

Global Tax Policy rEvolution

Impact of future Global Tax Policy on US-Luxembourg Relationships

20 July 2021



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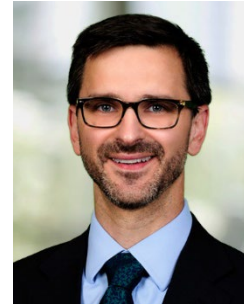
Today's speakers and introduction



*Emilien Lebas – Partner
KPMG Luxembourg
emilien.lebas@kpmg.lu*



*Michael Ayachi – Associate Partner
KPMG Luxembourg
michael.ayachi@kpmg.lu*



*Michael H. Plowgian – Principal
KPMG – Washington National Tax
mplowgian@Kpmg.com*



*Paul Hondius – Head of Unit
(Harmful Tax practices) – OECD
Paul.HONDIUS@oecd.com*

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Introduction



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Introduction

Setting the scene: BEPS 2.0 initiative

BEPS 2.0 started in 2019 and it aims at modernizing taxing rights following the first BEPS project. This is now addressed into a Two-Pillar approach.

Pillar 1

New taxing right for market jurisdictions (“**Amount A**”) regardless of physical presence and a fixed return (“**Amount B**”) for baseline marketing and distribution activities.

In-scope companies

MNEs with global turnover > € 20 bn and profitability above 10% (possibly reduced to €10 bn after 2030).

Pillar 2

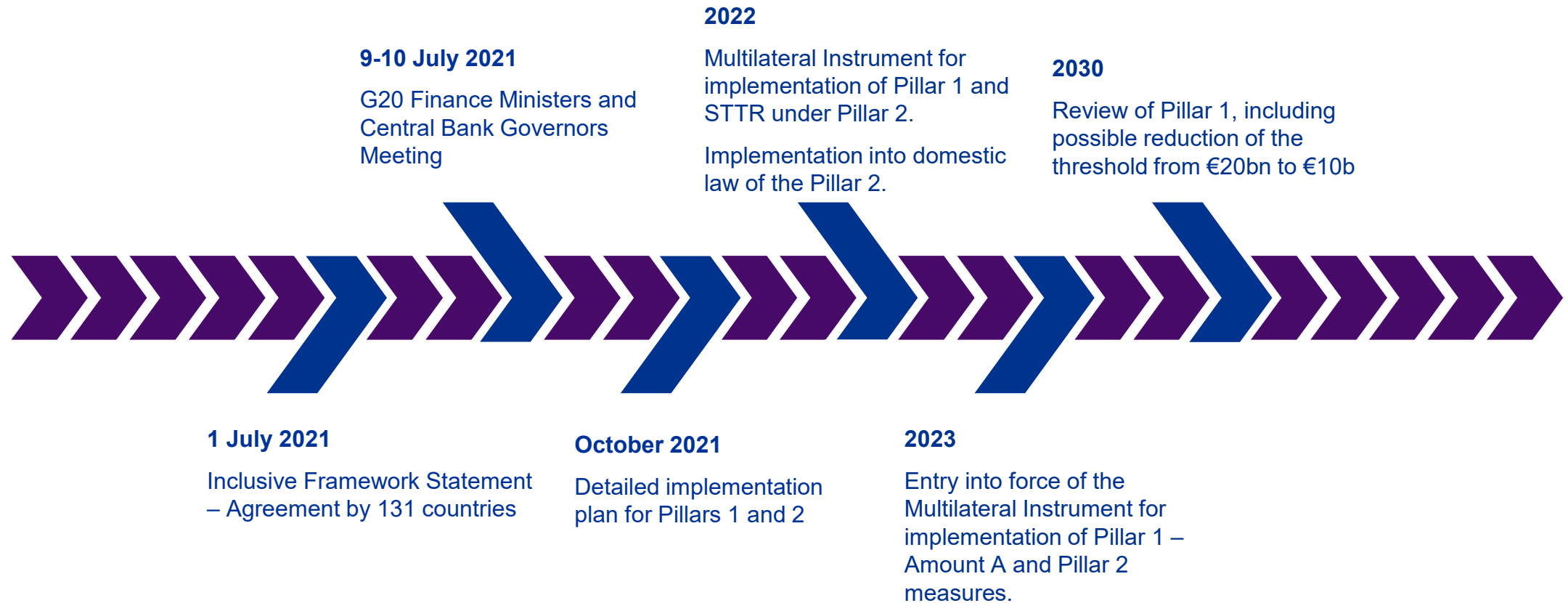
Introduces the subject-to-tax rule (“**STTR**”) and the Global Anti-Base Erosion Rules (“**GloBE**”), to achieve a minimum taxation for MNEs.

In-scope companies

MNEs with consolidated revenues > € 750 mn

BEPS 2.0 has now reached agreement on key terms amongst 130 countries, with the rules themselves expected to enter into force in 2023.

Introduction Timeline



A focus on Pillar 2: What's the minimum tax?

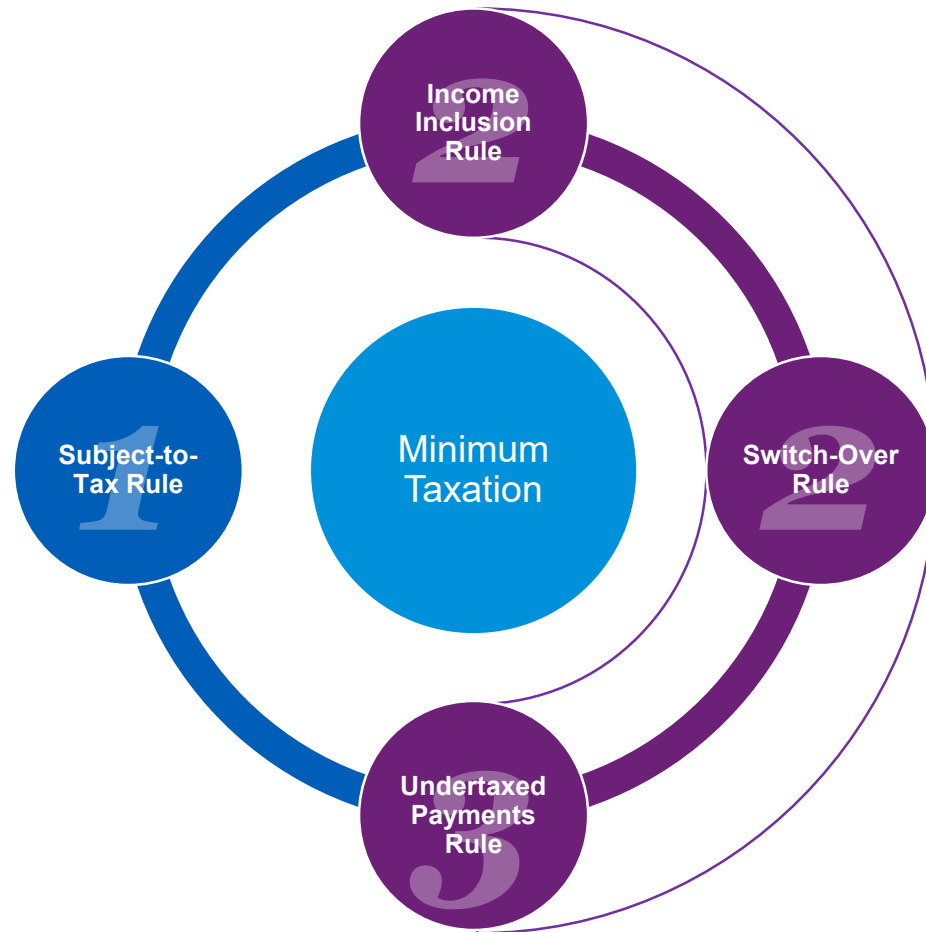


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What's the minimum tax?

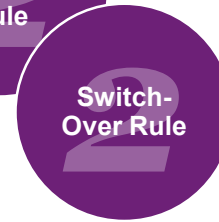
Setting the scene: Pillar 2



Payer jurisdiction **denies treaty benefits** on certain payments in order to top-up tax up to an agreed rate.



A top-up tax **on income of CFCs** (on a jurisdictional basis) taxed below a minimum tax rate.



The Switch-over allows head-office jurisdiction **to tax PE income** to the extent needed to top-up the tax.



Applies when an in-scope entity is not already subject to an IIR. It will **deny deduction** on intra-group payments to top-up tax.

It is intended that Pillar One applies before Pillar Two.

What's the minimum tax?

Setting the scene: Minimum tax rate

In reality, TWO different minimum tax rates are envisaged:

Subject-to-Tax Rule

The minimum nominal rate for the STTR will be between 7.5% to 9%.

GloBE Rules

(IIR, UTPR)

The minimum effective tax rate used for purposes of the IIR and UTPR will be at least 15%

What's the minimum tax?

Hot topics

US tax reform
X
BEPS 2.0
GILTI, BEAT/SHIELD

Computing the
GloBE ETR

How GloBE impacts
US-Luxembourg
relationships?

Substance carve-
outs

Fund industry:
In or out?

Future of holdings and substance

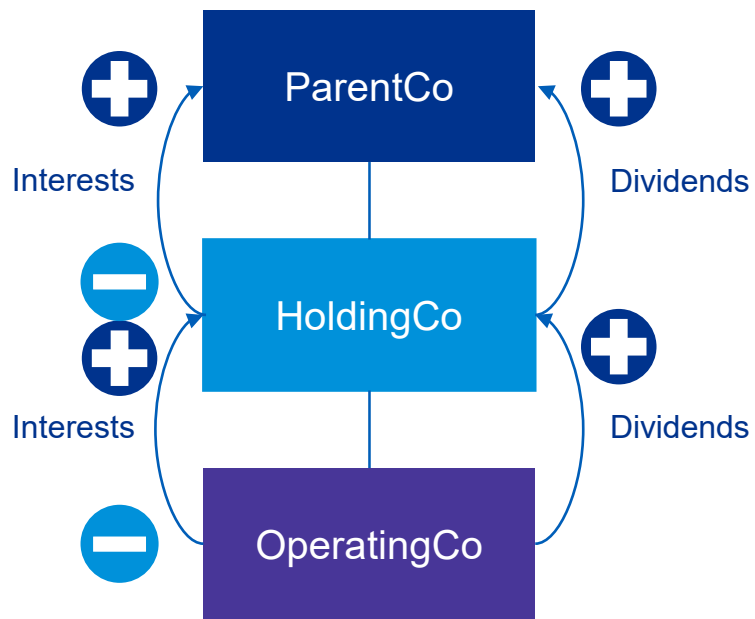


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Future of holdings and substance

In light of Pillar 2



Treaty network

Holding jurisdictions generally have a wide treaty network to protect from double taxation

WHT management

HoldingCo may distribute profits or pay interest without WHT, and receive income with no or lower WHT

Participation Exemption

HoldingCo may exempt dividends, that would otherwise be taxable for ParentCo, deferring taxation.

Asset and investment protection

Holdings can be used to segregate risks and access investment protection treaties.

What's next?



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What's next?

The way ahead

Next steps
for BEPS
2.0

Next steps
for US tax
reform

EU digital
levy

ATAD 3

Q&A



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Wrap-up



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