



**NATARAJAN & SWAMINATHAN LLP**  
A MEMBER FIRM OF KNAV INTERNATIONAL LTD

# OECD

## Pillar 1 & Pillar 2 Regulations

FRIDAY, 21<sup>ST</sup> MARCH, 2025 @ 5.00PM

### **MR. R NARAYANA MOHAN**

Senior Partner, Natarajan & Swaminathan LLP  
Chartered Accountants of Singapore.  
PAST CHAIRMAN of SICCI is inviting you to a  
scheduled Teams meeting.



**SPEAKER**

### **JOIN ZOOM MEETING**

<https://zoom.us/j/94620978382?pwd=6JYucIH36bOXZfaagUTZNNB2b0xzu8.1>

Meeting ID: 946 2097 8382  
Passcode: 831945

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# OECD and definition of Multinational Enterprise

## OECD

- ❑ Organisation of Economic Co-operation and Development, a global body (140 member countries), along with G-20 countries have agreed on a landmark, during the year 2021, to address the tax challenges arising from the digitalisation of the economies have come out with various regulations for all member countries to follow.
- ❑ OECD and G-20 countries adopted a 15-point action plan to address BEPS (Base Erosion and Profit Shifting)
- ❑ Reform International Taxation rules and ensure that Multinational Enterprises pay a fair share of tax which ever country they operate and generate profits in this digitised world.

# OECD AND DEFINATION OF MULTINATIONAL ENTERPRISE

## **Multinational Companies - definition**

- ❑ **Multinational Companies with an annual global turnover of more than 750 million EUROS (\$ 1.1 B). In the consolidated financial statements of the ultimate parent entity in at least 2 of the four fiscal years immediately preceding the tested Fiscal Year**
- ❖ **Consolidated revenue of the Group – Intra-group transactions are excluded from consolidated revenue**
- ❖ **Minority Holding – Include revenue attributable to minority interest holding**
- ❖ **Excluded Entity – Include revenue o Excluded Entity**
- ❖ **Two of four Fiscal Years (current year is excluded from the Four year calculation)**



# OECD - 15-POINT ACTION PLAN TO ADDRESS **BEPS**

## Action 1



### Tax Challenges Arising from Digitalisation

Dealing with the large range of tax challenges arising from the digitalisation of the economy to develop a consensus-based solution.

## Action 2



### Neutralising the effects of hybrid mismatch arrangements

Preventing hybrid mismatch arrangements from being used for BEPS while minimising impact on cross-border trade and investment.

## Action 3



### Controlled Foreign Company

- Reducing the incentive of taxpayers to shift income from a market country into foreign subsidiaries in a low-tax jurisdiction.

## Action 4



### Limitation on Interest Deductions

Establishing rules that link an entity's net interest deductions to its level of economic activity within the jurisdiction.

## Action 5



### Harmful tax practices

Countering harmful tax practices with a focus on improving transparency.

# OECD - 15-POINT ACTION PLAN TO ADDRESS **BEPS**

## Action 6



### Prevention of tax treaty abuse

Developing model tax treaty provisions and recommendations to prevent treaty abuse.

## Action 7



### Permanent establishment status

Preventing artificial avoidance of permanent establishment status in tax treaties through commissionaire structures and more.

## Actions 8-10



### Transfer pricing

Guidance for applying the arm's length principle.

## Action 11



### BEPS data analysis

Collecting and analysing data on the economic and fiscal effects of tax avoidance behaviours and on the impact of measures proposed under the BEPS Project.



# OECD - 15-POINT ACTION PLAN TO ADDRESS **BEPS**

## Action 12



### Mandatory Disclosure Rules

Requiring taxpayers and advisors to disclose aggressive tax planning arrangements to tax authorities.

## Action 13



### Country-by-Country Reporting

Improving tax transparency with country-by-country reporting.

## Action 14



### Mutual Agreement Procedure

Making dispute resolution between jurisdictions more timely, effective and efficient.

## Action 15



### Multilateral Instrument

Implementing the tax treaty-related BEPS recommendations to address vulnerabilities in existing tax treaties.

# OECD –Pillar One : Profit Allocation and Nexus

## Overview of Pillar One

- Pillar One, which applies to large multinationals, will reallocate certain amounts of taxable income to market jurisdictions, resulting in a change in effective tax rate and cash tax obligations, as well as an impact on current transfer pricing arrangements

## OECD –Pillar 1 Singapore Compliance

Under Pillar 1, the allocation of taxing rights on corporate profits between countries is being transformed.

### **MNC – avoid paying taxes - BEPS (Base Erosion and Profit Shifting)**

- ❑ Relates to tax planning strategies that multinational enterprises use to exploit loopholes in tax rules to artificially shift profits to low or no tax locations, as a way, to avoid paying tax.



# OECD –Pillar 1 Singapore Compliance

## OECD –Pillar 1 regulations

- ❑ Applies to multinationals - will allocate certain amounts of taxable income to market jurisdictions, resulting in a change in effective tax rate and cash tax obligations, as well as an impact on current transfer pricing arrangements.
- ❑ CBC reporting – (Country by Country reporting) – Aggregate data on the global allocation of income, profit, taxes paid and economic activity among tax jurisdictions in which they operate.

# OECD –Pillar 1 Singapore Compliance

**Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction**

[illegible]

# OECD – Pillar 1 Singapore Compliance

## ANNEX – Template for CbC Report

**Table 1. Overview of allocation of income, taxes and business activities by tax jurisdiction**

[illegible]



# OECD –Pillar 2

## Pillar Two: Global Minimum Taxation

### Overview of Pillar Two

- The OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) released Model Global Anti-Base Erosion (Globe) rules (Model Rules) under Pillar Two. These Model Rules set forth the “common approach” for a Global Minimum Tax at 15 percent for multinational enterprises with a turnover of more than EUR750 million.
- The IF has released further guidance on the Model Rules throughout 2022 and 2023, including Commentary, an Implementation Framework, and Administrative Guidance.
- The European Union (EU) and a number of other jurisdictions intend to introduce Pillar Two from 2024, while other countries and territories have indicated they will introduce Pillar Two from 2025.

### Insights on Pillar Two

- The Model Rules did not include a model Subject to Tax Rule (STTR) treaty provision, which is expected to be developed in 2023.

# OECD –Pillar 2 – Singapore Compliance

## **Pillar 2 - minimum corporate tax rate of 15% for multinational companies.**

**Definition** - Establishes a global minimum corporate tax rate of 15% to prevent multinational companies from shifting profits to low-tax countries

**Mechanism:** If a company's effective tax rate in a jurisdiction falls below the global minimum, the country where the parent company is based is required to "top-up" the tax liability to reach the minimum threshold.

**Impact:** Aims to create a level playing field for corporate taxation, discouraging tax avoidance strategies and ensuring companies pay a minimum level of tax globally.

## **Singapore Compliance**

### **Multinational Enterprise Top-up Tax Act**

- **Multinational Enterprise Top-up Tax**
- **Domestic Top-up Tax**
- To comply with the Pillar 2 regulations, Singapore has introduced Multinational Enterprise Top-up Tax Act to enable multinational enterprises to pay the minimum tax of 15%. w.e.f 01.01.2025
- Pioneer status companies, global traders program companies and other companies enjoying tax benefits will be required to pay top-up tax to make it 15% corporate tax

# OECD –Pillar 2 – Singapore Compliance

## Domestic Top-up Tax (DTT)

**Definition:** A general top-up tax applied at the global level to ensure that all MNEs meet the 15% minimum tax threshold, usually under the IIR or UTPR.

**Purpose:** Allows a country to retain tax revenue that would otherwise be collected by a foreign jurisdiction under the Income Inclusion Rule (IIR) or Undertaxed Profits Rule (UTPR).

### Application:

- If a subsidiary of an MNE has an ETR below 15% in a specific jurisdiction, that jurisdiction can impose a DTT to meet the minimum tax requirement.
- This means the low-taxed profits are taxed domestically first before another jurisdiction applies the IIR or UTPR.

**Advantage:** Helps countries keep tax revenues within their borders rather than allowing them to be collected by the parent company's jurisdiction.



# OECD –Pillar 2 – Singapore Compliance

## Minimum Top-up Tax (MTT)

**Definition:** A general top-up tax applied at the global level to ensure that all MNEs meet the 15% minimum tax threshold, usually under the IIR or UTPR.

**Purpose:** Acts as a safety net when a country does not impose a DTT, ensuring that low-taxed profits anywhere in the group are taxed appropriately.

### Application:

- If a country does not implement its own DTT, another jurisdiction (usually the country of the parent entity) can apply the MTT under the IIR or UTPR to collect the top-up tax.
- The MTT ensures that tax revenues are not avoided or deferred if the primary taxing jurisdiction does not impose the necessary level of taxation.

# OECD –Pillar 2 – Singapore Compliance

## Key Differences

Feature	Domestic Top-up Tax (DTT)	Minimum Top-up Tax (MTT)
Who imposes it?	The jurisdiction where the low-taxed entity is located.	A jurisdiction under IIR or UTPR (e.g., the parent entity's country).
Objective	Ensures top-up tax is collected locally rather than by a foreign jurisdiction.	Acts as a last resort if a jurisdiction does not levy a DTT.
Which rule applies?	Implemented voluntarily by a country to meet Pillar 2 requirements.	Applies when a DTT is not imposed, ensuring minimum taxation globally.
Who benefits?	The domestic government collects the top-up tax.	A foreign jurisdiction (e.g., parent country) may collect the tax instead.

# INDIA

## POEM – Place of Effective Management

This concept of Place Of Effective Management (POEM) is also introduced by OECD and India, a member of OECD. The Indian Tax authorities have amended sec 6 of Income Tax Act (which defines the source of income). If the management and control happen to be in India for any companies established overseas, are also treated as income earned in India

## OECD /CBDT/ FEMA/RBI Circular /Principal Purpose Test (PPT)

The concept of PPT was introduced by OECD and agreed to by 140 countries including India. PPT provides that the benefit of tax treaty shall be available only if the purpose of a transaction was commercial and it has commercial substance. Any transaction entered into including investment made with one of the major purposes of tax avoidance will not be eligible for treaty benefit.





**Thank You**

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ANY  
QUESTIONS