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Greetings from your Tax & Legal team at Deloitte Singapore.

We are pleased to update you on the following new and updated content from the Inland Revenue Authority of Singapore (IRAS).

On 7 May 2024, the IRAS uploaded a slide deck which outlines the principles of the Global Anti-Base Erosion (GloBE) rules and Domestic Top-up Tax (DTT). It is intended to provide taxpayers with a general understanding of their obligations under these rules. It also encourages taxpayers to refer to the GloBE Model Rules, Commentary and accompanying administrative guidance released by the Organisation for Economic Co-operation and Development (OECD) for further information and guidance.

The pertinent points of the slide deck are summarised below:

Introduction to Base Erosion and Profit Shifting (BEPS)

In 2013, the OECD and G20 countries adopted a 15-point action plan that culminated in the BEPS initiative, aimed at preventing tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to locations with low or no tax. Whilst not mandatory, the GloBE rules represent a common approach agreed upon by members of the OECD/G20 Inclusive Framework (IF) that profits are taxed in the locations where economic activities generating those profits are performed and value is created.

BEPS 2.0

BEPS 2.0 consists of two pillars designed to address the tax challenges of the digitalised global economy:

- Pillar One: reallocates taxing rights on residual profits to market jurisdictions, allowing countries where sales are made to tax a greater share of multinational profits.
- Pillar Two: introduces a global minimum tax for multinational enterprises (MNEs) to meet a universal minimum tax threshold. The key components of the Pillar Two rules are:
 - a. Subject to Tax Rule (STTR) is a treaty rule that imposes a minimum tax of 9% on specific cross-border payments between connected companies. It takes priority over the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR) and any amount of STTR paid is intended to be creditable under those rules.
 - b. IIR dictates a minimum tax of 15% on low-taxed profits in each jurisdiction that the group operates outside the jurisdiction of the ultimate parent entity (UPE). The IIR is applied on a top-down basis such that the tax due is (in most cases) paid by the UPE to the tax authority in the parent jurisdiction.
 - c. UTPR acts as a backstop if IIR is not fully applied. The top-up tax on the UPE's share of low-taxed profits is not collected under the IIR will be allocated to jurisdictions that have adopted the UTPR based on a prescribed formula.

Scope of GloBE rules

The GloBE rules apply to constituent entities of an MNE group with annual revenue of at least EUR 750 million, measured over two out of the last four fiscal years preceding the tested fiscal year¹. This includes all revenue² reported in the consolidated financial statements (CFS) of the UPE.

Definitions

Term	Definition
Group	A collection of entities either included in the CFS of the UPE based on control and ownership or excluded from CFS due to size, materiality, or being held for sale. It also means an entity that is located in one jurisdiction and has one or more permanent establishment (PE) located in other jurisdictions and is not part of another group mentioned above.
MNE Group	Encompasses any group with entities or PEs in more than one jurisdiction. This includes all entities controlled by the UPE, except for those specifically excluded as non-constituent entities.
Constituent Entity (CE)	Any entity within an MNE group that is included in the group's CFS. Each CE and its associated PEs are treated as separate entities for purposes of the GloBE rules.

¹ For MNE groups that are recently established, the EUR 750 million threshold applies based on their revenue in the two fiscal years immediately before the tested fiscal year, adjusted proportionately if the fiscal period is less than 12 months.

² Revenues from intra-group transactions are excluded from the total revenue calculation to determine the applicability of the GloBE rules. Entities held for sale are excluded from the group's CFS and thus from the applicability of the GloBE rules.

PE

Defined as a fixed place of business through which the business of an enterprise is wholly or partly carried on. A PE of an entity, which is itself a CE, is treated as a separate CE under the GloBE rules.

Mechanics of Pillar Two rules

To compute the top-up tax, the process involves identifying CEs within a MNE group that fall under the rules, calculating their GloBE income, determining the taxes already paid (covered taxes), and determining the effective tax rate (ETR) for all CEs within the jurisdiction. If the ETR is below the minimum required rate of 15%, a GloBE jurisdictional top-up tax to confirm that the total tax paid meets the minimum threshold established globally is computed. This top-up tax is applied in specific order under the IIR or UTPR and is levied on the excess profits within that jurisdiction.

Excess profits in a jurisdiction = Net GloBE Income for the jurisdiction – Substance-Based Income Exclusion (SBIE) for the jurisdiction

A jurisdiction may impose a Qualified Domestic Minimum Top-up Tax (QDMTT) to collect the top-up tax. The QDMTT is deducted against the GloBE top-up tax to arrive at the GloBE jurisdictional top-up tax:

GloBE Jurisdictional top-up tax = (Top-up Tax % x Excess Profits) – QDMTT

Singapore's implementation of BEPS 2.0

During Budget 2024, Singapore announced the adoption of IIR and DTT for in-scope entities' financial years starting on or after 1 January 2025. The implementation of UTPR is under consideration and has been deferred.

Exclusions from GloBE rules

Excluded entities

If an entity is excluded, its attributes (profits, losses, taxes paid, tangible assets, and payroll expenses) would be excluded in the computation of the MNE group's GloBE top-up tax and DTT.

Under the GloBE rules, excluded entities generally refer to:

- organisations that do not primarily pursue commercial or profit-making activities such as governmental entities, international organisations, non-profit organisations, and pension funds.
- Certain tax neutral investment vehicles (e.g., UPE which is an investment fund; or real estate investment vehicles which are tax transparent).

For these excluded entities (other than a pension services entity) to extend their exclusion status to separate controlled entities, specific ownership thresholds must be met:

- 95% ownership: if an excluded entity owns at least 95% of a controlled entity, this controlled entity can conduct activities that are exclusively or almost exclusively to hold assets or invest funds for the benefit of the excluded entity. This way, the controlled entity acts almost as an extension of the excluded entity, handling core functions that are integral to the parent entity's exempt operations.

- 85% ownership: the controlled entity must check that substantially all of its income is from dividends or equity gains that are not subject to the GloBE top-up tax. This provision is designed to allow some flexibility in the controlled entity's operations but maintains a strong connection to the parent's exempt purpose.

SBIE

As can be seen in the earlier formula, the SBIE is designed to mitigate the impact of the GloBE rules on income derived from substantive activities. It acknowledges that businesses with significant employment and tangible assets in a jurisdiction are contributing economically to that area and thus, a portion of their income may be less susceptible to artificial profit shifting.

Type of carve-out	Details
Payroll	<ul style="list-style-type: none"> • Percentage: Entities can exclude 5% of the payroll costs of eligible employees that perform activities for the MNE group in the jurisdiction from the GloBE income calculation. • Transitional relief: Initially, the carve-out is more generous at 9.8%, providing entities additional relief as they adjust to the GloBE rules. This percentage will gradually reduce to the standard 5% by 2033.
Tangible assets	<ul style="list-style-type: none"> • Percentage: Similarly, entities can exclude 5% of the average carrying value of tangible assets located in the jurisdiction from the GloBE income. • Transitional relief: Starting at 7.8%, the percentage would also be gradually reduced to the standard 5% by 2033.

International shipping income exclusion

The GloBE rules provide for a specific exclusion for international shipping income or loss, recognising the unique aspects of the maritime transport industry. This exclusion not only covers direct income from international transportation activities but also includes ancillary income related to these operations, which supports the core business functions. The table below provides an overview of international shipping income excluded:

Aspect of international shipping income exclusion	Details
Eligible types of international shipping income	<ul style="list-style-type: none"> • Transportation income: includes income from transporting passengers or cargo on international routes via owned, leased, or slot-chartered ships. • Leasing income: income from leasing fully equipped, crewed, and supplied ships specifically for international shipping operations and bare boar charter to another CE. • Sale of ships: income from the sale of ships actively used in international operations, provided they have been used for at least one year.

Ineligible domestic shipping income

- Income from shipping operations within domestic routes that do not cross international borders. This criterion emphasises that the exclusion is specifically designed for international activities.

Ancillary shipping income inclusions

- Related services: net income from services supporting the main international shipping operations, such as leasing containers and providing crew and cargo handling services, subject to certain conditions.
 - Income limitation: ancillary income must not exceed 50% of the primary international shipping income to maintain a focus on core international shipping activities.
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The operational criteria for qualifying for the **international shipping income exclusion** require that the strategic or commercial management of the shipping operations be conducted within the jurisdiction where the CE is located. This stipulation calls for substantial managerial activities to be conducted in the same jurisdiction, aligning tax responsibilities with the actual location of economic activities.

De Minimis exclusion

The De Minimis exclusion under the GloBE rules specifies that if the CEs located in a jurisdiction have in aggregate for a given Financial Year (FY):

- < EUR 10 million of average³ GloBE revenue; **and**
- < EUR 1 million of average⁴ GloBE income or a GloBE loss;

the top-up tax for CEs located in a jurisdiction is deemed to be zero for that FY. The MNE group would then be exempted from computing the ETR or top-up tax of those CEs.

If the MNE group wishes to qualify for such an exclusion, it must make an election annually. Stateless CEs⁵ and investment entities⁶ however, do not qualify for this exclusion, ensuring that entities primarily engaged in investment activities are consistently assessed under the GloBE rules.

Safe harbours

As MNEs adapt to the comprehensive framework of the GloBE rules, understanding the available safe harbours is crucial to efficiently manage the group's tax affairs, including the additional compliance and filing requirements.

The various safe harbour rules are summarised as follows:

Transitional country-by-country (CbCR)

- This safe harbour leverages the CbCR framework, allowing MNEs to manage GloBE rule applications in jurisdictions where they meet specific criteria, such as revenue and profit thresholds.

³ Average of current and preceding two fiscal years.

⁴ Average of current and preceding two fiscal years.

⁵ For example, flow-through entities as described in Article 10.3.2(b) of the [GloBE Model Rules \(Pillar Two\) 2021](#).

⁶ For example, investment funds or real estate investment vehicles.

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- A temporary measure effective until 2026 that aims to minimise compliance costs during the initial years of GloBE rule implementation.

Permanent simplified calculations

- This provision offers MNEs simplified calculation methods for routine profit tests and effective tax rate tests. Intended as a permanent measure, it requires fewer adjustments and computations under the GloBE rules, facilitating easier compliance.
- The framework for permanent safe harbours to be developed and agreed although simplified calculations for Non-Material CEs have been developed.

QDMTT

- With the QDMTT safe harbour, MNEs that meet certain accounting, consistency and administrative standards can manage additional GloBE calculations. This safe harbour aligns DTT computations closely with the GloBE rules, reducing the administrative burden.

Transitional UTPR

- This temporary relief applies to the UTPR, setting the top-up tax amount to zero in the UPE's jurisdiction during the first two years of GloBE rule implementation. It is available only in jurisdictions with a corporate income tax rate of at least 20%.

Deloitte Singapore's views

As we conclude our summary and review of the key content outlined in IRAS' slide deck, it is evident that the new GloBE rules bring changes to the international tax landscape, aiming for a fairer taxation system in which profits are taxed where economic activities and value creation occur.

With Singapore poised to implement these rules soon and the legislative developments are in progress, we look forward to the official passing of these regulations into law before the end of the year. Understanding and navigating these rules will be crucial for MNEs to manage their tax strategies and comply with the filing requirements.

We encourage all stakeholders to review these developments closely and consider their implications for their operations. As always, our team is on hand to provide guidance and support to help you adapt to these new regulatory environments efficiently and effectively.

 [Read more](#)

Contacts

Should you have any comments or questions arising from this newsletter, please contact either the listed contacts below, or any member of the [Singapore Tax & Legal team](#).



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