

What is global minimum corporate tax rate - Pillar II model rules

As a result of globalization, companies' portion in the global economy is growing day by day with the trend in digitalization. These developments cause serious tax losses in the source countries where the group companies are established, due to the fact that multinational companies prefer investing in no/low-tax jurisdictions. In this context, OECD developed strategies called Pillar I and Pillar II as a solution (together referred as a two pillar solution) to current or upcoming potential tax problems of globalization. This was assessed as a landmark reform to the international tax system.

The first releasing has come from the Pillar II side and OECD released Pillar Two Model Rules for domestic implementation of 15% global minimum tax on 22 December 2021. For the first time, taxpayers have a clearer outline of the Model Rules although it is still needed with much more details.

It can be said that the Pillar Two model rules provide governments a precise template for taking forward the two-pillar solution to address the tax challenges arising from digitalisation and globalisation of the economy under the OECD/G20 Inclusive Framework on BEPS.

Evaluating the said Pillar Two Model Rules, it can be inferred that the rules define the scope and set out the mechanism for the so-called Global Anti Base Erosion (GloBE) rules under Pillar Two that introduce a global minimum corporate tax rate set at 15%. The minimum tax will apply to MNEs with revenue above EUR 750 million and is estimated to generate around USD 150 billion in additional global tax revenues annually.

The GloBE rules provide for a co-ordinated system of taxation intended to ensure large MNE groups pay this minimum level of tax on income arising in each of the jurisdictions in which they operate. The rules create a "top-up tax" to be applied on profits in any jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum 15% rate.

Further in the Pillar Two Model Rules, it has been described the scope and sets out the operative provisions and definitions of the GloBE Rules.

On 14 March 2022, interested parties were invited to provide comments on the Implementation Framework of the global minimum tax and the public consultation meeting was held virtually 25 April 2022.

According to current news, these rules are now intended to be implemented as part of a common approach and to be brought into domestic legislation as of 2024, and it is expected that Turkey can make related legislative implementations in the years between 2022-2023.



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