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

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The Pillar Two Blueprint

ICTD

- Basic 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
- Interacting Rights
  Complex interactions
  Priority to IIR clearly inequitable, especially to developing countries
  STTR hard to apply (WT easier) & requires treaty changes - unlikely
  IIR discriminatory: problems under EU law and international investment treaties
- Implementation
  Multilateral treaty?
  Replacement of unilateral measures – BEAT, DPTs?
  Package with Pillar One? Also 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 not effectively taxed (NETs)
  profits taxed below minimum ETR = undertaxed profits (UPs)
  UPs x (actual ETR – minimum ETR) ÷ minimum ETR = not-effectively-taxed profits
  (removes share of profits that have been taxed at minimum rate)
- **Allocate Rights to Tax Undertaxed Profits**
  Formula factors reflecting real activities in each country
  Single rule can be applied together by all states where MNE taxable
  Employees: 50% payroll (Pillar 2 definition) 50% headcount (numbers in CbCR)
  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
  Non-discriminatory between inbound & outbound investment
  Compatible with EU law and investment treaties

Advantages of the METR

ICTD

- Does not need Treaty

  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 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 (CCCTB)?

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

Thank You!

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