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Tax transformation

Global minimum tax

Current trends

The world is facing an unprecedented pandemic impacting economic growth. Some of the major economies in the Middle East and North Africa (MENA) region are struggling with low oil prices as the governments are pressured to explore new ways of maximising revenues. On a regional level, we have and continue to witness a number of changes such as new Real Estate Transaction Tax (RETT), transfer pricing regulations, personal income tax announcement in Oman and the continued roll out of VAT implementation across the region. On a global level, we are following the developments regarding the proposed global minimum tax. These discussions are gaining momentum as tremendous global endorsement (G7, G20 and 132 Inclusive Framework (IF) members/countries including the UAE) has been achieved within a very short period of time. The proposed implementation date is 2023 which could be a real game changer.

Global minimum tax

This refers to the key components of which are commonly referred to as the Pillar Two or GloBE which introduces a minimum effective tax rate of at least 15%, calculated based on a specific rule set. Groups with an effective tax rate below the minimum in any particular jurisdiction are required to pay top-up tax to the tax authority in the head office location or another group companies' location in certain situations. The GloBE rules are intended to apply to groups with revenue of at least EUR 750 million (USD 887 million) and concern the taxation of foreign group companies i.e. extra-territorial taxation, similar to the Controlled Foreign Company rules as they do not apply to domestic entities.

We note that the statutory tax rates in a number of GCC countries are below the proposed global minimum tax rate of 15% e.g. the UAE, Bahrain and Qatar. Accordingly, businesses in the GCC will be heavily impacted; profits of business in these countries could be subject to top-up tax abroad or in the GCC if domestic tax law changes are made to tax such profits.

Future trends and impact on family offices/businesses

The Organisation for Economic Co-operation and Development (OECD) confirmed that countries/IF members e.g. the UAE, Bahrain, Saudi Arabia, Oman and Qatar are not required to adopt the GloBE rules. However, if they chose to do so, the rules must be implemented in line with the Pillar Two proposal. We note that in an official statement issued on 26 July 2021, the UAE Ministry of Finance (MoF) stated that it is supportive of the Pillar Two proposal. It is generally not unlikely that IF members will introduce the GloBE rules. In the context of the UAE, if Pillar Two was adopted, the Federal Tax Authority (FTA) has the ability to impose top-up tax on profits of non-UAE group entities subject to an effective tax rate of less than the global minimum tax. Any UAE profits could be subject to top-up tax abroad unless they are subject to tax and changes are made to the domestic laws. Therefore, we may be seeing countries with no or low taxes starting to engage in domestic major tax policy reforms to protect the local tax base from foreign tax claims.

The impact of the global minimum tax on the family office/business based on the UAE would depend on the group structure, the profile of the group entity and the tax environment of the countries involved as well as their potential response to the developments and timing of implementation.

The potential implications can be far-reaching, in this case and Tax/finance teams should work on developing a roadmap. In a first step, businesses should gain a good understanding of the proposed changes to fully assess the impact. The changes may have implications on, or require changes to the legal structure, business model, contracting and (transfer) pricing, accounting, profit, and systems and data organization e.g. tax function. Finance/tax teams should be ready to start conversations with different departments within the business and stakeholders on the impact and need to be able to answer critical questions:

- From a conceptual perspective, how would the rules apply under different scenarios considering the geographic footprint and what would be the impact?
- From a quantitative perspective, what would be the additional tax to be paid (and where) and what does that mean from a treasury/liquidity perspective?
- How will contractual arrangements be impacted, and can changes and pricing adjustment made?
- What are the gaps and maturity in terms of accounts, governance and transfer pricing to comply with the new requirements?
- Are business/operating model changes required to mitigate the impact?
- Are the Enterprise Resource Planning (ERP) systems able to produce the required data to comply with the new rules?

We are helping family groups to thoroughly understand the range of implications and mitigation strategies. In particular, we engaged in qualitative and quantitative impact assessments to ascertain the implications for the business. In no or low tax countries, income tax readiness projects/maturity assessments should be considered to prepare accordingly.

Deloitte's Tax professionals in the Middle East provide both compliance and advisory services across a broad range of matters affecting businesses. This approach ensures clients' most demanding challenges when operating in multiple jurisdictions are holistically addressed in a coordinated way, by subject matter and industry specialists, locally and abroad.

Why Deloitte?

Right Team

- We will involve subject matter specialists in direct tax consulting/compliance, base erosion and profit shifting (BEPS), transfer pricing and tax policy from UAE and the network
- We will leverage global quantitative tax management experts
- We will leverage our expertise in other areas such as financing/restructuring, treasury, and assurance to cover non-tax/operational aspects
- We have extensive experience in delivering successful Pillar Two impact assessments in the Middle East

Right Approach

- Creating long term impact/value, focus on key priorities and executable "tried/tested" solutions
- A holistic and comprehensive service approach considering education/training all the way to qualitative (scenario planning)/ quantitative impact assessment using Deloitte modeling tools and income tax readiness and governance
- We have a strong focus on non-tax aspect/implications such as business model/operational and systems changes to achieve the best outcome and preserve shareholder value

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