



INTERGOVERNMENTAL
GROUP OF TWENTY FOUR

The **BEPS**
Monitoring
Group

A global network of independent
researchers

**For a Better GloBE:
METR: A Minimum Effective Tax Rate for Multinationals**

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The Pillar Two Blueprint

➤ Building Blocks

Effective Tax Rate: 'covered' taxes ÷ adjusted GloBE income (by jurisdiction)

'formulaic substance-based carve-out': 'routine' return on payroll & physical assets

Calculation of 'top-up tax' (brings tax up to minimum ETR)

Income Inclusion Rule (IIR) for MNE home country (or intermediate parent country)

Back-up: Undertaxed Payment Rule (UTPR) for host countries

Subject to Tax Rule to allow withholding taxes at source – on payments to lowtax country

➤ Complex Package of Interacting Rights

IIR less effective than comprehensive CFC rules with foreign tax credit

Priority to IIR clearly inequitable, especially to developing countries

STTR hard to apply (simple WT easier) & requires treaty changes – acceptance unlikely

IIR discriminatory: problems under EU law and international investment treaties

➤ Implementation

Multilateral treaty? – no historical precedent, highly unlikely

Replacement of unilateral measures – BEAT, DPTs?

Package with Pillar One? Unnecessary and undesirable conditionality

- further complexity

- limited to MNEs >€750m turnover

METR: A Minimum Effective Tax Rate for MNEs

➤ Calculate Undertaxed Profits

Effective Tax Rate by jurisdiction (using Pillar Two methodology)

Calculate share of undertaxed profits that are not effectively taxed (NETs)

profits taxed below minimum ETR = undertaxed profits (UPs)

$UPs \times (actual\ ETR - minimum\ ETR) \div minimum\ ETR = not\ effectively\ taxed\ profits$

(removes share of profits that have been taxed at minimum rate)

➤ Allocate Rights to Tax Not-effectively-taxed Profits

Substance-based allocation (rather than carve-out)

Single rule can be applied together by all states where MNE taxable

Use formula factors that reflect real activities in each country

Employees: 50% headcount: 50% payroll (Pillar 2 definition)

Physical Assets: (Pillar 2 definitions)

Sales Revenues: by location of customers (Pillar 1 sourcing rules)

Balance of supply-side and demand-side factors (G24 proposal)

(consider effects on both tax revenues and inward investment)

➤ Single Rule

No need for rules on priority or interaction – much less complex

Non-discriminatory between inbound & outbound investment

Compatible with EU law and investment treaties

Picciotto, Kadet, Cobham, Faccio, Garcia-Bernardo & Jansky (2021) *Tax Notes International* 15 February, available [here](#)

Advantages of the METR

➤ **No Treaty Needed**

same mechanisms to apply top-up taxes as for IIR & UTPR

also similar to GILTI & BEAT

improves on Diverted Profits Taxes: clear test for undertaxed profits

➤ **Fair and Simple Allocation of Taxing Rights**

Protects tax base of both Home & Host countries

Each can tax profits proportionate to MNE activities **simultaneously**

No need for priority rules

Each can apply its own tax rules and rates (even if below minimum ETR)

Ends 'harmful' tax competition – aligns tax rights with substance

➤ **Not (yet) a Complete Solution**

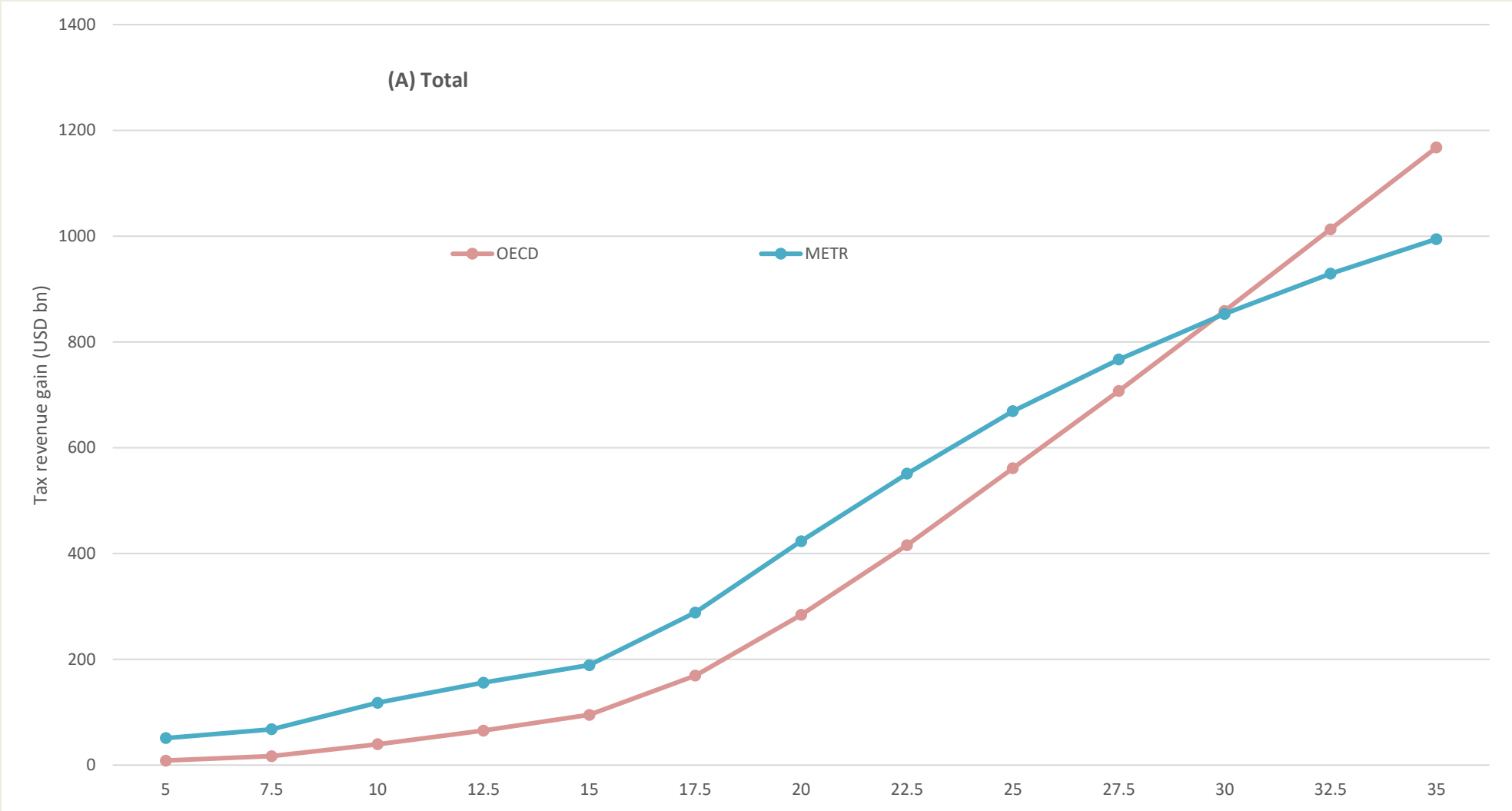
Need wider taxable nexus: significant economic presence test

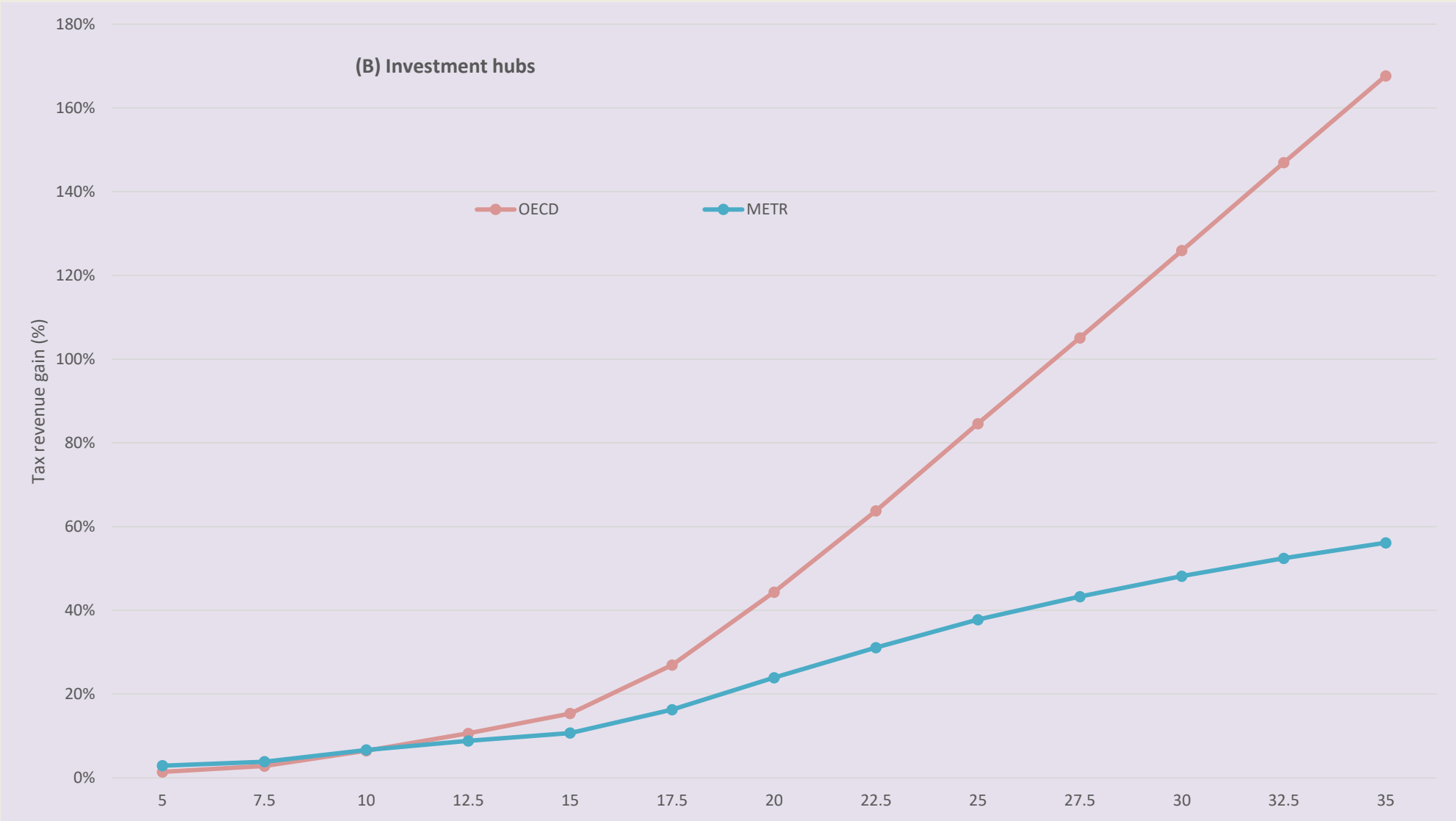
Step towards formulary apportionment

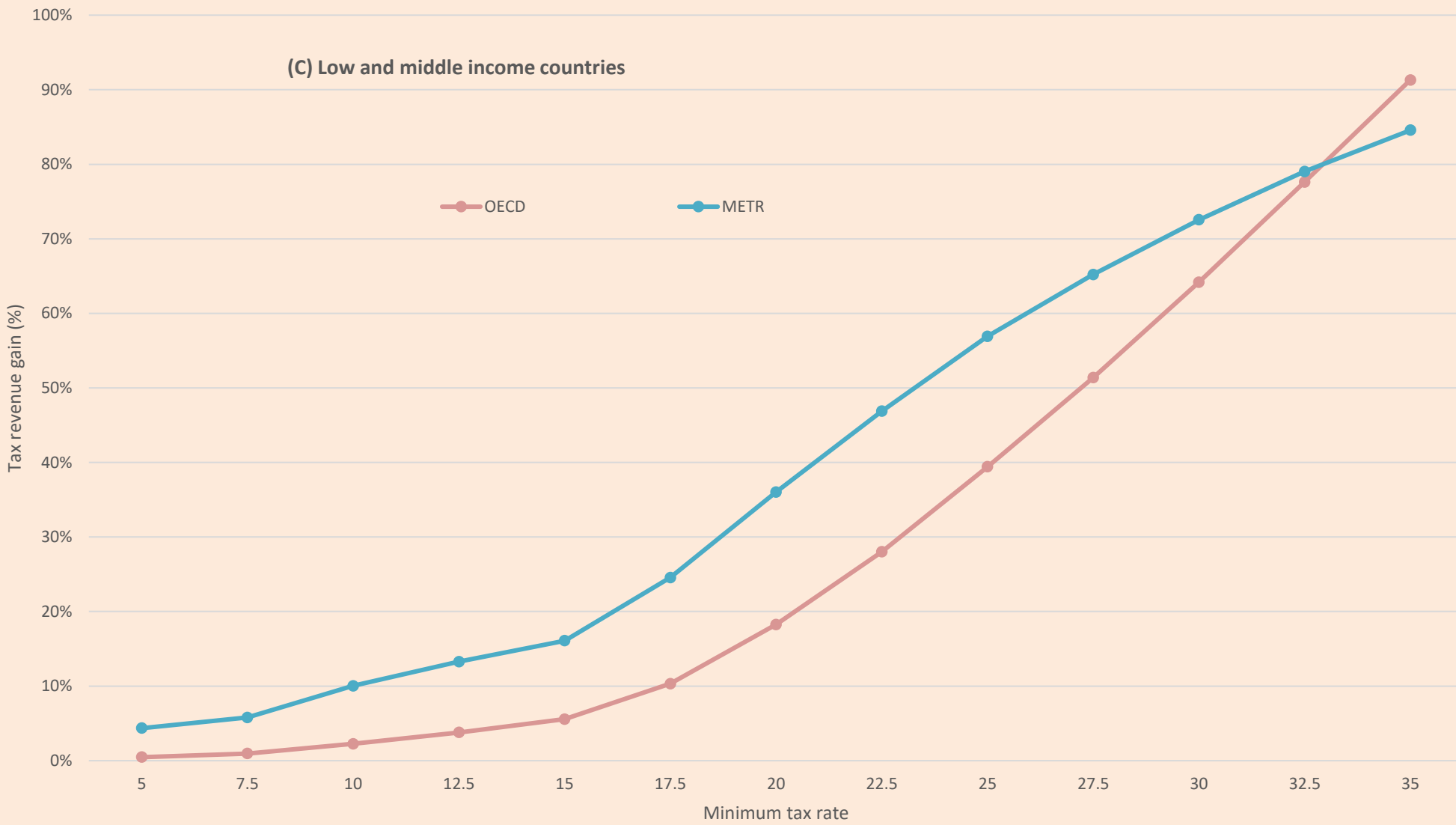
Example

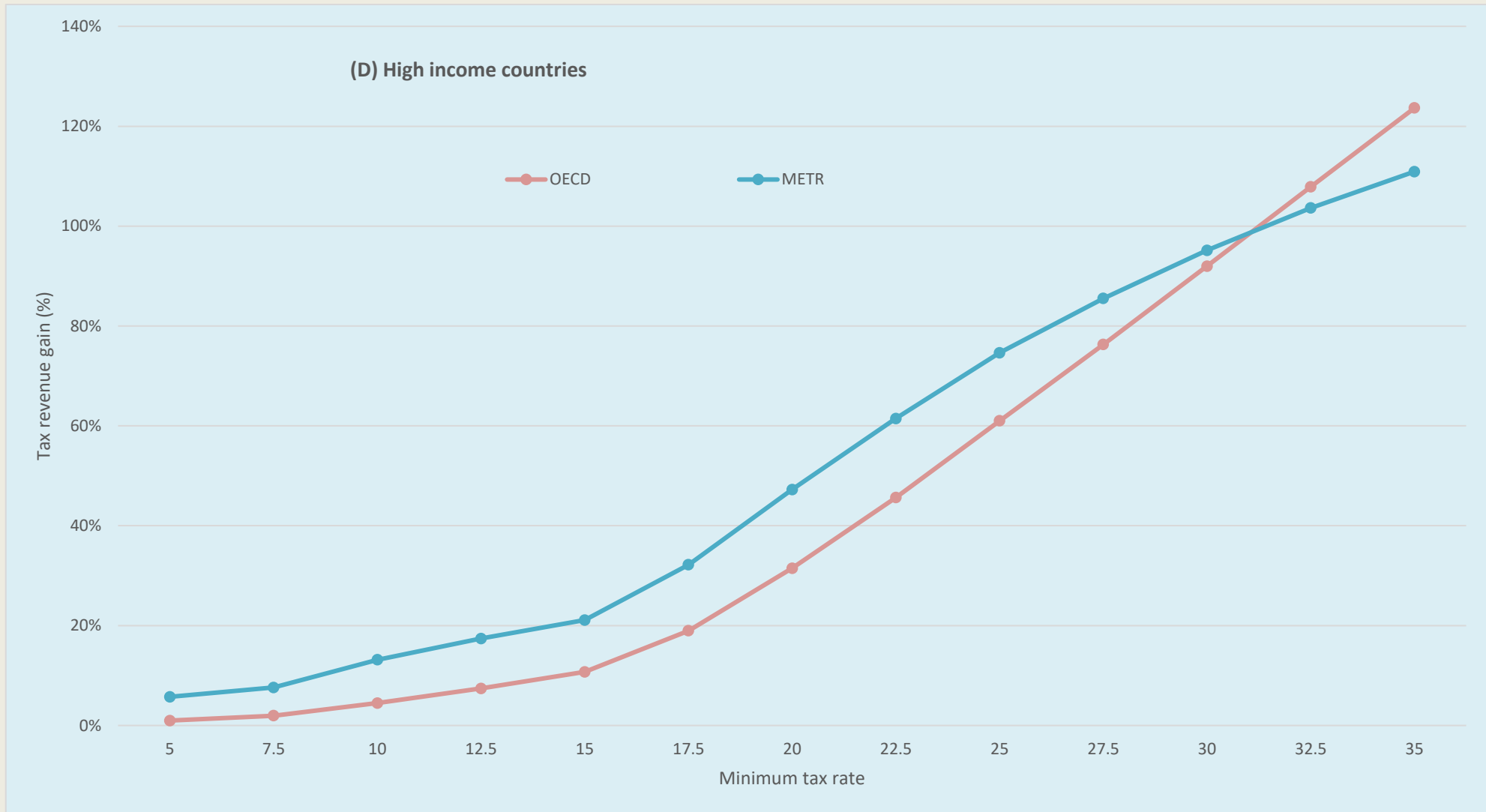
	Country A	Country B	Country C	Country D	Country E	Totals
Declared taxable profit	100	300	500	4	96	1000
Applicable tax rate	20	12.5	0	25	30	
Cash tax paid ("covered taxes")	20	37.5	0	1	29	87
ETR by jurisdiction	20	12.5	0	25	30	
Minimum ETR	25	25	25	25	25	
Undertaxed profits	100	300	500	0	0	900
Not-effectively-taxed profits (NETs) for allocation	20	150	500	0	0	670
Allocation percentage based on objective location-specific factors (FAR)	37%	30%	5%	5%	23%	100%
Allocated NETs	248	201	33.5	33.5	154	670
Additional local tax payable (at country's standard rate)	49.6	25.1	0	8.4	46.2	129.3

Evaluation: METR vs GLOBE









Many Thanks!

<https://www.bepsmonitoringgroup.org/>