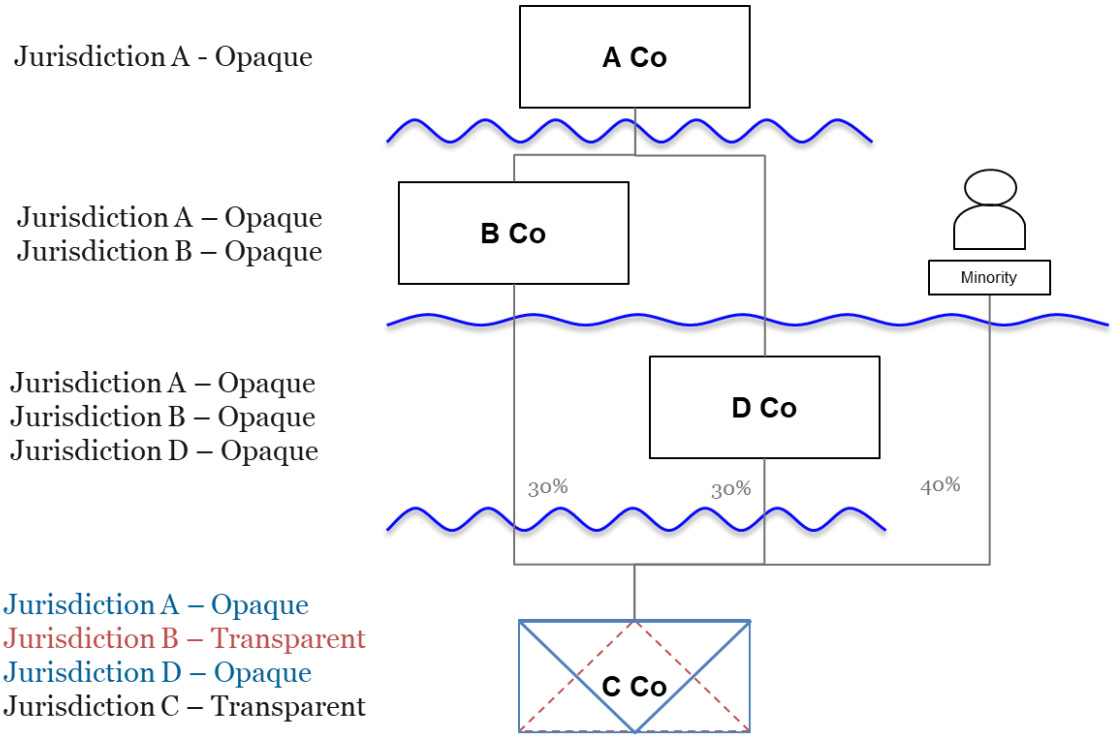


2. C Co has a profit of 100 and an ETR of 0%. B Co is the Reference Entity as it is the closest Constituent Entity-owner in the ownership chain to C Co that is itself not a Flow-through Entity. C Co is a Tax Transparent Entity according to the law of Jurisdiction B.

3. Jurisdiction A requires A Co to apply its CFC Tax Regime with respect to the profit of C Co and charges a CFC tax of 15 on that profit. Article 4.3.2(c) allocates the CFC tax (15) paid by A Co to C Co. This tax is then allocated to B Co under Article 4.3.2(b) because C Co's profit has been allocated to B Co under Article 3.5.1.

Example 4.3.2-15 CFC taxes paid in respect of a Tax Transparent Entity – cont.

1. The facts are the same as those in Example 4.3.2-3, except that C Co is only 30% owned by B Co. D Co, located in Jurisdiction D which does not see C Co as fiscally transparent, owns another 30%, while a minority owner located in Jurisdiction B owns the remaining 40% of C Co. See illustration below.



2. Jurisdiction B and D do not have Controlled Foreign Company Tax Regimes. Jurisdiction A requires A Co to apply its CFC Tax Regime with respect to its ownership interests in the profits of C Co and charges a CFC tax of 9 (15%*60%*100) on these profits. Article 4.3.2(c) allocates the CFC tax paid by A Co (9) to C Co.

3. The next step is to consider whether there is a further allocation of the 9 of CFC tax under Article 4.3.2(b). B Co and D Co are Reference Entities and are both held by A Co (the Parent Entity paying the CFC tax). C Co is a Tax Transparent Entity in relation to B Co and a Reverse Hybrid Entity in relation to D Co. As C Co is a Tax Transparent Entity in relation to B Co, part of the CFC tax will be further allocated to B Co under Article 4.3.2(b). The remaining part will remain in C Co. This matches the allocation of the tax with the allocation of profit. The 9 of CFC tax is allocated in the same proportion that C Co's profits are allocated between B Co and C Co under Article 3.5.1 (ignoring any Ownership Interests attributable to minority owners or Reference Entities which are not owned by A Co), so 4.5 (9*(30/60)) is allocated to B Co and 4.5 is allocated to C Co. No CFC tax is allocated to the minority owner.

Article 4.3.3

Example 4.3.3 - 1

Adjusted Covered Taxes (CFC Tax push-down limitation)

1. A Co is a Constituent Entity of a MNE Group in Country A. Country A imposes a 25% CIT rate and has a Controlled Foreign Company (CFC) Tax Regime which imposes Taxes on shareholders in respect of Passive Income derived by foreign (CFC) subsidiaries.

2. A Co wholly owns B Co, which is located in Country B. Country B imposes a 5% CIT rate. B Co is the only Constituent Entity located in Country B.

3. In Year 1, B Co has GloBE Income of EUR 100, of which EUR 50 is Passive Income that is subject to the CFC Tax Regime of Country A.

4. Country A imposes its CFC charge on the EUR 50 of Passive Income earned by B Co. This CFC charge is computed by applying the Country A CIT rate of 25% to the Passive Income earned by B Co, less any applicable foreign tax credit (FTC). Accordingly, the Country A CFC charge is 10 ((25% x 50) – (5% x 50)). A Co has no other operating income in Year 1. The table below illustrates the tax calculation for both A Co and B Co.

A Co (Country A)	
Country A Income	
Operating Income	0
CFC Inclusion (B Co)	50
Total Taxable Income	50
Country A Tax	
Tax on Operating Income (25%)	0
Tax on CFC Inclusion (25%)	12.5
Foreign Tax Credit (CFC Inclusion)	-2.5
Total Country A Tax*	10
**Entirely attributable to CFC inclusion since there is no other income*	

B Co (Country B)	
Country B Income	
Operating Income	50
Passive Income	50
Total Taxable Income	100
Country B Tax	
Tax on Operating Income (5%)	2.5
Tax on Passive Income (5%)	2.5
Total Country B Tax	5

5. The amount of any CFC Taxes included in the financial accounts of a direct or indirect Constituent Entity-owner on its share of the Controlled Foreign Company's income is allocated to such CFC under Article 4.3.2(c). The allocation of CFC Taxes, however, is subject to the limitations of Article 4.3.3.

6. Under Article 4.3.3, the allocation of CFC Taxes is limited to the lesser of:

(a) the actual amount of Covered Taxes in respect of such Passive Income; or

(b) the Top-up Tax Percentage that applies in the subsidiary jurisdiction, multiplied by the amount of the subsidiary's Passive Income that is includible under the CFC Tax Regime.

For the purposes of this formula, the Top-up Tax Percentage is determined without regard to the Covered Taxes to be allocated to the subsidiary under the CFC Tax Regime.

7. The maximum amount of CFC Taxes that can be allocated from Country A to Country B (to increase its ETR) under Article 4.3.3 is therefore computed as follows:

- Step 1: the Top-up Tax Percentage for Country B is determined without regard to any Covered Taxes of the Constituent Entity-owner on such Passive Income. This amount is 10% (15% - 5%).
- Step 2: the Top-up Tax Percentage calculated under Step 1 is multiplied by the amount of the Constituent Entity's Passive Income includible under the CFC Tax Regime of Country A. This amount is EUR 5 (10% x EUR 50).
- Step 3: the lesser of the Step 2 amount or the actual CFC Taxes with respect to the Passive Income is allocated to B Co.

8. In this case the Step 2 amount is 5, while the actual CFC Tax amount is 10. Therefore, Covered Tax of 5 may be allocated under Article 4.3.3 from Country A to Country B. Absent the limitation in Article 4.3.3, Article 4.3.2 (c) would have allocated the full CFC Tax of EUR 10 to Country B. Article 4.3.3 ensures that the CFC Tax allocated from Country A to Country B is sufficient to reach the Minimum Rate with respect to the income brought into charge under the CFC Tax Regime. The remaining Covered Tax of EUR 5 in Country A stays with A Co and is included in its Adjusted Covered Taxes for purposes of determining the ETR in Country A. The table below illustrates the GloBE Calculations after Application of Article 4.3.3:

A Co (Country A)	
GloBE Income	0
Covered Taxes	
Country A Tax	10
CFC Tax Allocated to Country B	-5
Total Country A Adjusted Covered Taxes	5
ETR	-
Top-up Tax	**-**

B Co (Country B)	
GloBE Income	100
	50
Covered Taxes	
Country B Tax	5
CFC Tax Allocated from Country A	5
Total Country B Adjusted Covered Taxes	10
ETR	10%
Top-up Tax	**5**

Article 4.4.1

Example 4.4.1 - 1

Total Deferred Tax Adjustment Amount – generation of tax credits

1. A Co is a Constituent Entity of an MNE Group that is subject to the GloBE Rules. A Co is the only Constituent Entity located in Country A. The only tax imposed on A Co under Country A law is corporation tax which is imposed at the rate of 25%. The tax base of Country A is the same as the GloBE tax base. Country A has a minimum tax regime that provides at least 17% corporate income tax must be paid in a taxable year.

2. In Year 1, A Co earns GloBE Income of 100 in Country A. The initial tax liability for A Co is therefore 25 but Country A provides an incentive tax credit to A Co of 15. Because of the Country A minimum tax regime, only 8 of the incentive tax credit may be used in Year 1 given the 17% minimum rate requirement. The remaining 7 of incentive tax credit is available for carry-forward to a future tax year. A Co therefore pays 17 of Country A tax in Year 1 and carries-forward an excess credit of 7.

3. In Year 2, A Co earns GloBE Income of 100 and has an initial tax liability in Country A of 25. A Co applies its remaining 7 tax credit carry-forward from Year 1 and pays 18 of Country A tax in Year 2.

4. Because Article 4.4.1(e) excludes deferred tax expense with respect to the generation and use of tax credits, the carry-forward of 7 generated in Year 1 does not give rise to a deferred tax asset for GloBE purposes, and therefore does not reduce the Adjusted Covered Taxes for Country A in Year 1. Applying the same rule, the use of the credit carry-forward of 7 in Year 2 does not increase Adjusted Covered Taxes for Country A in Year 2. As a result, the Country A ETR is 17% in Year 1 (17/100) and 18% in Year 2 (18/100). A table illustrating the numerical results of this example is set out below.

	Year 1	Year 2
GloBE Income/ (Loss)	100	100
Country A Tax (25%)	(25)	(25)
Tax Credit Generated	15	0
Carry-forward Tax Credit Applied	0	7
Minimum Tax Adjustment	(7)	0
Final Country A Tax	(17)	(18)
Country A ETR	17%	18%
Top-up Tax	0	0
Excess Tax Credit Carry-forward	7	0

5. Absent the rule in Article 4.4.1(e), the Country A results would have been distorted by the generation of excess tax credits in Year 1, as the credit carry-forward would give rise to a deferred tax asset that would otherwise reduce Adjusted Covered Taxes below the Minimum Rate.

Article 4.4.1(e)

Example 4.4.1(e) - 1

1. The ABC MNE Group owns 100% of Constituent Entity A in Jurisdiction Z. Constituent Entity A is the only Constituent Entity of the MNE Group in Jurisdiction Z. Jurisdiction Z imposes a 17.5% corporate income tax and taxes the worldwide income of Constituent Entity A through a CFC Tax Regime. Constituent Entity A owns 100% of Constituent Entity B which is located in Jurisdiction Y. Jurisdiction Y imposes a 20% corporate income tax. The income of Constituent Entity B is taken into account in the Jurisdiction Z taxable income of Constituent Entity A as foreign source income brought into charge under the Jurisdiction Z CFC Tax Regime. Jurisdiction Z permits a foreign tax credit to offset Jurisdiction Z tax on foreign source income. With the exception of the CFC Tax Regime in Jurisdiction Z, the tax bases of Jurisdiction Z and Jurisdiction Y are the same as the GloBE tax base.

2. In Year 1, Constituent Entity A incurs a Jurisdiction Z loss of (100) and Constituent Entity B earns jurisdiction Y income of 100. Constituent Entity B pays jurisdiction Y tax of 20 in Year 1. Constituent Entity A pays no Jurisdiction Z tax because it has no jurisdiction Z taxable income. No loss carry-forward is generated in Jurisdiction Z because the domestic loss has been offset by foreign source income. A foreign tax credit carry-forward in Jurisdiction Z is established for the unused foreign tax credits resulting from the Jurisdiction Y tax paid in Year 1. A Substitute Loss Carry-forward DTA of 15, which is equal to the foreign tax credits carried-forward, recast at the Minimum Rate, is generated and carried-forward.

3. In Year 2 Constituent Entity A earns Jurisdiction Z income of 100 and Constituent Entity B earns no income or loss in Jurisdiction Y. The laws of Jurisdiction Z permit the use of carried-forward foreign tax credits to offset the 100 of domestic source income since no loss carry-forward was generated in Year 1. When these foreign tax credits are applied, the Substitute Loss Carry-forward DTA reverses and is treated as an addition to Adjusted Covered Taxes. Accordingly, Adjusted Covered Taxes for Year 2 in Jurisdiction

Z are 15 and no Top-up Tax is applicable. This is the same result as if a loss carry-forward had been generated with respect to the Jurisdiction Z loss in Year 1 and then carried-forward and applied in Year 2.

Year 1	Foreign Source	Domestic Source	Total
Constituent Entity A Income (Loss)	100	(100)	0
FTC Generated / (Used)	20	0	20
Loss Generated / (Used)	0	0	0
FTC Carry-forward	20	0	20
Jurisdiction Z Tax (17.5%)	-	-	0
Jurisdiction Z GloBE Income (Loss)		(100)	
Jurisduction Z GloBE Adjusted Covered Taxes		(15)	
Year 2	**Foreign Source**	**Domestic Source**	**Total**
Constituent Entity A Income (Loss)	100	100	100
FTC Generated / (Used)	0	(17.5)	(17.5)
Loss Generated / (Used)	0	0	0
FTC Carry-forward	2.5	0	2.5
Jurisdiction Z Tax (17.5%)	-	-	0
Jurisdiction Z GloBE Income (Loss)		100	
Jurisduction Z GloBE Adjusted Covered Taxes		15	

Example 4.4.1(e) - 2

1. The ABC MNE Group owns 100% of Constituent Entity A in Jurisdiction Z. Constituent Entity A is the only Constituent Entity of the MNE Group in Jurisdiction Z. Jurisdiction Z imposes a 17.5% corporate income tax and taxes the worldwide income of Constituent Entity A through a CFC Tax Regime. Jurisdiction Z requires that foreign source income offset domestic source losses before foreign tax credits may be applied against tax imposed on foreign source income. Constituent Entity A owns 100% of Constituent Entity B which is located in Jurisdiction Y. Jurisdiction Y imposes a 30% corporate income tax. The income of Constituent Entity B is taken into account in the Jurisdiction Z taxable income of Constituent Entity A as foreign source income brought into charge under the Jurisdiction Z CFC Tax Regime. In lieu of providing a loss carry-forward for a domestic source loss in a year with foreign source income, Jurisdiction Z permits the recharacterization of domestic source income as foreign source in subsequent tax years so that, over time, the appropriate amount of foreign source income is taken into account when foreign source income is offset by a domestic source loss in a given year. The maximum amount of recharacterization under this rule is the amount of domestic loss that has been offset by foreign source income. Jurisdiction Z does not allow foreign tax credit carry-forwards but, through the recharacterization mechanism, provides for equivalent results that are not more generous than the outcome that would be provided for if a loss carry-forward had been generated. With the exception of the CFC Tax Regime in Jurisdiction Z, the tax bases of Jurisdiction Z and Jurisdiction Y are the same as the GloBE tax base.

2. In Year 1 Constituent Entity A incurs a Jurisdiction Z loss of (100) and Constituent Entity B earns Jurisdiction Y income of 100. Constituent Entity B pays Jurisdiction Y tax of 30 in Year 1. Constituent Entity A pays no Jurisdiction Z tax because it has no Jurisdiction Z taxable income. No loss carry-forward is

generated in Jurisdiction Z because the domestic loss has been offset by foreign source income. However, as a result of the domestic loss of 100 offsetting 100 of foreign source income in Year 1, 100 of domestic source income will be recaptured and recharacterized in future tax years as foreign source income to permit the use of foreign tax credits.

3. In this example, the amount of Constituent Entity A's Substitute Loss Carry-forward DTA is equal to the amount of the tax loss of (100) that is subject to recapture under the Jurisdiction Z tax regime multiplied by the applicable domestic tax rate of 17.5%, and recast at the 15% Minimum Rate. This results in a Substitute Loss Carry-forward DTA of 15 generated in Year 1.

4. In Year 2 Constituent Entity A earns Jurisdiction Z income of 100 and Constituent Entity B earns jurisdiction Y income of 200. Prior to taking into account any foreign tax credits, Constituent Entity A's Jurisdiction Z tax liability is 52.5 (= 300 x 17.5%). Constituent Entity B pays 60 of jurisdiction B tax, 35 of which are allowed as a foreign tax credit in Jurisdiction Z to offset the Jurisdiction Z tax on the 200 income of Constituent Entity B. In addition, for Jurisdiction Z tax purposes, Constituent Entity A's domestic source income of 100 is recharacterized as foreign source, thereby allowing an additional 17.5 of foreign tax credits to be used. Accordingly, no Jurisdiction Z tax is paid in Year 2. However, when the domestic source income is recharacterized as foreign source and the 17.5 of foreign tax credits are used to offset the Jurisdiction Z tax on the recharacterized income, the GloBE Rules require the Substitute Loss Carry-forward DTA to reverse and result in an addition of 15 to Jurisdiction Z Adjusted Covered Taxes for Year 2. Accordingly, Adjusted Covered Taxes in Jurisdiction Z for Year 2 are 15 and there is no Top-up Tax with respect to Jurisdiction Z in Year 2. This is the same result as if Jurisdiction Z permitted the generation of a loss in Year 1 with respect to the domestic source loss that could be carried forward and applied in Year 2.

5. Note that the addition to Adjusted Covered Taxes to reflect the reversal of the Substitute Loss Carry-forward DTA is limited to the amount of additional foreign tax credits used by reason of the recharacterization in the year of the recharacterization. Accordingly, if the recharacterization of domestic source income as foreign source income in Year 2 did not result in any additional foreign tax credits being allowed in Jurisdiction Z in Year 2, the reversal of the Substitute Loss Carry-forward DTA would not result in an addition to Jurisdiction Z Adjusted Covered Taxes in Year 2.

Year 1	Foreign Source	Domestic Source	Total
Constituent Entity A Income (Loss)	100	(100)	0
FTC Generated / (Used)	30	0	30
Loss Generated / (Used)	0	0	0
FTC Carry-forward	0	0	0
Jurisdiction Z Tax (17.5%)	-	-	0
Jurisdiction Z GloBE Income (Loss)		(100)	
Jurisdiction Z GloBE Adjusted Covered Taxes		(15)	

Year 2	Foreign Source	Domestic Source	Total
Constituent Entity A Income (Loss)	200	100	300
FTC Generated / (Used)	(35)	(17.5)	(52.2) *(60 FTC limited to 17.5% tax rate)*

Loss Generated / (Used)	0	0	0
FTC Carry-forward	0	0	0
Jurisdiction Z Tax (17.5%)	-	-	0
Jurisdiction Z GloBE Income (Loss)		100	
Jurisduction Z GloBE Adjusted Covered Taxes		15	

Example 4.4.1(e) – 3

1. A Co is a Constituent Entity of a MNE Group in Country A. Country A imposes a 25% CIT rate and has a Controlled Foreign Company (CFC) Tax Regime which imposes Taxes on shareholders in respect of Passive Income derived by foreign (CFC) subsidiaries. Country A CFC Tax Regimes provides for the taxation of the CFC income by including such income in the domestic taxable income of the CE-owner in the tax year immediately following the tax year when the income is derived by the CFC.

2. A Co wholly owns B Co, which is located in Country B. Country B imposes a 5% CIT rate on Passive Income and imposes 9% CIT rate on operating income. B Co is the only Constituent Entity located in Country B.

3. In year 1, B Co has GloBE Income of 200, of which 100 is Passive Income. B Co pays 14 of Country B tax, including 5 of Country B tax on Passive Income and 9 of Country B tax on other income.

4. In Year 2, Country A imposes its CFC charge on the 100 of Passive Income earned by B Co in Year 1. This CFC charge is computed by applying the Country A CIT rate of 25% to the Passive Income earned by B Co, less any applicable foreign tax credit (FTC) for taxes paid on that Passive Income. In this context, A Co records a DTL for the deferred CFC tax (pre-foreign tax credit) of 25 and records a DTA for the foreign tax credit of 5 for accounting purposes.

Year 1

5. The table below illustrates the tax calculation for both A Co and B Co in Year 1.

A Co (Country A)			**B Co (Country B)**	
Country A Income			*Country B Income*	
Operating Income	0		Operating Income	100
CFC Inclusion (B Co)	0		Passive Income	100
Total Taxable Income	0		Total Taxable Income	200
Country A Tax			*Country B Tax*	
Tax on Operating Income (25%)	0		Tax on Operating Income (9%)	9
DTL on CFC Inclusion (25%)	25		Tax on Passive Income (5%)	5
DTA on Foreign Tax Credit (CFC Inclusion)	-5		Total Country B current Tax expense	14
Total Country A current Tax expense	0		Total Country B accrued Tax expense (current and deferred)	14
Total Country A accrued Tax expense* (current and deferred)	20			
**Entirely attributable to CFC inclusion since there is no other income*				

6. For purposes of GloBE Rules, the DTL on the CFC Inclusion of 25 is recast to 15. The Relevant Creditable Foreign Taxes with respect to the income remains 5 (it is not recast). Accordingly, the net

deferred CFC tax expense allocable to B Co which would be allocable to B Co prior to the application of Article 4.3.3 is 10 (=15 - 5).

7. Article 4.3.3 is then applied to limit the extent to which the deferred tax expense or benefit can be allocated to the CFC. In year 1, the ETR for Country B (ignoring any CFC Tax Regimes and tax transparency regimes) would have been 7% (=14/200). Its Top-up Tax Percentage absent the application of CFC Tax Regimes and tax transparency regimes would be 8% (=15%-7%). Therefore, the maximum amount of CFC Taxes that can be allocated from Country A to Country B is 8 (the lesser of 10 and 8 = (8%×100)). The remaining deferred tax expense of 2 is included in the deferred tax expense of A Co.

8. The table below illustrates the allocation of the deferred tax expense and the calculation of Adjusted Covered Taxes for both A Co and B Co.

	Current tax expense	Deferred tax expense for accounting purposes	Allocable deferred tax expense for GloBE purposes	Cross-border allocation of deferred tax expense	Deferred tax expense after allocation	Adjusted Covered Taxes
A Co	0	20	10	-8	2	2
B Co	14	0	0	8	8	22

9. The ETR calculations for Country A and Country B are as follows:

	Country A	Country B
GloBE Income	0	200
Adjusted Covered Taxes	2	22
ETR	--	11%

Year 2

10. In year 2, A Co imposes its CFC charge on the 100 of Passive Income earned by B Co in year 1. Accordingly, A Co pays its CFC tax liability of 20 (=25-5) and records a reversal of DTL of 25 and a reversal of DTA of 5 in its accounts.

11. In year 2, B Co has GloBE Income of 300, of which 200 is Passive Income. B Co pays 19 of Country B tax, including 10 of Country B tax on Passive Income and 9 of Country B tax on other income. There is an expected future inclusion of 200 of CFC Income in A Co in Year 3 which is subject to a 25% rate with an expected foreign tax credit of 10 on the relevant income. Accordingly, A Co records a DTL for the deferred CFC tax (pre-foreign tax credit) of 50 and records a DTA for the foreign tax credit of 10 in its accounts.

12. The table below illustrates the tax calculation for both A Co and B Co in Year 2.

A Co (Country A)			**B Co (Country B)**	
Country A Income			*Country B Income*	
Operating Income	0		Operating Income	100
CFC Inclusion (B Co)	100		Passive Income	200
Total Taxable Income	100		Total Taxable Income	300
Country A Tax			*Country B Tax*	
Tax on Operating Income (25%)	0		Tax on Operating Income (9%)	9
DTL on CFC Inclusion (25%)	-25+50		Tax on Passive Income (5%)	10
DTA on Foreign Tax Credit (CFC Inclusion)	5-10		Total Country B current Tax expense	19
CFC tax	20		Total Country B accrued Tax expense (current and deferred)	19
Total Country A current Tax expense	20			

Total Country A accrued Tax expense (current and deferred)*	40			
Entirely attributable to CFC inclusion since there is no other income				

13. Before applying Article 4.3.3, it is necessary to calculate the allocations which would have been made in the absence of Article 4.3.3. First, there has been a reversal of previously allocated deferred tax expense (that is, -2 to A Co and -8 to B Co). Second, the current taxes must be allocated. In this case, 20 of tax has been paid by A Co, all of which is allocable to B Co. This allocation is determined independently of the allocation of deferred taxes. Third, there is the allocation of further deferred tax expenses. In this case, there would be an allocation of 20 to B Co (this is the 50 in pre-foreign tax credit liability, recast to 30 and then subtracting the expected foreign tax credits of 10). As a result, prior to the application of Article 4.3.3, there would be a net allocation to B Co of 32 (-8 + 20 + 20).

14. Second, it is necessary to calculate the limitation under Article 4.3.3. Under Article 4.3.3, the ETR for Country B (ignoring any CFC Tax Regimes and tax transparency regimes) would have been 6.33% (=19/300). Its Top-up Tax Percentage absent the application of CFC Tax Regimes and tax transparency regimes would be 8.67% (=15%-6.33%). Therefore, the maximum amount of CFC Taxes that can be allocated from Country A to Country B is 17.34 (the lesser of 32 and 17.34 (=8.67%×200)).

15. As the Article 4.3.3 limitation is less than the full allocation under the CFC Tax Regime, it is necessary to determine which amounts are not allocated due to the limitation. As outlined in paragraph 71.12, the allocations are made in the order (i) reversal of previously allocated amounts (-8), (ii) current tax expenses (20) and (iii) further deferred tax expense (20). As -8 is less than 17.34, the first allocation from the reversal of previously allocated amounts can be made. The second (ii) allocation can also be made as 12 (-8 + 20) is less than 17.34. However, the final allocation cannot be made in full as 32 (-8 + 20 + 20) is greater than 17.34. Accordingly, the full allocations are made under (i) and (ii) but only 5.34 (17.34 – 12) of (iii) can be allocated. Accordingly, of the 20 in further deferred tax expense, 5.34 is allocated to B Co and 14.66 (20 – 5.34) is retained by A Co due to the limitation in Article 4.3.3.

16. As a result, due to the ordering rule in paragraph 71.12, Article 4.3.3 applies to allow full allocations of (i) previously allocated deferred taxes which are reversing (-8 to B Co and -2 to A Co) and (ii) current taxes (20 to B Co). However, of (iii) the further deferred tax expenses, only 5.34 is allocated to B Co and the remainder is allocated to A Co (14.66).

17. The table below illustrates the allocation of the deferred tax expense and the calculation of Adjusted Covered Taxes for both A Co and B Co.

	Current tax expense before allocation	Cross-border Allocation of Current tax expense	Current Tax expense after allocation	Deferred tax expense for accounting purposes	Allocable deferred tax expense for GloBE purposes	Cross-border allocation of deferred tax expense	Deferred tax expense after allocation	Adjusted Covered Taxes
A Co	20	-20	0	20	-10+20*	- (-8) - 5.34	12.66	12.66
B Co	19	20	39	0	0	(-8) + 5.34	-2.66	36.34

Note: Allocable deferred tax expense for GloBE purposes for A Co is 10 (=-10+20), which includes the reversal of deferred tax expense recognized in year 1 (-10) and future deferred tax expense recognized in year 2 (20) which is the 50 in pre-foreign tax credit liability, recast to 30 and then subtracting the expected foreign tax credits of 10.

18. The ETR calculations for Country A and Country B are as follows:

	Country A	Country B
GloBE Income	0	300
Adjusted Covered Taxes	12.66	36.34
ETR	--	12.11%

Example 4.4.1(e) – 4

1. A Co is a Constituent Entity of a MNE Group in Country A. Country A imposes a 20% CIT rate. Country A taxes foreign branches and allows for foreign tax credit to eliminate double taxation. A Co has a PE in Country B. Country B imposes 10% income tax.

2. In Year 1, the PE purchases a machine with carrying value of 900. For accounting purposes, the machine is depreciated for three years (300 per year). In Country B, the PE is allowed to use an accelerated depreciation method to deduct the expenses of the machine in two years (450 per year). In Year 2 and Year 3, there is no timing difference other than the one arising from the machine purchased by the PE in Year 1.

3. The table below illustrates the timing differences and recognition of deferred tax liability in the PE.

	Carrying value of the machine	Tax basis of the machine	Timing differences	Deferred tax liability	Deferred tax expense with respect to DTL movements
	[1]	[2]	[3] = [1]-[2]	[4] = [3]×10%	
Year 1	600	450	150	15	15
Year 2	300	0	300	30	15
Year 3	0	0	0	0	-30

4. In Year 1, there is no timing difference with respect to the domestic income of A Co reported for accounting purposes in its domestic tax regime. However, Country A imposes taxes on PE and allows for an immediate expense of 900 for the purchase of the machine by the PE. In Year 2 and Year 3, there is no timing difference other than the one arising from the machine purchased by the PE in Year 1.

5. Because a DTL recorded in a PE that upon reversal will increase the taxes paid in Country B, it may give rise to foreign tax credits in Country A that will be used to reduce its tax liability. In this case, the DTL in relation to the PE will result in a deferred tax asset being recorded by A Co, i.e., the deferred benefit of the future tax credits)

6. The table below illustrates the timing differences and recognition of DTL and DTA in A Co.

	Carrying value of the machine	Tax basis of the machine	Timing differences	Deferred tax liability	Deferred tax expense with respect to DTL movements	DTA with respect to foreign tax credit	Deferred tax expense with respect to DTA movements	Deferred tax expense
	[1]	[2]	[3]=[1]-[2]	[4]=[3]×20%	[5]	[6]	[7]	[8]=[5]+[7]
Year 1	600	0	600	120	120	15	-15	105
Year 2	300	0	300	60	-60	30	-15	-75
Year 3	0	0	0	0	-60	0	30	-30

7. In year 1, A Co records a DTL of 120 based on the timing difference of the machine in the PE. The DTL on the PE income of 120 is recast to 90 (recasting from a 20% rate to a 15% rate) and the creditable foreign taxes with respect to this amount remains 15 (it is not recast). Accordingly, the net deferred tax expense allocable to PE is 75 = (90-15). The deferred tax expense for purposes of calculating Adjusted Covered Taxes in PE is 90 (=15+75). This is the PE's own deferred tax expense of 15 in addition to the allocation of 75 in deferred tax expense allocated from A Co. The deferred tax expense of 105 accrued by A Co shall not be included in the Adjusted Covered Taxes of A Co for GloBE purposes.

8. The table below illustrates the allocation of deferred tax expense for A Co to the PE in year 1.

	Deferred tax expense for accounting purposes	Allocable deferred tax expense for GloBE purposes	Allocation of deferred tax expense	Deferred tax expense after allocation
A Co	105	75	-75	0
PE	15	15	75	90

9. In year 2, A Co records reversal of DTL of 60 based on the timing difference of the machine in the PE. The DTL on the PE income of -60 is recast to -45 (recasting from a 20% rate to a 15% rate) and the creditable foreign taxes with respect to this amount remains 15 (it is not recast). Accordingly, the net deferred tax expense or benefit allocable to PE is -60 (= -45-15). This is a deferred tax benefit (a negative deferred tax expense). The deferred tax benefit for purposes of calculating Adjusted Covered Taxes in PE is -45 (=15-60). This is the PE's own deferred tax expense of 15 in addition to the allocation of -60 in deferred tax expense (or benefit) allocated from A Co. The deferred tax expense or benefit of -75 accrued by A Co shall not be included in the Adjusted Covered Taxes of A Co for GloBE Purposes.

10. The table below illustrates the allocation of deferred tax expense for A Co to the PE in year 2.

	Deferred tax expense for accounting purposes	Allocable deferred tax expense for GloBE purposes	Allocation of deferred tax expense	Deferred tax expense after allocation
A Co	-75	-60	60	0
PE	15	15	-60	-45

11. In year 3, A Co records reversal of DTL of 60 based on the timing difference of the machine in the PE. The DTL on the PE income of -60 is recast to -45 (recasting from a 20% rate to a 15% rate) and the use of creditable foreign taxes is -30. Accordingly, the net deferred tax expense or benefit allocable to PE is -15 (=-45+30). The deferred tax expense or benefit for purposes of calculating Adjusted Covered Taxes in PE is -45 (=-30-15). The deferred tax expense or benefit of -30 accrued by A Co shall not be included in the Adjusted Covered Taxes of A Co for GloBE Purposes.

12. The table below illustrates the allocation of deferred tax expense for A Co to the PE in year 3.

	Deferred tax expense for accounting purposes	Allocable deferred tax expense for GloBE purposes	Allocation of deferred tax expense	Deferred tax expense after allocation
A Co	-30	-15	15	0
PE	-30	-30	-15	-45

Article 4.4.4

Example 4.4.4-1 – DTL tracking approach definition

1. A Co is a Constituent Entity located in Country A. A Co prepares its reporting package accounts using IFRS and recognises deferred tax liabilities in relation to trade receivables. IFRS recognition criteria for revenues from transactions with customers are different from the corporate tax rules applicable in Country A and the tax basis of trade receivables is different from the corresponding IFRS carrying value. The trade receivables Balance Sheet account in the relevant chart of accounts is composed of a number of General Ledger accounts (e.g. receivables from the sale of product 1, product 2, service A, service B, etc.), and each General Ledger account contains a certain number of sub-accounts (e.g. individual accounts related to each customer), as represented in the below table.

		Tax basis	*IFRS*	Timing difference	DTL (15%)
BS account	**Trade receivables**	**1,000**	**1,700**	**700**	**105**
GL account 1	from sale of product 1	**200**	**400**	**200**	**30**
	- customer X	*-*	*100*	*100*	*15*
	- customer Y	*100*	*200*	*100*	*15*
	- customer Z	*100*	*100*	*-*	*-*
GL account 2	from sale of product 2	**100**	**300**	**200**	**30**
	- customer W	*100*	*300*	*200*	*30*
GL account 3	from sale of service A	**400**	**400**	**-**	**-**
	- customer X	*400*	*400*	*-*	*-*
GL account 4	from sale of service B	**300**	**600**	**300**	**45**
	- customer Y	*300*	*600*	*300*	*45*

2. If A Co measures and tracks DTLs based on each of the four GL accounts and determines whether or not there is a DTL accrual or reversal in each GL account at the end of the Fiscal Year, it may apply the DTL recapture rule on the basis of the GL account tracking.
3. If A Co measures and tracks DTLs based on the Trade Receivables Balance Sheet account, which contains the four GL accounts, it may apply the DTL recapture rule to that Aggregate DTL Category.

Example 4.4.4-2 – FIFO methodology

1. A Co has an Aggregate DTL Category in relation to trade receivables that is consistent with the chart of accounts used for the Consolidated Financial Statements. A Co is able to determine and prove that each GL account included in the Aggregate DTL Category has a similar reversal trend and therefore is eligible to apply the FIFO methodology.
2. The table below shows for each Fiscal Year the net DTL increases (i.e. accrual) and net DTL decreases (i.e. reversal) determined for the Aggregate DTL Category.

		Net DTL movement per Fiscal Year															
DTL category	**Trade receivables**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
GL account 1	on product 1	10	10	10	10	10	10	10	10	10	10	10	(110)				
GL account 2	on product 2		100								(100)						
GL account 3	on service A			100	100				-100				(100)				
GL account 4	on service B		10	20	10	-	10	10	20	-	10	10	(100)				
GL account 5	on service C						100	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Net DTL movement		10	120	130	120	10	120	10	(80)	-	(90)	10	(320)	(10)	(10)	(10)	(10)

3. The table below shows the application of the FIFO methodology to the above identified DTL accruals and reversals for the Aggregate DTL Category.

DTL category - FIFO methodology	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
Net DTL movement	**10**	**120**	**130**	**120**	**10**	**120**	**10**	**(80)**	**-**	**(90)**	**10**	**(320)**	**(10)**	**(10)**	**(10)**	**(10)**
(A) Outstanding balance	10	130	260	380	390	510	520	440	440	350	360	40	30	20	10	-
(B) Maximum justifiable amount						500	390	260	140	130	20	10	10	10	10	-
(A-B) Unjustified Balance						10	130	180	300	220	340	30	20	10	-	-
Unjustified balance (yearly movement)						**10**	**120**	**50**	**120**	**(80)**	**120**	**(310)**	**(10)**	**(10)**	**(10)**	**-**

4. The DTL recapture test determines a Recaptured DTL amount of 10, to be excluded from the Adjusted Covered Taxes in Year 1 (the Tested Fiscal Year) for the purposes of computing Year 6 Additional Current Top-up Tax. For the Tested Fiscal Year (Year 1), the Maximum Justifiable amount is equal to 500, while the Outstanding Balance (equal to the sum of all the net DTL accruals over the Testing Period) is equal to 510. The excess of the Outstanding Balance over the Maximum Justifiable amount represents the Unjustified Balance for the current Year (i.e. Year 6). Because the Unjustified Balance for the previous Fiscal Year is zero, an increase in the Unjustified Balance is determined for the current year. A DTL Recapture is also determined for Year 7, 8, 9 and 11. An adjustment pursuant to Article

4.4.2(b) shall be made for Year 10, 12, 13, 14 and 15 for an amount corresponding to the yearly decrease in the Unjustified Balance.

Example 4.4.4 – 3 – LIFO methodology

1. A Co has an Aggregate DTL Category in relation to trade receivables that is consistent with the chart of accounts used for the Consolidated Financial Statements. A Co is not able to determine and prove that each GL account included in the Aggregate DTL Category has a similar reversal trend. Based on that, A Co decides to apply the LIFO methodology to the Aggregate DTL Category.
2. The table below shows for each Fiscal Year the relevant net DTL increases (i.e. accrual) and net DTL decreases (i.e. reversal) corresponding to the Aggregate DTL Category.

		Net DTL movement per Fiscal Year															
DTL category	**Trade receivables**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
GL account 1	on product 1	10	10	10	10	10	10	10	10	10	10	10	(110)				
GL account 2	on product 2		100				(100)										
GL account 3	on service A				200				(200)								
GL account 4	on service B		100	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)				
GL account 5	on service C						50	(10)	10	(10)	(10)	(10)	20	(10)	(10)	(10)	(10)
Net DTL movement		10	210	-	200	-	(50)	(10)	(190)	(10)	(10)	(10)	(100)	(10)	(10)	(10)	(10)

3. The table below shows the application of the LIFO methodology to the above identified DTL accruals and reversals for the Aggregate DTL Category.

LIFO methodology - Aggregate DTL category																
Fiscal Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
Net DTL movement	**10**	**210**	**-**	**200**	**-**	**(50)**	**(10)**	**(190)**	**(10)**	**(10)**	**(10)**	**(100)**	**(10)**	**(10)**	**(10)**	**(10)**
(A) Outstanding balance	**10**	**220**	**220**	**420**	**420**	**370**	**360**	**170**	**160**	**150**	**140**	**40**	**30**	**20**	**10**	**-**
(B) Maximum justifiable amount						**360**	**140**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(A-B) Unjustified Balance						**10**	**220**	**170**	**160**	**150**	**140**	**40**	**30**	**20**	**10**	**-**
Unjustified balance (yearly movement)						**10**	**210**	**(50)**	**(10)**	**(10)**	**(10)**	**(100)**	**(10)**	**(10)**	**(10)**	**(10)**

4. The DTL recapture test determines a Recaptured DTL amount of 10, to be excluded from the Adjusted Covered Taxes in Year 1 (the Tested Fiscal Year) for the purposes of computing Year 6 Additional Current Top-up Tax. For the Tested Fiscal Year (Year 1), the Maximum Justifiable amount is equal to 360, while the Outstanding Balance (equal to the sum of all the net DTL accruals and reversals computed starting from the Transition Year till the end of the Testing Period) is equal to 370. The excess of the Outstanding Balance over the Maximum Justifiable amount represents the Unjustified Balance for the current Year (i.e. Year 6). Considered that the Unjustified Balance for the previous Fiscal Year is zero, an increase in the Unjustified Balance is determined for the current year. A DTL Recapture of 210 is also determined for Year 7. An adjustment pursuant to Article 4.4.2(b) is required for Year 8 throughout Year 16, for an amount corresponding to the yearly decrease in the Unjustified Balance for that Year.

Example 4.4.4 – 4 - Pre-Transition Year DTL allocated under FIFO methodology

1. The fact patterns are the same as Example 4.4.4 – 2, except that A Co has pre-Transition Year DTLs for the Aggregate DTL Category equal to 150. For the purposes of the DTL recapture rule, the reversals of pre-Transition Year DTL shall not be computed in the Outstanding Balance otherwise they would be treated as reversals of DTLs that accrued starting from the Transition Year. This principle is reflected in the table below by excluding the reversals attributable to pre-Transition Year DTLs from the "net DTL movement" of the aggregate DTL category as relevant for the determination of the Outstanding Balance, for the DTL recapture mechanism.
2. A Co uses a FIFO recapture methodology for the Aggregate DTL Category. The reversal of pre-Transition Year DTLs must be determined in accordance with the FIFO approach. Under the FIFO approach, the first net DTL decreases in the Aggregate DTL Category are treated as reversals of pre-

Transition Year DTLs and as such excluded from the computation of the net DTL movement of the relevant Fiscal Year.

3. The below table shows that the first net DTL decreases occur in Year 7, Year 8 and Year 10. Such net decreases are treated as reversals of pre-Transition Year DTLs and as such are excluded from the computation of the net DTL movement of such Fiscal Years. The 150 of pre-Transition Year DTLs are treated as reversing in Year 7, for an amount equal to 20, in Year 8, for an amount equal to 80 and in Year 10, for the residual amount of 50. Accordingly, the net DTL movement for Year 7 and 8 is re-determined to zero, while the net DTL movement for Year 10 is re-determined from -90 to -40.

Aggregate DTL category - FIFO methodology		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Net DTL movement		**10**	**100**	**130**	**70**	**-**	**120**	**(20)**	**(80)**	**-**	**(90)**	**10**	**(360)**	**(10)**	**(10)**	**(10)**	**(10)**
Pre-Transition Year DTL	**150**																
Reversals allocated to pre-Transition Year DTL (FIFO)		-	-	-	-	-	-	**(20)**	**(80)**	-	**(50)**	-	-	-	-	-	-
Net DTL movement (after allocation to Pre-Transition Year DTL)		**10**	**100**	**130**	**70**	**-**	**120**	**-**	**-**	**-**	**(40)**	**10**	**(360)**	**(10)**	**(10)**	**(10)**	**(10)**
(A) Outstanding balance		10	110	240	310	310	430	430	430	430	390	400	40	30	20	10	-
(B) Maximum justifiable amount							420	320	190	120	120	10	10	10	10	10	-
(A-B) Unjustified Balance							10	110	240	310	270	390	30	20	10	-	-
Unjustified balance (yearly movement)							**10**	**100**	**130**	**70**	**(40)**	**120**	**(360)**	**(10)**	**(10)**	**(10)**	**-**

Example 4.4.4 – 5 – Pre-Transition Year DTLs allocated under LIFO methodology

1. The fact patterns are the same as Example 4.4.4 - 3 above, except that A Co has pre-Transition Year DTLs for the Aggregate DTL Category equal to 150. For the purposes of the DTL recapture rule, the reversals of pre-Transition Year DTL shall not be computed in the Outstanding Balance otherwise they would be treated as reversals of DTLs that accrued starting from the Transition Year. This principle is reflected in the table below by excluding the reversals attributable to pre-Transition Year DTLs from the "net DTL movement" of the aggregate DTL category as relevant for the determination of the Outstanding Balance, for the DTL recapture mechanism.
2. A Co uses LIFO as recapture methodology for the relevant DTL category. The reversal of pre-Transition Year DTLs must be determined in accordance with the LIFO approach. Under the LIFO approach, the net DTL decreases in the Aggregate DTL Category are first allocated to DTLs accrued starting from the Transition Year and as such computed in the Outstanding Balance. Once the Outstanding Balance is negative (i.e. the overall reversals exceed the overall accruals), the net DTL decreases that causes the Outstanding balance to become negative are treated as reversals of pre-Transition Year DTLs. In the Fiscal Year in which the Outstanding Balance is negative and there is a net decrease in the net DTL movement, the net DTL decrease is treated as reversal of pre-Transition Year DTLs, but only to the extent that such decreases reduce the Outstanding Balance below zero.
3. The below table shows that the Outstanding Balance is negative in Year 12 till Year 16. In Year 12, there is a net DTL decrease of 140 which causes the Outstanding Balance turning to negative to an amount of -110. The amount of 110, out of 140, represents the reversals which are overall in excess in respect to the overall accruals (computed in the Outstanding Balance, i.e. starting from the Transition Year) and as such shall be treated as reversals of pre-Transition Year DTLs. In Year 13, the Outstanding Balance is still negative and the net decreases is equal to -10. This net DTL decrease shall be treated as reversal of pre-Transition Year DTLs. Same thing occurs for Year 14, Year 15 and Year 16 where the relevant net DTL decreases is treated as reversal of pre-Transition Year DTL.

4. Based on the above, the net DTL movement is re-determined without taking into account the net decreases which are allocated to pre-Transition Year DTLs. In particular, for Year 12 to 16, the net DTL movement is re-determined to zero.

Aggregated DTL category - LIFO methodology																
Fiscal Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Net DTL movement		10	190	-	150	(10)	(50)	(40)	(190)	(10)	(10)	(10)	(140)	(10)	(10)	(10)	(10)
Pre-Transition Year DTLs	150																
Outstanding Balance		10	200	200	350	340	290	250	60	50	40	30	(110)	(120)	(130)	(140)	(150)
Reversals allocated to pre-Transition Year DTLs (LIFO)													(110)	(10)	(10)	(10)	(10)
Net DTL movement after allocation to pre-Transition Year DTLs		10	190	-	150	(10)	(50)	(40)	(190)	(10)	(10)	(10)	(30)	-	-	-	-
(A) Outstanding balance (after allocation of pre-Transition Year DTLs)		10	200	200	350	340	290	250	60	50	40	30	-	-	-	-	-
(B) Maximum justifiable amount							280	50	-	-	-	-	-	-	-	-	-
(A-B) Unjustified Balance							10	200	60	50	40	30	-	-	-	-	-
Unjustified balance (yearly movement)							10	190	(140)	(10)	(10)	(10)	(30)	-	-	-	-

Article 4.4.7

Example 4.4.7- 1 – Unclaimed Accrual Five-Year election

1. A Co has DTLs on related party receivables that corresponds to a sub-BS account according to the chart of accounts used for Consolidated Financial Statements. This sub-BS account is comprised of a number of GL accounts. As such, it is considered an Aggregate DTL Category. A Co does not have the ability to track DTLs for related party receivables at the GL account level. A Co decides to make the Unclaimed Accrual election for the Aggregate DTL Category in the Transition Year. Under this election, each net DTL accrual and related reversal as determined in relation to the entire sub-BS account is excluded from the computation of the Adjusted Covered Taxes.
2. The pre-Transition Year DTLs determined as of the beginning of the Transition Year for the related party receivables is equal to 100. The first net decreases in the DTL category shall be treated as reversal of pre-Transition Year DTL and shall be accordingly included in the computation of the Adjusted Covered Taxes. Once the pre-Transition Year DTLs are fully reversed, the subsequent reversals shall be treated as reversal of the unclaimed DTL accruals and as such shall be excluded from the computation of the Adjusted Covered Taxes.

Example 4.4.7- 2 – Annual Unclaimed Accrual election

1. A Co has a DTL category related to service contracts (corresponding to an Aggregate DTL Category, i.e. an aggregation of GL accounts) that vary in length from 5 to 10 years and as such is not expected to entirely reverse entirely within five years.
2. A Co decides to make an election under Article 4.4.7 in Year 1 and does not include the DTL accrual of 100 in its computation of Adjusted Covered Taxes for Year 1. A Co recognises another DTL accrual in Year 2 for such DTL category, but it is claimed in the computation of the Adjusted Covered Taxes for Year 2 (i.e. no election under Article 4.4.7). Although A Co did not claim the Year 1 accrual in its Adjusted Covered Taxes computation, it will have to determine when that accrual reverses so that it can claim the taxes in its Adjusted Covered Taxes upon reversal of the deferred tax liability based on the DTL recapture methodology used by A Co for the relevant DTL category. In particular, for the purposes of the correct functioning of the Unclaimed Accrual election and of the DTL recapture methodology used for the relevant DTL category, A Co will have to exclude the unclaimed DTL accrual in Year 1 for the purposes of the computation of the Outstanding Balance. On the other hand, the reversal shall be included in the determination of the Outstanding Balance in order to determine the timing of the relevant reversals and corresponding adjustment pursuant to Article 4.4.2(a).

Example 4.4.7-3 – pre-Transition Year DTLs under an Unclaimed Accrual Five-Year Election

1. A Co makes an Unclaimed Accrual Five-Year Election in the Transition Year in respect to an Aggregate DTL Category. For the purposes of the DTL recapture rule, A Co has determined the pre-Transition Year DTLs for such DTL category. The reversals of pre-Transition Year DTLs must be taken into account in the computation of the Adjusted Covered Taxes and as such shall not be treated as reversal of unclaimed accruals. The reversal of pre-Transition Year DTLs are determined in accordance with a FIFO approach. In other words, the first net DTL decreases shall be treated as reversal of pre-Transition Year DTLs.
2. The Table below shows that the first net DTL decreases occur in Year 7, Year 8, Year 10 and so forth. Under the FIFO approach the net DTL movements to be excluded for the purposes of the Unclaimed Accrual election shall not take into account the net DTL decrease of 20 in Year 7, of 80 in Year 8 and of 50 in Year 10.

Aggregated DTL category		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Net DTL movement		10	100	130	70	-	120	(20)	(80)	-	(90)	10	(360)	(10)	(10)	(10)	(10)
Pre-Transition Year DTL	150																
Reversals allocated to pre-Transition Year DTL (FIFO)		-	-	-	-	-	-	(20)	(80)	-	(50)	-	-	-	-	-	-
Net DTL movement (after allocation to Pre-Transition Year DTL) to be excluded from Adjusted Covered Taxes under the Unclaimed Accrual election		10	100	130	70	-	120	-	-	-	(40)	10	(360)	(10)	(10)	(10)	(10)

Chapter 5 - Examples

Article 5.2.1

Example 5.2.1 - 1

Excess Negative Tax Expense administrative procedure

1. This example illustrates the Excess Negative Tax Expense administrative procedure under Article 5.2.1.

2. A MNE Group operating in jurisdiction X earns GloBE Income of 200 in Year 1. However, under the domestic tax law of jurisdiction X, the MNE Group records a net operating loss of (100) in Year 1. The MNE Group records a deferred tax asset of 15 due to the tax loss and thus negative tax expense of 15. The MNE Group is required to apply the Excess Negative Tax Expense administrative procedure in Year 1. Accordingly, Adjusted Covered Taxes are 0 after removal of the Negative Tax Expense, the ETR is 0% and Top-up Tax of 30 (= 200 GloBE Income x (15% - 0%)) is applicable in Year 1. An Excess Negative Tax Expense Carry-forward of 15 is established.

3. In Year 2, the MNE Group earns GloBE Income of 100 and does not pay any jurisdiction X tax due to its 100 net operating loss carry-forward in jurisdiction X. When the net operating loss carry-forward is used, the deferred tax asset of 15 recorded with respect to such net operating loss reverses. This tentatively results in Adjusted Covered Taxes of 15. However, because the Negative Tax Expense administrative procedure was applied in Year 1, the Excess Negative Tax Expense Carry-forward is applied in Year 2 and Adjusted Covered Taxes for Year 2 are 0. As a result, the ETR for the jurisdiction is 0% and Top-up Tax of 15 (= 100 GloBE Income x (15% Minimum Rate – 0% ETR)) is applicable with respect to jurisdiction X in Year 2.

Article 5.3.4

Example 5.3.4 – 1

1. A Co is a Constituent Entity of MNE Group A located in jurisdiction X that is subject to the GloBE Rules. B Co is a Constituent Entity of MNE Group B located in jurisdiction X that is subject to the GloBE Rules. A Co leased a machine to B Co. The machine is used by B Co in Jurisdiction X. According to the lease contract, the commencement date is on January 1, 2024, the lease term is 3 years, and the lease payment is €100,000 annually. The lessee's incremental borrowing rate is 5%. Pursuant to its financial accounting standard, A Co classifies this lease as an operating lease. At the beginning of the 2024, the carrying value of the machine is €1,200,000 and the useful life of the machine is 15 years.

2. Pursuant to its financial accounting standard, B Co classifies the lease as a right-of-use asset. On January 1, 2024, B Co measures the lease liability at the present value of the lease payments that are not paid at that date, using its incremental borrowing rate of 5%. After the commencement date, B Co

measures the right-of-use asset applying a cost model. The amortization schedule of B Co at the commencement date of the lease is as follows:

Period	Lease Payment	Interest Expense	Liability Reduction	Liability	Depreciation Expense	Net Asset Balance
Beginning Balance				272,325		272,325
2024	100,000	13,616	86,384	185,941	90,775	181,500
2025	100,000	9,297	90,703	95,238	90,775	90,775
2026	100,000	4,762	95,238	0	90,775	0

3. The carrying value of the leased machine for purpose of carve-out for B Co is computed as follows:

   a. In 2024, the carrying value for purposes of carve-out is 226,912.5 (=(272,325+181,500)/2).

   b. In 2025, the carrying value for purposes of carve-out is 136,137.5 (=(181,500+90,775)/2).

   c. In 2026, the carrying value for purposes of carve-out is 45,387.5 (=(90,775+0)/2).

4. Under an operating lease, A Co recognises lease payments as income and the depreciation policy for the underlying assets is consistent with the lessor's normal depreciation policy for similar assets. The depreciation schedule of A Co is as follows:

Period	Lease payment	Remining Lease Payments	Income	Depreciation Expense	Net Asset Balance
Beginning Balance		300,000			1,200,000
2024	100,000	200,000	100,000	80,000	1,120,000
2025	100,000	100,000	100,000	80,000	1,040,000
2026	100,000	0	100,000	80,000	960,000

5. The carrying value of the leased machine for purpose of carve-out for A Co is computed as follows:

   a. In 2024, the carrying value for purposes of carve-out is 910,000 (=(1,200,000+1,120,000)/2-250,000).

   b. In 2025, the carrying value for purposes of carve-out is 930,000 (=(1,120,000+1,040,000)/2-150,000).

   c. In 2026, the carrying value for purposes of carve-out is 950,000 (=(1,040,000+960,000)/2-50,000).

Example 5.3.4 – 2

1. The facts are the same as in Example 5.4.3-1, except that A Co is located in Jurisdiction Y. Because the machine is used by B Co in Jurisdiction X, it is not an Eligible Tangible Asset for A Co.

Example 5.3.4 – 3

1. The facts are the same as in Example 5.4.3-1, except that both A Co and B Co are Constituent Entities of MNE Group A.

2. The carrying value of Eligible Tangible Assets is determined after taking into account elimination entries for intercompany sales and, where the lessor and the lessee are located in the same jurisdiction, intercompany leases. Accordingly, A Co is allowed a carve-out and the carrying value of Eligible Tangible Assets for purposes of the carve-out for jurisdiction A is computed as follows:

   a. In 2024, the carrying value for purposes of carve-out is 1,160,000 (=1,200,000+1,120,000)/2)

   b. In 2025, the carrying value for purposes of carve-out is 1,080,000 (=1,120,000+1,040,000)/2)

   c. In 2026, the carrying value for purposes of carve-out is 1,000,000 (=1,040,000+960,000)/2)

Article 5.3.7(a)

Example 5.3.7(a) - 1

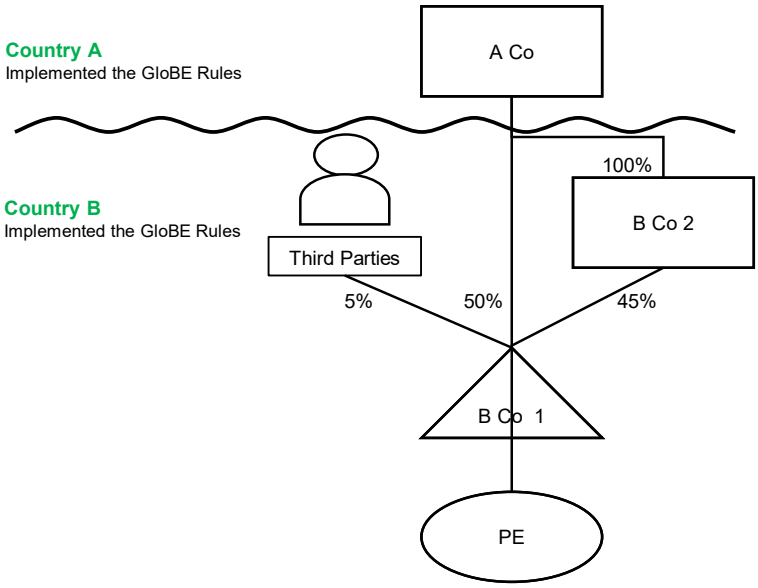
Substance-based Income Exclusion

1. This example illustrates the application of the Substance-based Income Exclusion in the situation in which a Flow-through Entity has Eligible Payroll Costs and Eligible Tangible Assets.

2. A Co is located in Country A and is the UPE of the AB Group. A Co owns 50% of the Ownership Interests of B Co 1 and 100% of the Ownership Interests of B Co 2. The remaining Ownership Interests of B Co 1 are held by B Co 2 (45%) and non-Group Entities (5%).

3. Furthermore, B Co 1 is a Flow-through Entity and conducts business operations in Country B. A Co has a PE in Country B as a result of the business being carried out by B Co 1 in Country B. A Co, B Co 1, B Co 2 and the PE are Constituent Entities of the AB Group.

4. B Co 1 earns EUR 1,000 of GloBE Income in Year 1, incurs EUR 200 of Eligible Payroll Costs in respect of employees that work in Country B and has EUR 400 of Eligible Tangible Assets located in Country B.



5. B Co 1's GloBE Income is reduced and allocated as follows. First, B Co 1's GloBE Income is reduced by EUR 50, the amount allocable to persons that are not Group Entities, under Article 3.5.3. Next, EUR 500 of B Co 1's GloBE Income is allocated to the PE in accordance with Article 3.4 and reduced from its GloBE Income under Article 3.5.1 (a). Finally, the remaining EUR 450 of B Co 1's GloBE Income is allocated to B Co 2 under Article 3.5.1 (b).

6. B Co 1's Eligible Payroll Costs and Eligible Tangible Assets are allocated as follows. 50% of B Co 1's Eligible Payroll Costs (EUR 100) and Eligible Tangible Assets (200) are allocated to the PE under Article 5.3.6. Under Article 5.3.7(a), 45% of B Co 1's Eligible Payroll Costs (EUR 90) and Eligible Tangible Assets (EUR 180) are then allocated to B Co 2 because B Co 2 is located in Country B. The remainder of B Co 1's Eligible Payroll Costs (EUR 10) and Eligible Tangible Assets (EUR 20) are not included in the computation of a Constituent Entity's Substance-based Income Exclusion under Article 5.3.7 (c).

Article 5.5.2

Example 5.5.2 - 1

De minimis exclusion – short Fiscal Years taken into account in the average

1. This example illustrates how the computation of the Average GloBE Revenue and Average GloBE Income is adjusted in the situation where there is a short Fiscal Year.

2. Assume the ABC Group uses the calendar year as its Fiscal Year and has only one Constituent Entity in Jurisdiction B, B Co. B Co was created on 1 July in Year 1 and it had GloBE Revenue of EUR 1 million and a GloBE Income of EUR 50,000 in Year 1. Assume that in Year 2, B Co has GloBE Revenue of EUR 1 million and a GloBE Income of EUR 100,000. In Year 3, B Co has GloBE Revenue of EUR 3 million and a GloBE Loss of EUR 200,000. B Co only generates GloBE Revenue, GloBE Income, and GloBE Loss in Jurisdiction B. This example illustrates how the computation is performed and assesses whether the Top-up Tax for B Co may be deemed to be zero for Fiscal Year 3.

3. The computation of the average amounts under Article 5.5.2 relies on the assumption that Fiscal Years have the same duration. If one Fiscal Year is shorter, the average shall be computed by adjusting the corresponding GloBE Revenue and GloBE Income (or Loss) calculations in proportion to the period covered by the short Fiscal Year over a 12 month period. Therefore, in Year 1, as B Co's GloBE Revenue and GloBE Income were only realized over 6 months (1 July - 31 December), the GloBE Revenue and the GloBE Income of Year 1 will be multiplied by 2 (= 12/6) for the purposes of determining the average annual GloBE Revenue and GloBE Income.

4. The computation of the average is made as follows:

5. The three-year Average GloBE Revenue for this jurisdiction is:

$$\frac{(2 \text{ x } 1 \text{ million}) \ + \ 1 \text{ million} \ + \ 3 \text{ million}}{3} = \text{EUR } 2 \text{ million}$$

And the three-year Average GloBE Revenue or Loss for this jurisdiction is:

$$\frac{(2 \text{ x } 50{,}000) \ + \ 100{,}000 \ + (-200{,}000)}{3} = \text{EUR } 0$$

6. The Average GloBE Revenue of Jurisdiction B is less than EUR 10 million and the Average GloBE Income or Loss of Jurisdiction B is less than EUR 1 million. As a consequence, the Top-up Tax for B Co shall be deemed to be zero for Year 3 if the Filing Constituent Entity elects for it under the GloBE Rules.

Chapter 6 - Examples

Article 6.2.1(e)

Example 6.2.1(e) - 1

Constituent Entities joining and leaving an MNE Group

1. ABC Group sells all the shares of its wholly-owned Constituent Entity, C Co, to DEF Group at a price of EUR 200 on 30 September in Year 2. C Co holds a single asset, which is an Eligible Tangible Asset that has a carrying value of EUR 100 as recorded for the purposes of preparing ABC Group's Consolidated Financial Statements at the end of Year 1 (which is also the carrying value at the beginning of the Year 2). The carrying value of the asset at the end of Year 2 is EUR 20 because C Co claimed EUR 80 of depreciation in respect of the asset during the period that it was owned by ABC Group in Year 2. The Fiscal Years end in December.

2. The computation of the carrying value of the asset for purposes of Article 5.3.4 has to be based on the average of the carrying value at the beginning and ending of the Reporting Fiscal Year as recorded for purposes of preparing the Consolidated Financial Statements of the UPE (see Article 5.3.5). Under Article 6.2.1(e), the carrying value must be adjusted proportionally to the length of the relevant Fiscal Year that C Co was a member of the ABC Group. The carrying value of the asset for ABC Group is therefore EUR 45 [((EUR 100+EUR 20)/2) x (9/12)].

3. In the case of DEF Group, the carrying value of the Eligible Tangible Asset of the acquired C Co at the beginning of the Reporting Fiscal Year (Year 2) is zero. However, at the end of Year 2 the carrying value is EUR 200 because the UPE's Consolidated Financial Statements reflect the fair value of the asset based on the indirect acquisition cost of the asset adjusted for accumulated depreciation by the DEF Group. Taking into account the carrying value of the asset at the beginning and end of DEF Group's Reporting Fiscal Year (Year 2) and the length of Year 2 that C Co was a member of the DEF Group, the carrying value of the asset under Article 6.2.1(e), is equal to EUR 25 [((EUR 0+EUR 200)/2) x (3/12)].

Chapter 7 – Examples

Article 7.1.1(a)

Example 7.1.1(a) - 1

Ultimate Parent Entity that is a Flow-through Entity

1. A Co is a Flow-through Entity that is the UPE of an MNE Group. A Co is located in Country A and has a Fiscal Year that ends on 31 January. Person 1 is an individual tax resident in Country A while Person 2 is an individual tax resident in Country B. Person 1 and Person 2 each hold a 50% of the Ownership Interests in A Co. For the Fiscal Year ended 31 January Year 1, A Co reports EUR 140,000 of income both for domestic income tax and GloBE purposes.

2. Under the tax laws of Country A, EUR 70,000 of A Co's income is included in the taxable income of Person 1 for the calendar year ended 31 December Year 1. The computation of the taxable income of Person 1 also includes a loss of EUR 50,000 from another business conducted in Country A. The taxable income of Person 1 under the tax laws of Country A is EUR 20,000 (= 70,000 – 50,000) and Person 1 is subject to tax in Country A at a rate of 20% on such taxable income.

3. Under the tax laws of Country A, Person 2 is treated as having a PE in Country A and the taxable income of that PE includes EUR 70,000 of A Co's taxable income. Person 2 is subject to tax in Country A at a rate of 20% on the income of its PE for the calendar year ended 31 December Year 1.

4. A Flow-Through Entity that is the UPE reduces its GloBE Income pursuant to Article 7.1.1(a)(i) by the amount of GloBE Income attributable to an Ownership Interest if (1) the holder is subject to tax on that income for a taxable period that ends within 12 months of the end of the MNE Group's Fiscal Year and (2) the holder of the Ownership Interest is subject to tax on the full amount of such income at a nominal rate that equals or exceeds the Minimum Rate.

5. Person 1 is subject to tax on his/her share of A Co's GloBE Income for a taxable period that ends on 31 December Year 1, which is within 12 months of the end of A Co's Fiscal Year ended on 31 January Year 1, notwithstanding that payment of Person 1's tax liability is not due within 12 months of the end of A Co's Fiscal Year. Further, Person 1 is subject to tax on his/her share of A Co's GloBE Income at a nominal rate that equals or exceeds the Minimum Rate. Person 1 is subject to tax on the full amount of such income notwithstanding that he/she was allowed to offset his/her share of A Co's GloBE Income with a loss from another business in computing his/her Country A taxable income. Accordingly, A Co reduces its GloBE Income for the Fiscal Year ended 31 January Year 1 pursuant to Article 7.1.1(a)(i) by EUR 70,000 in respect of the Ownership Interests held by Person 1. A Co will reduce its Covered Taxes proportionately under Article 7.1.3.

6. Person 2 is subject to tax on his/her share of A Co's GloBE Income for a taxable period that ends within 12 months of the end of A Co's Fiscal Year. Person 2 is also subject to tax on the full amount of such income at a nominal rate that equals or exceeds the Minimum Rate. Accordingly, A Co reduces its GloBE Income for the Fiscal Year ended 31 January Year 1 pursuant to Article 7.1.1(a)(i) by EUR 70,000

in respect of the Ownership Interests held by Person 2. A table illustrating the results of this example is set out below.

	Person 1	Person 2
GloBE Income	70,000	70,000
Tax at Minimum Rate	15%	15%
Nominal Rate	20%	20%
GloBE Income reduction Article 7.1.1 (a)(i)	Yes	Yes

Example 7.1.1(a) - 2

UPE that is a Flow-through Entity

1. C Co is a Flow-through Entity and a Tax Transparent Entity that is the UPE of an MNE Group. C Co is located in Country C where a 5% CIT rate applies. C Co's taxable income and GloBE Income for the Fiscal Year ended on 31 December Year 1 is EUR 200,000. The Adjusted Covered Taxes of C Co on its income are EUR 10,000 (= 5%* EUR 200,000) and such taxes meet the definition of Covered Taxes (see Article 4.2).

2. Person 3 is an individual tax resident in Country C that holds a 50% Ownership Interest in C Co. Person 3's share of C Co's income for Year 1 is EUR 95,000 (= 50% * [EUR 200,000 – 10,000]). Person 3 is subject to a nominal 11% personal income tax rate on a calendar year basis. Person 3's share of C Co's income for the Fiscal Year ended on 31 December Year 1 is included in Person 3's Country C taxable income for the calendar year that ended 31 December Year 1. Person 3 is not entitled to reduce its Country C tax imposed on its share of C Co's income as a result of Country C taxes imposed on such income.

3. C Co cannot reduce its GloBE Income pursuant to subparagraph (i) of Article 7.1.1(a) because the personal income tax rate applicable to Person 3 is 11%, which is a nominal rate below the Minimum Rate. However, a Flow-Through Entity that is the UPE reduces its GloBE Income pursuant to subparagraph (ii) of Article 7.1.1(a) by the amount of GloBE Income attributable to an Ownership Interest if (1) the holder is subject to tax on that income for a taxable period that ends within 12 months of the end of the MNE Group's Fiscal Year and (2) it can reasonably be expected that the aggregate amount of Adjusted Covered Taxes of the UPE and Taxes of the holder of the Ownership Interest on such income equals or exceeds the amount that results from multiplying the full amount of such income by the Minimum Rate (see Article 7.1.1 (a)(ii)).

4. Person 3 is reasonably expected to pay EUR 10,450 of Taxes (= 11% * EUR 95,000 after-tax income of C Co) in Country C. The sum of the Taxes paid by Person 3 and C Co on the EUR 100,000 of GloBE Income attributable to Person 3 is EUR 15,450 (= EUR 10,450 paid by Person 3 + EUR 5,000 paid by C Co), which exceeds the amount (EUR 15,000) that results from multiplying the full amount of such income by the Minimum Rate (EUR 100,000 * 15%). C Co will therefore reduce its EUR 200,000 GloBE Income in Year 1 by the EUR 100,000 GloBE Income attributable to Person 3's Ownership Interest. C Co will reduce its Covered Taxes proportionally under Article 7.1.3. A table illustrating the numerical results of this example is set out below.

	EUR
GloBE Income	100,000
Tax at Minimum Rate	15,000
Taxes (C Co)	5,000
Taxes (Person 3)	10,450

Aggregate Taxes	15,450
GloBE Income reduction Article 7.1.1 (a)(ii)	Yes

Example 7.1.1(a) – 3

UPE that is a Flow-through Entity

1. The facts are the same as Example 7.1.1(a) – 2 (revised), except that:

   a. Person 3 is entitled to a tax credit, rather than a deduction, for tax paid by C Co in respect of Person 3's share of that income; and

   b. Under the relevant law, Person 3's share of C Co's before-tax income for Year 1 is EUR 100,000 (= 50% * EUR 200,000).

2. Person 3 is reasonably expected to pay EUR 6,000 of Taxes (= 11% * EUR 100,000 before-tax income of C Co (-) EUR 5,000 tax credit) in Country C. The sum of the Taxes paid by Person 3 and C Co on the EUR 100,000 of GloBE Income attributable to Person 3 is EUR 11,000 (= EUR 6,000 paid by Person 3 + EUR 5,000 paid by C Co), which does not exceed the amount (EUR 15,000) that results from multiplying the full amount of such income by the Minimum Rate (EUR 100,000 * 15%). C Co is therefore not entitled to reduce its EUR 200,000 GloBE Income in Year 1 by the EUR 100,000 GloBE Income attributable to Person 3's Ownership Interest under Art. 7.1.1(a)(ii). A table illustrating the numerical results of this example is set out below.

3.

	EUR
GloBE Income	100,000
Tax at Minimum Rate	15,000
Taxes (C Co)	5,000
Taxes (Person 3)	6,000
Aggregate Taxes	11,000
GloBE Income reduction Article 7.1.1 (a)(ii)	No

Article 7.1.4

Example 7.1.4 - 1

UPE that is a Flow-through Entity

1. A Co is the UPE of ABC Group. A Co is a Flow-through Entity and a Tax Transparent Entity created in Country A with two owners, each of whom holds 50% of its Ownership Interests. A Co conducts business operations in Countries A and B. The place of business through which A Co carries out business operations in Country B creates a PE in Country B. Overall, A Co generated GloBE Income of EUR 300 in Countries A and B during a Fiscal Year.

2. Under the rules of Articles 3.4 and 3.5, EUR 100 of A Co's income is allocated to a PE located in Country B (see Article 3.5.1 (a)). Country B imposes tax on the owners of A Co in respect of the EUR 100 income allocated to PE at a 15% nominal rate and each owner paid EUR 7.5 of tax to Country B (total EUR 15).

3. In Country B, the holders of A Co's Ownership Interests are subject to tax at a nominal rate that equals the Minimum Rate and it is reasonable to expect that the EUR 7.5 tax paid by each holder equals the amount of each holders' share of the PE's income multiplied by the Minimum Rate, or EUR 7.5 (= 50 income x 15% Minimum Rate). Accordingly, PE's GloBE Income is reduced by EUR 100 in Country B pursuant to Article 7.1.4.

4. A table illustrating the numerical results of this example is set out below.

A Co	**Country B**
Allocation income	EUR 100
Tax rate	15%
Tax paid	EUR 15
Tax above/(below) Minimum Rate	EUR 0
Tax reduction Article 7.1.4	Yes

Article 7.3.4

Example 7.3.4 - 1

Eligible Distribution Tax Regime

1. A Co is a Constituent Entity of an MNE Group and it is located in a jurisdiction with an Eligible Distribution Tax Regime. Distributions (and deemed distributions) are subject to tax at a 15% rate. An election pursuant to Article 7.3.1 is made for Year 1, Year 2, and Year 3 with respect to the jurisdiction. A Co makes no actual or deemed distributions in Year 1, Year 2, or Year 3.

2. In Year 1, A Co earns GloBE Income of EUR 100 and records Deemed Distribution Tax of EUR 15 pursuant to Article 7.3.2(a). Accordingly, the balance of the Deemed Distribution Tax Recapture Account at the end of Year 1 is EUR 15 (see Article 7.3.4).

3. In Year 2, A Co incurs a Net GloBE Loss of EUR 120. Under Article 7.3.3, the Net GloBE Loss is multiplied by the Minimum Rate (i.e., EUR 120 x 15% = EUR 18) and EUR 15 is applied to reduce the Deemed Distribution Tax Recapture Account to EUR 0 (Article 7.3.3(b)). The excess over the Deemed Distribution Tax Recapture Account, EUR 3 (= EUR 18 – EUR 15), is added to a Recapture Account Loss Carry-forward.

4. In Year 3, A Co earns GloBE Income of EUR 100 and Deemed Distribution Tax of EUR 15 is recorded to achieve the Minimum Rate (see Article 7.3.2(a)). The Deemed Distribution Tax Recapture Account is increased by EUR 15 and then reduced by EUR 3, the balance of the Recapture Account Loss Carry-forward from Year 2, leaving a balance of EUR 12 in the Deemed Distribution Tax Recapture Account established for Year 3.

	Year 1	**Year 2**	**Year 3**
GloBE Income (or Loss)	EUR 100	(EUR 120)	EUR 100
Tax at Minimum Rate	EUR 15	(EUR 18)	EUR 15
Deemed Distribution Tax Recapture Account	EUR 15	EUR 0	EUR 12
Recapture Account Loss Carry-forward	EUR 0	EUR 3	EUR 0

Chapter 9 – Examples

Article 9.1.1

Example 9.1.1 - 1

1. A Co is a Constituent Entity of an MNE Group that will become subject to the GloBE Rules for its Fiscal Year ending on 31 December 2023 for the first time. A Co is located in country A, which applies worldwide tax system and provides foreign tax credit to mitigate the potential for double taxation. Country A imposes a 20% corporate income tax. A Co's taxable year for country A tax purposes ends on 31 December.

2. In year 2022, A Co earned interest income of 100 from an investment in country B which has been subject to a withholding tax of 30 in country B. Under the domestic tax law of country A, A Co was allowed to use 20 of the withholding tax as a tax credit in 2022 and to carry forward the remaining 10 of tax credit. A Co established a deferred tax asset of 10 in its financial accounts.

3. Also in year 2022, A Co incurred certain qualifying expenditure on R&D and was granted an investment tax credit of 10. A Co recognised a deferred tax asset of 10 in the financial accounts accordingly.

4. The deferred tax asset with respect to tax credit carry-forwards shall be taken into account in the Transition Year and subsequent Fiscal Years, and such deferred tax asset should recast at the Minimum Rate because the applicable domestic tax rate is equal to or higher than the Minimum Rate. The deferred tax assets arising from foreign tax credit carry-forward (10) and investment tax credit carry-forward (10) shall recast in accordance with the formula described in the Commentary to Article 9.1.1. Under these facts the recast deferred tax asset for each carry-forward is equal to 7.5 (= [10 deferred tax asset / 20% domestic tax rate] x 15% Minimum Rate).

Example 9.1.1 - 2

1. The facts are the same as in Example 9.1.1-1, except that A Co did not treat the investment tax credit as a deferred tax asset but as income in the financial accounts. The investment tax credit does not meet the definition of Qualified Refundable Tax Credit. In year 2027, A Co settles the investment tax credit of 10 and reduces the cash tax owed for 2027. A Co's Adjusted Covered Taxes is not reduced by the amount of the investment tax credit settled in that year.

Article 9.1.2

Example 9.1.2 – 1

1. This example illustrates the determination of the Grace Period and Grace Period Limitation, assuming that a Constituent Entity accrues in 2023 a deferred tax asset that is disallowed under subparagraph (a) of paragraph 8.5 of the Article 9.1.2 Commentary. The original balance of that deferred

tax asset is 1000, and there is no recast because the deferred tax asset is not attributable to a GloBE Loss and has been recorded at or below the Minimum Rate. The Constituent Entity records a deferred tax expense of 100 in its financial accounts associated with the reversal of such deferred tax asset each year from 2024 to 2033. See table below:

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Beginning balance	1000	900	800	700	600	500	400	300	200	100
Reversal	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100
End balance	900	800	700	600	500	400	300	200	100	0

2. The Profit (Loss) Before Tax as well as Simplified Covered Taxes of the Constituent Entity (before excluding deferred tax expenses attributable to the reversal of deferred tax assets and liabilities described in paragraph 8.5) are as follows:

	2024	2025	2026
Profit (Loss) before Income Tax	2000	2000	2000
Simplified Covered Taxes (before adjustment)	300	320	340
Current tax expense	200	220	240
Deferred tax expense	100	100	100
Simplified ETR (before adjustment)	15%	16%	17%

3. Under paragraphs 8.8 and 8.9 of the commentary to Article 9.1.2, the Grace Period is the 2024 and 2025 Fiscal Years, and the Grace Period Limitation is 20% of the amount of the deferred tax asset originally recorded. In this example, the Grace Period Limitation is 200.

4. In 2024, the 100 deferred tax expense is allowed in the Simplified Covered Taxes computation (because it is less than the 200 Grace Period Limitation). The Simplified ETR is 15% and the Tested Jurisdiction consequently qualifies for the Transitional CbCR Safe Harbour for that Tested Fiscal Year.

5. For the 2025 Fiscal Year, the 100 deferred tax expense is allowable in the Simplified Covered Taxes computation, because the cumulative amount of deferred tax expense attributable to the reversal of the disallowed deferred tax assets in 2024 and 2025 does not exceed the 200 Grace Period Limitation. Therefore, the Simplified ETR for 2025 is 16% and the MNE Group once again qualifies for the Transitional CbCR Safe Harbour.

6. For the 2026 Fiscal Year, the Grace Period has ended. The 100 deferred tax expense recorded in 2026 is excluded from the Simplified Covered Taxes calculation and as a result the MNE Group is not eligible for the Transitional CbCR Safe Harbour in the 2026 tested Fiscal Year. Accordingly, its Transition Year in respect of that jurisdiction is 2026. The 100 of deferred tax expense attributable to the reversal of the disallowed deferred tax asset in 2026 is excluded from the Total Deferred Tax Adjustment Amount under Article 4.4.

Example 9.1.2 – 2

1. The facts in this example are the same as Example 9.1.2 – 1, except that the MNE Group records deferred tax expense of 200 in 2024 (i.e., the full amount up to the cap) and is unable to qualify for the Transitional CbCR Safe Harbour for 2025. This example illustrates the application of the Grace Period

Limitation within the Grace Period under the Transitional CbCR Safe Harbour. The original balance (as of 1 January 2024) of that deferred tax asset is 1000, and the Constituent Entity records a deferred tax expense of 200 in its financial accounts associated with the reversal of such deferred tax asset in 2024 and 100 each year from 2025 to 2032. See table below:

	2024	2025	2026	2027	2028	2029	2030	2031	2032
Beginning balance	1000	800	700	600	500	400	300	200	100
Reversal	-200	-100	-100	-100	-100	-100	-100	-100	-100
End balance	800	700	600	500	400	300	200	100	0

2. The Profit (Loss) Before Tax as well as Simplified Covered Taxes of the Constituent Entity (before excluding deferred tax expenses attributable to the reversal of deferred tax assets and liabilities described in paragraph 8.5) are as follows:

	2024	2025
Profit (Loss) before Income Tax	2000	2000
Simplified Covered Taxes (before adjustment)	300	200
Current tax expense	100	100
Deferred tax expense	200	100
Simplified ETR (before adjustment)	15%	10%

3. Under paragraphs 8.8 and 8.9 of the commentary to Article 9.1.2, the Constituent Entity may include in its Simplified Covered Taxes an amount of the deferred tax expenses attributable to the reversal of the deferred tax asset in the Grace Period, and such amount cannot exceed the Grace Period Limitation of 20% of the amount of the deferred tax asset originally recorded. In this example, the Grace Period Limitation is 200.

4. In 2024, the 200 deferred tax expense is allowed in the Simplified Covered Taxes computation (because it does not exceed the 200 Grace Period Limitation). The Simplified ETR is 15% and the Tested Jurisdiction consequently qualifies for the Transitional CbCR Safe Harbour for that tested Fiscal Year.

5. For the 2025 Fiscal Year, the 100 deferred tax expense is not allowable in the Simplified Covered Taxes computation, because the cumulative amount of deferred tax expense attributable to the reversal of the disallowed deferred tax assets that the Constituent Entity has included in the Total Deferred Tax Adjustment Amount under Article 4.4 and the Simplified Covered Taxes under the Transitional CbCR Safe Harbour is 200, which is equivalent to the Grace Period Limitation in this case. Therefore, the Simplified ETR for 2025 is 5% and the MNE Group does not qualify for the Transitional CbCR Safe Harbour. Accordingly, its Transition Year in respect of that jurisdiction is 2025.

6. For the 2025 Fiscal Year, no deferred tax expense attributable to the reversal of the disallowed deferred tax assets can be included in the MNE Group's GloBE computations because the Grace Period Limitation cannot be exceeded. The 100 of deferred tax expense attributable to the reversal of the disallowed deferred tax asset in 2025 is excluded from the Total Deferred Tax Adjustment Amount under Article 4.4.

Article 9.1.3

Example 9.1.3 - 1

Asset carrying value and deferred taxes under Article 9.1.3

1. This example illustrates the application of the rule in Article 9.1.3 with regard to asset carrying value and deferred taxes.

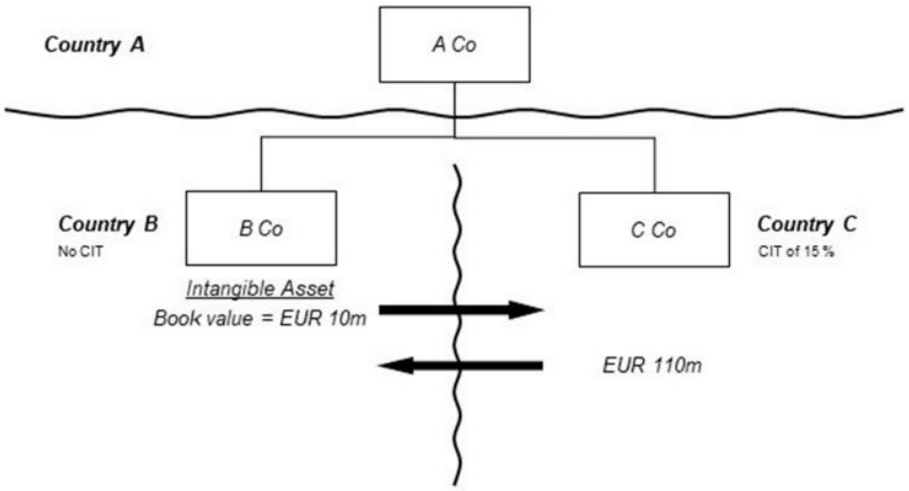
2. A Co is located in Country A. A Co wholly owns B Co, located in Country B, and C Co, located in Country C. Country B has no corporate income tax (CIT) while Country C imposes a 15% CIT.

3. In its 2021 and all previous Fiscal Years, A Co included the assets, liabilities, income, expenses and cash flows of B Co and C Co in its Consolidated Financial Statements. B Co and C Co therefore would have been Constituent Entities of an MNE Group having A Co as its UPE, had the GloBE Rules been in effect with respect to such MNE Group immediately before the transfer described below.

4. B Co owned an intangible asset that was recorded at a carrying value of EUR 10 million on its balance sheet but had a fair market value of EUR 110 million. There is no deferred tax assets with respect to the intangible asset recorded in B Co's or the MNE Group's financial accounts. The asset was not inventory in the hands of B Co. On 5 December 2021, B Co sold the intangible asset to C Co for EUR 110 million.

5. A diagram illustrating the holding structure, location of the members and the asset transfer is set out below.

Figure 4.1. Holding structure and asset transfer



Source: OECD

6. Jurisdiction C allows a cost basis for local tax purposes so that C Co's local tax basis in the intangible asset is EUR 110 million. Under the accounting standard used in preparing A Co's Consolidated Financial Statements, C Co's carrying value of the intangible asset is EUR 10 million, rather than the EUR 110 million cost of acquiring the asset. However, under that accounting standard, C Co records a EUR 15 million deferred tax asset with respect to the intangible asset attributable to the EUR 100 million difference between the accounting and tax carrying value of the asset.

7. Because the intra-group sale occurred after 30 November 2021 but before the commencement of a Transition Year, Article 9.1.3 is triggered and C Co's basis in the acquired intangible asset for GloBE

purposes is B Co's carrying value upon disposition (EUR 10 million) adjusted for any subsequent capitalised expenditures or amortization. Because country B does not have CIT, there were no deferred tax assets with respect to the intangible asset recorded in B Co's or the MNE Group's financial accounts prior to the disposition, the gain was not included in B Co's taxable income and no tax was paid in respect of the disposition. Accordingly, no deferred tax assets are recognised with respect to this intangible asset for purposes of the GloBE Rules.

Example 9.1.3 – 2

Asset carrying value and deferred taxes under Article 9.1.3

1. The facts are the same as in Example 9.1.3-1, except that:

    a. Country B imposes a corporate income tax at 20%,

    b. B Co had EUR 20 million of other taxable income after deducting EUR 40 million of expenses from EUR 60 million of revenues, and

    c. B Co paid EUR 24 million of tax (20% rate) on EUR 120 million of total taxable income for its taxable year ended on 31 December 2021 (EUR 100 million from the intragroup asset transfer and EUR 20 million from ordinary course of business).

2. C Co is allowed a deferred tax asset under Article 9.1.3 equal to the lesser of the amount of tax paid in respect of, or 15% of, the intercompany gain on the asset transfer. B Co was subject to a 20% tax rate on all of its income, and thus EUR 20 million of tax was paid on the EUR 100 million gain. C Co is entitled to a EUR 15 million deferred tax asset for GloBE purposes in respect of the acquired intangible asset. Under the facts of this example, Country C imposes a corporate income tax at a 15% rate. Coincidentally, the deferred tax assets established under Article 9.1.3 are equal to the amount of deferred tax assets recognised for financial accounting purposes in C Co's separate financial statements. This deferred tax asset is adjusted annually along with the deferred tax asset that reversed for financial accounting purposes.

Example 9.1.3 - 3

Asset carrying value and deferred taxes under Article 9.1.3

1. The facts are the same as in Example 9.1.3-2, except that:

    a. B Co had a DTL of EUR 2 million referred to the transferred asset, due to accelerated depreciation, where the tax basis is nil and the accounting carrying value is EUR 10 million.

    b. B Co determines a taxable gain on the asset transfer equal to EUR 110 million (= EUR 110 million – zero). This taxable gain is fully subject to tax at B Co and the corresponding taxes paid are equal to EUR 22 million (EUR 110 million * 20%)

2. C Co recognises the assets at EUR 10 million. The GloBE carrying value of the asset is equal to EUR 10 million.

3. As for the deferred tax asset and liabilities recognizable for GloBE purposes, a two-step analysis shall be done: (i) any deferred tax asset or liability that existed prior to the transaction at B Co level shall be recognised for GloBE purpose at C Co level and recast at 15% (the lesser of the Minimum Rate and CIT rate applicable to C Co), (ii) any deferred tax asset or liability accounted at C Co in relation to the transaction shall be taken into account if condition under paragraph 10.9 of the Commentary to Article 9.1.3 would be met. In particular, C Co will recognise the following DTA and DTL for GloBE purposes:

4.	(EUR/m)	5.	C Co
6.	CIT rate	7.	15%
8.	DTL ante transaction	9.	-1.5
10.	DTA upon transaction	11.	16.5
12.	Net DTA	13.	15

14. If no taxes were paid by B Co in relation to the asset transfer, the DTA recognition at C Co would have been equal to zero, pursuant to Article 9.1.3 and only the pre-existing DTL would have been recognised for GloBE purposes in the amount of EUR 1.5 million (i.e. recast at the Minimum Rate).

Example 9.1.3 - 4

Asset carrying value and deferred taxes under Article 9.1.3

1. The facts are the same as in Example 9.1.3-1, except that:

   a. B Co was subject to a 10% tax rate on capital gains and 20% tax rate on income other than capital gains,

   b. b. B Co paid EUR 4 million of tax (20% rate) on the other income and EUR 10 million of tax (10% rate) on the intangible asset sale, and

   c. c. In total, B Co paid EUR 14 million of tax on EUR 120 million of total taxable income for its taxable year ended on 31 December 2021.

2. C Co is allowed a deferred tax asset under Article 9.1.3 equal to the lesser of the amount of tax paid in respect of, or 15% of, the intercompany gain on the asset transfer. B Co was subject to a 10% tax rate on the gain from the sale of its intangible asset and paid EUR 10 million of tax on the EUR 100 million gain. C Co is entitled to a EUR 10 million deferred tax asset for GloBE purposes in respect of the acquired intangible asset.

Example 9.1.3 - 5

Asset carrying value and deferred taxes under Article 9.1.3

1. The facts are the same as in Example 9.1.3-1, except that:

   a. B Co was subject to a 10% tax rate on all of its income,

   b. Country B allows tax losses to be carried forward indefinitely,

   c. B Co had EUR 20 million of deductible expenses, and d. Thus, B Co paid EUR 8 million of tax (10% rate) on EUR 80 million of total taxable income for its taxable year ended on 31 December 2021.

2. If the gain from the sale of the intangible asset had not been included in B Co's income, it would have reported a loss of EUR 20 million and created a deferred tax asset of EUR 2 million. C Co is allowed a deferred tax asset under Article 9.1.3 equal to the lesser of 15% of the intercompany gain on the asset transfer or the sum of the amount of tax paid on the asset transfer and the amount of deferred tax asset that would have been established and recognised under Article 9.1.1 if the gain were not included in taxable income. C Co is entitled to a EUR 10 million deferred tax asset for GloBE purposes in respect of the acquired intangible asset.

3. During the first year of application of the GloBE Rules, C Co sells the asset to a third party at a price of EUR 110 million. The accounting carrying value is EUR 10 million (no amortization is performed for accounting purposes) and a gain from the sale, equal to EUR 100 million, is registered for accounting purposes, but no current taxes are accrued on the sale since the tax basis of the asset is EUR 110 million (it is assumed no amortization also for tax purposes). The EUR 10 million deferred tax asset, previously accrued, is reversed and included in C Co's Adjusted Covered Taxes. Assuming C Co has no other income for the year, the ETR in Country C is 10% (= EUR 10 million Adjusted Covered Taxes / EUR 100 million GloBE Income).

Example 9.1.3 - 6

Asset carrying value and deferred taxes under Article 9.1.3

1. The facts are the same as in Example 9.1.3-1, except that:

   a. B Co had EUR 100 million loss carry-forward for local tax purposes (that meets the requirements under Article 9.1.1) and a corresponding deferred tax asset of EUR 20 million,

   b. Country B has a 20% tax rate and allows tax losses to be carried forward indefinitely, and

   c. B Co paid no tax for its taxable year ended on 31 December 2021 due to the offsetting with the available tax loss.

2. C Co is allowed a deferred tax asset under Article 9.1.3 up to the amount of the deferred tax asset that would have been recognised under Article 9.1.1 in the absence of the offsetting with the gain triggered by the intragroup transfer. The EUR 20 million deferred tax asset associated with B Co's tax loss carry-forward of EUR 100 million is eligible for recognition under Article 9.1.1 because it was generated before 30 November 2021 and does not expire before the Transition Year. Accordingly, C Co is allowed a deferred tax asset equal to EUR 15 million.

Example 9.1.3 - 7

Asset carrying value and deferred taxes under Article 9.1.3

1. The facts are the same as in Example 9.1.3-2, except that under the accounting standards used in preparing A Co's Consolidated Financial Statements, C Co's carrying value of the purchased intangible asset is EUR 110 million and therefore the tax basis for local tax purposes would be equal to the accounting carrying value. Accordingly, no deferred tax assets would be accrued in the financial accounts. Nonetheless, under Article 9.1.3, the GloBE carrying value of the asset is EUR 10 million and a deferred tax asset of EUR 15 million is taken into account for GloBE purposes.

2. The asset carrying value of EUR 110 million is amortised on a straight-line basis over ten years for both corporate income tax and accounting purposes (EUR 11 million per year). Simultaneously, EUR 1.5 million of the deferred tax asset determined under Article 9.1.3 reverses each year. The amortization and reversal of the deferred tax asset determined under Article 9.1.3 occur each year irrespective of whether C Co is subject to the GloBE Rules for the year.

3. For each year in which C Co is subject to the GloBE Rules, the additional amortization of EUR 10 million (EUR 11 million - EUR 1 million) per year attributable to recording the asset at fair value in the financial accounts must be excluded from the computation of C Co's GloBE Income or Loss. However, the deferred tax asset reversal is included in C Co's Adjusted Covered Taxes, which neutralises the effect of the additional GloBE Income on the ETR (i.e. each year the numerator of the ETR is increased by EUR 1.5 million and yield a 15% ETR on the EUR 10 million additional GloBE Income).

4. Likewise, if C Co sells the asset to a third party in a year to which the GloBE Rules apply, the GloBE Income or Loss from the sale is determined based on the GloBE carrying value at the time of sale and the remaining deferred tax asset is reversed and included in Co Co's Adjusted Covered Taxes. Thus, if C Co sells the asset after two years for EUR 100 million, the GloBE carrying value is EUR 8 million (= EUR 10 million – EUR 2 million amortization) and the GloBE Income or Loss is EUR 92 million (= EUR 100 million - EUR 8 million). The accounting and tax carrying value are rather EUR 88 million (= EUR 110 million – EUR 22 million amortization) and the accounted capital gain is equal to EUR 12 million (EUR 100 million – EUR 88 million). Thus, the GloBE Income or Loss will be increased by the higher capital gain equal to EUR 80 million, and the residual DTA (equal to EUR 12 million, i.e. EUR 80 million multiplied by 15%) will be reversed, so the effect of the higher GloBE Income will be neutralised in the ETR computation.

5. Alternatively, because the deferred tax asset allowed under Article 9.1.3 is equal to 15% of the gain subject to Article 9.1.3, C Co may use the financial accounting carrying value of the transferred assets for purposes of computing C Co's GloBE Income or Loss.

Chapter 10 – Examples

Article 10.1

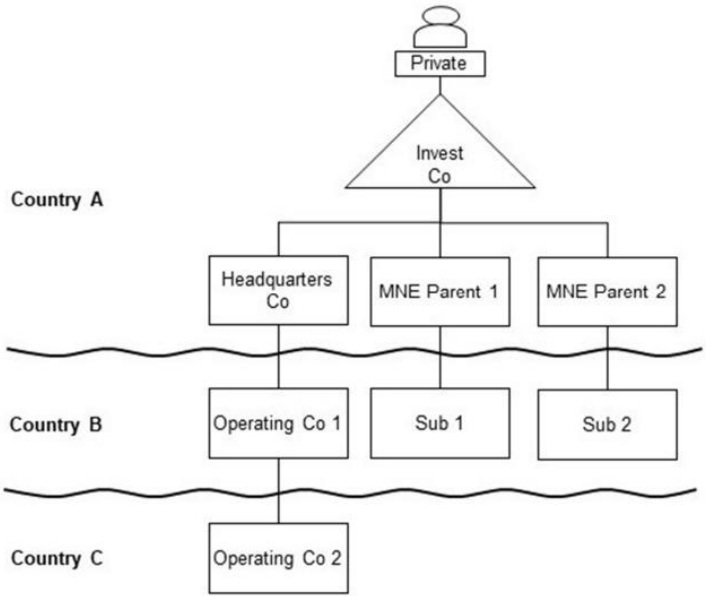
Example 10.1 - 1

Privately held entity not required and not preparing financial statements

1. This example illustrates the deemed consolidation test found in paragraph (d) of the definition of Consolidated Financial Statements and paragraph (b) of the definition of Controlling Interest in Article 10.1 with regards to a privately held entity that is not required and does not prepare financial statements.

2. Invest Co is a private company located in Country A that is not required to, and does not, prepare financial statements for any other purpose. Invest Co is not, however, an investment entity under IFRS 10. Invest Co owns (directly or indirectly) all the Ownership Interests of Headquarters Co, Operating Co 1 and Operating Co 2. Headquarters Co, which is located in Country A, issued debt instruments that are traded on a public securities exchange and it is required by the securities regulatory body in Country A to prepare financial statements in accordance with IFRS, the Authorized Financial Accounting Standard in Country A. Invest Co also owns all of the Ownership Interests of MNE Parent 1, MNE Parent 2, Sub 1, and Sub 2, none of which are required to prepare financial statements for any purpose. A diagram illustrating the holding structure and the location of the entities is set out below.

Figure 1.1. Holding structure



3.

4. Source: OECD

5.

6. In this case, Invest Co is considered to hold the Controlling Interests of Headquarters Co, Operating Co 1, Operating Co 2, MNE Parent 1, Sub 1, MNE Parent 2, and Sub 2 because if it had prepared financial statements under IFRS, the Acceptable Financial Accounting Standard in its jurisdiction, Invest Co would have been required to consolidate its financial results with the financial results of those Entities on a line-by-line basis. The fact that Headquarters Co prepares Consolidated Financial Statements that do not include Invest Co does not affect the analysis under paragraph (b) of the definition of Controlling Interests with respect to Invest Co.

7. Paragraph (d) of the definition of Consolidated Financial Statements is triggered because Invest Co did not prepare financial statements in accordance with an Authorised Financial Accounting Standard. Invest Co's Consolidated Financial Statements are those that it would have been required to prepare under IFRS, the Authorised Financial Accounting Standard in Country A. Accordingly, the MNE Group includes Invest Co, Headquarters Co, Operating Co 1, Operating Co 2, MNE Parent 1, Sub 1, MNE Parent 2, and Sub 2.

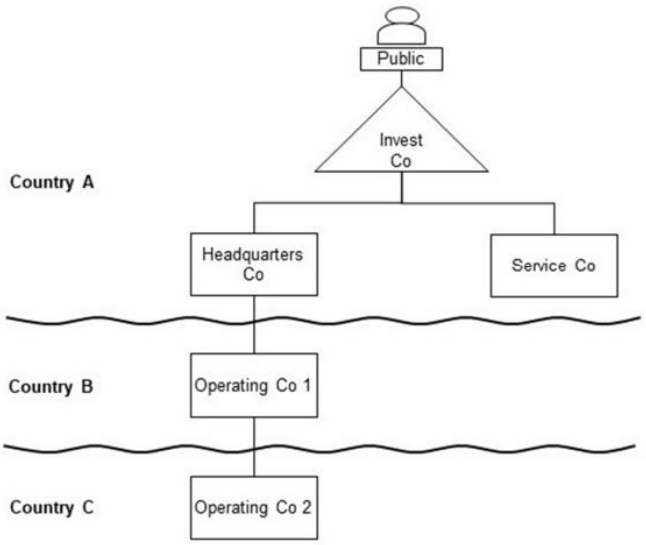
Example 10.1 - 2

Investment entity not required to consolidate investments

1. This example illustrates the deemed consolidation test found in paragraph (d) of the definition of Consolidated Financial Statements and paragraph (b) of the definition of Controlling Interest in Article 10.1 with regards to an investment entity that is not required to consolidate investments.

2. Invest Co is an Investment Fund that is established and tax resident in Country A. Invest Co issues shares to the market which are traded on a public stock exchange in Country A. The law of Country A requires Invest Co to prepare financial statements in accordance with International Financial Reporting Standards (IFRS). Invest Co owns all of the outstanding shares of Service Co and Headquarters Co. Service Co provides accounting and other investment services to Invest Co and is tax resident in Country A. Headquarters Co actively manages the day-to-day business operations of Operating Co 1 and Operating Co 2 and is tax resident in Country A. Headquarters Co owns 100% (directly or indirectly) of the shares of Operating Co 1, which is tax resident in Country B, and Operating Co 2, which is tax resident in Country C. A diagram illustrating the holding structure and the location of the entities is set out below.

Figure 1.2. Holding Structure



Source: OECD

3. Invest Co is an investment entity under IFRS 10. Invest Co prepares Consolidated Financial Statements that consolidate the financial results of Invest Co and Service Co on a line-by-line basis, However, Invest Co is not required to consolidate Headquarters Co, Operating Co 1, and Operating Co 2 on a line-by-line basis, notwithstanding that it owns all of their outstanding shares (directly or indirectly). Rather, pursuant to IFRS 10, Invest Co is required to reflect the performance of these investments in its financial statements under the fair value method. Headquarters Co, which is not an investment entity under IFRS 10, prepares Consolidated Financial Statements in accordance with IFRS that consolidate the financial results of Headquarters Co, Operating Co 1, and Operating Co 2 on a line-by-line basis.

4. In this case, Invest Co holds the Controlling Interests of Service Co because it is required to consolidate the financial results of Service Co with its own financial results under IFRS, which is an Authorised Financial Accounting Standard that is an Acceptable Financial Accounting Standard. Invest Co does not hold the Controlling Interests of Headquarters Co, Operating Co 1, and Operating Co 2 because Invest Co is not required to consolidate the financial results of such Entities under the Authorised Financial Accounting Standard used in preparing its Consolidated Financial Statements, i.e. IFRS. Similarly, paragraph (d) of the definition of Consolidated Financial Statements is not triggered in this situation because Invest Co prepares financial statements that are described in paragraph (a) of the definition, i.e. Consolidated Financial Statements prepared under IFRS that consolidate the financial results of Entities in which it holds a Controlling Interest (Service Co).

Example 10.1 - 3

Investment Entity does not prepare financial statements

1. This example illustrates the deemed consolidation test found in paragraph (d) of the definition of Consolidated Financial Statements and paragraph (b) of the definition of Controlling Interest in Article 10.1 with regards to an investment entity that is not required and does not prepare financial statements.

2. The facts are the same as Example 10.1-2, except that Invest Co is not required to, and does not, prepare financial statements for any other purpose.

3. In this case, Invest Co is considered to hold the Controlling Interests of Service Co in accordance with paragraph (b) of the definition of Controlling Interests because it would have been required to consolidate the financial results of Service Co on a line-by-line basis with its own financial results if it had prepared Consolidated Financial Statements pursuant to IFRS. However, Invest Co is not considered to hold the Controlling Interests of Headquarters Co Operating Co 1 and Operating Co 2 because it would not have been required to consolidate the financial results of those Entities on a line-by-line basis with its own financial results if it had prepared Consolidated Financial Statements pursuant to IFRS.

4. Similarly, paragraph (d) of the definition of Consolidated Financial Statements is triggered with respect to Invest Co. Under paragraph (d) of the definition of Consolidated Financial Statements, Invest Co's Consolidated Financial Statements are those that would have been required if it were required to prepare Consolidated Financial Statements, for example by law or by a regulatory body, under an Authorised Financial Accounting Standard that is either an Acceptable Financial Accounting Standard or another financial accounting standard that is adjusted to prevent any Material Competitive Distortions. Under IFRS, the standard applicable in Invest Co's jurisdiction, Invest Co would be required to consolidate the financial results of Service Co. However, under IFRS 10, Invest Co would not be required to consolidate the financial results of Headquarters Co, Operating Co 1, and Operating Co 2.

Example 10.1 - 4

Non-investment entity does not prepare financial statements

1. This example illustrates the deemed consolidation test found in paragraph (d) of the definition of Consolidated Financial Statements and paragraph (b) of the definition of Controlling Interest in Article 10.1 with regards to a non-investment entity that is not required to and does not prepare financial statements.

2. The facts are the same as Example 10.1-2, except that Headquarters Co is not required to, and does not, prepare financial statements that include the financial results of Operating Co 1 and Operating Co 2 for any other purpose.

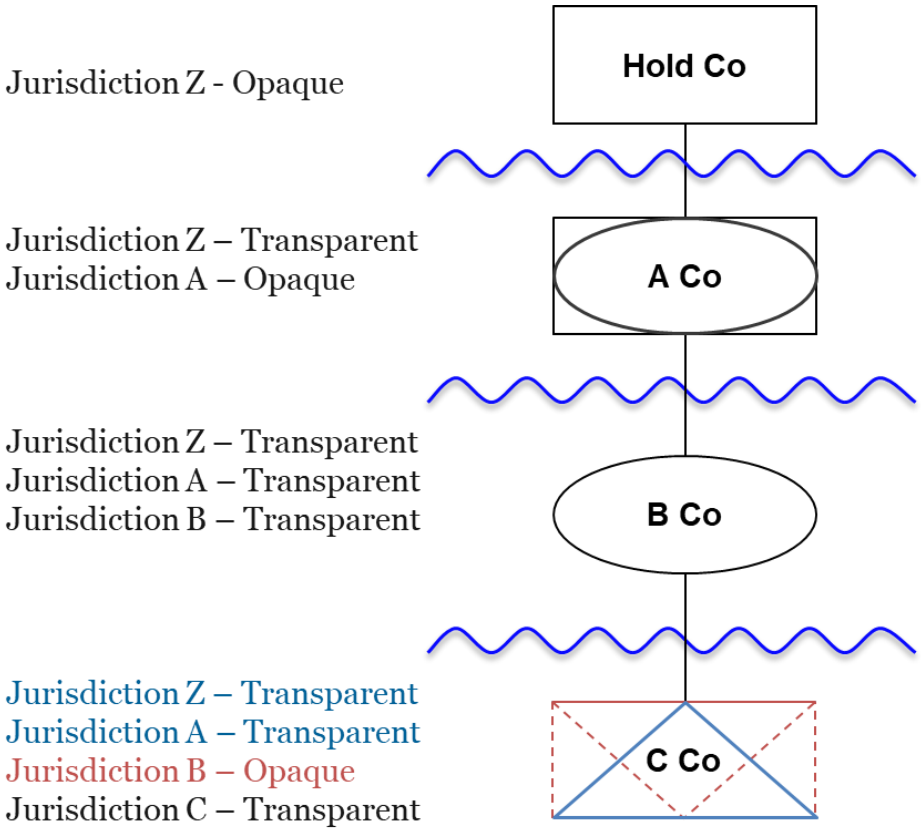
3. In this case, Headquarters Co is considered to hold the Controlling Interests of Operating Co 1 and Operating Co 2 in accordance with paragraph (b) of the definition of Controlling Interests because it would have been required to consolidate the financial results of those Entities on a line-by-line basis with its own financial results if it had prepared Consolidated Financial Statements pursuant to IFRS.

4. Similarly, paragraph (d) of the definition of Consolidated Financial Statements is triggered with respect to Headquarters Co. Under paragraph (d) of the definition of Consolidated Financial Statements, Headquarters Co's Consolidated Financial Statements are those that would have been required if it were required to prepare Consolidated Financial Statements, for example by law or by a regulatory body, under an Authorised Financial Accounting Standard that is either an Acceptable Financial Accounting Standard or another financial accounting standard that is adjusted to prevent any Material Competitive Distortions. Under IFRS, the standard applicable in Headquarters Co's jurisdiction, Headquarters Co would be required to consolidate the financial results of Headquarters Co, Operating Co 1, and Operating Co 2. 2 As in Example 10.1 – 1, Invest Co is not deemed to hold the Controlling Interests of Headquarters Co, Operating Co 1, and Operating Co 2 for the reasons explained above. If there were another Authorised Financial Accounting Standard in Headquarter Co's jurisdiction in addition to IFRS, and if such other standard would not have required consolidation (after taking into account adjustments for any Material Competitive Distortions when applying standards other than Acceptable Financial Accounting Standards) under the facts described, Headquarter Co can rely on the alternative Authorised Financial Accounting Standard to not consolidate its subsidiaries for purposes of the GloBE Rules. Under these circumstances, paragraph (d) does not require Headquarter Co to prepare Consolidated Financial Statements under IFRS and therefore Headquarter Co will not be treated as the UPE of an MNE Group for GloBE purposes.

Article 10.2

Example 10.2.1-1

1. Assume Hold Co owns A Co, A Co owns B Co, and B Co owns C Co. Hold Co is not a Flow-through Entity. The tax law of the jurisdiction in which Hold Co is located, Jurisdiction Z, treats Hold Co as a fiscally opaque entity and A Co, B Co and C Co as fiscally transparent. The tax law of the jurisdiction in which A Co is located, Jurisdiction A, treats A Co as fiscally opaque, and B Co and C Co as fiscally transparent. The tax law of the jurisdiction in which B Co is created, Jurisdiction B, treats B Co as fiscally transparent but treats C Co as fiscally opaque. The tax law of the jurisdiction in which C Co is created, Jurisdiction C, treats C Co as fiscally transparent. See illustration below.

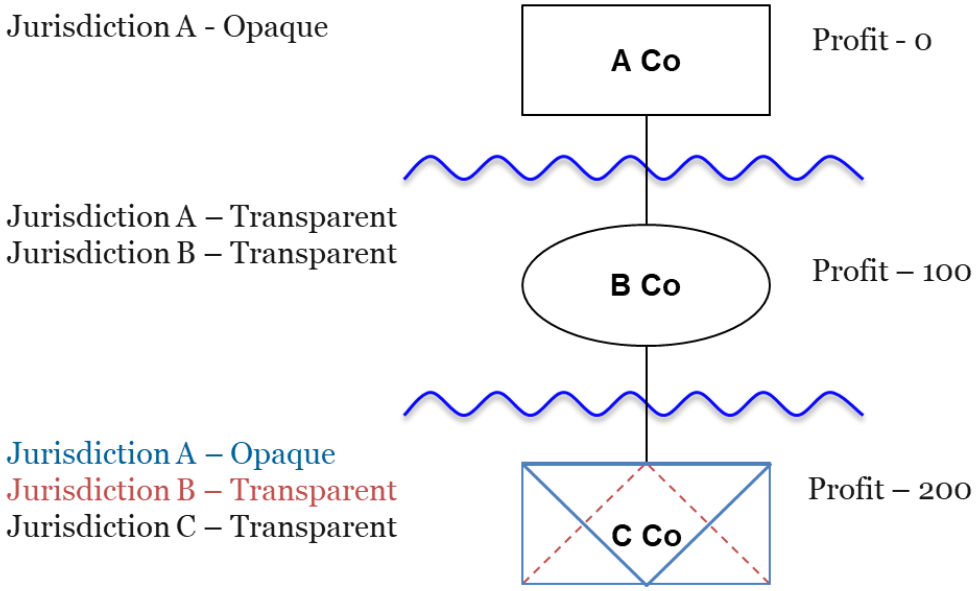


2. C Co is a Flow-through Entity because it is treated as fiscally transparent by the tax law of the jurisdiction where it was created (Jurisdiction C). It is a Tax Transparent Entity because A Co is the Reference Entity and Jurisdiction A's tax laws treat C Co and every Constituent Entity through which A Co's Ownership Interest in C Co is owned as fiscally transparent. A Co is the Reference Entity because it is the closest Constituent Entity-owner to C Co that is not treated as fiscally transparent under the tax laws in its place of creation (i.e. a Flow-through Entity).

3. In accordance with Article 3.5.1(b), the profit or loss of C Co is consequently allocated to A Co because A Co is the Reference Entity which determined that C Co is a Tax Transparent Entity. A Co also meets the Hybrid Entity definition because Jurisdiction Z's tax laws treat A Co as fiscally transparent so A Co's profits are subject to tax in both Jurisdiction A and Jurisdiction Z. Consequently, any Covered Taxes paid by Hold Co with respect to C Co's income shall be allocated to A Co under Article 4.3.2(d) because A Co is a Hybrid Entity and the profit or loss of C Co has been allocated to A Co.

Example 10.2.1-2

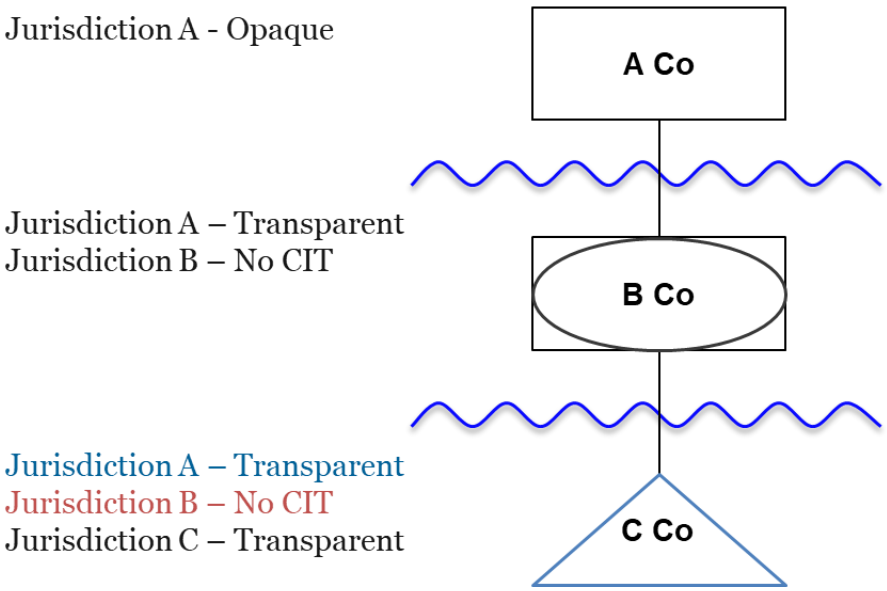
1. Assume A Co owns B Co and B Co owns C Co. A Co is not a Flow-through Entity. The tax law of the jurisdiction in which A Co is located, Jurisdiction A, treats A Co as fiscally opaque, B Co as fiscally transparent and C Co as fiscally opaque. The tax law of the jurisdiction in which B Co is created, Jurisdiction B, treats B Co and C Co as fiscally transparent. The tax law of the jurisdiction in which C Co is created treats C Co as fiscally transparent. Assume B Co's profit is 100 and C Co's profit is 200. See illustration below.



2. C Co is a Reverse Hybrid Entity because it is a Flow-through Entity that is not treated as fiscally transparent by the tax law of the first owner up the ownership chain that is not a Flow-through Entity (i.e. A Co). C Co's 200 of profit is not allocated to B Co or A Co, and remains in C Co in accordance with Article 3.5.1(c). This follows the principle that no jurisdiction's tax law is treating C Co's income as income of its own Constituent Entities. B Co is a Tax Transparent Entity because it is treated as fiscally transparent by the tax legislation of the first owner up the ownership chain that is not a Flow-through Entity (i.e. A Co). The 100 of profit of B Co is allocated to A Co in accordance with Article 3.5.1(b).

Example 10.2.1-3

1. Assume A Co wholly owns B Co which in turn owns C Co. A Co is located in Jurisdiction A. B Co and C Co are created in Jurisdictions B and C, respectively.



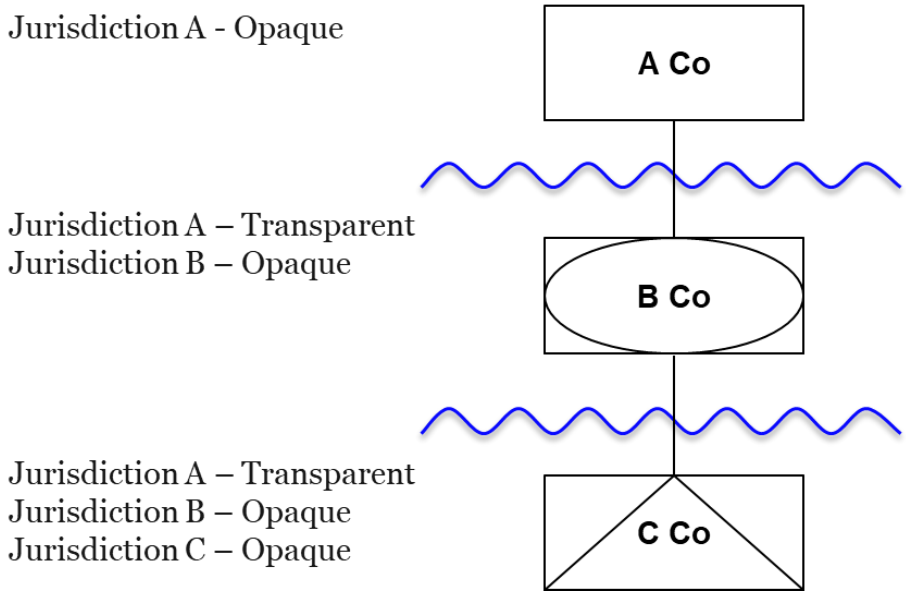
2. A Co is subject to tax on C Co's profits in Jurisdiction A, B Co is not considered fiscally transparent under Article 10.2.4. The table below summarises how each jurisdiction's tax laws treat the entities.

	Classification of Entities in the ownership chain		
Jurisdiction	A Co	B Co	C Co
A	Opaque	Transparent	Transparent
B		N/A	N/A
C			Transparent

3. B Co is created in a jurisdiction without a Corporate Income Tax and as such does not have laws that treat B Co or C Co as fiscally transparent. Accordingly, B Co is the Reference Entity because it is the Entity closest to C Co in the ownership chain that is not a Flow-through Entity. C Co is a Reverse Hybrid Entity because it is fiscally transparent under the tax laws of Jurisdiction C but not Jurisdiction B. C Co's profit is consequently allocated to C Co under Article 3.5.1(c).

Example 10.2.1-4 Extension of Article 10.2.5 to indirect owners

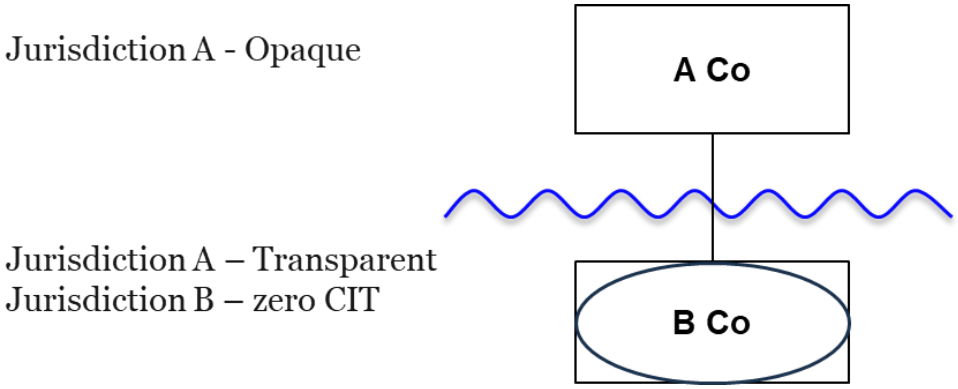
1. Assume A Co wholly owns B Co which in turn wholly owns C Co. A Co is located in Jurisdiction A, B Co in Jurisdiction B and C Co in Jurisdiction C. Jurisdiction A regards both B Co and C Co as fiscally transparent entities. Jurisdiction B's tax laws do not treat C Co as a fiscally transparent entity. See illustration below.



2. C Co is a Hybrid Entity because A Co, the 'owner' referred to in Article 10.2.5, is subject to tax on C Co's profits. Consequently, any taxes paid by A Co with respect to C Co's profits are allocated to C Co under Article 4.3.2(d).

Example 10.2.1-5 Entities located in jurisdictions without a Corporate Income Tax

1. Assume A Co owns B Co. The tax laws of Jurisdiction A treat B Co as fiscally transparent, therefore A Co is subject to tax on B Co's profits. Jurisdiction B does not have a Corporate Income Tax regime. B Co does not meet the definition of a Tax Transparent Entity under Article 10.2.4 because it has a place of business in Jurisdiction B, where it is created. See illustration below.

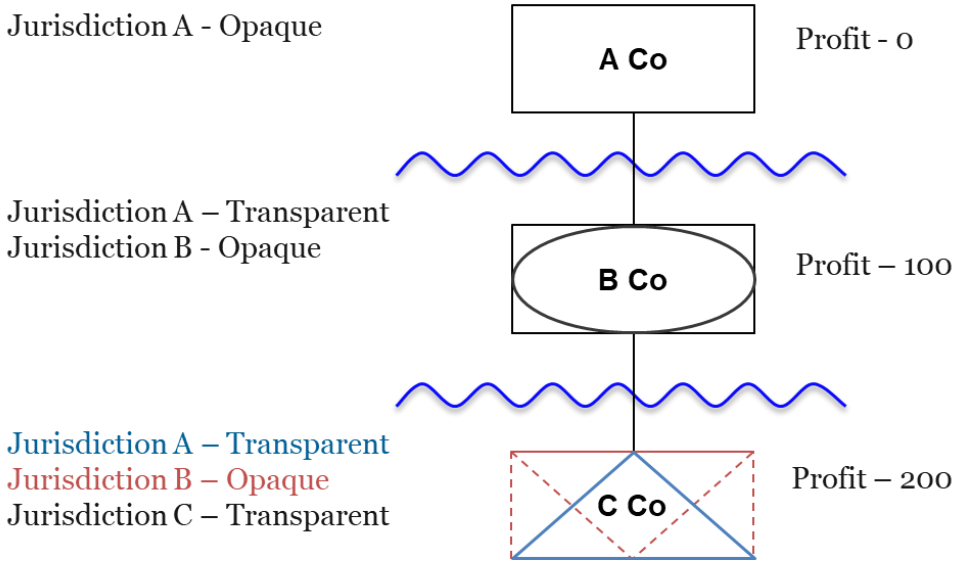


2. B Co is a Hybrid Entity because it is treated as fiscally transparent in the jurisdiction where its owner is located and is not treated as a fiscally transparent entity under Article 10.2.4.

Example 10.2.1-6

1. Assume A Co owns B Co and B Co owns C Co. A Co is not a Flow-through Entity. The tax law of the jurisdiction in which A Co is located, Jurisdiction A, treats A Co as fiscally opaque and B Co as fiscally transparent and C Co as fiscally transparent. B Co is not a Flow-through Entity. The tax law of the jurisdiction in which B Co is created, Jurisdiction B, does not treat C Co as fiscally transparent. The tax law

of the jurisdiction in which C Co is created treats C Co as fiscally transparent. Assume B Co's profit is 100 and C Co's profit is 200. See illustration below.



2. B Co is the Reference Entity because it is the closest Constituent Entity-owner to C Co that is not a Flow-through Entity. Because Jurisdiction B's tax laws do not treat C Co as fiscally transparent, C Co's income will not be subject to tax in Jurisdiction B. C Co would consequently be treated as a Reverse Hybrid Entity.

3. A Co is subject to tax on C Co's income. Any taxes paid by A Co in respect to C Co's profit of 200 will be allocated to C Co under Article 4.3.2(d).

OECD/G20 BASE EROSION AND PROFIT SHIFTING PROJECT

Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) Examples

Inclusive Framework on BEPS

A key part of the OECD/G20 BEPS Project is addressing the tax challenges arising from the digitalisation of the economy. In October 2021, over 135 jurisdictions joined a ground breaking plan to update key elements of the international tax system which is no longer fit for purpose in a globalised and digitalised economy. The Global Anti-Base Erosion (GloBE) Rules, published in December 2021, are a key component of this plan and ensure large multinational enterprises pay a minimum level of tax on the income arising in each of the jurisdictions where they operate. More specifically, the GloBE Rules provide for a co-ordinated system of taxation that imposes a top-up tax on profits arising in a jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum rate. These examples illustrate the application of the Model GloBE Rules to certain fact patterns.

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