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Public Consultation on the Global Anti-Base Erosion Proposal ("GloBE") under Pillar Two
Joint comments by economiesuisse and SwissHoldings

Dear Madam, Dear Sir,

economiesuisse, the Swiss Business Federation represents approximately 100,000 companies from all business sectors and regions of Switzerland with a collective work force of some 2 million. SwissHoldings represents the interests of 58 Swiss-based multinational enterprises from the manufacturing and service sectors (excluding the financial sector).

We appreciate the initiative taken by the OECD for a multilateral solution to address potentially remaining BEPS challenges and particularly to avoid harmful unilateral measures. We agree with the objective of the BEPS project that profits should be taxed where value creation takes place.

We thank the OECD for the opportunity to provide comments on the Global Anti-Base Erosion Proposal ("GloBE") under Pillar Two. First, we would like to make some general remarks about this proposal. This is followed by Appendix 1 where we provide detailed responses to the specific questions raised in the consultation document.

The general points we would like to raise are the following:

1. **Prior to an agreement on the new Global Anti-Base Erosion Proposal, a thorough impact assessment should look at the effects of the anti-base erosion measures of the original BEPS-Project**. Further, the measures under Pillar One should also be assessed, specifically to what extent they already counter risks of base erosion in connection with the digitalization of the economy.

2. **GloBE rules should be considered a "maximum standard" that Inclusive Framework members (IF) commit not to go beyond.** Jurisdictions should not be allowed to apply lower minimum tax rates or stricter requirements. Otherwise, the objective of avoiding uncoordinated unilateral measures could not be achieved. IF members should also commit to abolish or at least adapt existing CFC rules as well as unilateral deductibility limitations upon implementation of GloBE and the IF should agree on a white list of approved foreign minimum tax regimes for purposes of Pillar Two.

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3. **GloBE should focus exclusively on the prevention of artificial arrangements which do not reflect economic reality.** This is particularly relevant regarding compatibility with EU law which allows unequal treatment of cross-border cases and thus a restriction of the four freedoms only if it is justified by overriding reasons of public interest such as the prevention of abuse.

4. **Substance-based IP regimes which are fully compliant e.g. with the BEPS Action 5 Nexus approach should be carved out.** Pillar Two measures need to balance countries’ concerns regarding artificial arrangements with countries’ rights to implement generally accepted tax regimes for R&D.

5. **We suggest that instead of focusing exclusively on low effective tax rates, Pillar Two measures should also take into account state subsidies that generate comparable effects.** Otherwise, governments may easily circumvent the new rules by replacing low tax regimes with equivalent subsidies.

6. **Global accounting standards (IFRS and US GAAP) can serve as a starting point. The objective of these standards is to provide relevant information to investors, which may conflict with basic requirements of corporate taxation.** Further analysis must be carried out on whether the accounting standards and the proposed mechanisms to address timing differences are a sound basis for GloBE.

7. **In addition to global accounting standards, local GAAP accepted by stock exchanges such as Swiss GAAP FER must also be acknowledged as generally accepted accounting standards.** For many Swiss companies IFRS is not suitable due to significant deviations relative to the Swiss Code of Obligations and the Swiss Tax Law. MNEs should be free to opt for any standard as long as it is a recognised financial accounting standard.

8. **We recommend a worldwide blending approach, which would meet the policy objectives of Pillar Two in a proportionate and focused way.** Mandating a jurisdictional or entity blending approach would create significant complexity and cause high compliance costs for both taxpayers and tax authorities. A jurisdictional or entity blending approach would also undermine the practicability of working from parent-consolidated financial accounts.

9. **A clear and simple ordering of the four proposed rules of GloBE is essential to reduce compliance costs for tax authorities and MNEs. The income inclusion rule should function as the primary rule.** The denial of deduction rule/undertaxed payments rule should only apply to payments to an affiliate whose ultimate parent is not subject to a Pillar Two income inclusion rule. We are concerned that the current consultation covers only the income inclusion rule but not the other three rules of the GloBE proposal and the interactions between them.

Yours faithfully,

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economiesuisse

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Appendix 1

ISSUE	QUESTION	COMMENTS
2.2 Use of financial accounts to determine income	**Question 1**: a) Do you agree that the use of financial accounts as a starting point can provide an appropriate income base (for the computation of an effective tax rate) and would simplify and reduce the compliance costs of the GloBE proposal?	We agree that the financial reporting prepared in accordance with an appropriate accounting standard can serve as a starting point for the computation of the effective tax rate of an MNE. Any alternative method would increase complexity and compliance costs significantly. However, we also note that the European Commission considered it necessary to develop a common consolidated tax base for the CCCTB since accounting rules could not be used as a tax base. This highlights the substantial difficulties linked to this endeavor. Further, we note that while consolidated financial statements are suitable for computation of the worldwide tax base, their major weakness is the elimination of intra-group transactions. Consequently, expenses and revenues from related parties are not included in P/L.
	b) What would be the consequences of using the accounting standards applicable to the ultimate parent entity of the MNE? Would you suggest a different approach?	We suggest using the financial reporting in accordance with the accounting standards applied by the ultimate parent entity. The relevant financial figures of all subsidiaries of the MNE are prepared based on the same group accounting principles and confirmed by the auditor. Using an accounting standard other than that of the ultimate parent entity would lead to considerable costs for the introduction and application as well as compliance with an alternative set of rules. This alternative set of rules would first have to be developed at the global level. The development of a regulatory framework tailored to the specific needs of GloBE is not realistic within a reasonable time frame. Globally recognised institutions, governance structures and processes must first be created.

		However, an unrestricted reliance on the accounting standards applied to the consolidated financial statements is critical for various reasons with regard to the objectives of the GloBE proposal and may lead to unequal treatment of the same circumstances and distorted results. Some critical points are analysed below on the basis of IFRS in three areas. They also apply to other generally accepted accounting standards. - Objective of IFRS financial statements and basic principles based thereon; - Difference between financial reporting of groups and subsidiaries; - Coherence of accounting income and income tax expense to determine the effective tax rate; The objective of IFRS is defined in the conceptual framework of IFRS: *The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or setting loans and other forms of credit*. Thus, the information needs of other stakeholders - including tax authorities - are subordinate and are not taken into account in the development of the standards. As the following examples show, the investor-based principles of IFRS may conflict with basic principles for determining the tax base. Various IFRS standards contain explicit options which could lead to different accounting for the same circumstances and influence the effective tax rate. IFRS also applies the principle that, in the case of new and amended standards or change in accounting policies, the prior-year figures are restated, and the adjustment effects are recognized directly in equity. In addition, certain costs and revenues are recognized directly in other comprehensive income (OCI) outside the income statement. In these three examples, the question arises whether IFRS accounting is consistent with the basic principles of sound corporate taxation or whether adjustments are necessary. The above examples must be evaluated for their impact on corporate income taxation. The three proposed mechanisms to address timing differences (carry-forward of excess taxes,

		deferred tax accounting and multi-year averaging) do not ensure that the distorting effects are eliminated in the above examples. IFRS is used by to prepare consolidated financial statements. The financial reporting of the subsidiaries to the parent entity are based on group accounting policies. However, these financial reports of subsidiaries do not always fully comply with IFRS. IFRS does not contain any provisions on the method of how to allocate costs and income of the consolidated financial statements to subsidiaries or operating segments. The accounting system is designed to ensure IFRS conformity at Group level. Particularly intra-group transactions between subsidiaries are often not accounted for in accordance with IFRS, because such transactions are eliminated in the course of consolidation. Because there are no rules for the allocation of costs and revenues, there is a lack of a sufficient basis for the jurisdictional and entity blending approach. The provisions on tax accounting under IFRS are based on the principle that income taxes are determined as if the accounting profit were the taxable result. However, various circumstances may lead to the inconsistency between income tax expense and profit before tax (see answer to question Q3b – deferred tax accounting). Further analyses must be carried out of whether accepted accounting standards (e.g. IFRS) and the proposed mechanisms to address timing differences are a sound basis for GloBE purposes. We suggest to include the International Accounting Standards Board (IASB) as standard-setter of IFRS in this process.
	c) How would you recommend determining whether a financial accounting standard is an appropriate standard for determining the tax base under the GloBE proposal?	From our point of view, besides IFRS and US GAAP, all other accounting standards accepted by a stock exchange are an appropriate basis for determining the tax base under GloBE. The reliance on local accounting and tax rules in force in the country in which a subsidiary of an MNE is established may lead to a distorted computation of the effective tax rates and thus to unequal treatment of similar circumstances and

		transactions. The use of the accounting standards applied by the ultimate parent entity is, despite existing differences between accounting standards, the most appropriate approach for the purposes of GloBE.
	d) Do you have concerns that allowing more than one financial accounting standard to serve as the starting point for determining the tax base under the GloBE proposal will place some MNEs at a competitive disadvantage due to variations in financial accounting standards among jurisdictions?	There are differences between the accounting standards accepted by stock exchanges. For the purposes of GloBE, however, these differences are not material. Most differences in accounting lead to timing differences, which must be addressed in the GloBE proposal anyway.
	e) There may be some instances where MNEs, particularly smaller MNEs, do not prepare consolidated financial statements for any purpose. How much of an issue do you think this is and for what types of MNEs? Where this is the case, how would you suggest the issue should be addressed?	We recommend limiting the application of the GloBE proposal to MNEs that are required by the applicable accounting laws to draw up consolidated financial statements. The complexity of the GloBE proposal practically requires the use of consolidated financial statements.
	f) Are there additional or different considerations that apply to the tax base determination for purposes of an undertaxed payments rule?	An undertaxed payments rule that would operate by way of a denial of a deduction or imposition of source-based taxation (including withholding tax) on the total gross amount of particular payments, would necessarily lead to double taxation. Generally, Pillar Two measures must only tax profits and refrain from taxation of gross revenues or payments.
2.3.1 Permanent Differences	**Question 2**: a) What are the material permanent differences between financial accounting income and taxable income that are common across jurisdictions and that you think should be removed from the tax base without undermining the policy intent of the GloBE proposal?	A distinction must be made between the group level and the subsidiary level. At the subsidiary level, an important permanent difference common to many countries is the exclusion of dividends received. The amount of the dividends received should be excluded from the viewpoint of eliminating double taxation. At the Group level, dividends from subsidiaries are eliminated on consolidation. Furthermore, the share

		of results from associates and joint ventures (equity accounting) are usually permanent differences (i.e. reported as dividends in tax return with a timing difference) and should be removed from the tax base.
	b) Do you have views on the methods that could be used for dealing with permanent differences?	According to IFRS, an analysis of the tax expense or effective tax rate must be disclosed in the consolidated financial statements. The subsidiaries report this analysis to the parent companies as part of the financial reporting process. In this analysis, the permanent differences could be listed as a separate item. This information could be used to eliminate permanent differences on Group level. However, the term permanent difference is not clearly defined in IFRS.
	c) Do you have any comments on the practicality of making adjustments for permanent differences?	
	d) Do you think any other adjustments to the financial accounts require attention?	Prior year-adjustment stemming from audits, MAPs, APA rollbacks require special considerations.
2.3.2 Temporary Differences	**Question 3**: a) Do you have any comments on the use of carry-forward of losses and excess tax as a mechanism for addressing temporary differences under the GloBE proposal?	The mechanism to carry-forward losses and excess taxes is not well suited to address temporary differences. Especially in connection with global blending or jurisdictional blending the application has a high complexity. To enable the parent company to track carry-forwards through memorandum accounts for each subsidiary requires that additional data to be collected as part of the financial reporting. The requirements for the scope and measurement of this data need to be defined.
	b) Do you have any comments on the use of deferred tax accounting as a mechanism for addressing temporary differences under the GloBE proposal?	Various specific circumstances may lead to an inconsistency between income tax expense and profit before tax and may reduce effectiveness of the proposed mechanism for addressing temporary differences. Examples: – If subsidiaries incur losses and no deferred taxes are recognized, the consolidated financial statements show a reduction in earnings before taxes without a corresponding reduction in tax expense. As a result, the calculated effective tax rate increases.

		– Deferred taxes on temporary differences are measured at the tax rates that are (substantively) enacted at the balance sheet date. In the case of changes in tax rates, for example as a result of a change in tax law, the valuation of deferred income taxes carried forward in the balance sheet must be adjusted to the new tax rates and the effects of the revaluation must be recognised in tax expense. These effects are unrelated to the accounting period and can have a significant impact on the reported effective tax rates. – Investments in associated companies are accounted for using the equity method in the consolidated financial statements. Under this method, the share of net profit (net loss) is recognized in the consolidated income statement and reported in profit before tax. However, the share of net profit (net loss) is a measure of profit after taxes. This leads to an inconsistency between tax expense and profit before tax. Regarding equity method see also the answer to question 2 a). – In connection with the acquisition and divestment of group companies, the consolidated financial statements may show deferred tax effects both at the time of the transaction and in subsequent periods (purchase price allocation, impairment goodwill, discontinued operations). These effects can have a material impact on the reported effective tax rates. In the four examples, the proposed mechanisms to address timing differences do not result in a consistent presentation of the relationship between income tax expense and profit before tax. We therefore suggest removing the loss-making entities from the tax base. We also suggest removing from the deferred taxes all adjustments related to deferred tax assets impaired (incl. reversal of such impairment) as well as deferred tax adjustments related to changes in tax rates.
	c) Do you have any comments on the use of a multi-year approach to measure the average effective tax rate as a mechanism for addressing temporary differences under the GloBE proposal?	The proposed variant of multi-year averaging refers only to the subsidiary level. In this case, the expected simplifications are only achieved with an entity blending. In the case of global or jurisdictional blending, multi-year averaging on a subsidiary level even increases complexity and costs.

		A multi-year averaging based on the consolidated financial statements in connection with global blending can lead to a significant simplification. However, the average effective tax rate should be calculated as the ratio between total income tax expense (current and deferred taxes) and profit before tax. In addition to that the period to calculate the average needs to be about 10 years to allow for difference in market conditions vs pure accounting standard compliance.
	d) Do you have any comments on what limitations (if any) should be imposed on the normal financial accounting rules for deferred tax assets and liabilities and the practicalities of imposing those limitations?	A common reason for timing differences are differences in tax laws with respect to the capitalization and amortization of tangible and intangible assets compared to financial reporting. The provisions for determining the tax base may, for example, provide for shorter depreciation periods. At the level of the individual asset, the temporary difference is reversed at the end of the depreciation period. But at entity level, ongoing new additions of assets may result in de facto permanent differences. In this situation, the introduction of time limitations on deferred tax accounting may not be introduced at entity level on an aggregated basis. But time limitations on deferred taxes at the level of the individual assets would significantly increase administrative burdens. In practice, deferred taxes are generally calculated on the total amount of temporary differences and not on the basis of individual assets. Due to the difficulties of measurement, no time limitation should be introduced.
	e) Do you see opportunities for potential abuse in any of the approaches for addressing temporary differences described above? Do you have suggestions for designs to prevent those abuses?	The allowance and disallowance on deferred tax assets might potentially open the possibility of abuses.
	f) Do you have any suggestions for alternative mechanisms for dealing with temporary differences?	
	g) Do you have any additional comments on Section 2, including comments based on experiences with existing regimes that you suggest should be adopted or avoided?	Subsidiaries that generate losses may cause distorted effective tax rates in the consolidated financial statements. This effect may occur even if deferred tax accounting is applied. The following example shows a group with two subsidiaries (A, B). Subsidiary A has a tax rate of 18% and subsidiary B of 22%. Subsidiary B

generates a loss and recognises a deferred tax asset. The effective tax rate in the consolidated financial statements amounts to 12%. The example shows that the effective tax rate in the consolidated financial statements does not represent a reliable basis for taxation in the case of loss situations of subsidiaries, even if deferred tax accounting is applied. Loss making entities should be removed from both the tax base and the income tax expense. See answer to Question 3b.

	Subsidiary A	Subsidiary B	consolidated
Profit before taxes	500	(300)	200
Tax rate	18%	22%	12%
Income taxes	(90)	66	(24)
Net income (loss)	410	(234)	176

Similar effects happen in case of disallowance of the different tax effect of the loss making entity and its subsequent recognition when the provision against the deferred tax asset is removed in later years.

All subsidiaries controlled by a parent company are fully included in the consolidated financial statements. That means costs and revenues are included at 100%, regardless of the size of the parent company's shareholding. It must be determined how subsidiaries with minority interests are to be treated for the determination of the GloBE basis.

3 Blending	**Question 4**: How would you assess the general compliance costs and economic effects of a GloBE proposal that is based on either entity, jurisdictional, or worldwide blending approach?	A global blending approach would meet the policy objectives of Pillar Two in a proportionate and focused way, as it would prevent MNEs global effective tax rate from falling below a fixed rate. Thus, we believe that the global blending approach should be preferred.

		The general compliance costs of global blending would be significantly lower. The greater the granularity of the approach, the bigger are the tracking and tracing efforts and the overall compliance costs. The application of a jurisdictional or entity blending would result in huge compliance burdens. A global blending would smooth most of the temporary differences, e.g. carry-forward of excess taxes and tax attributes, as correctly explained in Para. 58 and 59 of the public consultation document. However, a jurisdictional blending approach applicable only to MNEs could result in a legally problematic tax disadvantage for MNEs compared to local SMEs. While MNEs must comply with the minimum tax rate, this would not be the case for local SMEs. The latter can benefit from tax incentives and benefit form tax rates below the fixed minimum rate. Such a disadvantage of MNEs may harm global growth, investment, innovation and economic development in many countries. If under a jurisdictional blending approach an MNE according to the tax rate test is below the minimum rate in a specific country, the MNE must be given the right to explain the specific reasons. In any case, the administrative burden not only for taxpayers but also for tax authorities would be immense. There would also be a considerable risk of lengthy court disputes and double taxation. Apparently, the U.S. administration also considered a jurisdictional blending before implementing GILTI. The IF should take into account the specific concerns that lead the U.S. to refrain from such blending rule.
3.1 Effect of blending on volatility	**Question 5**: a) In the absence of any of the approaches for addressing temporary differences discussed in Section 2, do you consider that a worldwide approach would be effective at managing the volatility issues discussed above?	We agree with the statement that the bigger the scope of the GloBE proposal is, the more it smooths extreme results. Therefore, the broader the base, the less volatility is to be expected. This is also helpful for big swings in deferred positions. In addition, tax rate changes in a country and prior year adjustments might have a less significant weight in the worldwide blending. The worldwide approach would e.g.

		solve the computation difficulties related to tax losses carried forwad (see paragraphs 34 to 39 of the consultation document on Pillar Two). Compared to a jurisdictional or entity approach a worldwide approach would significantly reduce volatility issues. In addition, we suggest implementing an a least five-year average approach to further reduce volatility problems.
3.2 Use of consolidated financial accounting information	**Question 6**: a) Assuming that the MNE's income for purposes of the GloBE proposal would be determined by reference to financial statements (adjusted as necessary) and assuming further that an MNE already prepares consolidated financial accounts, what are likely to be the compliance implications for MNEs in (i) separating the income and taxes of their domestic and foreign operations under a worldwide blending approach, (ii) separating the income and taxes to a jurisdictional level, or (iii) breaking down income and taxes to an entity level?	The compliance costs and implications of option (i) are the lowest, whereas for options (ii) and (iii) they would be far bigger. Option (ii) and (iii) might require new reporting tools and processes which require additional investments in accounting capacities and capabilities. As explained above in the answer to question 1 b) above, IFRS does not contain any rules to allocate costs and revenues from the consolidated financial statements to the subsidiaries. The basic principles of allocation would first have to be developed. Should they differ from the accounting principles for intragroup transactions, compliance costs would rise significantly. We doubt that under the jurisdictional approach a correct and defendable separation is possible. Without strict international guidelines, we fear that tax administrations all over the world apply their own rules. This could result in multiple taxation and tax disputes.
	b) How would these compliance implications change if the income for purposes of the GloBE proposal was determined by reference to the rules used for calculating the tax base in the shareholder jurisdiction?	Specifically, local accountants (in every MNEs subsidiary) would need to apply foreign rules for calculating the tax base. To build up this expertise creates enormous new compliance cost.
3.3 Allocating income between branch and head office	**Question 7**: a) How would you suggest to apportion the income of an entity between the branch and the head office and do you think it should follow what is done for tax purposes?	Yes, it should follow tax purposes as they are the easiest to track. Any different rule would require special processes and accounting resources. Separate P/L and B/S should be prepared for them, as if they were separate entities.

	b) What are the compliance implications of such an allocation under a worldwide, jurisdictional and entity blending approach?	As the carve out of such branch set-ups is only required between domestic and foreign under the worldwide blending approach, the compliance implications are the lowest in this approach and increase with the increase in granularity from worldwide to jurisdictional to entity level.
	c) Is the compliance impact smaller for those MNEs that are subject to CbC reporting requirements and that are already required to report the income of a branch and head office separately even where no such requirement exists under financial accounting rules?	It depends among other factors on the set-up of the MNE, its underlying accounting system and processes and its preparation process for CbC reporting. In some cases, the compliance impact may be lower as the P/L and B/S are already prepared for CbC reporting purposes anyway.
3.4 Allocating income of a tax transparent entity	**Question 8**: a) How would you suggest to apportion the income of a transparent entity and do you think it should follow what is done for tax purposes?	The process for tax purposes is already known and reflected in the tax returns. This is then "just" a continuation of what is already implemented. The transparent entity is usually obliged to prepare its own financials. However, the profit allocation for the Pillar Two purposes should follow what is done for tax purposes, i.e. it should be allocated to the partners and jurisdictions where they are residents.
	b) What are the compliance implications of such an allocation under a worldwide, jurisdictional and entity blending approach?	Again, the worldwide blending approach requires the lowest compliance costs while the entity blending requires the highest compliance costs.
	c) Is the compliance impact smaller for those MNEs that are subject to CbC reporting requirements and that are already required to report the income of a transparent entity separately even where no such requirement exists under financial accounting rules?	It depends among other factors on the set-up of the MNE, its underlying accounting system and processes, its preparation process for CbC reporting. In some cases, the compliance impact may be lower as the apportionment is already solved for CbC reporting in a similar way.

3.5 Crediting taxes that arise in another jurisdiction	**Question 9**: a) How would you suggest dealing with attributing taxes that arise in another jurisdiction or entity under a jurisdictional or entity blending approach?	These would need to be allocated to the correct entity and/or jurisdiction to track the actual taxes. If this is too complicated, we believe that withholding taxes are ultimately borne by recipients and thus should be allocated to the residence jurisdiction of the recipient. However, we strongly support the global blending approach.
	b) What comments, if any, do you have on the practicality of crediting taxes paid in an intermediate jurisdiction or entity, such as under a CFC rule, against income of the subsidiary or branch?	It might be possible but definitely requires additional compliance processes and re-sources. It also might lead to double taxation if no full recognition takes place on all (sub-)consolidation levels.
3.6 Treatment of dividends and other distributions	**Question 10**: a) Assuming that the starting point for calculating the income of the MNE under the GloBE proposal is based on the financial accounts do you have any comments on the practicality of dealing with taxation of dividends under worldwide, jurisdictional and entity blending approaches?	Aligned with new guidance on CbC reporting, dividends distort the calculation of profit and tax if not appropriately corrected for. We believe that dividends from qualifying participations (e.g. at least 10%) should be eliminated.
	b) Do you have any comments on how the taxation of dividends should be dealt with under the GloBE proposal?	In countries which do not charge or provide a relief for income tax on dividends received an elimination of such qualifying dividends is required.
	c) Are there any other issues that you wish to highlight regarding worldwide, jurisdictional or entity blending?	Besides for dividends, similar rules need to be defined for acquisitions of new investments and divestment of discontinued operations/participations of an MNE.
4. Carve-outs	**Question 11:** a) Do you have any comments based on your own experience as to the preferred design of a carve-out	We believe that the GloBE rules should be limited to artificial arrangements without sufficient economic substance and not affect genuine commercial transactions. This

	taking into account factors such as simplicity, compliance costs, certainty, incentives and behavioral impacts?	is particularly relevant due to compatibility with EU law. As the Income Inclusion Rule may potentially establish a difference in treatment of cross-border cases, the imposition of a top-up taxation in accordance with the Income Inclusion Rule could constitute a restriction of the freedom of establishment and/or the free movement of capital. Such a restriction is permissible only if it is justified by overriding reasons of public interest and if the legislation is proportionate. In the CFC context, the Court of Justice of the European Union emphasized the prevention of abuse as a justification. The specific objective of such a restricting measure must be to prevent conduct involving the creation of wholly artificial arrangements which do not reflect economic reality. A standardized exclusion or a carve-out linked to economic substance would ensure compatibility with EU law. It would also recognize the basic premise of the BEPS action plan, which is that value should be taxed where it is created. Substance-based IP regimes which are fully compliant e.g with the BEPS Action 5 Nexus approach should be carved-out. Pillar Two measures need to balance countries’ concerns regarding artificial arrangements with countries’ rights to implement generally accepted tax regimes for R&D. Further, we suggest a carve-out or safe harbor rule for MNE that according to financial statements have a mid/long-term average tax rate that exceeds the fixed minimum rate by a certain threshold. For example, if an MNE shows an average tax rate based on consolidated financial statements (i.e. before any adjustments foreseen in GloBE) over the last five years of x% above the fixed minimum rate, this MNE would not be subject to GloBE and would not have to conduct any further analysis. With such a carve-out the compliance cost for both MNEs as well as tax authorities could be focused on the most relevant cases. The IF should also agree a white list of approved foreign minimum tax regimes for purposes of Pillar Two.

	b) Are there any technical or compliance considerations that would make you concerned about a particular type of carve-out (i.e. based on facts and circumstances or on a formulaic approach), or suggest that there should be no carve-outs at all? If so, please explain based on your own experience.	A formulaic approach might lead to incorrect results as it might not cover the underlying transactions leading to over- or understatements. Therefore, we do not support formulaic carve-outs.
	c) Would you favour thresholds based on the size of the taxpayer? If so, please give your reasons and suggest a metric that you think should be used.	We recommend limiting the application of the GloBE proposal to MNEs that are required by the applicable accounting laws to draw up consolidated financial statements. The complexity of the GloBE proposal practically requires the use of consolidated financial statements. See our comments to question 1 b) above. To find a suitable balance between additional compliance costs for MNEs due to the implementation of GlobBE and the relevance of the MNE the revenue thresholds defined for CbC reporting might be reasonable.
	d) Would you favour any *de minimis* carve-outs? If so, what type of carve-out do you consider would result in the right balance between compliance costs and benefits?	A *de minimis* carve-out for minor transactions is necessary to keep compliance cost acceptable. Any carve-outs which are also reflected in the annual report of an MNE are significant for the MNE and therefore require special consideration.
	e) Would you favour a carve-out for specific sectors or industries? If so, please state the sector or industry, explain your reasons and share thoughts on how such a carve-out could be operated with as little compliance costs and uncertainty as possible.	
	f) Do you have any additional comments on carve-outs, including comments based on experiences with existing regimes that you suggest should be adopted or avoided?	IF members should commit to coordinate any new rules resulting from the implementation of GloBE with existing tax regimes in their own jurisdiction.