

ADIT PILLAR TWO AWARD

SAMPLE EXAM

PILLAR TWO 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. **You are required to explain the objectives and core mechanics of the Pillar Two Global Anti-Base Erosion (GloBE) rules.**

In your answer, describe how the GloBE regime ensures that multinational enterprises (MNEs) pay a minimum level of tax in each jurisdiction, and outline the roles of the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR) in enforcing the minimum tax. Illustrate your explanation with a simple example of how a top-up tax would be calculated and collected under Pillar Two. (25)

2. **You have been recruited as an external adviser to the Ministry of Finance of Country A, a country in the Global South. In response to other countries' adoption of the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR), Country A is contemplating the introduction of a domestic minimum top-up tax (DMTT).**

The Ministry of Finance has prepared a first draft of its DMTT legislation and is contemplating to file for QDMTT status with the OECD.

You are required to advise the Ministry of Finance on the following:

- 1) **What are some of the main consequences of obtaining or not-obtaining Qualifying Domestic Minimum Top-up Tax (QDMTT) status for a country's DMTT?** (7)
- 2) **What are some of the main consequences of QDMTT giving eligibility for companies to use the QDMTT safe harbour?** (7)
- 3) **Based on each of the following features of Country A's DMTT, will the DMTT be eligible for QDMTT status and, if so, for the QDMTT safe harbour?**
 - a) **In order to calculate the effective tax rate of a low-taxed constituent entity (CE) for top-up tax purposes, Country A's DMTT includes CFC taxes paid by the CE's parent entity as 'covered tax' of the CE.** (5)
 - b) **Country A's DMTT includes a substance-based income inclusion (SBIE) drafted in line with the GloBE Model rules, with the exception that the legislation stipulates that oil and gas companies cannot benefit from the SBIE for the purpose of the top-up tax calculation.** (3)
 - c) **Country A's DMTT includes the exclusion for multinational enterprises in their initial phase of international activity, which is also part of the UTPR.** (3)

Total (25)

PART B

You are required to answer ONE question from this Part.

3. You are an audit manager at a revenue administration and have recently recruited a relatively inexperienced audit officer whom you plan to develop into a Pillar Two Global Anti-Base Erosion (GloBE) specialist.

As a mentor to the new staff member, you are required to advise on the following questions:

- 1) **What is the Substance-Based Income Exclusion (SBIE)? How does it operate, and how is it calculated (including any transition period)?** (7)
- 2) **Explain how the SBIE might impact tax incentives to attract foreign direct investments from in-scope multinational enterprises, and how its impact might differ between manufacturing and computer software industries.** (6)
- 3) **When determining the carrying value of a tangible asset for SBIE purposes, what value should be used? If you notice that the GloBE carrying value differs from the accounting carrying value of the asset, which one do you use for SBIE purposes?** (4)
- 4) **When implementing GloBE legislation, countries are free to make certain choices but these choices come with consequences. Describe the consequences, in relation to the operation of other countries' Income Inclusion Rule or Undertaxed Profits Rule, of a country implementing Qualifying Domestic Minimum Top-up Tax legislation which includes a SBIE that is more generous than the Model SBIE.** (3)

Total (20)

4.

- 1) A multinational group is established on 1 July 2024, with a financial year ending on 31 December of each year. The group is dissolved on 31 March 2029. The 2028 fiscal year commences on 1 January 2028 and ends on 31 March 2029.

The group's annual revenues for these fiscal years are as follows:

- 2024 = €425 million
- 2025 = €600 million
- 2026 = €900 million
- 2027 = €725 million
- 2028 = €800 million

The tested fiscal year is 2028.

You are required to advise whether the MNE group will be within the scope of the Pillar Two Global Anti-Base Erosion (GloBE) rules for the 2028 fiscal year, including reasons in support of your answer. (10)

- 2) Group A, Group B and Group C are three different and separate groups of MNEs. They merge in 2028. Their annual revenues for their fiscal years are as follows (all amounts are in millions):

<u>Fiscal year</u>	<u>Group A</u>	<u>Group B</u>	<u>Group C</u>	<u>Total</u>
2024	€820 million	€600 million	€900 million	€2,320 million
2025	€820 million	€700 million	€900 million	€2,420 million
2026	€820 million	€800 million	€800 million	€2,420 million
2027	€820 million	€900 million	€700 million	€2,420 million
2028	€820 million	€900 million	€800 million	€2 520 million

The tested year is 2028.

Has the consolidated revenue threshold of the MNE group been met for the 2028 fiscal year, and on what basis? (10)

Total (20)

PART C

You are required to answer TWO questions from this Part.

5. The group tax manager of a multinational group of companies, which is within the scope of the Pillar Two Global Anti-Base Erosion (GloBE) rules and follows IFRS accounting standards, has sought your help in computing the group's adjusted profit or loss for GloBE purposes.

The group tax manager has provided the following information:

- Profit or loss: €20 million
- Other comprehensive income: €7 million
- Income tax expense:
 - Covered Taxes: €4 million
 - Qualified Domestic Minimum Top-up Tax: €1 million
- Current and deferred taxes shown as contra revenue:
 - Covered taxes: €2 million
 - Other taxes: €1 million
- Accrued dividend income in respect of:
 - 11% shareholding (held for 15 months): €500,000
 - 8% shareholding (held for 10 months): €300,000
 - 1% shareholding (held for 2 month): €200,000
- Loss (included in profit or loss) from disposition of 12% shareholding: (€1 million)
- Prior period error (revenue over-statement): negative €5 million (reported as reduction in opening equity at start of current fiscal year)
- Pensions:
 - Pension liability expense: €2 million
 - Contributed to pension fund: €1 million
- Royalty fees charged by X Co (resident in country X) a Constituent Entity within the same MNE group:
 - Expense: €4 million
 - Arm's length royalty price (adjusted by tax authorities): €3 million
- Tangible assets: €200 million
- Payroll value: €100 million

You are required to determine the adjusted profit or loss for the group, for GloBE purposes using the available information.

Total (15)

6. A multinational enterprise (MNE), resident in a OECD member country that has adopted the Pillar Two Global Anti-Base Erosion (GloBE) rules, has generated consolidated revenue of more than €750 million in a tax year. Among its group entities, the MNE has a branch, a subsidiary and a pension fund in another country.

The revenue for each of the entities is less than €10 million, amounting to €5 million for the branch, €4 million for the subsidiary and less than €1 million for the pension fund.

You are required to answer the following:

- 1) **Advise the MNE on the applicability of the GloBE rules to the MNE and its associated entities in the current tax year.** (9)
- 2) **How might your advice differ if all three entities were located in different countries from the ultimate parent entity and each other?** (3)
- 3) **How might your answer differ if the pension fund held 90% of shares in a company that carries out services in support of the pension fund, and that company generated revenues of €6 million annually?** (3)

Total (15)

7. XYZ Corp is a multinational enterprise with operations in two jurisdictions.

Its subsidiary in Country A earned €100 million in adjusted income this year and paid €5 million in local covered taxes. Country A has a 9% statutory tax rate, and has not implemented any Pillar Two rules.

The ultimate parent of XYZ Corp is located in Country B, which has implemented the Pillar Two Global Anti-Base Erosion (GloBE) rules, including an Income Inclusion Rule.

- 1) **As a tax adviser, you are required to calculate the effective tax rate and applicable top-up tax for Country A under Pillar Two, explaining how and by whom this top-up tax would be collected. You should assume that there are no applicable Substance-Based Income Exclusion adjustments.** (10)
- 2) **How would your answer differ if Country B had not yet implemented Pillar Two, and other countries in which XYZ operates apply the Undertaxed Profits Rule (UTPR)?** (5)

Total (15)

8. Group A is a multinational enterprise that is active in the offshore dredging and marine construction business. It is composed of Company A, the headquarter company and resident in Country A, and Company B, the operational subsidiary resident in Country B.

Company B operates a number of dredging and offshore construction ships and employs crews and engineers to undertake the services. Group A's turnover is derived through Company B carrying out offshore maritime dredging and construction projects in the territorial seas of Country C.

Besides the dredging and marine construction activities executed by Company B's ships, 20% of Company B's profits are derived from the hiring out of specialised engineers to other marine construction companies active in the seas of Country C.

Group A's annual consolidated group revenue is well in excess of €750 million per year. Company B's effective tax rate is significantly below 15%. This is due to the fact that, in Country B, Company B benefits from a tonnage tax regime. As such, rather than being taxed on actual profits (i.e. revenue minus expenses), Company B is instead taxed on a fixed notional profit, calculated as a function of its ships' tonnage capacity.

All countries involved have double tax treaties with each other, all of which are identical to the OECD Model Tax Convention 2017.

You are required to assess the following two scenarios:

- 1) **Country C has implemented a qualified Undertaxed Payments Rule (UTPR) and Country A has implemented a qualified Income Inclusion Rule (IIR).**

Can Country A apply its qualified IIR to levy top-up tax in relation to the undertaxed profits from Company B's maritime activities, and why? (5)

- 2) **Country C has implemented a qualified UTPR but Country A has not implemented an IIR.**

Can Country C apply its UTPR to levy top-up tax in relation to the undertaxed profits from Company B's maritime activities? Would the answer be different if all tax treaties between the countries were modelled on the UN Model Double Taxation Convention 2025, rather than the OECD Model Tax Convention 2017? (10)

Total (15)