

ADIT PILLAR TWO AWARD

June 2026

PILLAR TWO AWARD EXAM

TIME ALLOWED – 3¼ HOURS

This exam paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total. You will **not** receive marks for any additional answers.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **One** question from **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

Further instructions

- You must use the appropriate currency, unless otherwise stated. Any monetary calculations should be made to the nearest whole unit of currency. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- You must provide appropriate line breaks between each question, and clearly indicate the start of each new question using the formatting tools available.
- Marks may be allocated for clarity of presentation of your answers.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering questions in Parts B and C.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.

PART A

You are required to answer BOTH questions from this Part.

1. Group Alpha is a multinational enterprise, within the scope of the GloBE rules.

A Co. is the group's ultimate parent entity, resident in Country A, and owns 75% of B Co.; the remaining 25% of profit interests in B Co. are held by unrelated investors.

B Co. is resident in Country B and owns 100% of C Co., based in Country C. In the tested fiscal year, C Co. records GloBE income of €300 million and pays adjusted covered taxes of €15 million.

There is no Qualified Domestic Minimum Top-up Tax (QDMTT) and no Substance-based Income Exclusion (SBIE) in Country C. You may assume that the applicable GloBE minimum rate is 15%. Apart from Country C, there are no other low-taxed jurisdictions in the group and no other top-up tax arises.

You are required to:

- 1) **Calculate Country C's jurisdictional effective tax rate, top-up percentage and top-up tax.** (5)
- 2) **In the event that Country B has a Qualified Income Inclusion Rule (QIIR) and Country A does not, determine how much of C Co.'s top-up tax will be brought into charge in Country B. In particular, you should explain whether the 25% held by unrelated investors in B Co will reduce the amount brought into charge and on what basis.** (10)
- 3) **In the event that both Country A and Country B have a QIIR, explain whether the split-ownership rules change which parent must apply the QIIR first. Whether the rules change the priority or not, explain how the parent charged with applying the QIIR first must apply it.** (5)

You have now been provided with information that neither Country A nor Country B has a QIIR, but Country D and Country E, in which Group Alpha has constituent entities, each apply a Qualified Undertaxed Profits Rule (UTPR).

For UTPR purposes, the group has the following in-scope substance in these jurisdictions:

- Country D – 80 employees and tangible assets of €40 million.
 - Country E – 20 employees and tangible assets of €60 million.
- 4) **You are required to allocate the UTPR top-up tax amount arising in respect of Country C, between countries D and E.** (5)

Total (25)

2. Company A is located in Country A and part of MNE Z, a multinational enterprise that is active in the commercial real estate business. Company A buys and develops real estate properties (including office buildings, industrial spaces and hotels), with the goal of eventually selling them for profit.

The parent company of MNE Z is located in Country Z. Company A is also responsible for project development in neighbouring countries B and C. MNE Z has no legal presence in Country B or Country C.

Company A relies on its employees to manage and oversee projects in countries A, B and C. Each of the employees works one day per week in the Country A office. For the remaining days of the week, they work on location at the real estate projects in Countries A, B and C respectively.

The employees use company cars for their professional activities for the company. The fleet of company cars has been leased on a long-term basis by Company A, based on a finance lease arrangement with an external car leasing company.

Company A has also hired the external services of an architect. On the basis of an independent services contract with the architect's firm, the architect works for Company A two days each week, carrying out his activities from Company A's office in Country A.

Company A's offices are situated in a self-owned office building, located in Country A. Company A occupies 60% of the office space of the building. The remaining 40% of the office space in the building is rented out by Company A to an unrelated company.

Under the terms of the GloBE rules, MNE Z is an in-scope MNE group because it has annual revenue of more than €750 million. Company A is considered a constituent entity located in Country A and Company Z is the ultimate parent entity, located in Country Z. Because Company A benefits from a preferential tax regime in Country A for immovable property activities, its effective tax rate is significantly below 15%.

In anticipation of the filing of MNE Z's GloBE tax return, you are requested to provide advice on the calculation of the amount Company A's Substance-Based Income Exclusion (SBIE).

Based on the information provided, you are required to determine whether, and on what basis, each of the following items may affect the SBIE calculation for Company A:

- 1) **The value of the real estate properties booked as inventory assets: one project located in Country A, one project in Country B, and one project in Country C.** (5)
- 2) **The value of the self-owned office building in Country A, booked as a fixed asset.** (5)
- 3) **Remuneration costs of the employees working from, and physically attending, the office in Country A, and supervising the real estate projects in countries A, B and C.** (5)
- 4) **The cost of fees paid for the architect's services.** (5)
- 5) **The value of the company cars leased by Company A and used by its employees.** (5)

You should refer to relevant provisions of the GloBE rules and Commentary.

Total (25)

PART B

You are required to answer ONE question from this Part.

3. The tested fiscal year begins on 1 January 2025. Group Gamma is within the scope of the GloBE rules and is considering reliance on safe harbours.

1) You are required to explain the Transitional Country-by-Country Reporting (CbCR) Safe Harbour, its duration, and the three alternative tests by which a jurisdiction may qualify. (5)

You have been provided with the following information regarding Group Gamma's entities in two tested jurisdictions during the tested fiscal year:

- Jurisdiction J – total revenue of €8 million and profit before income tax of €0.7 million.
- Jurisdiction K – profit before income tax of €25 million and simplified covered taxes of €5 million.

2) Assuming that all data comes from qualifying sources and there are no disqualifying facts, you are required to determine whether the group entities in each of Jurisdiction J and Jurisdiction K qualify for the Transitional CbCR Safe Harbour, identifying the relevant test. (5)

3) Explain what is meant by 'a Qualified Country-by-Country Report' and 'Qualified Financial Statements' for Safe Harbour purposes. What are the consequences if a jurisdiction's Safe Harbour computation uses data drawn from non-qualifying sources, or adjusts otherwise qualified data without express OECD permission? (5)

4) Explain the December 2023 OECD simplified calculations for Non-Material Constituent Entities. Can those simplified figures be re-used for the ordinary GloBE computation if a tested jurisdiction does not meet the Safe Harbour requirements? (5)

Total (20)

4. Company A is a company located in Country A and is part of a multinational enterprise, MNE A, active in the business of online advertising. Company A sells online advertising services to third party clients in Country B who wish for their adverts to be displayed on websites accessed by internet users in Country B.

The sale of these services by Company A is conducted fully remotely, and Company A does not have a physical or legal presence in Country B.

MNE A is an 'in scope group' for the purpose of the Global Minimum Tax rules and Company A is a 'constituent entity'. As such, Company A is subject to Country A's Qualified Domestic Minimum Top-up Tax (QDMTT). MNE A's management team has asked you to consider the following scenarios:

Scenario 1

Country A has no double tax agreement (DTA) with Country B. Under its domestic law, Country B levies a gross withholding tax at 10% on the fees paid to Company A by online advertisement customers in Country B.

Scenario 2

Country A has a DTA with Country B that is modelled on the OECD Model Tax Convention and prevents Country B from levying its domestic gross withholding tax of 10% on the service fees. Both countries are parties to the Subject to Tax Rule (STTR) MLI and have assigned the DTA as a 'covered instrument'. In Country A, the income from online advertisement services derived from customers in Country B is subject to a specific regime for offshore services income. As a consequence, the income is subject to an effective tax rate of 5% instead of the ordinary statutory rate of 20%.

Scenario 3

Country A has a DTA with Country B that is modelled on the OECD Model Tax Convention and generally prevents source countries from levying tax on outbound services fees. Instead, Country B has adopted a digital services tax (DST). The DST is not considered an income tax and is imposed on the gross revenue that online advertising companies such as Company A generate from displaying adverts to users in Country B.

For each of the three scenarios, you are required to explain the status of the tax levied by Country B when determining the 'covered taxes' for Company A's top-up tax liability under Country A's QDMTT. You should include reference to relevant provisions of the GloBE rules, Commentary and STTR MLI. (20)

PART C

You are required to answer TWO questions from this Part.

5. Fund X is resident in Country X and qualifies as both an investment fund and an investment entity under the applicable accounting standard. It is therefore an excluded entity for GloBE purposes. Fund X owns 100% of HoldCo 1 and 100% of HoldCo 2, but under the applicable accounting standard it measures both investments at fair value and does not consolidate them line-by-line.

Each of HoldCo 1 and HoldCo 2 is the head of a separate operating subgroup. The annual revenues shown in the subgroup's financial statements are €430 million for the HoldCo 1 subgroup and €420 million for the HoldCo 2 subgroup, in each of the four years preceding the tested fiscal year.

Fund X also owns 100% of ServiceCo, which provides only IT, administration and investor-reporting services to Fund X and other excluded entities in the same ownership chain.

You are required to answer the following questions:

- 1) **Are HoldCo 1 and HoldCo 2 automatically aggregated for the €750 million scope threshold and, if so, on what basis?** (7)
- 2) **On the basis of the facts provided, is ServiceCo more likely to be an excluded entity or a constituent entity, and why?** (4)
- 3) **Would your answer to (1) change if Fund X were not an investment entity, and instead prepared a single set of line-by-line consolidated financial statements that included both HoldCo 1 and HoldCo 2?** (4)

Total (15)

6. Group M is within the scope of the GloBE rules. Its ultimate parent entity, M Co., is resident in Country M and owns 50% of JV Co. The remaining 50% of JV Co. is owned by an unrelated party, Y Co. JV Co. is reported under the equity method in Group M's consolidated financial statements and has no subsidiaries.

In the tested fiscal year, JV Co. records GloBE income of €100 million and adjusted covered taxes of €5 million. There is no Qualified Domestic Minimum Top-up Tax and no Substance-Based Income Exclusion.

You are required to:

- 1) **Explain why JV Co. is not an ordinary constituent entity, but may still fall within the special GloBE joint venture regime.** (5)
- 2) **Calculate JV Co.'s effective tax rate and top-up tax liability, and Group M's allocable share of JV Co.'s top-up tax.** (5)
- 3) **Explain how the amount will be collected if Country M has a Qualified Income Inclusion Rule (QIIR). How will your answer differ if Country M has no QIIR but other jurisdictions in which Group M operates apply a Qualified Undertaxed Profits Rule?** (5)

Total (15)

- 7.
- 1) **Explain what is meant by the 'no benefits rule' of Qualified Domestic Minimum Top-up Tax (QDMTT) framework.** (5)
 - 2) **What are the possible consequences of a violation of the 'no benefits rule', with regard to the top-up tax calculations?** (10)

Total (15)

- 8.
- 1) **What is the purpose of the Qualified Domestic Minimum Top-up Tax (QDMTT) Safe Harbour? (5)**
 - 2) **Would a multinational enterprise (MNE) be eligible to apply the QDMTT Safe Harbour to its local constituent entities, if the domestic QDMTT legislation does not include the Substance-Based Income Exclusion of Article 5.3 of the OECD Pillar Two GloBE rules, and does not impose a QDMTT on investment entities subject to Articles 7.4, 7.5 and 7.6 of the GloBE rules? On what basis would the MNE be eligible or ineligible? (10)**

Total (15)