THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2026

PILLAR TWO AWARD EXAM

SUGGESTED SOLUTIONS

PART A

Question 1

Part 1

Country C's jurisdictional ETR = Adjusted Covered Taxes / GloBE Income = €15 million / €300 million = 5%.

The top-up percentage is therefore 15% − 5% = 10%.

Because there is no QDMTT and no SBIE, the top-up tax for Country C is 10% × €300 million = €30 million.

Part 2

Country B brings €30 million into charge. The key point is that the inclusion ratio under Article 2.2 looks to the GloBE Income of the low-taxed Constituent Entity (C Co) that is attributable to 'other owners' of that low-taxed entity itself. B Co owns 100% of C Co, so there are no 'other owners' of C Co. B Co's inclusion ratio for C Co is therefore 1.0.

Accordingly, the 25% held by unrelated investors in B Co does not reduce the amount of C Co's top-up tax that is brought into charge in Country B. The 25% minority interest in B Co is relevant for the split-ownership/POPE rules, not for reducing B Co's Article 2.2 inclusion ratio for C Co.

Part 3

If both Countries A and B have a Qualified IIR, B Co has priority.

B Co is a Partially-Owned Parent Entity (POPE) because more than 20% of the profit interests in B Co are held by persons who are not Constituent Entities of the MNE Group. Article 2.1.4 applies notwithstanding Articles 2.1.1 to 2.1.3. Therefore B Co must apply the IIR to its allocable share of C Co's top-up tax even though A Co is the UPE.

In this fact pattern, B Co's allocable share is 100% of C Co's top-up tax, so the whole €30 million is brought into charge in Country B. Country A is then relieved through the ordinary IIR offset mechanism to the extent the same top-up tax has already been brought into charge under B Co's Qualified IIR.

Part 4

Where neither Country A nor Country B has a Qualified IIR, the full €30 million remains in the Total UTPR Top-up Tax Amount. Under the current Model Rules, the UTPR is allocated 50% by employees and 50% by Tangible Assets.

- Country D employee factor = 80 / (80 + 20) = 80%
- Country D asset factor = 40 / (40 + 60) = 40%
- Country D UTPR percentage = 50% × 80% + 50% × 40% = 60%
- Country E UTPR percentage = 40%

Therefore, Country D is allocated €18 million (60% of €30 million) and Country E is allocated €12 million (40% of €30 million).

Question 2

Part 1

The value of the real estate properties booked as inventory assets cannot be included in the SBIE calculation.

Art. 5.3.4. GMR explicitly provides that the tangible asset carve-out computation does not include the carrying value of property (including land or buildings) that is held for sale, lease or investment. As such, Company A cannot take into account the value of the real estate projects for the purpose of its SBIE calculation.

The location of the real estate in Country A or elsewhere is irrelevant.

Part 2

60% of the value of the asset can be included in the SBIE calculation

The office building is partly leased to another company. As such it is a 'dual use asset' in the sense of para. 43.7 Comm. GMR. Company A will only be able to include the residual value of the property in the tangible asset carve-out of the SBIE after deducting the part of the value that corresponds to the surface area rented out. Given that 40% of the office surface was rented out to a third party, only 60% of the value of the asset qualifies for the tangible asset carve-out computation.

Part 3

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The remuneration cost of the employees responsible for the real estate project in Country A, the full payroll cost can be claimed for the SBIE.

The remuneration cost of the employees responsible for projects in Country B and C, who spend less than 50% of the time working in country A, only the effective proportion of 20% (1 day per week) can be taken into account for the SBIE.

Article 5.3.3. GMR provides that the base of the payroll carve-out of the SBIE is composed of the eligible payroll costs of eligible employees that perform activities in the jurisdiction where the Constituent entity is located.

Article 10.1.1. GMR provides that 'Eligible Employees' is defined as 'employees, including part-time employees, of a Constituent Entity that is a member of the MNE Group and independent contractors participating in the ordinary operating activities of the MNE Group under the direction and control of the MNE Group.'

'Eligible payroll costs' is defined as 'employee compensation expenditures (including salaries, wages, and other expenditures that provide a direct and separate personal benefit to the employee, such as health insurance and pension contributions), payroll and employment taxes, and employer social security contributions.'

Paras. 31-34 Comm. GMR further explains that what matters regarding location is whether the employees undertake more than 50% of their activities within the jurisdiction of the Constituent Entity employer. If this is the case, the whole salary cost can be taken into account for the pay-roll care out. If less than 50%, only the effective proportion can be taken into account. (para. 33.1)

This implies that only in the case for the employees responsible for the real estate project in Country A, the full payroll cost can be claimed for the SBIE.

In the case of the employees responsible for projects in Country B and C, who spend less than 50% of the time working in country A, only the effective proportion of 20% (1 day per week) can be taken into account for the SBIE.

Part 4

The cost of the services provided by the architect cannot be taken into account for the SBIE's payroll carve-out.

Para. 32 of the Comm. GMR expressly provides that only natural persons can qualify as independent contractors for the purpose of the payroll carve-out. Independent contractors cannot include employees of a corporate contractor providing services to the Constituent entity.

In the case at hand, the contract is signed with the architect's firm and the Constituent Entity. As such, the architect is not an eligible employee for the purpose of the SBIE.

Part 5

Financially leased company cars are considered right-to-use assets that can be considered for SBIE calculation in proportion of their use within Country A.

Article 5.3.4. GMR includes as items eligible for the SBIE's tangible asset carve-out a lessee's right of use of tangible assets located in the jurisdiction of the Constituent Entity.

A company car leased under a finance lease can be considered a 'right-of-use' asset in the sense of para. 42 and 43 Comm. GMR if recorded as an asset on the balance sheet together with the liability ot pay lease payments. Company A will be permitted to include the carrying value of the company cars as right-of-use assets in calculating its SBIE.

Only tangible assets (including right-to-use tangible assets) located in the jurisdiction qualify for the SBIE. Para 38.1. Comm. GMR provides that if the underlying tangible asset is located outside the jurisdiction for more than 50% of the time, then only the proportional value of the assets for time of the asset within the jurisdiction can be accounted for. This means that the company cars used by the employees to work on projects in Country B and C will not be fully count in the SBIE but only be accounted for in proportion to the time used in Country A.

PART B

Question 3

Part 1

The Transitional CbCR Safe Harbour is a temporary compliance simplification. If a Tested Jurisdiction passes one of the specified tests using qualified CbCR and financial-account data, the Top-up Tax for that jurisdiction is deemed to be zero for the year.

Its duration is limited to Fiscal Years beginning on or before 31 December 2026, but not including a Fiscal Year ending after 30 June 2028.

A Tested Jurisdiction can qualify through any one of three alternative tests:

- De minimis test – Total Revenue below €10 million and Profit (Loss) before Income Tax below €1 million (or a loss) for the current year in the Qualified CbC Report.

- Simplified ETR test – Simplified ETR at or above the transition rate.

- Routine profits test – Profit (Loss) before Income Tax is equal to or less than the jurisdiction's SBIE amount computed under the GloBE Rules.

The transition rate is 15% for Fiscal Years beginning in 2023 and 2024, 16% for Fiscal Years beginning in 2025, and 17% for Fiscal Years beginning in 2026.

Part 2

Jurisdiction J qualifies under the de minimis test because Total Revenue is €8 million and Profit before Income Tax is €0.7 million.

Jurisdiction K qualifies under the Simplified ETR test. Its Simplified ETR is €5 million / €25 million = 20%. Because the tested Fiscal Year begins on 1 January 2025, the relevant transition rate is 16%. Since 20% exceeds 16%, K qualifies.

Part 3

A Qualified CbC Report is a Country-by-Country Report prepared and filed using Qualified Financial Statements. Broadly, Qualified Financial Statements are the relevant financial statements that are accepted for safe harbour purposes, such as the accounts used to prepare the UPE's Consolidated Financial Statements or other eligible financial statements recognised by the safe harbour rules.

The December 2023 guidance makes two points especially important:

- Whether a CbC Report is 'qualified' is determined separately for each Tested Jurisdiction. Therefore a report may be qualified for one jurisdiction and not for another.

- As a general rule, if the MNE adjusts data drawn from Qualified Financial Statements in order to 'improve' or 'GloBE-align' the safe harbour computation, that jurisdiction is disqualified unless the adjustment is expressly required by the Commentary or Agreed Administrative Guidance.

If a Tested Jurisdiction uses non-qualifying source data, or otherwise adjusts qualified data without an express OECD permission, that jurisdiction cannot rely on the relevant safe harbour.

Part 4

The December 2023 guidance introduced simplified calculations for Non-Material Constituent Entities as part of the Simplified Calculations Safe Harbour framework. These rules allow conservative alternative measures of GloBE Income or Loss, GloBE Revenue and Adjusted Covered Taxes for NMCEs.

However, those simplified figures are available only for the purpose of the Simplified Calculations Safe Harbour. They do not replace the ordinary GloBE computation. If a Tested Jurisdiction fails the safe harbour tests, the jurisdiction must revert to the normal GloBE calculations.

Question 4

Scenario 1

The withholding tax levied in Country B on the services fees is a 'covered tax' for the top-up tax calculation in Country A.

Article 4.2.1.(a) GMR provides that "any Taxes recorded in the financial accounts of a Constituent Entity with respect to its income or profits are Covered Taxes" This provision does not restrict to taxes covered to taxes levied by Country A. What matters is that they are levied on income accounted for by Company A.

Article 4.2.1.(c) GMR includes as 'covered taxes' any "taxes imposed in lieu of a generally applicable corporate income tax".

Para. 31 Comm. GMR explains that the 'in lieu' test "includes Taxes that are not described in the generally applicable income tax definition but which operate as substitutes for such taxes. This test, which is used in some jurisdictions in the context of their foreign tax credit rules, would generally include withholding taxes on interest, rents and royalties, and other taxes on other categories of gross payments such as insurance premiums, provided such taxes are imposed in substitution for a generally applicable income tax. Taxes imposed in lieu of a generally applicable CIT would also include taxes arising from the Subject to Tax Rule."

Based on this, the withholding tax on service fees levied by Country B qualifies as an 'in lieu' tax that is a 'covered tax' with Company A.

The withholding tax is not subject to push-down or push-up of taxes in Article 4.2.3. GMR.

Scenario 2

The STTR MLI is not applicable in the case at hand. The tax treaty will prevent Country B from levying any tax on the services fees.

Article 4(a)(vii) expressly includes as 'covered income', any income received in consideration for the provision of services.

However, Article 8 STTR MLI Annex excludes payments of covered income if not taking place between 'connected persons'.

Article 10 STTR MLI Annex defines 'connected persons' as one entity having control of the other or both being under the control of the same person or persons. As such, the STTR MLI does not apply to service payments between unrelated companies, like Company A and its customers in Country B.

Scenario 3

The DST levied in Country B on the advertisement services is NOT a 'covered tax' for the top-up tax calculation in Country A.

Article 4.2.1.(a) GMR provides that "any Taxes recorded in the financial accounts of a Constituent Entity with respect to its income or profits are Covered Taxes" .

This provision does not restrict to taxes covered to taxes levied by Country A. What matters is that they are levied on income accounted for by Company A. However, what matters is that the tax is a tax levied on income (or imposed'in lieu of' an income tax).

Para. 28 in fine Comm. GMR explains that: "A Tax imposed on gross income or revenue without any deductions (i.e. a tax on turnover) would not be considered an income tax. The design and substantive character of such turnover taxes generally have more similarities to consumption or sales taxes. The definition of Covered Taxes therefore does not include a Tax on a gross amount unless such a Tax is in lieu of an income tax, as discussed below in connection with Article 4.2.1(c)."

Digital Services Taxes (DSTs) like the one levied by Country B are considered turnover taxes that are akin to a sales tax rather than a (gross withholding) tax on income. The fact that Country B has a tax treaty which prevents levying a gross withholding tax on income confirms that the DST is constructed as being outside the scope of income tax.

PART C

Question 5

Part 1

HoldCo 1 and HoldCo 2 are not automatically aggregated.

The critical point is that Fund X is an investment entity under the applicable accounting standard and therefore reports those interests at fair value rather than by line-by-line consolidation. The February 2023 guidance confirms that the deemed consolidation test does not override the accounting standard and does not force line-by-line consolidation where the accounting standard itself does not require it.

Accordingly, the existence of common ownership through Fund X does not, by itself, produce a single combined operating group for threshold purposes. On the facts given, HoldCo 1 and HoldCo 2 remain separate operating subgroups. Each subgroup is below the €750 million threshold on a stand-alone basis (€430 million and €420 million respectively), so neither subgroup is brought into scope on the basis of the data provided.

Part 2

ServiceCo is more likely to be an Excluded Entity.

Article 1.5.2(a)(ii) extends Excluded Entity status to an Entity where at least 95% of its value is owned, directly or through a chain of Excluded Entities, by one or more Excluded Entities and the Entity only carries out activities that are ancillary to those carried out by the Excluded Entity or Entities.

That is precisely the function described here: ServiceCo is wholly owned in the Excluded Entity chain and only provides IT, administration and investor-reporting services to Fund X and other Excluded Entities. OECD commentary specifically uses an internal IT service company as an example of an ancillary entity that can qualify.

Part 3

Yes. If Fund X were not an investment entity and instead prepared one set of line-by-line Consolidated Financial Statements including both HoldCo 1 and HoldCo 2, the two operating subgroups would form one consolidated group for threshold purposes.

Their combined annual revenue would then be €850 million (€430 million + €420 million) in each of the four years preceding the tested Fiscal Year. The €750 million threshold would therefore be satisfied.

Question 6

Part 1

JV Co is not an ordinary Constituent Entity because its results are reported under the equity method rather than being consolidated on a line-by-line basis. Absent a special rule, that would generally place it outside Article 1.3.

However, Article 6.4 extends the GloBE Rules to a JV where the UPE of the MNE Group holds directly or indirectly at least 50% of the Ownership Interests and the entity is reported under the equity method. Because M Co holds 50% of JV Co, JV Co falls within the special JV regime.

Part 2

JV Co's ETR = €5 million / €100 million = 5%.

Top-up percentage = 15% − 5% = 10%.

JV Co's top-up tax = 10% × €100 million = €10 million.

Group M's allocable share is 50%, so its share of the Top-up Tax is €5 million.

Part 3

If Country M has a Qualified IIR, M Co applies the IIR to its allocable share of the JV top-up tax and Country M collects €5 million.

If Country M does not have a Qualified IIR, the €5 million that has not been brought into charge under the IIR is added to the Total UTPR Top-up Tax Amount and can then be allocated among the group's UTPR jurisdictions under the ordinary UTPR formula.

Question 7

Part 1

The ‘no-benefits rule’ prohibits a QDMTT country from providing any benefits to MNE groups that are related to the QDMTT that has been levied on these same groups. It is a provision to protect the integrity of the GloBE system by preventing that a QDMTT levied is being refunded directly or indirectly to the MNE Group in the in the form of grants, subsidies, tax credits, or other financial benefits to the multinational enterprise (MNE) that are linked to the amount of QDMTT paid. (GMR Comm, para. 118.13).

Part 2

If a country fails the no-benefits rule, its QDMTT will lose qualified status. This implies that its QDMTT turns into an ordinary DMTT for the purpose of calculating top-up tax liability.

QDMTT/DMTT status affects how the domestic top up tax is taken into consideration for top-up tax calculation. A top-up tax levied under a QDMTT is not a ‘covered tax’ (GMR, articles 4.2.1 and 4.2.2.(b)). Instead, any QDMTT levied on constituent entities is deducted from any top-up tax liability calculated under the IIR and UTPR (GMR, article 5.2.3.). A top-up tax paid by constituent entities under an ‘unqualified’ DMTT is as a ‘covered tax’ for top-up tax calculations under the IIR and UTPR.

The identified related benefits granted by the QDMTT country to the constituent entities will most likely have to be treated as a refund of tax that reduces Adjusted Covered Taxes for IIR and UTPR top-up tax calculation purposes, although precise OECD guidance is expected to be released on this issue. (Adm Guidance on Article 9.1, January 2025, para. 6-7).

Question 8

Part 1

The purpose of the QDMTT safe harbour is to reduce compliance burdens for MNEs and administrative burdens for tax authorities.

Under the standard credit mechanism of Article 5.2 of the GMR, QDMTT top-up tax is credited/deducted from top-up tax liability calculated for IIR or UTPR purposes. This implies however two or more separate top-up tax calculations in respect to the same constituent entities under parallel rules: one under the QDMTT legislation of the constituent entities' country and a second one under IIR or UTPR legislation.

Where the QDMTT levied qualifies for the QDMTT Safe Harbour, the top-up tax for the second calculation for IIR or UTPR purposes shall be deemed zero and no further top-up tax calculations have to be made. One top-up tax calculation suffices. (GMR, article 8.2.1.)

Part 2

Whether these features of national QDMTT legislation exclude QDMTT Safe Harbour eligibility depends on whether they prevent the QDMTT legislation from meeting the 'consistency standard'. (GMR Commentary, Annex A, para. 27).

The 'consistency standard' is met in any case if the QDMTT legislation does not include the SBIE. The inclusion of the SBIE is an 'optional variation' which produces equivalent or greater outcomes than the GloBE Rules so it does not affect the safe harbour eligibility. (GMR Commentary, Annex A, para. 35).

With regard to the exclusion from the QDMTT legislation of 'investment entities', the MNE group will be eligible to apply the QDMTT safe harbour if none of the constituent entities are 'investment entities'. If one of the constituent entities in the QDMTT country meets the definition of 'investment entity' (as defined in article 10.1 GMR), the MNE group will be required to apply the 'switch-off rule' with respect to those entities: the QDMTT safe harbour rule cannot apply to those entities and IIR and UTPR calculations may be required. (GMR Commentary, Annex A, para. 45)