

Pillar 2 developments



Speakers



David Schultz
Tax Partner
Deloitte Australia



Anthony Stobart
Tax Partner
Deloitte United Kingdom



Kevin Ng
Tax Director
Deloitte Singapore

Agenda

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Side-by-Side package

2

Common FSI transactions/structures

Side by Side Package Overview

| | Simplification | | UTPR safe harbour | Side-by-side agreement | | Incentives |
|-------|---------------------------------------|-------------------------------------|--|------------------------|------------------------------|--------------------------------------|
| | Transitional country-by-country (CbC) | Simplified effective tax rate (ETR) | Transitional under taxed profits rule (UTPR) | Side-by-side (SbS) | Ultimate parent entity (UPE) | Substance based tax incentive (SBTI) |
| 2024 | ✓ | | | | | |
| 2025 | ✓ | | ✓ | | | |
| 2026 | ✓ | In some circumstances | | ✓* | ✓ | ✓ |
| 2027 | ✓ | ✓ | | ✓ | ✓ | ✓ |
| 2028+ | | ✓ | | ✓ | ✓ | ✓ |

Qualified domestic minimum top-up tax (QDMTT) safe harbour and non-material constituent entity (NMCE) simplified calculations safe harbour also available

* Subject to countries being restricted from applying with retrospective effect

Side by Side Package

Key impacts & unknowns

How are jurisdictions responding?

- Singapore & Hong Kong—impact on QDMTTs?
- China—response to SbS?

FSI specific rules in SbS package (Simplified ETR Safe Harbour)

- Insurance elections
- Treatment of Additional Tier 1 Capital

Impact on DD

- Simpler under transitional and permanent safe harbours
- Advantage for US HQ groups?

M&A Simplification

What's next?

Common FSI transactions/structures

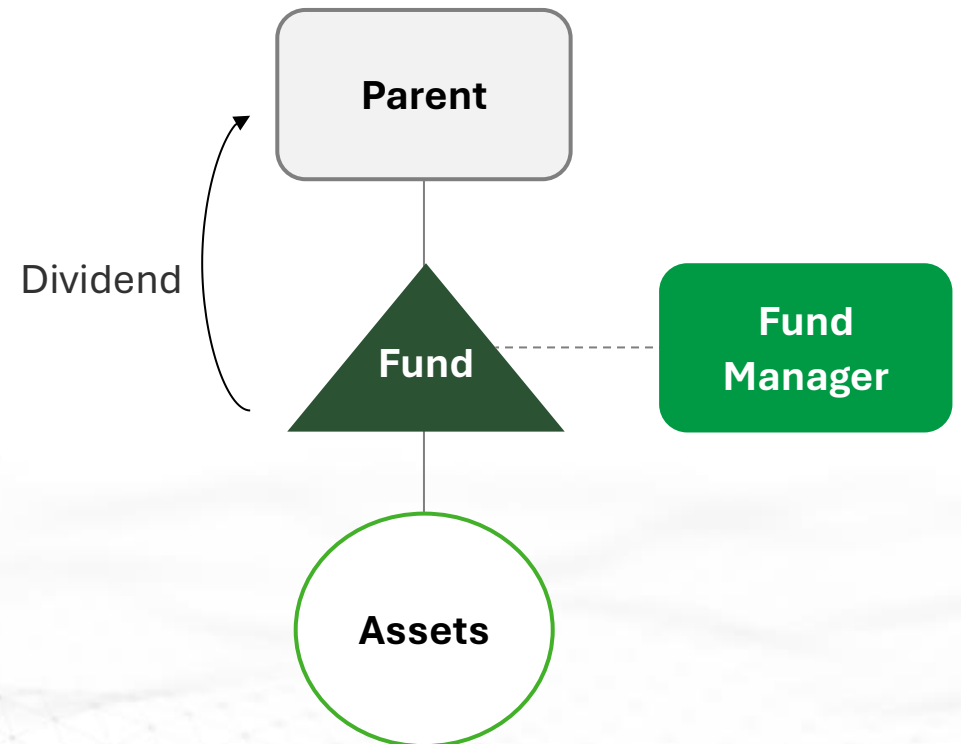
Diversified unconsolidated funds

Background Pillar Two Consequences

- Parent doesn't consolidate fund as there are multiple un-related investors.
- The Fund invests in bonds. Investment in the Fund carries rights to less than 10% of any one of profits, capital, reserves and voting rights.

Pillar Two Consequences

- Fund is not part of Parent's group as it is not consolidated.
- Fund may not meet revenue threshold in its own right (or, if it does, it may be an Investment Fund and therefore excluded).
- The **Excluded Dividend** treatment on returns should apply as long as the dividend is paid more than 12 months after the investment in the Fund is acquired (LIFO basis).

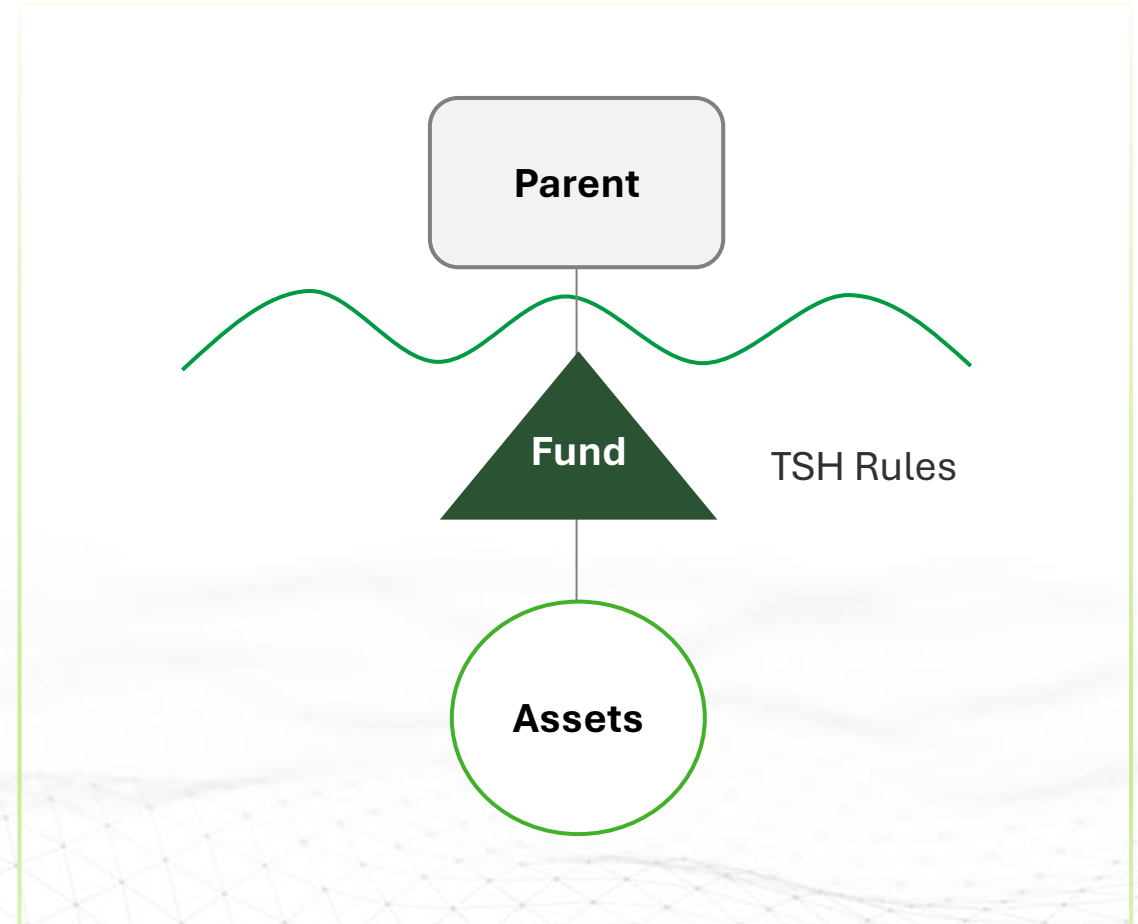


Common FSI transactions/structures

Fund & JV structures

Misaligned treatment of funds TSH vs CbCR

- Fund is consolidated by Parent.
- If Fund is established in a no-tax jurisdiction then it cannot be a “flow-through” entity.
- Fund is therefore in principle able to apply the TSH.
- Treatment of Fund for country-by-country purposes—what does Action 13 (Q&A) say?
- What if Parent applies full GloBE Rules rather than TSH?

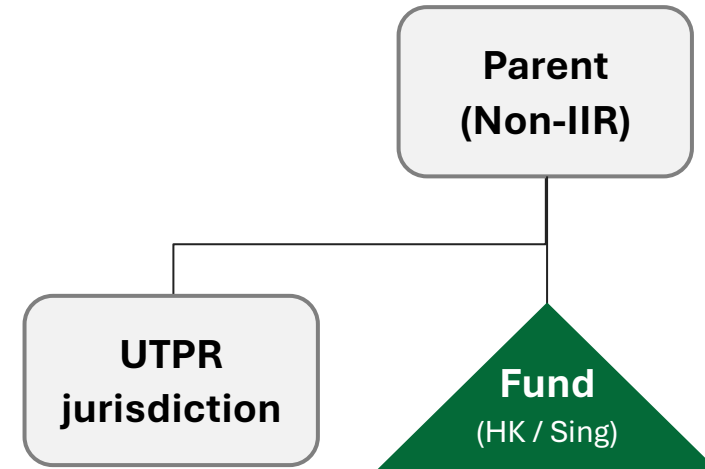


Common FSI transactions/structures

Fund & JV structures

QDMTT fund exemptions

- Certain jurisdictions (e.g. Hong Kong, Singapore, Ireland) exempt investment funds from local QDMTT.
- Impact of Switch-off rule:
 - Could this lead to UTPR issues?
 - Better to ensure IIR applies to simplify compliance?
- What if Parent is US?



Common FSI transactions/structures

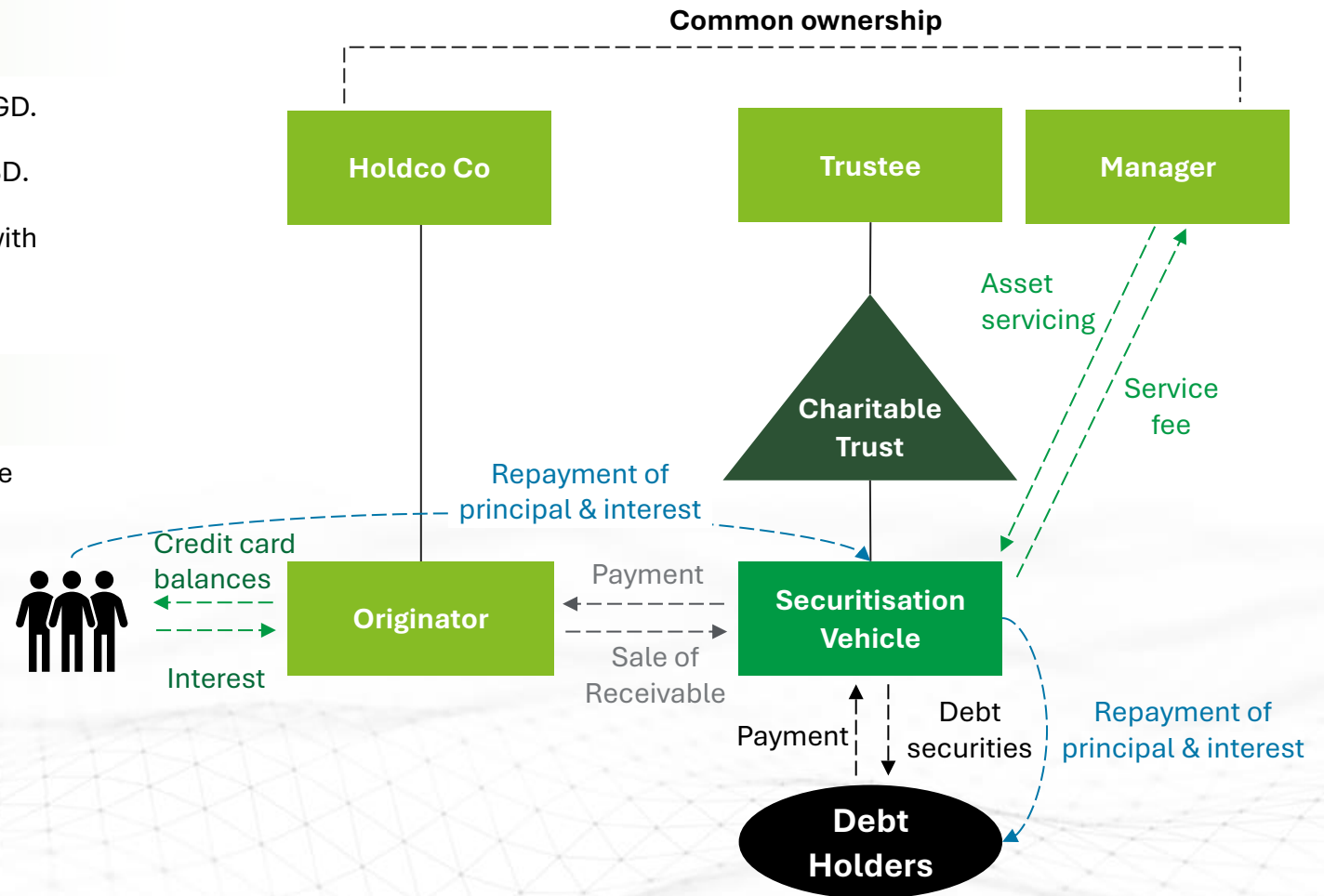
Securitisation vehicles

Background

- Securitisation of credit card balances which are denominated in SGD.
- Bonds are issued to international investors and denominated in USD.
- FX swaps are entered into to hedge the currency risks associated with the repayment of balances and the interest / principal payment obligations under the bonds.

Pillar Two treatment

- Risk of accounting consolidation when the Trustee and Manager are all under common ownership.
- Securitisation Vehicle usually have minimal residual income after bond payments. However, changes in FX can result in large accounting gains / losses which are recognised in the P&L of the Securitisation Vehicle. As these are usually untaxed, there can be significant top-up tax exposures
- No unified approach for QDMTTs, jurisdictions have the option of deciding how such entities are to be treated (e.g., included, included but any top up tax is imposed on another CE, or entirely excluded)



Common FSI transactions/structures

Bermudan structures

Bermudan CIT

Not a QDMTT

Five-year exemption from CIT

Economic Transition Adjustment

Bermuda

Bermuda

Bermuda

Any P2 jurisdiction

Singapore

Bermuda

| | | | |
|---------------------------------|-----|------------|-----------------|
| 5-year CIT exemption in Bermuda | Yes | Yes | Taxed under IIR |
| UTPR exemption | n/a | Yes | n/a |
| 10-year ETA benefit | Yes | Restricted | Restricted |

Key Takeaways



The Pillar Two consequences for the FSI sectors are complicated.



The consequences are particularly complicated for fund structures due to their flow-through nature (both under TSH and full GloBE).



Whilst the Pillar Two outcomes can be odd, odd doesn't always mean bad. This means that there can be opportunities for the FSI sectors.



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