



Pillar 2 Technical Series

GloBE Interaction with US Tax Regime

Pillar Two Technical Series

Catch up on our previous sessions!

1. Overview & Transition Years – [Watch now](#)

- In this webinar, we provide a broad overview of Pillar Two. In addition, we'll discuss transitional safe harbors & what makes a Qualified Domestic Minimum Top-Up Tax (QDMTT) "Qualified." Our knowledgeable professionals will share insightful commentary on how these rules are impacting multinational enterprises.

2. MNE Group Determination – [Watch now](#)

- In this webinar, we delve into the intricacies of multinational enterprise (MNE) group determination & explore the challenges posed by complex organizational structures. Our knowledgeable professionals will provide a practical discussion on the basics of MNE group determination & explore issues & complexities companies face as they navigate this topic.

3. Complex MNE Groups – [Watch now](#)

- In this webinar, we discuss computations for non-material constituent entities (NMCEs), joint venture (JV) groups, & the intricacies of GloBE considerations. Gain valuable insights & practical knowledge to navigate these advanced topics effectively.

4. Tax Accounting Overview & Impact – [Watch now](#)

- In this webinar, we provide a detailed overview of general tax accounting principles & delve into the significant impacts of Pillar Two. Our knowledgeable professionals will share key concepts & practical implications, helping you stay ahead in the evolving tax & financial reporting landscape.

5. Computation of GloBE Adjustments – [Watch now](#)

- In this in-depth webinar, we explore the computation of Global Anti-Base Erosion (GloBE) adjustments. Our knowledgeable professionals will discuss the various adjustments required to determine GloBE income & provide practical insights into how they may impact your organization.

6. Computation of Adjusted Covered Taxes – [Watch now](#)

- In this webinar, we delve into the computation of adjusted covered taxes. Our knowledgeable professionals will guide you through the fundamental principles & steps involved, providing crucial insight to navigate these calculations.

7. GloBE Elections & Flow-Through Entities – [Watch now](#)

- In this webinar, we discuss the nuances of Global Anti-Base Erosion (GloBE) elections & their implications. In addition, we'll delve into how Pillar Two impacts flow-through entities.

8. GloBE Reporting & Compliance – [Watch now](#)

- We cover tax filing obligations, the GloBE information return, Pillar Two tax accounting & disclosures, & data challenges & considerations. Our knowledgeable professionals will share essential information & practical insight to navigate these critical areas effectively.

9. Complex Structures, Reorganizations, & GloBE – [Watch now](#)

- In this webinar, we explore the intricacies of Pillar Two planning, the challenges posed by complex structures & reorganizations (reorgs), & their impact on Global Anti-Base Erosion (GloBE) income. Our knowledgeable professionals will provide valuable insight & practical guidance to help you navigate these critical areas effectively.

Meet Today's Presenters



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Agenda

- I. Recap
- II. February 2023 Administrative Guidance – GILTI/Blended CFC Tax Regime
- III. Allocation of Cross Border Current Taxes – CFC Taxes
- IV. Allocation of Cross Border Deferred Taxes – CFC Taxes
- V. Panel Discussion – Practical Implications for MNE Groups

Recap



Calculation Steps

Step 1 – Constituent Entities Covered

- Identify MNE Groups within scope of the GloBE Rules.
- Identify Constituent Entities (“CEs”) & Remove any Excluded Entities.
- Identify location of each CE.

Step 2 – Determine GloBE Income or Loss

- Determination of Financial Accounting Net Income/(Loss).
- Adjust Financial Accounting Net Income or Loss to GloBE Base.
- GloBE Income or Loss allocated to Permanent Establishments or through Flow-Through Entities where necessary.

Step 3 – Adjusted Covered Taxes

- Identification of Covered Taxes.
- Adjust Covered Taxes for temporary differences & losses & allocate to other CEs as necessary.
- Take post-filing adjustments into account.

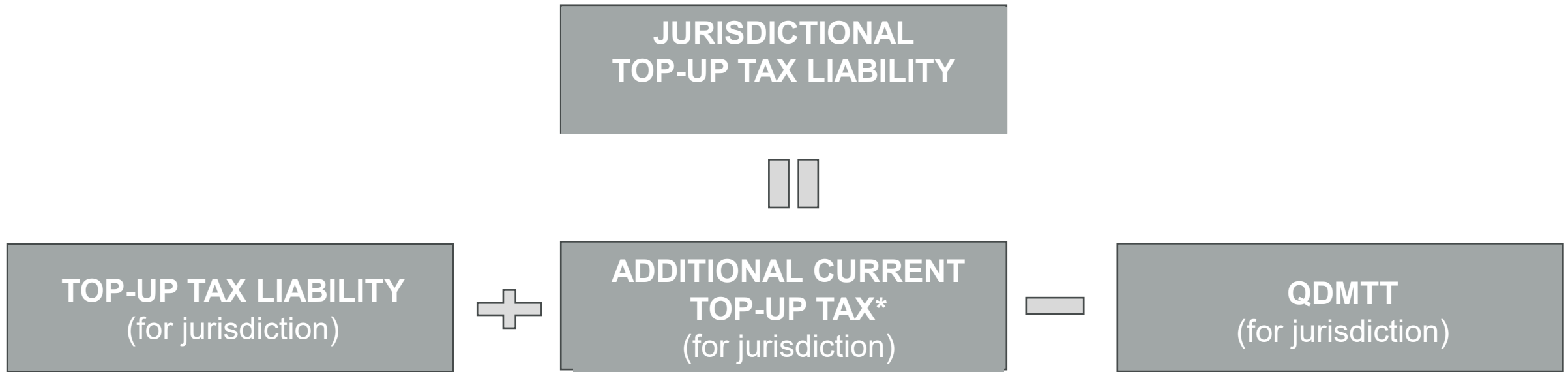
Step 4 – Effective Tax Rate & Top-Up Tax Computation

- Determination of Substance-Based Income Exclusion Amounts & other exceptions.
- Computation of jurisdictional Top-Up Tax for low-taxed jurisdictions (after consideration of Safe Harbours & elections).
- Allocation of the Top-Up Tax between Low Taxed CEs.

Step 5 – Applying the Charging Provisions

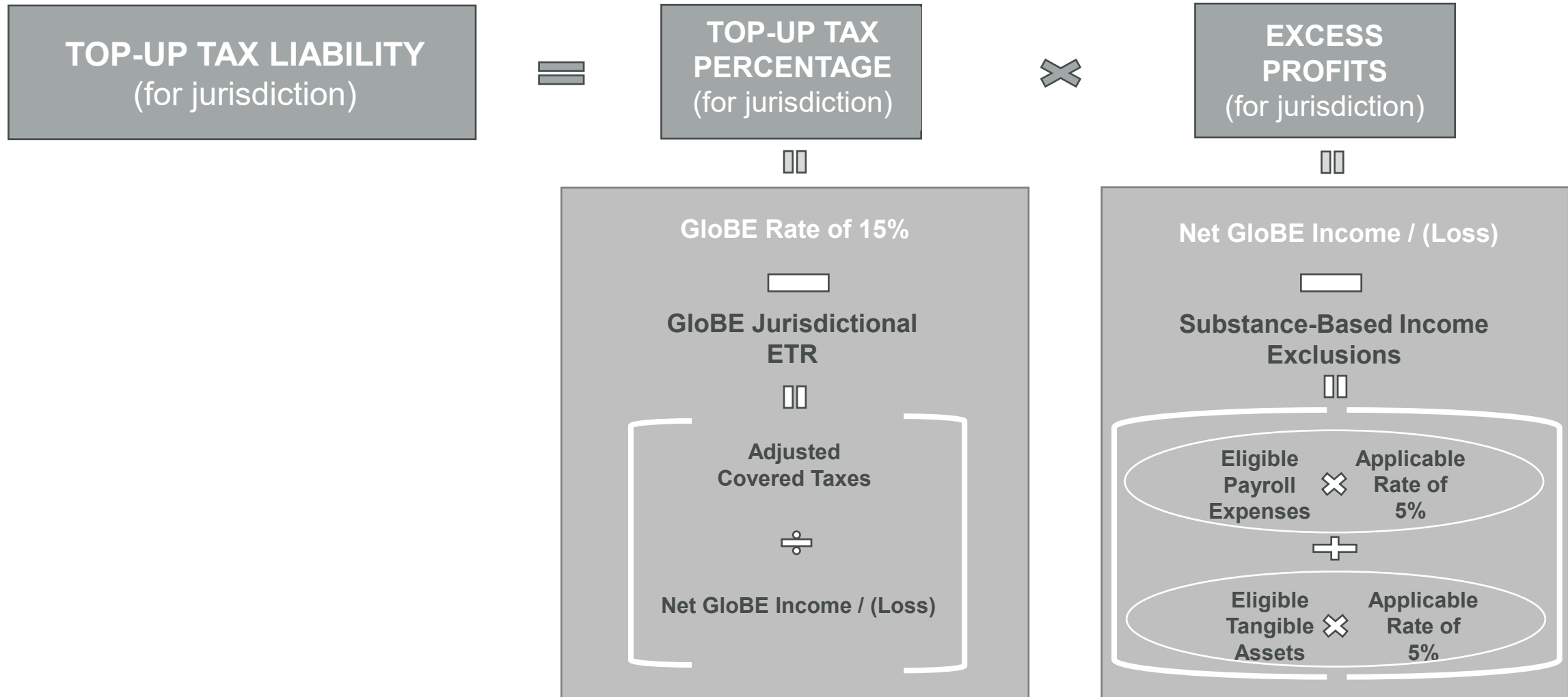
- Identification of UPE liable for Top-Up Tax under IIR & determination of Top-Up Tax paid by UPE under IIR.
- Identification of the remaining amount, if any, that is allocable under the UTPR.
- Liability for residual Top-Up Tax in the UTPR Jurisdictions through a UTPR adjustment.

Jurisdictional Top-Up Tax Liability

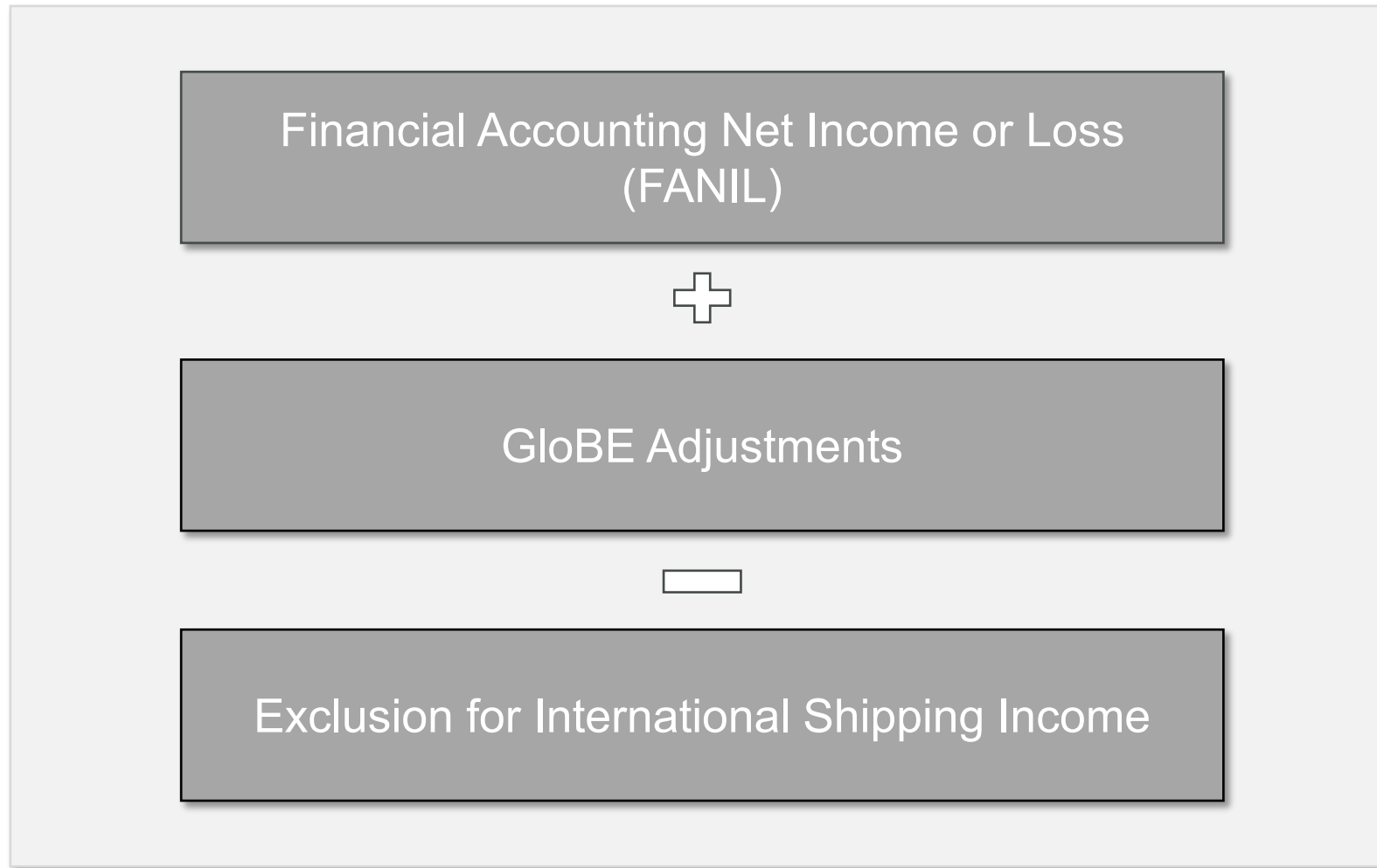


*Applies where the ETR & Top-Up Tax for a prior Fiscal Year is required or permitted to be recalculated pursuant to an ETR Adjustment Article.

Computation of the Top-Up Tax – Overview



Computation of Net GloBE Income/(Loss)



Computation of Adjusted Covered Taxes

Covered Tax Expense (FANIL current tax expense)

+

Additions/Reductions to Covered Tax Expense

+

Total Deferred Tax Adjustment Amount (DTAA)*

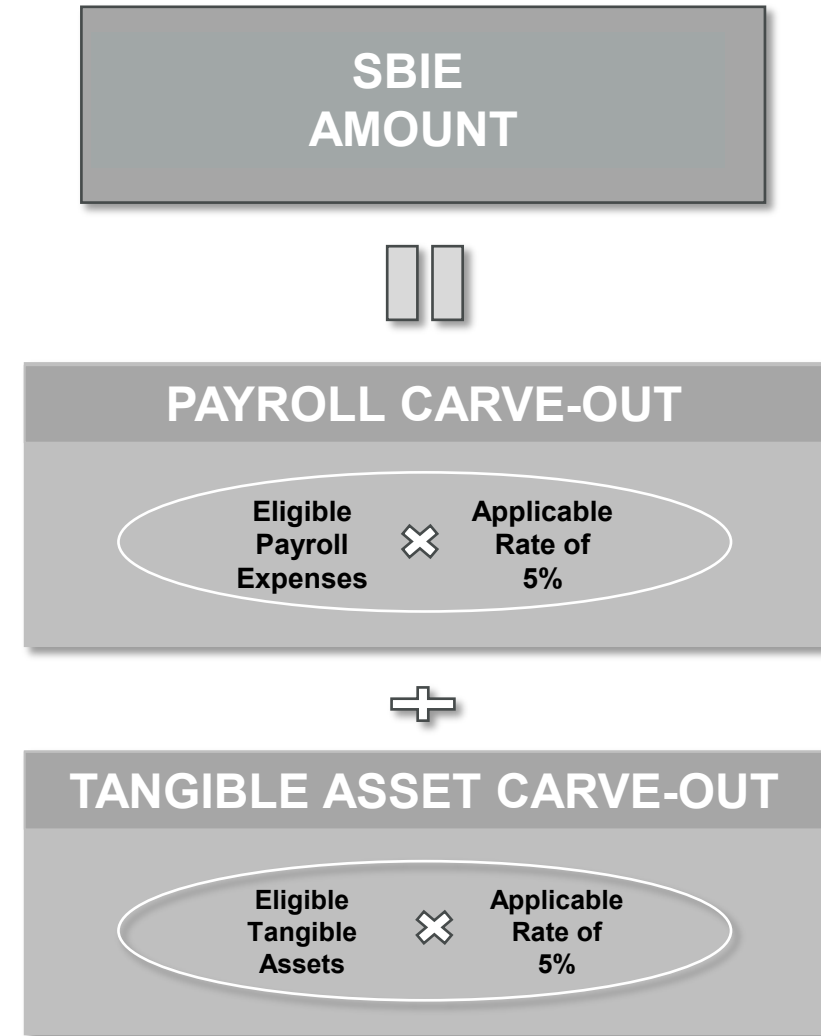
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Increases/Decreases for OCI / Equity Items

*If GloBE Loss Election under Article 4.5 is made, no DTAA adjustment required.

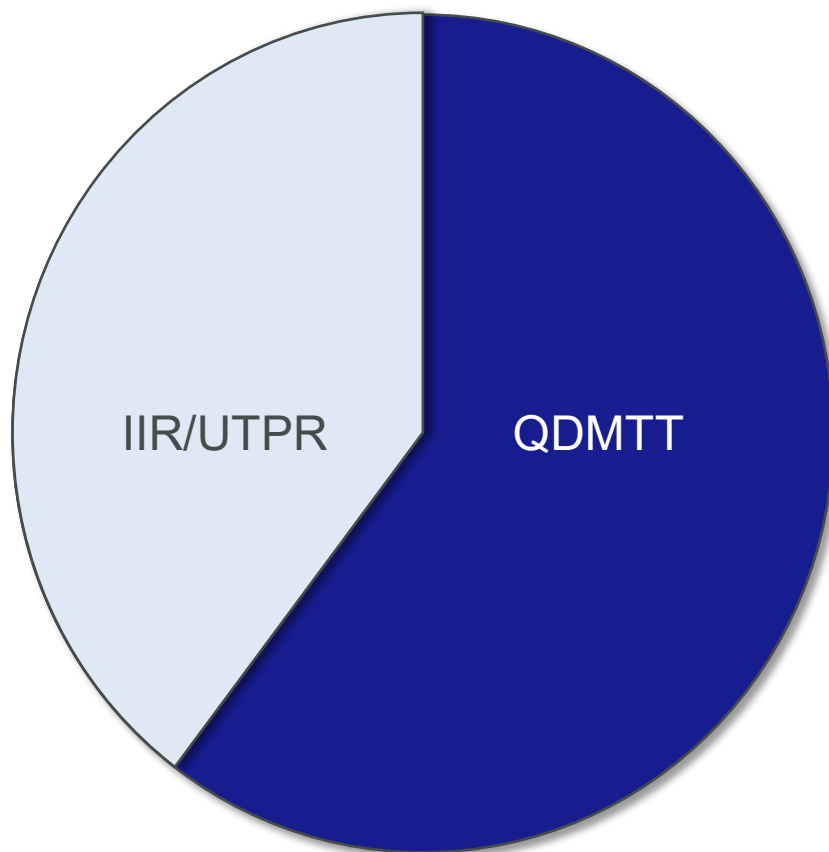
Substance-Based Income Exclusion (SBIE) Amount

- Applies to reduce a jurisdiction's Net GloBE Income
- Annual Election is permitted to not apply the SBIE Amount per Jurisdiction
- SBIE consists of two carve-outs:
 - Payroll Carve-Out
 - Tangible Asset Carve-Out
- Transition Year Rates permit a higher rate for each carve-out until the 5% rate is applicable for both



Top-Up Tax & Charging Provisions – Generally

Total Top-Up Tax



QDMTT

IIR

UTPR

Key Terms & Definitions

- **Qualified Domestic Minimum Top-Up Tax (QDMTT)** – A minimum tax that is imposed by the domestic law of a country that computes its own top-up tax following the Pillar Two rules
- **Income Inclusion Rule (IIR)** – Imposes a top-up tax on the Ultimate Parent Entity (UPE) of a multinational enterprise group with respect to its low taxed income of its constituent entities
- **Undertaxed Payments Rule (UTPR)** – Operates as a backstop to the IIR, applying only in specific circumstances where the top-up tax is not brought into charge under an IIR or QDMTT

Top-Up Tax & Charging Provisions – Applied

Legend



UTPR Application



IIR Application

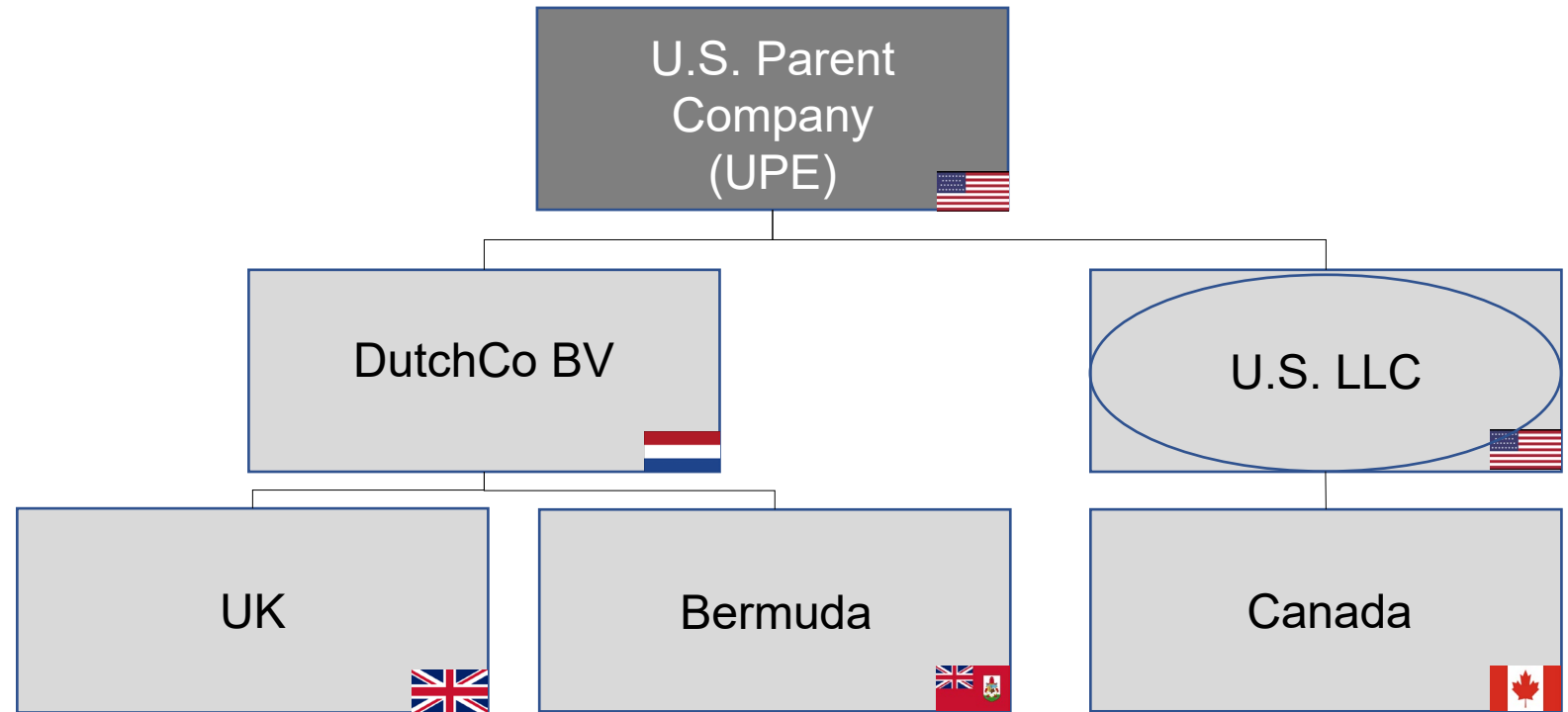


QDMTT Application

Assumptions:




Netherlands, UK, & Canada adopts QDMTT,
IIR, & UTPR

U.S. & Bermuda do not adopt an IIR, QDMTT,
or UTPR

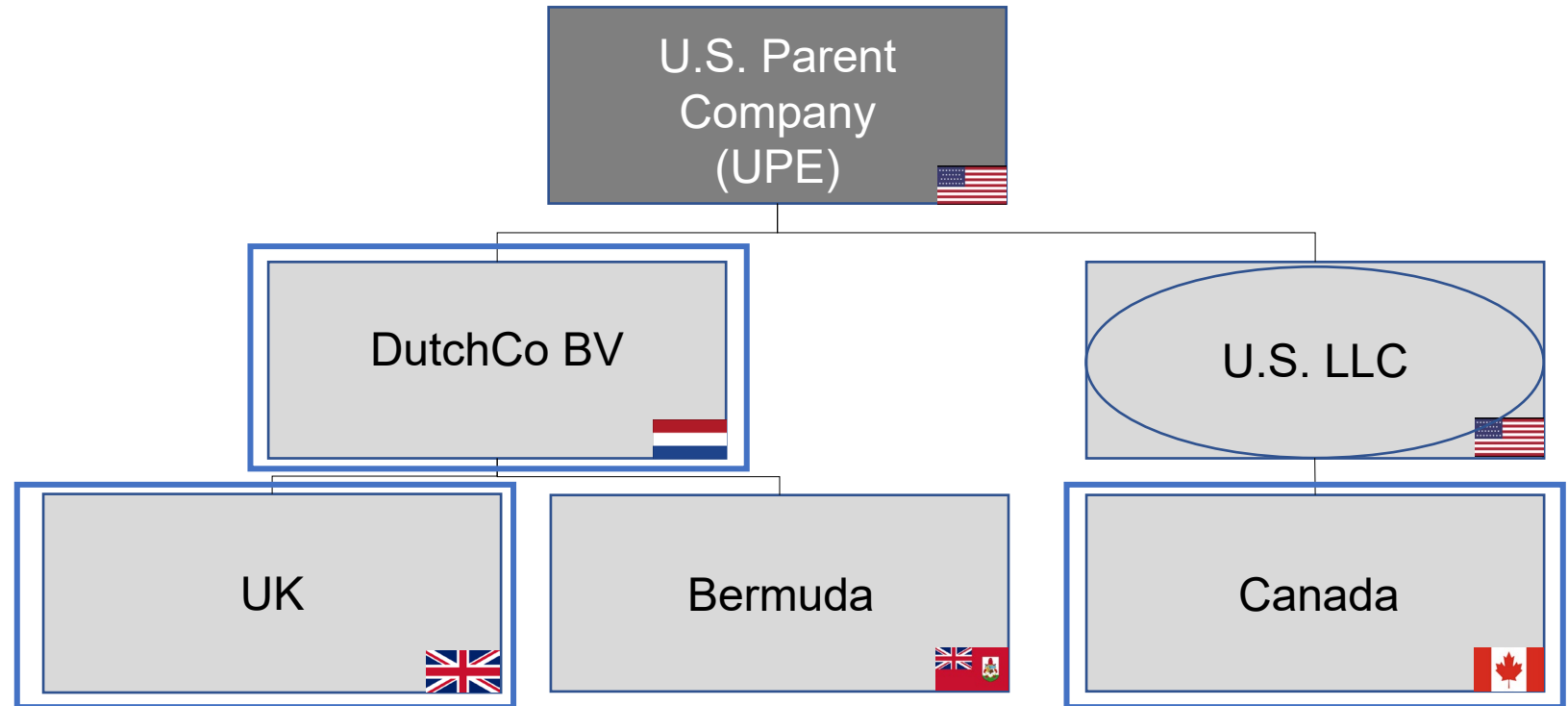


Top-Up Tax & Charging Provisions – Applied

Legend




-  UTPR Application
-  IIR Application
-  QDMTT Application

- DutchCo BV will collect its share of Top-Up Tax through application of its QDMTT
- UK will collect its share of Top-Up Tax through application of its QDMTT
- Canada will collect its share of Top-Up Tax through application of its QDMTT
- DutchCo BV will not collect UK's share of Top-Up Tax since UK's QDMTT has fulfilled UK's Top-Up Tax liability

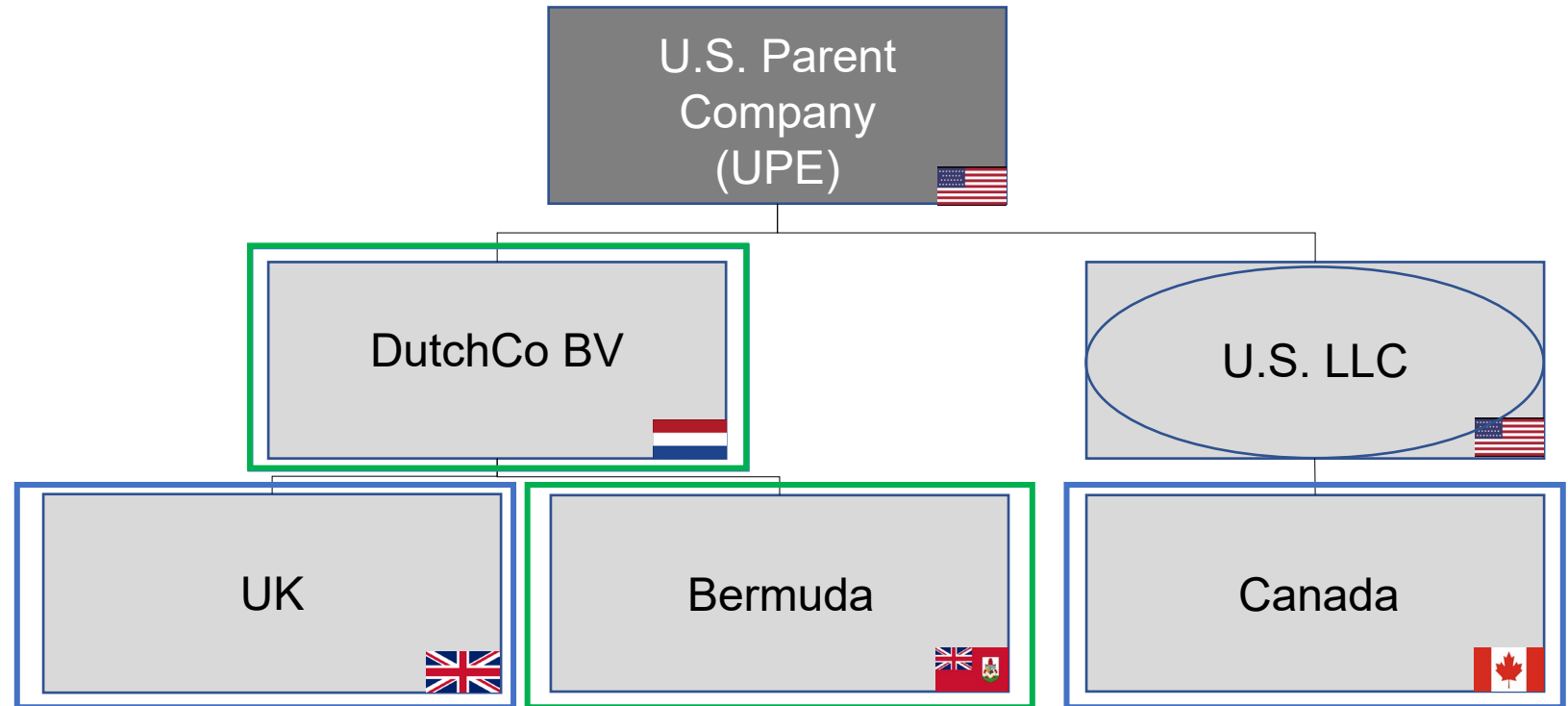


Top-Up Tax & Charging Provisions – Applied

Legend




-  UTPR Application
-  IIR Application
-  QDMTT Application

- DutchCo BV, Canada, & UK collect their share of Top-Up Tax through their QDMTTs
- Bermuda's share of Top-Up Tax will be collected through DutchCo BV's IIR
- UK's QDMTT will exclude its share of top-Up Tax from DutchCo BV's IIR due to application of its QDMTT
- UPE & U.S. LLC will have outstanding Top-Up Tax

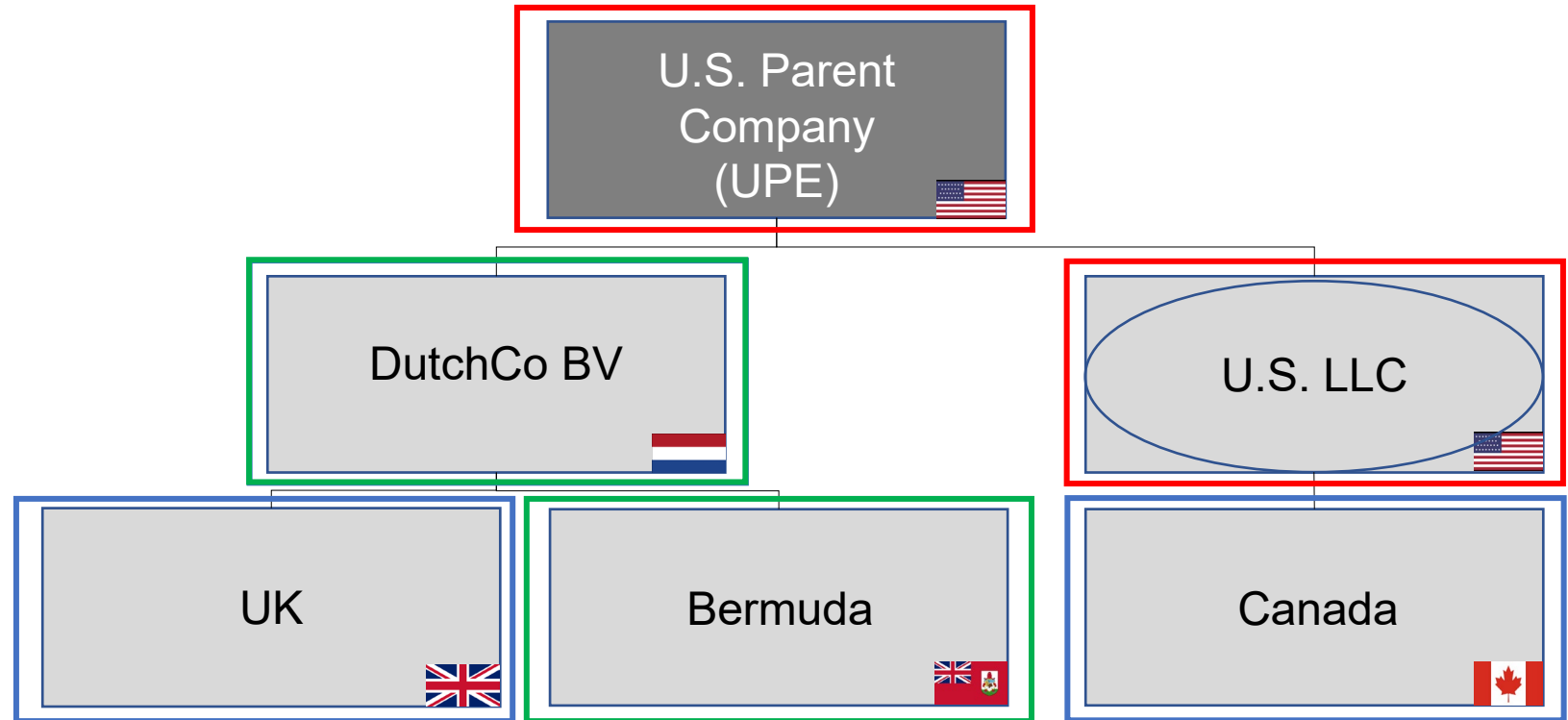


Top-Up Tax & Charging Provisions – Applied

Legend

-  UTPR Application
-  IIR Application
-  QDMTT Application

- DutchCo BV, Canada, & UK will collect their share of Top-Up Tax through application of their respective QDMTTs
- DutchCo BV will collect Top-Up Tax on behalf of Bermuda through its IIR; UK's Top-Up Tax is excluded from DutchCo BV's IIR due to its QDMTT
- UPE & U.S. LLC's Top-Up Tax will not be collected by either Canada or DutchCo BV's IIR
- DutchCo BV, Canada, & UK will make adjustments to their deductions to collect the shares of Top-Up Tax at UPE & U.S. LLC by application of their UTPRs



Blended CFC Allocation Key

February 2023 Administrative
Guidance



Overview

Blended CFC Tax Regimes

2023 February Administrative Guidance

- A Blended CFC Tax Regime – is designed to ensure that foreign income beneficially owned by a taxpayer is subject to a minimum level of tax on an *aggregate basis* vs. a separate entity/jurisdiction calculation
- Simplified allocation of the CFC tax to entities in low tax (< ***Applicable Tax Rate*** 15%) jurisdictions *for a limited time period*
 - To improve tax certainty & administrability
 - Logically allocates the largest CFC tax to the entities with greatest amount of tested income & covered taxes
- Tax years beginning on or before 12/31/2025 (CY 2024 & 2025)
 - Coincides with reduction in GILTI/FDII Section 250 Deduction
- Allocable GILTI Tax = ((GILTI – S.250) x 21%) – FTC Allowed

Blended CFC Tax Regimes

2023 February Administrative Guidance

Blended CFC Tax Allocated to an Entity:

$$\frac{\text{Blended CFC Allocation Key}}{\text{Sum of All Blended CFC Allocation Keys}} \times \text{Allocable Blended CFC Tax}$$

Blended CFC Allocation Key:

$$\text{Attributable Income of Entity} \times (\text{Applicable Rate} - \text{GloBE Jurisdictional ETR})$$

Overview

Blended CFC Tax Regimes

2023 February Administrative Guidance

Blended CFC Allocation Key:

*Attributable Income of Entity x
(Applicable Rate – GloBE
Jurisdictional ETR)*

- Attributable Income of the Entity = Tested Income (without reduction for foreign income taxes)
 - Note – The definition of **Constituent Entity** is essentially the same as **GILTI Tested Unit (not Transparent Interest)** as enumerated in *Treas. Reg. 1.951A-2(c)(7)(iv)*
- Applicable Rate = 13.125% (remember S.78/FTC scale back of 80% x 13.125 = 10.5)
- Globe Jurisdictional ETR – as computed under Article 5.1 of GloBE Rules
 - Without CFC Taxes
 - QDMTT is only allowed if an FTC is granted

Allocation of Cross Border CFC Taxes – Current Tax Expense

June 2024 AG



Overview

Current Tax Allocation – Cross Border/CFC

2024 June Administrative Guidance

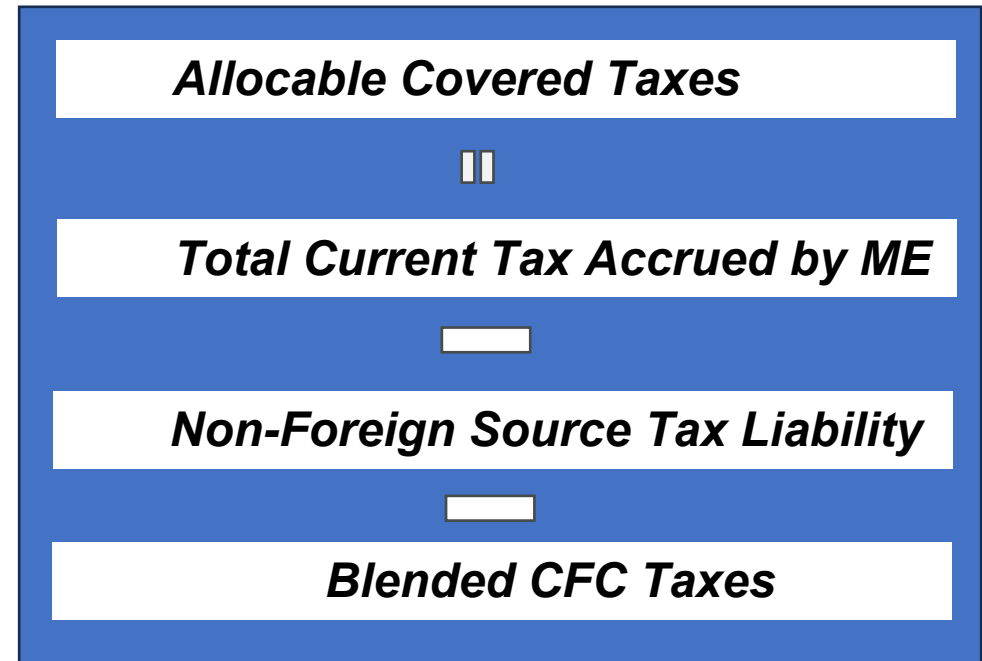
- Parent/Main Entity & Subsidiaries
 - Foreign Branch, CFCs, Hybrid Entity, Reverse Hybrid
- Split of Domestic Income & Foreign Source Income by Jurisdiction – inclusions & remittances
- Excludes Blended CFC Tax Regimes like GILTI
- Acknowledges separate basket regimes
- Addresses Cross-Crediting Regimes like the U.S.
- Four-Step Method
 - 1) *Foreign Source Income* taxed by the Main Entity
 - 2) Allocable Covered Taxes – residual taxes paid by the Main Entity after considering the foreign tax credit (accounting for cross-crediting)
 - 3) Allocation Keys – (inclusion x applicable tax rate) – creditable tax
 - 4) Allocation based on the Allocation Key/Sum of Allocation Keys

Step 1: Determine Foreign Source Income Taxed by Main Entity/ Parent Entity

- Foreign Source Income defined to include income of domestic entities to the extent the Main Entity/Parent Entity jurisdiction considers the income to be from foreign sources for purposes of determining the extent to which a foreign tax credit is allowed.
- Requires expenses to foreign source income be based on allocation for GloBE purposes to entity (not the amount allocated for local FTC purposes)
 - Mismatch issues – Local FTC limitation allocations vs GloBE expense allocations

Step 2: Computation of Allocable Covered Taxes

- Determined by mechanical formula.
- Must be a net positive amount (i.e. no negatives allowed)
- Adjustments required for QRTCs and MTTCs and Qualified Flow-Through Tax Benefits (where the Equity Investment Inclusion Election has been made) to the extent not accounted for consistently with their required GloBE treatment.

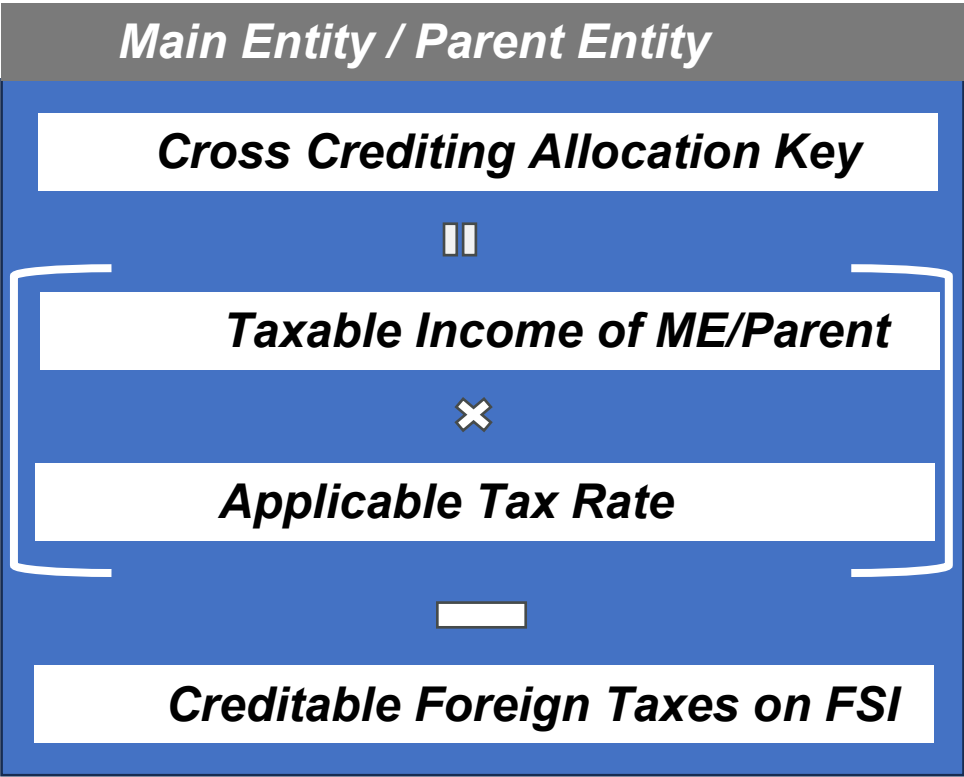
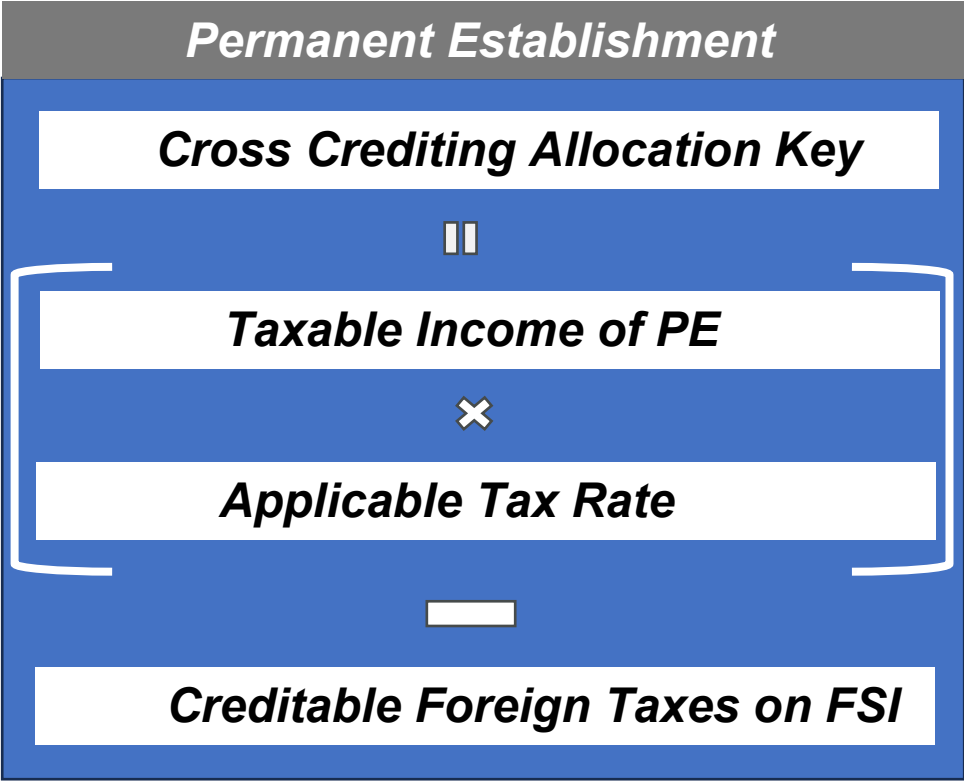


Overview

Current Tax Allocation – Cross Border / CFC

2024 June Administrative Guidance

Step 3: Determine Allocation Keys for Parent/ME and PE



Step 4: Allocate to PE and Main Entity/Parent Entity

Allocation to Permanent Establishment or Main Entity/Parent Entity

Cross Crediting Allocation Key for PE (or Main Entity/Parent)

Total Cross-Crediting Allocation Keys

×

Allocable Covered Taxes

Allocation of Cross Border CFC Taxes – Deferred Tax Expense

June 2024 AG



Overview

Deferred Tax Allocation – Cross Border/CFC

2024 June Administrative Guidance

- Five-step approach adopted for CFC Tax Regime
- Designed to address limitations with:
 - Deferred tax expense/benefit attributable to passive GloBE income
 - Revaluation distortions under the Minimum Rate with respect to deferred taxes
- Applicable to MNE Groups with a Main Entity & PE structure
- GILTI & other Blended CFC Tax Regime taxes not eligible for this allocation
- Alternative to Allocation Methodology → 5-Year Election Available on a jurisdictional basis to exclude allocations of deferred tax expense/benefit – Article 4.3.2

Overview

Deferred Tax Allocation – Cross Border/CFC

2024 June Administrative Guidance

- Five-Step Methodology:

1. Categorization of DTA & DTLs recorded in Parent Entity or Main Entity accounts related to assets/liabilities of CEs or PEs
2. Deconsolidation of net basis DTAs or DTLs from any FTCs
3. Allocation of deferred tax expense/benefit related to non-GloBE income of foreign PE or CE
4. Allocation of deferred tax expense/benefit for Non-passive GloBE income
5. Allocation of deferred tax expense/benefit for Passive GloBE income.

Step 1: Categorization of DTA & DTLs recorded in Parent Entity or Main Entity accounts related to assets/liabilities of CEs or PEs

- Identify DTAs & DTLs with respect to such assets/liabilities
- Analyze movement in DTAs & DTLs
- Categorize between Three categories
 - a) Excluded GloBE income
 - b) Passive GloBE income
 - c) Non-Passive GloBE income

Step 2: Deconsolidation of net basis DTAs or DTLs from any FTCs

- Only needed if financial accounts adopt a “net basis” approach
- **Parent Entity Pre-FTC Posture:** Calculation of pre-FTC deferred tax expense/benefit arising from CFC tax regime for the Parent Entity
- **Determination of Relevant Creditable Foreign Taxes:** Calculation of any creditable foreign taxes expected to be paid by the CFC CE giving rise to the FTC (without regard to FTC limitation)
- Relevant Creditable Foreign Taxes includes:
 - Any creditable taxes which have been paid with respect to the relevant source of income, including CFs related to same source
 - Reasonable allocation of excess FTCs arising from other sources of income which are available for use against the relevant source of income under the tax regime applicable in the Parent Entity jurisdiction (cross-credit in same basket)

Step 3: Allocation of deferred tax expense/benefit related to non-GloBE income of foreign PE or CE

- Contemplates that some deferred tax expense/benefit may relate to income not in scope of the GloBE rules by operation of Article 4.4.1(a)
- Requires an allocation to the CFC CE but then serves as an exclusion
- Deferred tax expense/benefit not taken into account by Parent Entity or CFC CE when running GloBE calculation

Step 4: Allocation of deferred tax expense/benefit for Non-passive GloBE income

- Prior to recast of Article 4.4.1(a) → Requires full push-down of deferred tax expense/benefit from Parent/Main Entity to CE/PE level
- Following push-down, recast of deferred tax under Article 4.4.1(a) at CE/PE level for pre-FTC DTL to extent recast applicable
- Reduction attributable to FTC layered is then layered but not recast
 - If Relevant Creditable Foreign Taxes exceed pre-credit DTL → result is zero (cannot be negative)

$$\begin{array}{|c|} \hline \text{CFC CE} \\ \text{DTE} \\ \text{Inclusion} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Movement in [Recast Gross CFC Tax DTL (or DTA)]} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Relevant Creditable Foreign Taxes (or Utilized FTCs)} \\ \hline \end{array}$$

Step 5: Allocation of deferred tax expense/benefit for Passive GloBE income

- Limits the allocation of deferred tax relating to Passive GloBE Income to the amount that would raise Covered Taxes on that income to 15% – Article 4.3.3
- Any CFC taxes exceeding the 15% limit remain in Covered Taxes of Parent Entity
- If excess tax expense related to Passive GloBE Income → excess may be treated as new deferred tax expense & possibly new current tax expense based on mechanics of Article 4.3.3
- Does not apply with respect to PEs

Pillar Two Interaction With US Tax Regime

Practical Implications

Panel Discussion Points

- Understanding what is in “charge” today for Pillar Two – Provision/GIR concerns
- Having a plan for the GIR – 2026
- Monitoring Transitional Safe Harbor Testing & Qualified Financial Statements Posture
- Mindfulness on transactions & P2 election timing
- The role of defined terms in the US tax law & GloBE Model Rules for applying Pillar Two computational methods
- Importance of collective modeling considering U.S. Tax (BEAT, CAMT, GILTI, etc.) & GloBE purposes

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