BEPS 2.0
Beyond Digital

November 23, 2021

Agenda

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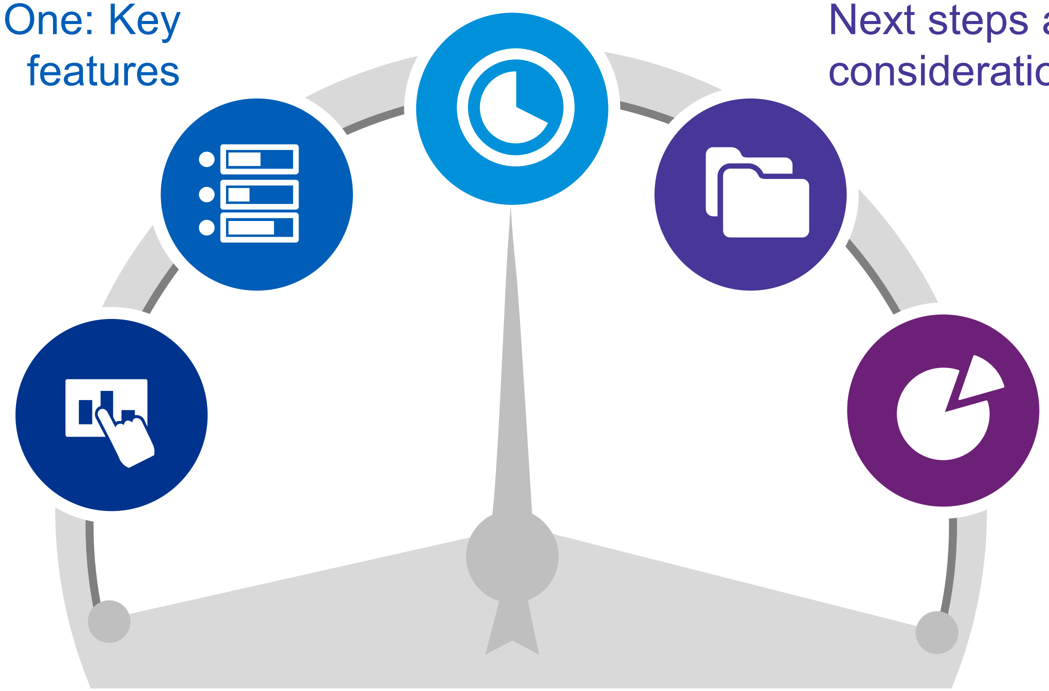


Introduction

Why the need for change

Existing international tax rules stem from 1920s – when businesses revolved around factories, warehouses, and physical goods.

Two key challenges in today's economy

01 Digitalization has resulted in MNEs conducting businesses in jurisdictions with little or no physical presence

02 Countries only tax domestic business income on assumption that foreign business profits are taxed where they are earned

Corporate tax avoidance costs countries anywhere from USD 100-240 billion* annually, which is equivalent to 4-10% of global corporate income tax revenues.

*OECD estimates

From BEPS 1.0 (July 2015)…

Coherence

- Hybrid Mismatch Arrangements (2)
- CFC Rules (3)
- Interest Deductions (4)
- Harmful Tax Practices (5)

Substance

- Preventing Tax Treaty Abuse (6)
- Avoidance of PE Status (7)
- TP Aspects of Intangibles (8)
- TP Risk and Capital (9)
- TP High Risk Transactions (10)

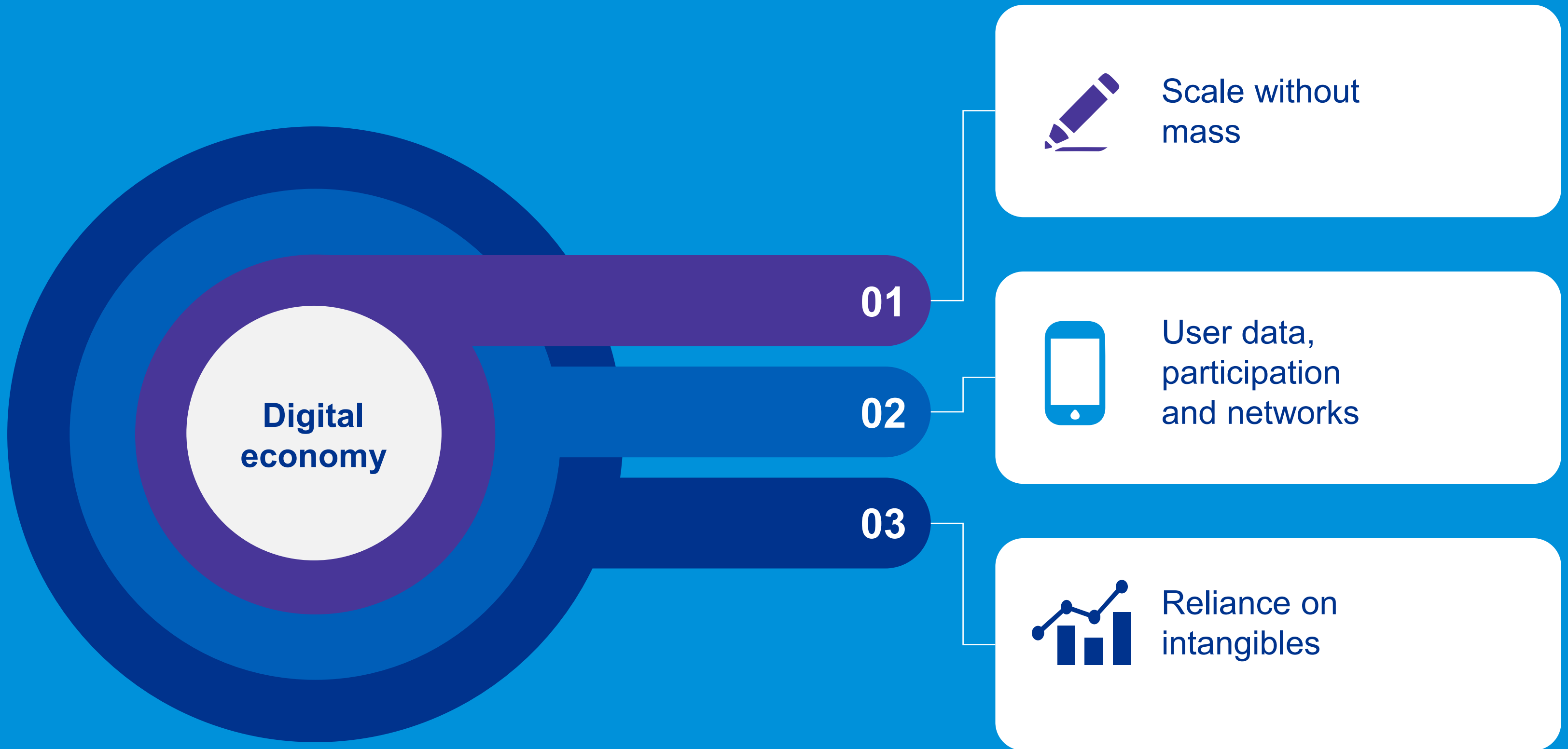
Transparency and Certainty

- Measuring BEPS (11)
- Disclosure Rules (12)
- TP Documentation (13)
- Dispute Resolution (14)

Digital Economy (1)

Multilateral Instrument (15)

… to BEPS 2.0 as we knew in October 2020..



…to BEPS 2.0 as we know today (October 2021)

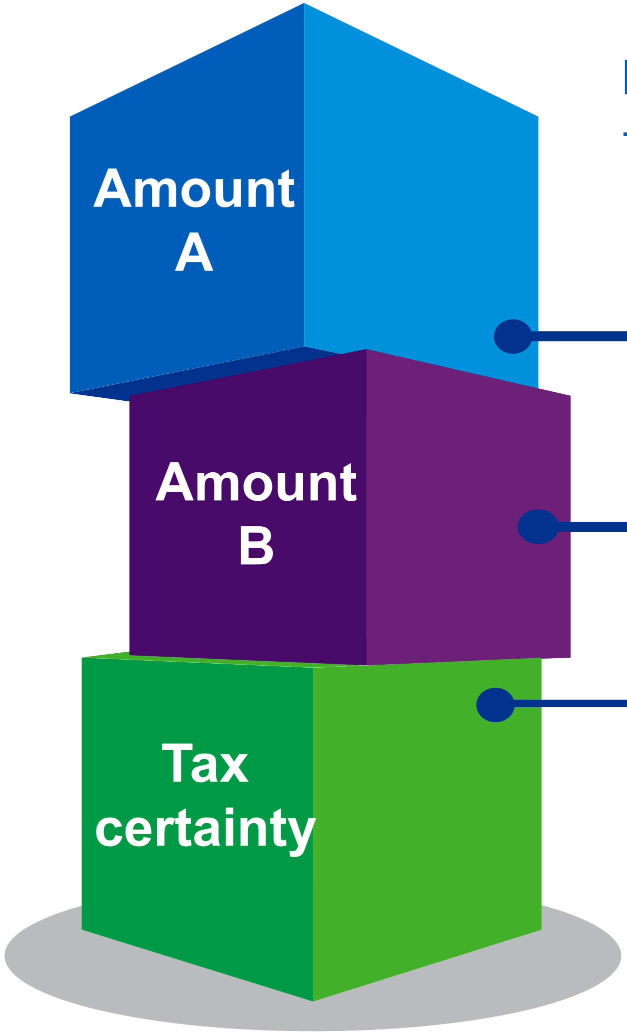
Now agreed by 137 countries including G7, G20, Switzerland, Bermuda, Guernsey, Isle of Man, Jersey, Singapore, UAE.

OECD Inclusive Framework countries not yet signed up:

- Kenya
- Nigeria
- Pakistan
- Sri Lanka

Pillar One: Key Features

Pillar One - Building blocks



New taxing right

- A share of excess profits reallocated to market countries using a formulaic approach.

Largest and most profitable businesses

Fixed “baseline” return

- For marketing and distribution functions based on the arm’s length principle.

All businesses

Tax certainty

- Through effective dispute prevention and resolution mechanisms.

All businesses

Pillar One - Amount A

A new taxing right to market jurisdictions - reallocating a portion of excess profits of the MNEs from their home countries to the markets where they have business activities and earn profits, regardless of physical presence.

New

Inclusive Framework proposal

Superseded OECD Blueprints proposal

The in-scope Multinational Enterprises (MNEs) include

MNEs with both:

- Global **turnover** above **EUR 20 billion**
- **Profitability** above **10%** (measured as profits before tax by revenue on an accounting basis)

Reduced turnover threshold of EUR 10 billion potentially in 2031.

The above thresholds also apply to the segmented revenue and profitability.

No longer limited to:

Automated Digital Services

Consumer-facing business

Pillar One - Amount A

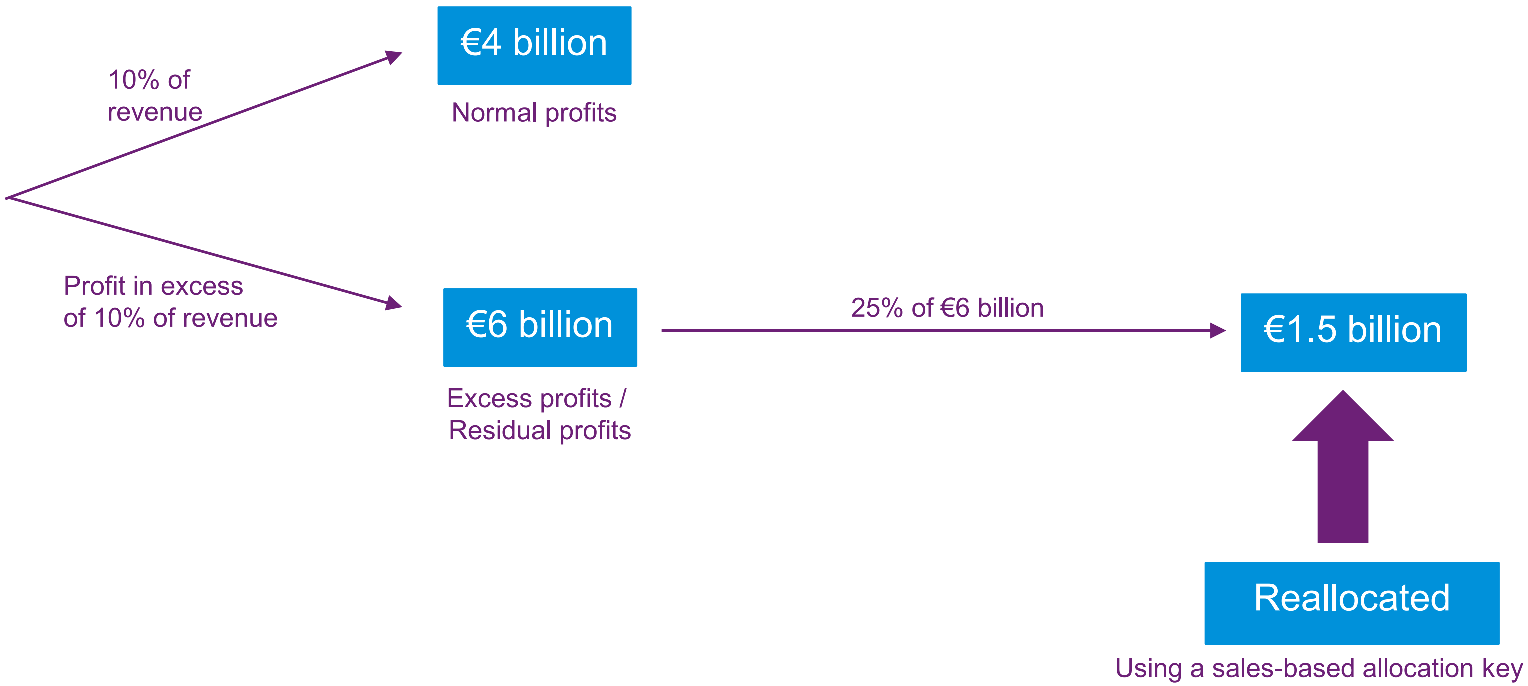
Nexus: A market country will only be entitled to an allocation if there is a nexus i.e., the in-scope MNE derives at least €1 million revenue from that jurisdiction.

Quantum: 25% of excess profit will be allocated to market jurisdictions.

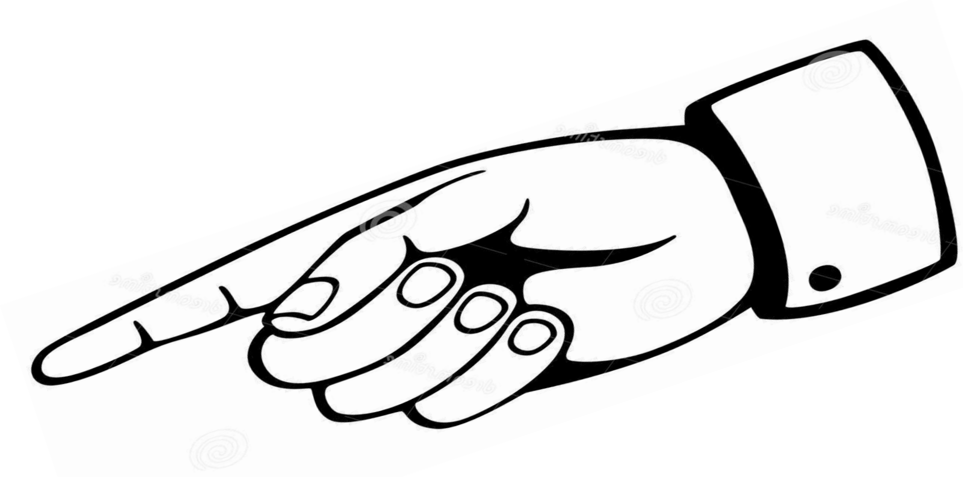
Calculation of taxing right

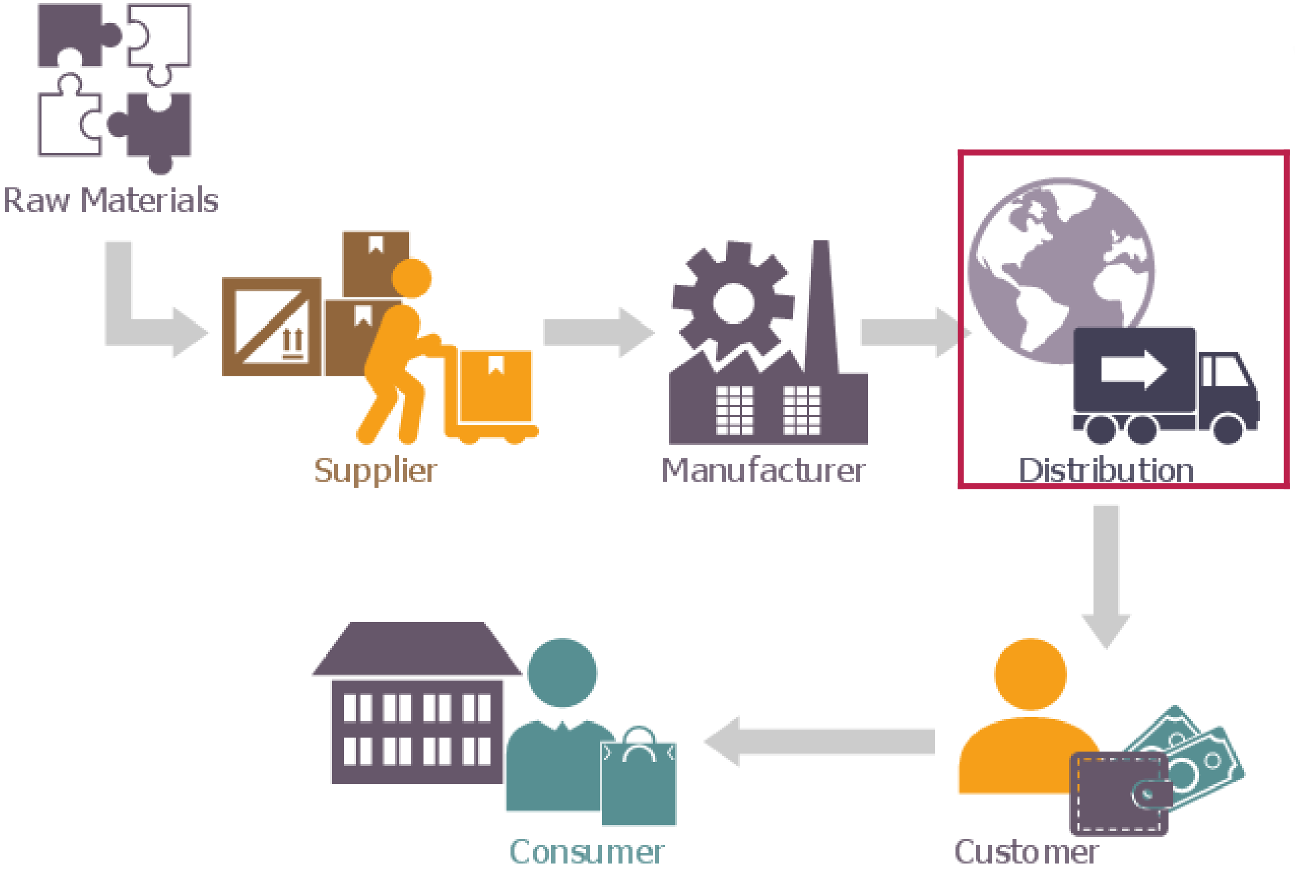
MNE in scope of Amount A

Revenue	€40 billion
Profit before tax	€10 billion
Profitability	25%



Pillar One - Amount B





What?

- **Fixed return** for certain baseline marketing and distribution activities.
- Simplification and streamlining of arm's-length principle.

Who?

- Potentially applicable to **routine distributors (buy/sell)**.
- Focus on the low-capacity countries.
- **Not subject to Amount A thresholds**.

When?

- Further work expected to be completed by end of 2022.

Pillar One: Implementation plans

Multilateral treaty will be developed and open for signature in **2022.**

Amount A coming into effect in **2023** i.e. 2023 profits subject to reallocation.

Amount B application will be simplified and work is expected to be completed by end **2022**.

Pillar Two: Key Features

Pillar Two - GloBE in a nutshell

What ?	Who ?	How ?
— **Minimum level** of tax of 15%	— MNEs with revenue above **750 MEUR** (CbCR threshold)	— **Top-up tax** for difference between jurisdictional ETR and global minimum tax

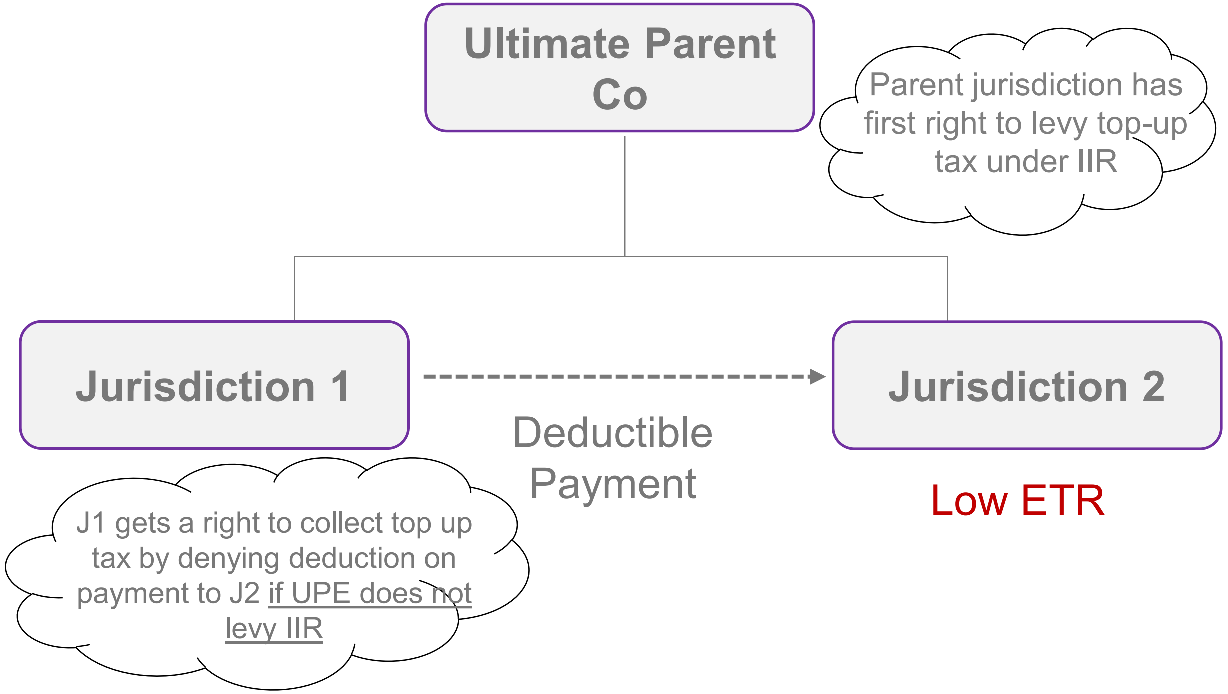
Pillar Two - Towards a Global Minimum Taxation

Income Inclusion Rule ("IIR")	Undertaxed Payment Rule ("UTPR")	Subject to Tax Rule ("STTR")
➢ Taxes the income of a foreign branch or controlled entity if the jurisdictional effective tax rate is less than a minimum rate (15%) ➢ Provisions likely to be enacted in domestic law as a supplement to parent jurisdiction's CFC rules (similar to GILTI)	➢ Denies deduction or requires an equivalent adjustment to the extent the low tax income is not subject to tax under IIR ➢ Provisions to be enacted in domestic law (somewhat analogous to U.S. BEAT provisions)	➢ Limited source taxation on certain related party payments subject to tax below a minimum rate (9%) ➢ To be introduced through tax treaties / MLI
GloBE top-up tax		Treaty-based top-up tax

Pillar Two - Ensure GloBE Top-up Tax Payment

Two Interlocking Rules:

1. The **Income Inclusion Rule (IIR)** imposes a top-up tax on the group's parent entity in respect of low taxed income of group entities; and
2. A supporting **Undertaxed Payment Rule (UTPR)** which denies tax deductions if the low tax income of a group entity is not subject to tax under an IIR



Pre-requisites for trigger of GloBE Rules:

- A EUR750 million group revenue threshold is met but countries can use lower threshold only for IIR
- Income of the group entity is taxed at below the minimum effective tax rate (15%) – Prescribed rules for ETR calculations at a jurisdictional level
- Rules apply to Constituent Entities, not Excluded Entities

Pillar Two - Subject To Tax Rule

STTR

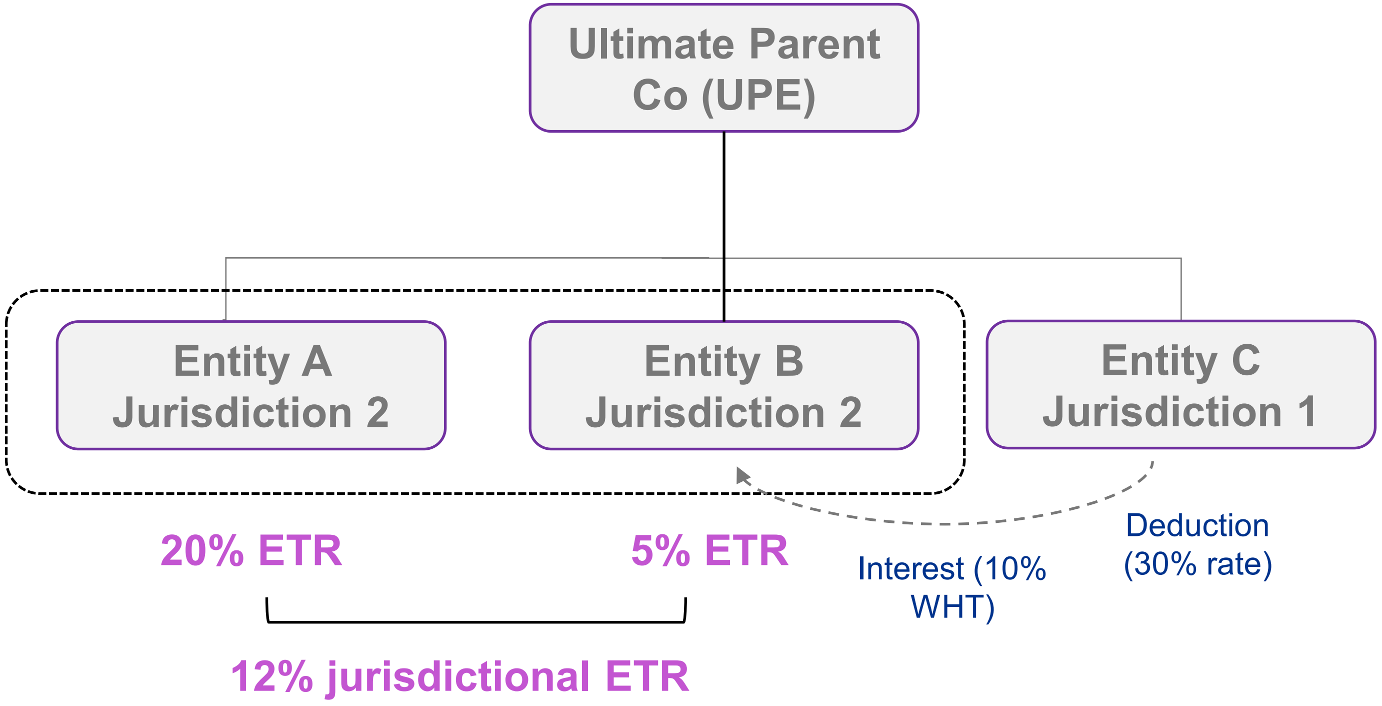
Mechanism – The STTR is an additional source jurisdiction taxing right, provided by way of treaty amendments. It is intended to cover related party payments for interest and royalties as well as a defined set of other related party payments.

Application – Rule implementation will require treaty amendments by means of a new Multilateral Instrument (MLI) or bilateral treaty amendment.

Calculation – The taxing right (withholding tax amount) will be limited to the difference between the minimum rate of tax (9%) and the tax rate applied on the payment.

Interaction with IIR – The STTR takes priority over the GloBE rules. The STTR will also be creditable as a covered tax under the GloBE rules.

Pillar Two - GloBE and STTR: example



Step 1: STTR applies first (9% rate)

- If interest taxed at 5% in J2 and no WHT in J1 – then Entity C can withhold 4% STTR tax
- If 10% WHT in J1 and interest taxed at 5% in J2 – no STTR top up required

Step 2: IIR applies next (15% min rate)

- STTR is creditable as covered tax under GloBE
- Jurisdictional blending (Entity A & B)
- Top up tax = 3% (15% min rate less 12% jurisdictional ETR)
- UPE collects and pays to UPE tax authority

Step 3: UTPR applies last (15% min rate)

- Will not apply in this case as all top up tax collected under the STTR and IIR

Pillar Two - Effective Tax Rate

$$\text{Effective tax rate (per jurisdiction)} = \frac{\text{Covered Taxes}}{\text{GloBE Income or Tax Base}}$$

The method by which the effective tax rate ("ETR") applicable to an MNE's income is determined is complex and will have a **significant** impact on the application of the GloBE rules.

Covered Taxes

- Scope is broader than IAS 12 Income Taxes
- Withholding taxes attributed to relevant subs
- Taxes levied on parent pursuant to CFC regimes attributed to CFC jurisdiction
- Excludes consumption taxes, DSTs, payroll tax…

GloBE Income or Tax Base

- Starting point is financial statements prepared under GAAP used for parent consolidation
- Adjustments for permanent differences – dividends, portfolio dividends, intragroup restructuring, and share disposals

Losses

- To prevent taxation in excess of economic income under the GloBE rules.

Excess taxes

- Amount of covered taxes reflected as due and payable in the tax returns in excess of the minimum tax rate

Pillar Two - Substance based carve out

Illustrative Carve Out Calculation

1. GloBE Income or tax base prior to substance based carve out
2. Less payroll cost uplift (10%, tapers down to 5% over 10 years)
3. Less tangible assets uplift (8%) tapers down to 5% over 10 years)

MANUFACTURER

Income (€100m) less costs (€90m) = profit (€10m)

Plant €200m; Staff costs €30m

Substance carve out

Tangible assets €50m x 8% = €4m

Payroll costs €30m x 10% = €3m

Tax base (denominator) after substance based carve out adjustment

= **€3m** (€10m less €4m less €3m)

Additional carve-out foreseen for shipping income

Pillar Two - Interaction R&D incentives

Tax Credits

- Qualifying refundable tax credits booked as income under GloBE while non-refundable (or non-qualifying refundable) tax credits recorded as reduction of covered taxes

Grants

- Belgian regional grants lower ETR as tax exempt

Patent boxes

- Innovation income deduction: subsidizing foreign tax revenue?

Attention point: UPE with low ETR due to IID, top-up tax via UTPR (unless qualified domestic minimum tax)

Pillar Two - Implementation plans

Effective in **2023,** IF consensus is reached

Income Inclusion and Undertaxed Payment Rules via domestic law changes

Subject To Tax Rule via model provision together with a MLI

Next steps and considerations

EU Perspective

EU directive proposal for Pillar Two expected in December 2021

Unanimity of all member states required for EU tax directives

Compatibility of top-up tax with **freedom of establishment**

US Perspective

Focus on **US Tax Reform**

GILTI co-existence

Focus on **Pillar One**

International timeline - 2021 & beyond

Political Track

Jul 2021

G7 and G20 Political agreement

Inclusive Framework Statement agreeing key parameters of Pillar One and Pillar Two.

Oct 2021

Inclusive framework updated statement

- Deal finalized with 136 countries.
- Updated statement & detailed implementation plan issued.

Nov 2021

Further to be released

Model rules to define the scope and mechanics for the GloBE rules.

2022

Digital agreement

- Multilateral treaty to be opened for signatures.
- Model rules for implementation of Pillar One.
- Work for Amount B to be completed.

2023

Changes coming into effect

Implementation of the digital agreement.

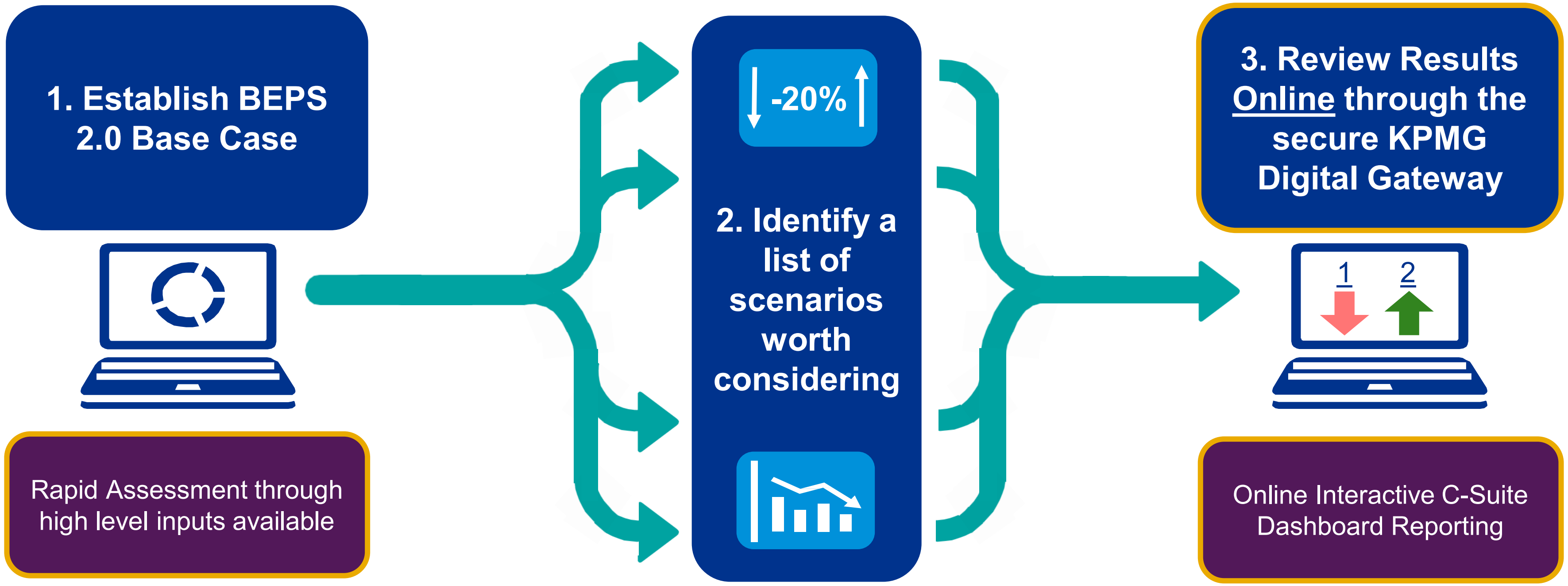
What should Groups consider doing?

KPMG is available to discuss the issues and provide directional guidance for multinationals under the new rules.

1. Confirm the **application** of Pillar One and/or Pillar Two based on thresholds, exclusions and other relevant factors.
2. Identify **cashflow** and financial statement impacts.
3. Consider the impact on group **holding** structures, **supply chains** and **sales** locations.
4. Consider the impact on **internal systems** data collection, retention and new disclosure obligations.
5. Consider the impact of new taxation **compliance,** reporting and **payment** obligations.

BEPS 2.0 Modeling - Forecasting the Paradigm Shift

The BEPS 2.0 Model was built with scenario planning and legal commentary in mind



Incremental, multi-year scenario modeling within the same model eliminates the need to continuously align "base case data" across scenarios and builds a database of interrelated metrics for data analytics, reporting, and commentary

Data needs for BEPS 2.0 modeling

BEPS 2.0

- Financial Data
- Tax Structure
- Material Transactions
- Material Adjustments
- Local Items

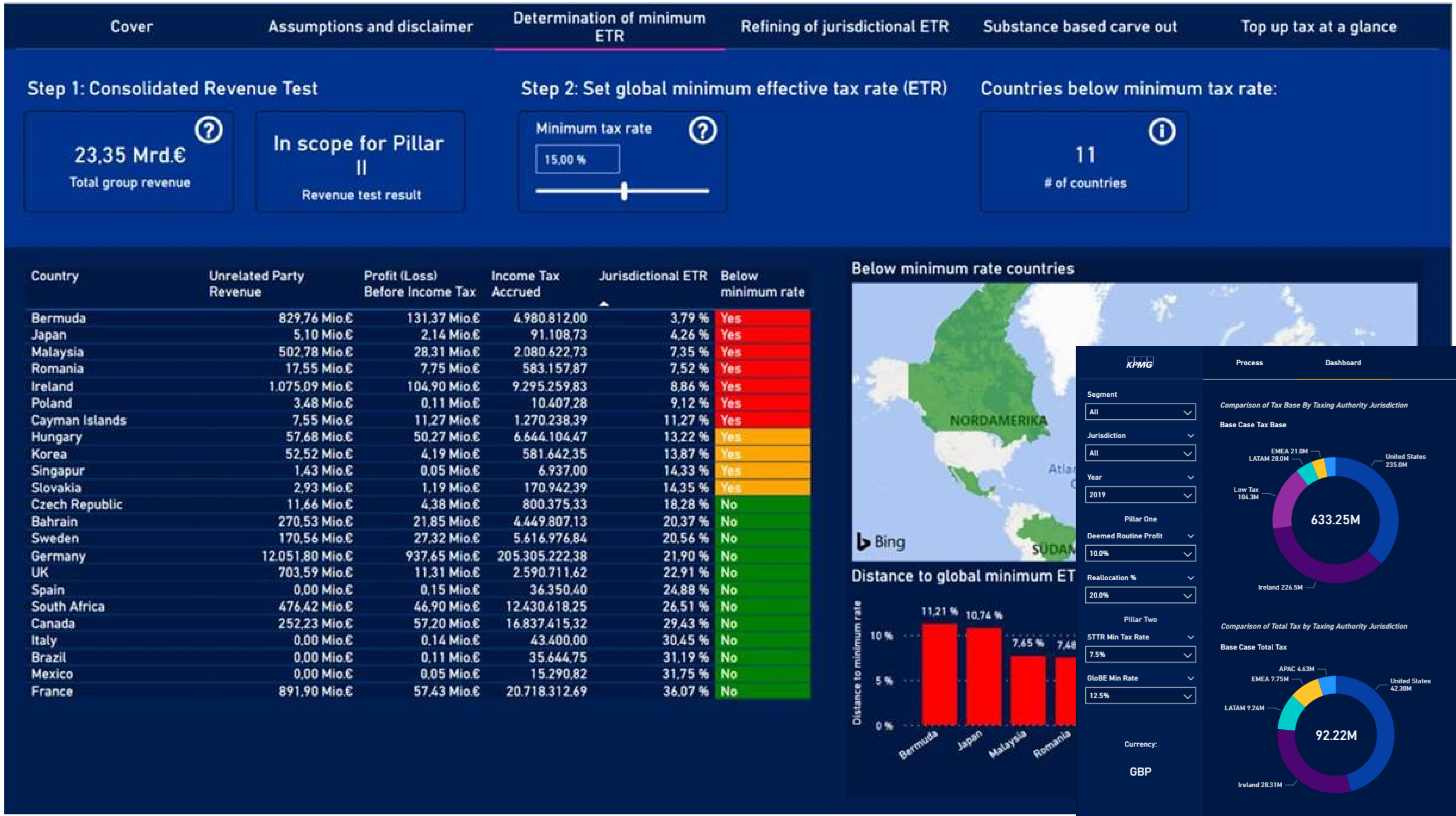
CbCR Data for Financial Data by Jurisdiction

Publicly available segmentation information

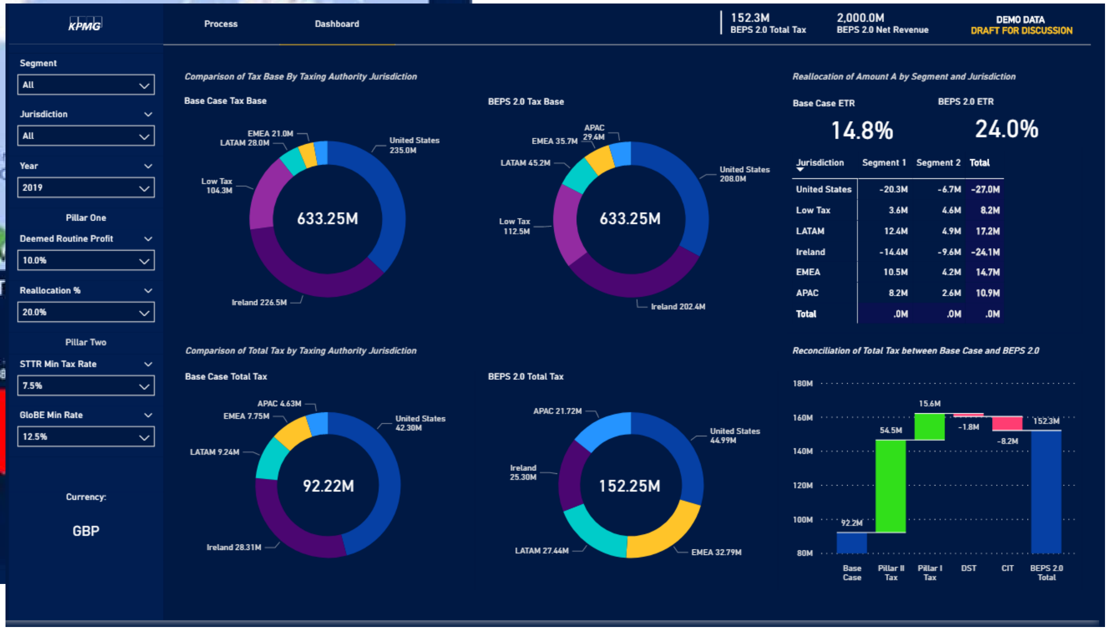
High Level Description of Tax Structure relevant to Business Segments

Short Two Hour Discussion for Intake of BEPS 2.0 specific items

BEPS 2.0 Assessment

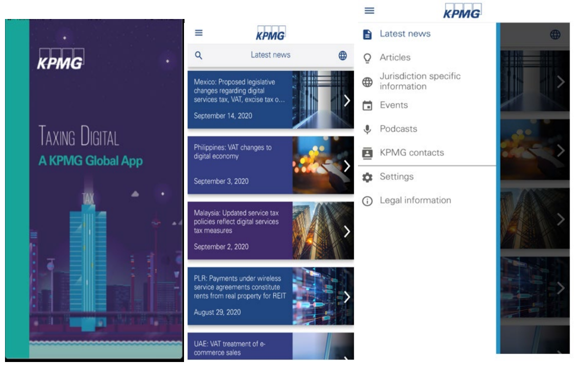


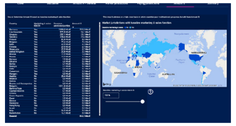
Country	Unrelated Party Revenue	Profit (Loss) Before Income Tax	Income Tax Accrued	Jurisdictional ETR	Below minimum rate
Bermuda	829,76 Mio.€	131,37 Mio.€	4.980.812,00	3,79 %	Yes
Japan	5,10 Mio.€	2,14 Mio.€	91.108,73	4,26 %	Yes
Malaysia	502,78 Mio.€	28,31 Mio.€	2.080.622,73	7,35 %	Yes
Romania	17,55 Mio.€	7,75 Mio.€	583.157,87	7,52 %	Yes
Ireland	1.075,09 Mio.€	104,90 Mio.€	9.295.259,83	8,86 %	Yes
Poland	3,48 Mio.€	0,11 Mio.€	10.407,28	9,12 %	Yes
Cayman Islands	7,55 Mio.€	11,27 Mio.€	1.270.238,39	11,27 %	Yes
Hungary	57,68 Mio.€	50,27 Mio.€	6.644.104,47	13,22 %	Yes
Korea	52,52 Mio.€	4,19 Mio.€	581.642,35	13,87 %	Yes
Singapur	1,43 Mio.€	0,05 Mio.€	6.937,00	14,33 %	Yes
Slovakia	2,93 Mio.€	1,19 Mio.€	170.942,39	14,35 %	Yes
Czech Republic	11,66 Mio.€	4,38 Mio.€	800.375,33	18,28 %	No
Bahrain	270,53 Mio.€	21,85 Mio.€	4.449.807,13	20,37 %	No
Sweden	170,56 Mio.€	27,32 Mio.€	5.616.976,84	20,56 %	No
Germany	12.051,80 Mio.€	937,65 Mio.€	205.305.222,38	21,90 %	No
UK	703,59 Mio.€	11,31 Mio.€	2.590.711,62	22,91 %	No
Spain	0,00 Mio.€	0,15 Mio.€	36.350,40	24,88 %	No
South Africa	476,42 Mio.€	46,90 Mio.€	12.430.618,25	26,51 %	No
Canada	252,23 Mio.€	57,20 Mio.€	16.837.415,32	29,43 %	No
Italy	0,00 Mio.€	0,14 Mio.€	43.400,00	30,45 %	No
Brazil	0,00 Mio.€	0,11 Mio.€	35.644,75	31,19 %	No
Mexico	0,00 Mio.€	0,05 Mio.€	15.290,82	31,75 %	No
France	891,90 Mio.€	57,43 Mio.€	20.718.312,69	36,07 %	No



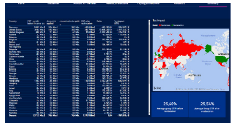
KPMG Global Resources

KPMG Resources



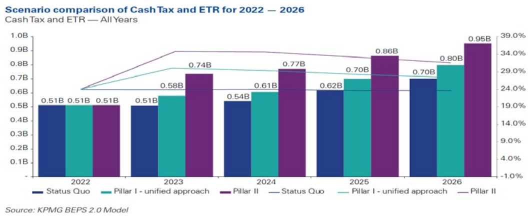


Countries that may profit from Amount B



Summary of the potential total impact of Amount A on your group

Determine the global minimum taxation and affected jurisdictions



Summary of the potential overall impact of "top-up tax" on your group

Website

- News Flashes: KPMG Taxation of the Digitalized Economy
- Tax Challenges of Digitization: Tax Challenges of Digitization (kpmg.us)
- KPMG Summaries of Blueprints: BEPS 2.0: Pillar One and Pillar Two - KPMG Global (home.kpmg)

Mobile Application

- KPMG Digital Economy Tax Tracker: KPMG Digital Economy Tax Tracker - KPMG Belgium (home.kpmg)

BEPS 2.0 Modelling Tools

- Link to the BEPS 2.0 Model: BEPS 2.0 Model - KPMG Global (home.kpmg)

Thank You

kpmg.com/socialmedia