GLOBAL MINIMUM TAX

LATEST UPDATES

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Cyprus welcomes the G20 Agreement

- In October 2021 the G20 reached to an agreement to create fair and healthy competition at global level and to safeguard the tax bases and public revenues of the economies.

- The Cyprus Ministry of Finance welcomed the agreement stating it is in line with the principles governing the two-pillar plan.

- The aim is the establishment of the framework that will provide for a global corporate tax rate of 15%.

The two Pillars

- Joining the G20, 136 out of the 140 OECD Inclusive Framework members agreed to the proposed components of the two-pillar plan.
- The aim of Pillar One is the fairer distribution of profits and taxing rights among jurisdictions with respect to the largest Multinational Enterprises (MNEs).
- The aim of Pillar Two is to set a floor on competition over Corporate Income Tax, through the introduction of a global minimum corporate tax rate.

Pillar One

- Pillar One offers new taxing rights over MNEs profits, irrespective of physical presence.

- **‘Amount A’** reallocates taxing rights of the largest businesses in favor of the market jurisdictions, with a share of a group’s global profit being reallocated to market countries.
  - A new special purpose nexus rule will be introduced permitting allocation of Amount A when an MNE derives at least €1mln in revenue from a jurisdiction - for smaller jurisdictions with GDP lower than €40bln (like Cyprus), the nexus will be €250.000.
  - Affected MNEs should reallocate 25% of residual profit (profit in excess of 10% of revenue), to market jurisdictions.

- **‘Amount B’** is the amount of profit that is aimed to reward the baseline marketing and distribution functions in the market jurisdiction.

Pillar Two

- Pillar Two suggests a minimum corporate tax, to ensure a minimum level of tax on MNEs.

- Pillar Two should apply to MNEs that meet the €750mln threshold under the BEPS Action 13 (country by country reporting). The underlying rules are the following:
  - The **Income Inclusion Rule (IIR)** imposes a top-up tax on a parent entity in respect of the low taxed income of a constituent entity.
  - The **Undertaxed Payment Rule (UTPR)** denies deductions or requires adjustments to the extent the low tax income of a constituent entity is not subject to tax under the IIR.
  - The **Subject to tax rule (STTR)** allows source jurisdictions to impose taxation on certain related party payments subject to tax below a minimum rate.

- The Global Minimum Tax rate for the purposes of the IIR and UTPR has been set at **15%**.

Implementation Plan

Pillar One

As per the OECD's October 2021 Statement, the implementation plan is for Amount A rules to enter into force in 2023 with final deliverables for Amount B model rules to be released by the end of 2022.

Pillar Two

As per the OECD's October 2021 Statement, all rules are expected to come into force in 2023, except the UTPR which should become effective in 2024.

Cyprus’ position

- In presenting the 2022 Budget in December 2021, the Cyprus Finance Minister announced the Government’s intention for a holistic Tax Reform.

- Referencing the international agreement for a minimum global corporate tax rate of 15%, the Minister expressed the view that the increase of the corporate tax in Cyprus from 12.5% to 15%, will not substantially affect the foreign investments in Cyprus. Since Cyprus has other comparative advantages as an investment destination that balance this small increase in the corporate tax rate.

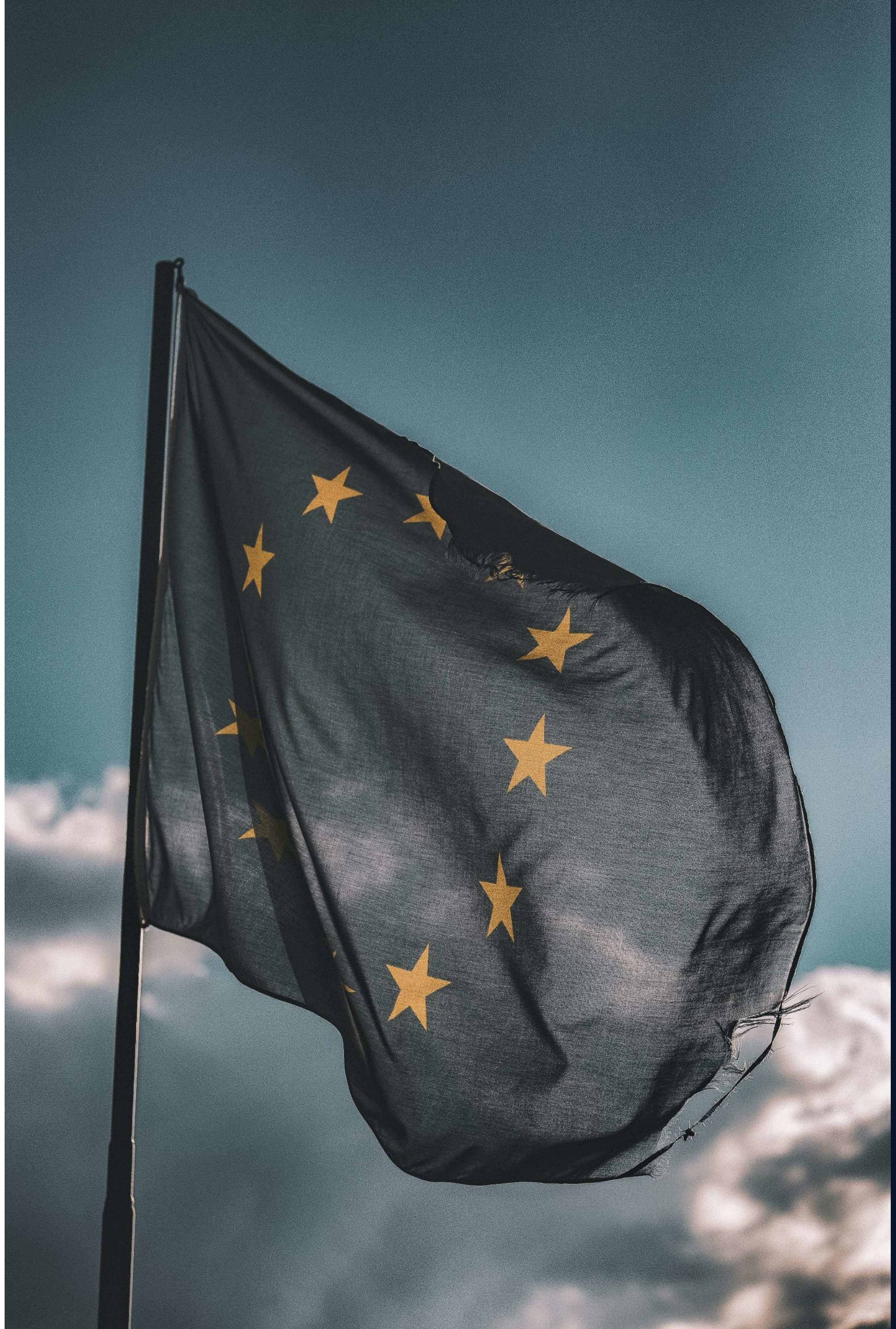
- In parallel with the Corporate tax rate increase, the position of the Ministry of Finance of Cyprus is the maintenance of (national) control over its fiscal and tax policy, so as to remain a competitive and attractive business jurisdiction.

EU Directive

- Following from OECD's publication of the Pillar Two Model Rules, in December 2021 the European Commission proposed a (draft) Directive on the introduction of a minimum effective corporate tax rate of 15% on large MNEs operating in the EU.

- The draft Directive gives Member States the option to apply a domestic top-up tax to low taxed domestic subsidiaries.

➢ In line with the OECD and G20 agreement, certain exemptions apply whereby government entities, non-profit organisations, funds should fall outside the scope of the Directive.



OECD Publications

All Global Anti-Base Erosion (GloBE) rules (Pillar Two) publications can be found here.

- October 2021 Statement ;
- December 2021 Model GloBE Rules ;
- March 2022 Commentary ;
- Illustrative Examples ;
- The Pillar Two Rules in a Nutshell .

Next Steps

- Enterprises should prepare for the upcoming challenges that they might face with the introduction of Pillar One and Pillar Two.

- In particular, Cyprus entities which are part of large MNE groups should assess the potential impact of the two Pillars.

- In this respect, MNE Groups should identify low-tax jurisdictions where they operate which may potentially result in top-up tax being imposed.

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