Isle of Man Government

Reiltys Ellan Vannin

Pillar 2 GloBE rules: Global Minimum Tax

Presentation to Chamber of Commerce

12 June 2024

Agenda: Pillar 2 GloBE Rules

- Reminder of basics
- Isle of Man announcement/ QDMTT design
- What should impacted businesses be doing?
- Next steps
- Questions

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Reminder of basics

Overview

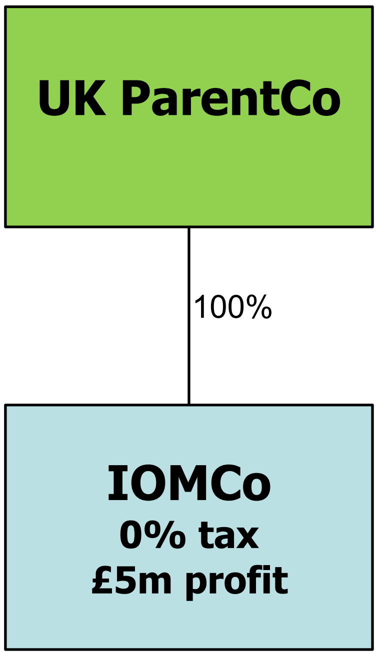
- Global Minimum Tax at 15% on groups with >€750m revenue (turnover)
- Operates on jurisdictional basis
- First implementation (by some jurisdictions) for accounting periods commencing on or after 31 December 2023
- If a jurisdiction with low-taxed profits (i.e. effective tax rate less than 15%) does not "take the tax", then another implementing jurisdiction will do so via the GloBE rules (Income Inclusion Rule (IIR) and Under Taxed Payments Rule (UTPR))
- A domestic minimum top-up tax is the most common approach to "taking the tax" on low taxed local profits to avoid another jurisdiction doing so
- The IOM will "take the tax" from 2025 via a Qualified Domestic Minimum Top-up Tax (QDMTT)

Income Inclusion Rule

The example on this slide assumes that profits of IOMCo are not currently subject to tax in UK under UK's tax rules (pre Pillar 2)

Position pre Pillar 2

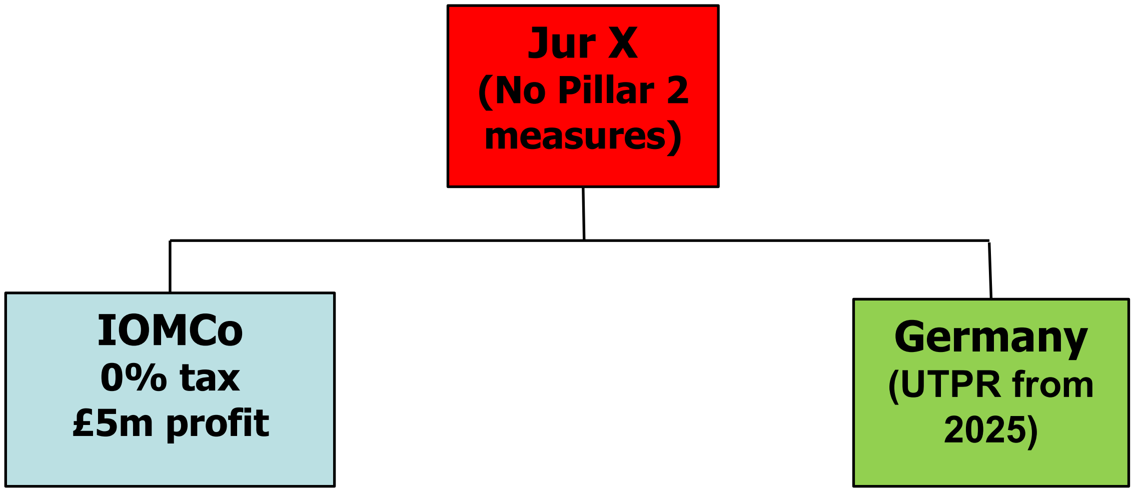
- Profits of IOMCo taxed at 0% in IOM
- Profits of IOMCo not subject to further tax in UK under UK tax rules



Position in Pillar 2 world

- If IOM "did nothing" then 15% tax payable in UK on IOMCo's profits under Pillar 2 (Income Inclusion Rule - IIR)
- But because the IOM will implement a domestic 15% tax measure, then IOM "takes the tax" and no further tax payable in UK under Pillar 2 rules

Under Taxed Payments Rule (UTPR)



Pillar 2 2024:

- IOMCo’s profits not subject to Top-up Tax in 2024 (no IIR jurisdiction in ownership chain)

Pillar 2 2025 onwards:

- If IOM “did nothing”, then IOMCo’s profits subject to Top-up Tax in 2025 in Germany via Under Taxed Payments Rule (UTPR)

- But because the IOM will implement a domestic 15% tax measure, then IOM “takes the tax” rather than Germany

Calculation of Top-up Tax (1)

- Starting point is numbers in consolidated financial statements of ultimate parent entity (UPE)

- Net GloBE Income = Financial accounting net income or loss adjusted for certain items (e.g. most dividends excluded)

- Effective Tax Rate for jurisdiction:

  Sum of Adjusted Covered Taxes for all entities in jurisdiction/ Net GloBE Income

- Covered taxes: includes deferred tax and parent level taxation on profits (controlled foreign company taxes, dividend taxation)

- Top-up tax payable where Effective Tax Rate (ETR)< 15%

Calculation of Top-up Tax (2)

- Results in computation of Jurisdictional Top-Up Tax, but after:
  - Deduction for substance based income exclusion (SBIE): Payroll costs and fixed assets
  - Any tax paid under a Domestic Top-Up Tax (**QDMTT**)
- 2 taxing rules: Income Inclusion Rule (IIR) and Under Taxed Payments Rule (UTPR)
- IIR results in Top-up Tax being allocated to Ultimate Parent Entity
- UTPR applies where IIR does not bite
- *De minimis* exclusion: Revenue < €10m/ GloBE income < €1m (jurisdictional basis)

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Isle of Man announcement/ QDMTT design

20 May 2024 announcement

- Followed on from May 2023 announcement where stated that would “take the tax” from 2025

- Implementing a Qualified Domestic Minimum Top-up Tax (QDMTT) from 2025 (accounting periods commencing on or after 1 January 2025)
  - i.e. a 15% domestic minimum top-up tax for which Qualified status will be sought

- Income Inclusion Rule: delayed decision for short period (but very limited impact either way)

Announcement was silent on Undertaxed Payments Rule (UTPR): but **no** plans to implement at this stage

No impact on entities outside of €750m turnover groups

QDMTT design: key features

Expectation that:

- Will apply to periods commencing on or after 1 January 2025
- Will be seeking Safe Harbour status for QDMTT
- QDMTT will be new tax (not income tax)
- Computations based on consolidated financial statements of UPE (rather than local financial statements)
- De-minimis will apply (€10m/ €1m)
- Protected cell companies – each cell treated as separate entity
- Liability allocated to individual entities

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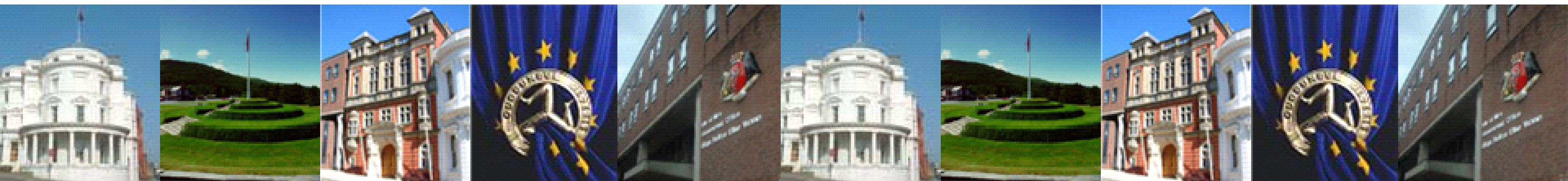

What should impacted businesses be doing?

What should impacted businesses be doing now?

- Talk to Group Tax/ Group Finance functions: make sure the group position is understood:
  - Is the group in-scope or not?
  - Confirm all IOM constituent entities of the group
  - Are the group's IOM profits in-scope of another jurisdiction's rules in 2024 prior to IOM implementation from 2025?
  - What (if any) are the areas of uncertainty?
  - Is the group's P2 project on-track?
- Talk to ITD: legislation is being drafted – very interested to hear from business re any specific or unusual circumstances
- Be prepared for new registration requirements and in due-course QDMTT return filing obligations

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Next steps

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- Draft legislation
- Continued informal engagement with industry on detail
- Legislation to Tynwald Autumn 2024
- Registration process from early to mid 2025
- DfE work on incentives in Pillar 2 world ongoing

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Questions?

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david.parsons@itd.treasury.gov.im

01624 685321