Tax alert | **136 countries agree a 15% corporate tax rate**

Kingdom of Bahrain | 14 October 2021

On 8 October 2021, 136 countries – including Bahrain, Saudi Arabia, Oman, Qatar and the United Arab Emirates - representing 90% of global GDP agreed a minimum 15% tax rate on the worldwide profits of multinational enterprises (MNEs). The agreement is an update to the statement issued by the OECD/G20 nations in July this year, recommending a two-pillar reform of international tax rules.

Pillar 1

Applicable to MNEs with global turnover above €20b and profits before tax above 10%:

- Amount A - 25% of an MNE's residual (in excess of 10%) profits will be re-distributed to jurisdictions where it does business without adequate commercial substance.
- Amount B - An arm's length fee will be calculated for marketing and distribution activities carried out in those jurisdictions.
- MNEs' profits will be calculated after adjusting income reported in their financial statements.
- MNEs that suffer double taxation will get relief through an exemption or credit method.
- A single entity within an MNE group will be appointed to coordinate group tax filings.
- Any disputes in determining 'A' amounts will be resolved according to an agreed upon process between member countries.
- The oil & natural gas and regulated financial services sectors are excluded.

Pillar 2:

Applicable to MNEs with global turnover above €750m:

- Global Anti-Base Erosion (GloBE) rule:
  - Income inclusion rules (IIRs) impose a top-up tax on the parent entity where a controlled foreign entity is in a low (less than 15%) tax jurisdiction.
  - If the parent entity is itself in a low tax jurisdiction, income taxed at the lower rate will be adjusted. A five-year exemption from the undertaxed payment rule (UTPR) applies, subject to certain investment criteria.
- Subject to tax rule (STTR):
  - The STTR imposes a source-based tax on parent entities on royalties and interest payments received from a controlled foreign entity in a low (less than 9%) tax jurisdiction.
  - Member countries do not have to implement these rules but if they do, the model agreed by other countries must be followed.
- MNEs who have commercial substance in a jurisdiction will be given an exemption equivalent to 5% of the carrying value of tangible assets and employee costs.
- A *de minimis* exclusion has also been given to MNEs in jurisdictions where they have revenues of less than €10m and profits below €1m.
- The rules do not apply to the ultimate parent entities of an MNE if they are government entities, international organisations, non-profit making companies or pension funds.

Timeline:

- A detailed plan on the pillar reforms should be drafted, proposed, signed and ratified by member countries by mid-to-late 2022, with implementation expected in 2023.
- The UTPR is expected to come into effect in 2024.

How can Keypoint help?

- MNEs doing business in the GCC should evaluate the potential impact of these global tax changes on their organisational structure and business model. Speak to a member of our market-leading direct tax team if you have any questions on how these changes are likely to impact your business.

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