

# Overhaul of International Taxation Laws

## Introduction

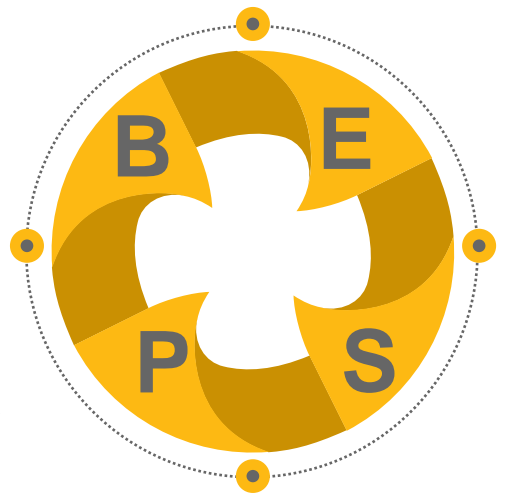
In its June 2021 Communique, the G7 announced strong support to the global tax changes being developed under Pillar One and Pillar Two of the G20/OECD Inclusive Framework project (BEPS 2.0 project).

## Background

In October 2020, Inclusive Framework released blueprints of Pillar One and Pillar Two for public consultation.

- Pillar One proposal focus on the allocation of taxing rights to market jurisdiction
- Pillar Two (GloBe) focus on the development of global minimum tax rules to ensure that global business income is subject to at least at an agreed minimum rate of tax

In April 2021, the Biden Administration confirmed its support for Pillar 2 of the BEPS 2.0 project and proposed a new approach on Pillar 1 to simplify the OECD's existing proposals.



## What's the development?

In support of BEPS 2.0 project, the G7 agreed to a high-level political commitment to the following on 5 June 2021:

- Pillar one :
  - Allocation of taxing right to market jurisdiction on at least 20% of profit exceeding a 10% margin
  - Market jurisdiction rights to be limited to large and profitable multinational enterprises
  - Removal of Digital service tax rules
- Pillar two:
  - Global minimum tax rate of at least 15%
  - Global minimum tax rules to be applicable on a country-by-country basis

## What's next?

- Any changes in the global tax reform will depend upon the meeting of Inclusive Framework to be held by the end of June 2021 and the G20 meeting in July 2021.
- The agreement on the proposals requires the consensus of the 139 jurisdictions that are members of the Inclusive Framework.
- Once an agreement is reached, further work is required including the implementation of the agreement and double tax treaty changes.

## What's the impact in UAE?



- As a member of Inclusive Framework, any agreement on global minimum tax rate by the countries of Inclusive Framework is likely to create significant impact on the taxation framework in the UAE.
- The possible imposition of minimum corporate tax by the UAE, following the BEPS 2.0 project, may make the state less attractive for foreign multinational investors.
- It is important for multinational companies in the UAE to follow these developments to evaluate the potential impact to their businesses.