164 Research Paper
23 September 2022

Impact of a Minimum Tax Rate under the Pillar Two Solution on Small Island Developing States

Kuldeep Sharma

SOUTH CENTRE

RESEARCH PAPER

164

IMPACT OF A MINIMUM TAX RATE UNDER THE PILLAR TWO SOLUTION ON SMALL ISLAND DEVELOPING STATES

By Kuldeep Sharma[1]

SOUTH CENTRE

23 SEPTEMBER 2022

[1] ADIT, FTI, Book Author, Insolvency Professional, MBA (Finance), B.Sc. (Physics) Hons, IRS (Retd.)

SOUTH CENTRE

In August 1995, the South Centre was established as a permanent intergovernmental organization. It is composed of and accountable to developing country Member States. It conducts policy-oriented research on key policy development issues and supports developing countries to effectively participate in international negotiating processes that are relevant to the achievement of the Sustainable Development Goals (SDGs). The Centre also provides technical assistance and capacity building in areas covered by its work program. On the understanding that achieving the SDGs, particularly poverty eradication, requires national policies and an international regime that supports and does not undermine development efforts, the Centre promotes the unity of the South while recognizing the diversity of national interests and priorities.

NOTE

The views contained in this paper are attributable to the author/s and do not represent the institutional views of the South Centre or its Member States. Any mistake or omission in this study is the sole responsibility of the author/s.

Any comments on this paper or the content of this paper will be highly appreciated. Please contact:

South Centre
International Environment House 2
Chemin de Balexert 7–9
POB 228, 1211 Geneva 19
Switzerland
Tel. (41) 022 791 80 50
south@southcentre.int
www.southcentre.int

Follow the South Centre's Twitter: South_Centre

TABLE OF CONTENTS

ABSTRACT **3**

ACRONYMS AND ABBREVIATIONS **9**

EXECUTIVE SUMMARY **11**

CHAPTER 1 .... **14**

INTRODUCTION **14**

1.1 BASE EROSION AND PROFIT SHIFTING RECOMMENDATIONS ON DIGITALISATION 14
1.2 BRIEF INTRODUCTION TO PILLAR ONE AND PILLAR TWO 14
1.3 PILLAR TWO 16

CHAPTER 2 .... **18**

SMALL ISLAND DEVELOPING STATES **18**

2.1 BACKGROUND 18
2.2 LIST OF SIDS COVERED 18
2.3 ANALYSIS OF SIDS ON CERTAIN PARAMETERS INCLUDING THEIR ECONOMIC FRAMEWORK 19
2.3.1 Population Size 19
2.3.2 Income Category 19
2.3.3 Gross Domestic Product 20
2.3.4 Tax Revenue (% of GDP) 21
2.3.5 Foreign Direct Investment 22
2.3.6 External Debt Stock as a % of Gross National Income (GNI) 24
2.3.7 Inclusive Framework's Membership 25
2.3.8 Transfer Pricing Provisions in Domestic Law 26
2.3.9 Implementation of Common Reporting Standard for Automatic Exchange of Information 27
2.3.10 Signatories of Multilateral Competent Authority Agreement (MCAA) 28
2.3.11 Corporate Income Tax and Domestic Law Provisions 29
2.4 SIDS ACTING AS OFFSHORE FINANCIAL CENTRES (OFCS) 30
2.4.1 Broad categories of OFCs 31
2.4.2 Raison d'etre for setting-up OFCs 31

CHAPTER 3 .... **33**

IMPACT OF PILLAR TWO PROPOSALS **33**

3.1 RESPONSE OF UNITED ARAB EMIRATES TO THE PILLAR TWO PROPOSAL 33
3.1.1 Present tax structure in the UAE 33
3.1.2 Corporate tax regime announced by the UAE in response to Pillar Two 34
3.1.3 Advantages of introducing the new tax rules 35
3.2 IMPACT OF PILLAR TWO PROPOSALS ON SMALL ISLAND DEVELOPING STATES 35
3.2.1 Membership of the Inclusive Framework 35
3.2.2 Status of Corporate Income Tax Regime 36
3.2.3 Scope of GloBE Rules 36
3.2.4 De minimis exclusion 36
3.2.5 Exclusion for International Shipping Income 37
3.2.6 Common Approach 37
3.2.7 Formulaic Substance Carve-Out 38
3.2.8 Application of Subject To Tax Rule 42
3.2.9 Introduction of Qualified Domestic Minimum Top-up Tax 43

CHAPTER 4 .... **46**

POLICY SUGGESTIONS AND OPTIONS FOR SIDS **46**

PART A 46

4.1 CORPORATE INCOME TAX REGIME 46
4.2 INTRODUCTION OF QUALIFIED DOMESTIC TOP-UP TAX 47
4.3 SAFEGUARD BUSINESS ENTITIES FROM A FOREIGN TOP-UP TAX UNDER THE STTR 48
4.4 TAX INCENTIVE SCHEMES 48
4.5 TRANSFER PRICING LEGISLATION 48
4.6 IMPLEMENTATION OF COMMON REPORTING STANDARD FOR AUTOMATIC EXCHANGE OF INFORMATION 49
PART B 49
4.7 POLICY SUGGESTIONS FOR BAHAMAS 49
4.8 POLICY SUGGESTIONS FOR BAHRAIN 50
4.9 POLICY SUGGESTIONS FOR BELIZE 50
4.10 POLICY SUGGESTIONS FOR BARBADOS 51
4.11 POLICY SUGGESTIONS FOR MALDIVES 52

CHAPTER 5 53

CONCLUSION 53

ANNEXURE 55

TABLE 1 55
TABLE 2 59
TABLE 3 61
TABLE 4 63

ABSTRACT

The Research Paper commences with an overview of Pillar One and Pillar Two followed by detailed discussions on salient provisions of Pillar Two.

Pillar Two is envisaged to have a widespread impact on Small Island Developing States (SIDS) which are a distinct group of 38 United Nations (UN) Member States and 20 Non-UN Members/Associate Members of UN regional commissions that are exposed to unique social, economic and environmental vulnerabilities. In all, 36 SIDS that are members of the Group of Seventy-Seven (G-77) have been analysed, namely, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Papua New Guinea, Samoa, São Tomé and Príncipe, Seychelles, Singapore, Solomon Islands, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Timor-Leste, Tonga, Trinidad and Tobago, and Vanuatu.

Based on World Bank Group's data primarily, SIDS have been analysed on certain parameters including their economic framework, as mentioned below:

1) Population Size;
2) Income Category;
3) Gross Domestic Product (GDP);
4) Tax Revenue (% of GDP);
5) Foreign Direct Investment (FDI);
6) External Debt Stock as a % to Gross National Income (GNI);

A further analysis of SIDS has been made in areas of tax, membership of relevant multilateral forums, as mentioned below:

1) Inclusive Framework's (IF) Membership;
2) Transfer Pricing Provisions in Domestic Law;
3) Implementation of Common Reporting Standard for Automatic Exchange of Information;
4) Signatories of Multilateral Competent Authority Agreement (MCAA);
5) Corporate Income Tax and Domestic Law Provisions comprising:
    a) Availability of corporate income tax (CIT) regime;
    b) CIT rate;
    c) Provisions for carry forward of business losses;
    d) Provisions for grant of incentives to attract FDI.

Countries, territories, and jurisdictions which act majorly as Offshore Financial Centres (OFCs) have been identified (based on an International Monetary Fund (IMF) Background Paper), namely, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Dominica, Grenada, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Vanuatu. Discussions have been made in regard to broad categories of OFCs and raison d'être for countries to set-up OFCs.

The present tax structure in the United Arab Emirates (UAE), a member of the IF and a leading financial hub, has been studied and it is observed that it is similar to that existing in some SIDS on a number of parameters. In addition, UAE has concurred with the Two-Pillar Solution, and is amongst the first countries to come up with policy formulation in its domestic

law in response to the proposals. The CIT regime and other measures announced by the UAE in response to the proposals have been studied in detail and are found to be a useful basis in making recommendations for SIDS.

The Pillar Two provisions which are going to impact SIDS have been analysed in detail (with relevant illustrations to demonstrate the impact), as given below:

1) Membership of the IF and impact of common approach;
2) CIT regime and CIT rate;
3) Applicability of Pillar Two on multinational enterprises (MNEs) in light of its scope; de minimis exclusion provisions and exclusion for International Shipping Income;
4) Formulaic Substance Carve-Out;
5) Application of Subject To Tax Rule (STTR);
6) Introduction of Qualified Domestic Minimum Top-up Tax (QDMTT);

Based on the above, certain common policy suggestions have been made for all SIDS, on the below mentioned issues:

a) Corporate Income Tax regime and CIT rate;
b) Introduction of Qualified Domestic Minimum Top-up Tax (QDMTT);
c) Safeguarding of business entities from a foreign top-up tax under the STTR;
d) Grandfathering of on-going tax incentive schemes;
e) Introduction of transfer pricing legislation by jurisdictions on a case-by-case basis; and
f) Implementation of Common Reporting Standard for Automatic Exchange of Information by jurisdictions which are not committed to it as of now.

Policy suggestions have also been made separately for certain SIDS, namely, Bahamas, Bahrain, Barbados, Belize, and Maldives.

The dates (period) of statistical data and discussions made in this paper are duly mentioned at appropriate and relevant places, and are generally not later than 13 March 2022.

Le présent document de recherche s'ouvre sur une vue d'ensemble du Pilier Un et du Pilier Deux, suivie d'une analyse détaillée des principales dispositions du Pilier Deux.

Le Pilier Deux est susceptible d'avoir des répercussions considérables sur les petits États insulaires en développement (PEID), qui forment un groupe disparate de 38 États membres des Nations unies (ONU) et de 20 États non membres des Nations unies/membres associés des commissions régionales des Nations unies et sont exposés à des facteurs particuliers de vulnérabilité sur le plan économique, social et environnemental. L'analyse a porté sur 36 PEID membres du Groupe des soixante-dix-sept (G-77) au total, à savoir : Antigua-et-Barbuda, les Bahamas, Bahreïn, la Barbade, le Belize, Cabo Verde, les Comores, Cuba, la Dominique, la République dominicaine, Fidji, Grenade, Guinée-Bissau, la Guyane, Haïti, la Jamaïque, Kiribati, les Maldives, les Îles Marshall, les États fédérés de Micronésie, Maurice, Nauru, la Papouasie-Nouvelle-Guinée, Samoa, São Tomé et Príncipe, les Seychelles, Singapour, Saint-Kitts-et-Nevis, Sainte-Lucie, Saint-Vincent-et-les-Grenadines, les Îles Salomon, le Suriname, le Timor-Leste, Tonga, Trinité-et-Tobago et Vanuatu.

En s'appuyant principalement sur les données issues du Groupe de la Banque mondiale, une analyse a été effectuée de leur tissu économique et des éléments qui suivent :

1) Taille de la population ;

2) Catégorie de revenu ;
3) Produit intérieur brut (PIB) ;
4) Recettes fiscales (% du PIB) ;
5) Investissements directs étrangers (IDE) ;
6) Encours de la dette extérieure en % du revenu national brut (RNB).

Une étude approfondie a été menée en ce qui concerne leur régime fiscal et leur participation aux instances multilatérales pertinentes, qui a porté en particulier sur :

1) leur adhésion au Cadre Inclusif ;
2) l'existence dans leur législation nationale de dispositions relatives aux prix de transfert ;
3) la manière dont la norme commune de déclaration pour l'échange automatique d'informations est mise en œuvre ;
4) leur qualité de signataire de l'accord multilatéral entre autorités compétentes (AMCA) ;
5) l'impôt sur les sociétés et les dispositions de droit interne y relatives, à savoir :
   a) l'existence d'un impôt sur les sociétés (IS) ;
   b) le taux de l'impôt sur les sociétés ;
   c) l'existence de dispositions relatives au report des pertes commerciales ;
   d) l'existence de dispositions relatives à l'octroi d'incitations fiscales visant à attirer les IDE.

Antigua-et-Barbuda, les Bahamas, Bahreïn, la Barbade, Belize, la Dominique, Grenade, les Îles Marshall, les États fédérés de Micronésie, Maurice, Nauru, les Seychelles, Singapour, Saint-Kitts-et-Nevis, Sainte-Lucie, Saint-Vincent-et-les-Grenadines et Vanuatu figurent parmi les pays, territoires et juridictions qui agissent principalement comme des centres financiers offshore (CFO) (sur la base d'un document publié par le Fonds monétaire international (FMI)). Une analyse a été effectuée concernant les différentes catégories de CFO et la raison d'être de leur création par les pays concernés.

La structure fiscale actuelle des Émirats arabes unis (EAU), membre du Cadre inclusif et centre financier offshore de premier plan, a fait l'objet d'une étude au terme de laquelle il est apparu qu'elle est similaire à celle existant dans certains PEID s'agissant d'un certain nombre de paramètres. En outre, les EAU ont approuvé la solution des deux piliers et sont parmi les premiers pays à avoir adopter une législation nationale en réponse aux propositions formulées L'introduction d'un impôt sur les sociétés et les autres mesures annoncées par les EAU ont été analysées en détail et sont considérées comme une base utile pour la formulation de recommandations à l'intention des PEID.

Les dispositions du Pilier Deux susceptibles d'avoir un impact sur les PEID ont fait l'objet d'une analyse (qui comprend des illustrations permettant de visualiser cet impact) portant sur les éléments qui suivent :

1) Adhésion au Cadre inclusif et impact de l'approche commune ;
2) Régime et taux de l'impôt sur les sociétés ;
3) Applicabilité du Pilier Deux aux entreprises multinationales ; dispositions de minimis et exclusion des revenus générés par le transport maritime international ;
4) Réduction de l'assiette fiscale sur laquelle l'impôt minimal mondial sera appliqué ;
5) Application de la règle de l'assujettissement à l'impôt (RAI) ;
6) Introduction d'un impôt minimum national en fonction de certains critères ;

Sur la base de ce qui précède, certaines suggestions de politiques communes ont été formulées pour tous les PEID, qui concernent notamment :

- *a) l'impôt sur le revenu des sociétés et le taux de l'impôt ;*
- *b) l'introduction d'un impôt minimum national en fonction de certains critères ;*
- *c) la protection des sociétés commerciales contre un impôt minimum étranger dans le cadre de la règle d'assujettissement à l'impôt ;*
- *d) le maintien des droits acquis dans le cadre des régimes d'incitation fiscale en vigueur ;*
- *e) l'introduction de normes en matière de prix de transfert par les juridictions au cas par cas ; et*
- *f) la mise en œuvre de la norme commune de déclaration pour l'échange automatique d'informations par les juridictions qui ne s'y sont pas encore engagées.*

Des suggestions de politiques ont également été formulées séparément pour certains PEID, à savoir les Bahamas, le Bahreïn, le Belize, la Barbade et les Maldives.

Les dates auxquelles les données statistiques ont été recueillies et les analyses effectuées sont dûment mentionnées dans le document, aux emplacements requis, et ne vont pas au-delà du 13 mars 2022.

El documento de investigación comienza con un resumen del Pilar 1 y del Pilar 2, seguido de discusiones detalladas sobre las disposiciones más destacadas del Pilar 2.

El Pilar 2 se ha concebido para que tenga un impacto amplio en los pequeños Estados insulares en desarrollo, que son un claro grupo de 38 Estados miembros de las Naciones Unidas (ONU) y 20 no miembros de la ONU/miembros asociados de las comisiones regionales de la ONU que están expuestos a vulnerabilidades sociales, económicas y medioambientales únicas. En total, se han analizado 36 pequeños Estados insulares en desarrollo que son miembros del Grupo de los 77 (G-77), a saber, Antigua y Barbuda, Bahamas, Bahrein, Barbados, Belice, Cabo Verde, Comoras, Cuba, Dominica, Estados Federados de Micronesia, Fiji, Granada, Guinea-Bissau, Guyana, Haití, Islas Marshall, Islas Salomón, Jamaica, Kiribati, Maldivas, Mauricio, Nauru, Papua Nueva Guinea, República Dominicana, Samoa, Saint Kitts y Nevis, Santa Lucía, Santo Tomé y Príncipe, San Vicente y las Granadinas, Seychelles, Singapur, Suriname, Timor-Leste, Tonga, Trinidad y Tabago, y Vanuatu.

Principalmente en función de los datos del Grupo del Banco Mundial, se han examinado ciertos parámetros de los pequeños Estados insulares en desarrollo, entre ellos su marco económico, tal como se menciona a continuación:

1) *Tamaño de la población;*
2) *Categoría de ingresos;*
3) *Producto interno bruto (PIB);*
4) *Ingresos tributarios (% del PIB);*
5) *Inversión extranjera directa (IED);*
6) *Valor de la deuda externa como % del ingreso nacional bruto (INB).*

Se han analizado otros aspectos de los pequeños Estados insulares en desarrollo como la tributación y la pertenencia a foros multilaterales relevantes, tal como se menciona a continuación:

1) *Pertenencia al Marco Inclusivo;*
2) *Disposiciones de fijación de precios de transferencia en la legislación nacional;*
3) *Aplicación del Estándar Común de Reporte para el Intercambio Automático de Información;*
4) *Signatarios de un acuerdo multilateral entre autoridades competentes (AMAC);*
5) *Impuesto sobre la renta de las sociedades y disposiciones en la legislación nacional que abarquen lo siguiente:*
    a) *Existencia de un régimen del impuesto sobre la renta de las sociedades (ISR);*
    b) *Tasa del ISR;*
    c) *Disposiciones que permitan sacar adelante pérdidas empresariales;*
    d) *Disposiciones que concedan incentivos para atraer a la IED.*

Se han identificado (sobre la base de un documento de antecedentes del Fondo Monetario Internacional [FMI]) países, territorios y jurisdicciones que actúan principalmente como centros financieros extraterritoriales (CFE), a saber, Antigua y Barbuda, Bahamas, Bahrein, Barbados, Belice, Dominica, Estados Federados de Micronesia, Granada, Islas Marshall, Mauricio, Nauru, Santa Kitts y Nevis, Santa Lucía, San Vicente y las Granadinas, Seychelles, Singapur y Vanuatu. Se han mantenido debates en relación con categorías amplias de los CFE y los motivos que tienen los países por crear este tipo de centros.

Se ha estudiado la actual estructura fiscal de los Emiratos Árabes Unidos (EAU), miembro del Marco Inclusivo y uno de los principales centros financieros, y se ha observado que es similar a la que existe en algunos pequeños Estados insulares en desarrollo en una serie de parámetros. Asimismo, los EAU han mostrado su conformidad con la solución de dos pilares, y se encuentran entre los primeros países que han formulado políticas en su legislación nacional en respuesta a las propuestas. El régimen del ISR y otras medidas anunciadas por los EAU en respuesta a las propuestas se han analizado en detalle y han resultado ser una base útil a la hora de formular recomendaciones para los pequeños Estados insulares en desarrollo.

Las disposiciones del Pilar 2 que van a tener repercusión en los pequeños Estados insulares en desarrollo se han examinado detenidamente (con ilustraciones pertinentes para demostrar su efecto), tal como figuran a continuación:

1) *Pertenencia al Marco Inclusivo y repercusión del enfoque común;*
2) *Régimen y tasa del ISR;*
3) *Aplicabilidad del Pilar 2 en empresas multinacionales a tenor de su alcance; disposiciones de exclusión de minimis y exclusión del ingreso sobre el transporte marítimo internacional;*
4) *Excepción sustancial basada en fórmula;*
5) *Aplicación de la Cláusula de Sujeción a Impuestos;*
6) *Introducción de un impuesto complementario mínimo conforme a nivel nacional.*

Sobre la base de lo que antecede, se han planteado determinadas propuestas de política común para todos los pequeños Estados insulares en desarrollo, con arreglo a las cuestiones que se mencionan a continuación:

a) *Régimen del impuesto sobre la renta de sociedades y tasa del ISR;*
b) *Introducción de un impuesto complementario mínimo conforme a nivel nacional;*

c) *Protección de las entidades comerciales frente a un impuesto complementario extranjero con arreglo la Cláusula de Sujeción a Impuestos;*

d) *Protección de los derechos adquiridos de los planes de incentivos fiscales en vigor;*

e) *Introducción de legislación sobre fijación de precios de transferencia por las jurisdicciones caso por caso; y*

f) *Aplicación del Estándar Común de Reporte para el Intercambio Automático de Información por parte de las jurisdicciones que no están comprometidas con ella en estos momentos.*

También se han formulado propuestas de política por separado para determinados pequeños Estados insulares en desarrollo, a saber, Bahamas, Bahrein, Belice, Barbados y Maldivas.

Las fechas (período) de los datos estadísticos y los debates mantenidos en este documento se mencionan debidamente en los lugares oportunos y relevantes, y generalmente no son posteriores al 13 de marzo de 2022.

ACRONYMS AND ABBREVIATIONS

AE	Associated Enterprise
AEOI	Automatic Exchange of Information
BEPS	Base Erosion and Profit Shifting
BOP	Balance of Payments
CbCR	Country-by-Country Reporting
CE	Constituent Entity
CFC	Controlled Foreign Company
CFZ	Commercial Free Zone
CIT	Corporate Income Tax
CRS	Common Reporting Standard
DTAA	Double Taxation Avoidance Agreement
ETR	Effective Tax Rate
FDI	Foreign Direct Investment
G20	Group of Twenty
G77	Group of 77
GDP	Gross Domestic Product
GloBE	Global Anti-Base Erosion
GNI	Gross National Income
ICT	Information and Communication Technology
IF	Inclusive Framework
IIR	Income Inclusion Rule
MCAA	Multilateral Competent Authority Agreement
MCMAA	Multilateral Convention on Mutual Administrative Assistance in Tax Matters
MNE	Multinational Enterprise
OECD	Organisation for Economic Co-operation and Development

OFC	Offshore Financial Centre
PE	Permanent Establishment
QDMTT	Qualified Domestic Minimum Top-up Tax
SEZ	Special Economic Zone
SIDS	Small Island Developing States
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
STTR	Subject to Tax Rule
TBC	Tax Benefits Code
TIEA	Tax Information Exchange Agreement
TP	Transfer Pricing
UN	United Nations
UPE	Ultimate Parent Entity
UTPR	Undertaxed Payments Rule

EXECUTIVE SUMMARY

Notwithstanding the recommendations of the Base Erosion and Profit Shifting (BEPS) Action Report 1, taxing rights arising out of digital activities and digital platforms could not be invoked by market jurisdictions as tax treaties still relied upon the fixed place concept. In January 2019, members of the Inclusive Framework (IF) agreed to examine proposals in two pillars, which form the basis for a consensus solution to the tax challenges arising from digitalisation. Pillar One is focused on nexus and profit allocation, whereas, Pillar Two is focused on a global minimum tax intended to address remaining BEPS issues. The salient provisions of Pillar Two are *inter alia* discussed in Chapter 1.

Small Island Developing States (SIDS) are a distinct group of 38 United Nations (UN) Member States and 20 Non-UN Members/Associate Members of United Nations regional commissions that face unique social, economic and environmental challenges, like:

- remote geography;
- remoteness from international markets;
- small population size;
- high import and export costs for goods;
- irregular international traffic volumes;
- reliance on external markets for many goods;
- narrow resource base;
- vulnerability to exogenous economic shocks;
- fragile land and marine ecosystems;
- lack of economic alternatives.

In Chapter 2, an analysis of 36 SIDS, namely, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Papua New Guinea, Samoa, São Tomé and Príncipe, Seychelles, Singapore, Solomon Islands, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Timor-Leste, Tonga, Trinidad and Tobago, and Vanuatu has been conducted on the following parameters including their economic framework:

1) Population Size;
2) Income Category;
3) Gross Domestic Product (GDP);
4) Tax Revenue (% of GDP);
5) Foreign Direct Investment (FDI);
6) External Debt Stock as a % to Gross National Income (GNI).

A further analysis of SIDS has been made in areas of tax, membership of relevant multilateral forums, as mentioned below:

1) Inclusive Framework's Membership;
2) Transfer Pricing Provisions in Domestic Law;
3) Implementation of Common Reporting Standard for Automatic Exchange of Information;
4) Signatories of Multilateral Competent Authority Agreement (MCAA);
5) Corporate Income Tax and Domestic Law Provisions comprising:
    a) Availability of corporate income tax (CIT) regime;

b) CIT rate;
c) Provisions for carry forward of business losses;
d) Provisions for grant of incentives to attract FDI.

Countries, territories, and jurisdictions which act majorly as Offshore Financial Centres (OFCs) have been identified (based on an International Monetary Fund (IMF) Background Paper), namely, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Dominica, Grenada, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Vanuatu. Discussions have been made in Chapter 2 in regard to broad categories of OFCs and raison d'être for countries to set-up OFCs.

The present tax structure in the United Arab Emirates (UAE), a member of the IF and a leading financial hub, has been studied and it is observed that it is similar to that existing in some SIDS on a number of parameters. In addition, UAE has concurred with the Two-Pillar Solution, and is amongst the first countries to come up with policy formulation in its domestic law in response to the proposals. The CIT regime and other measures announced by the UAE in response to the proposals have been discussed in detail in Chapter 3 and are found to be a useful basis in making recommendations for SIDS.

The Pillar Two provisions which are going to impact SIDS have been discussed with potential implications in detail (accompanied by relevant illustrations to demonstrate the impact) in Chapter 3, as given below:

1) *Membership of the Inclusive Framework and impact of common approach*: If some of the IF-member jurisdictions do not implement the Global Anti-Base Erosion (GloBE) rules, the agreement on a common approach, as a result, means that one jurisdiction accepts the application of the rules by another in respect of multinational enterprises (MNEs) operating in its jurisdiction;
2) *CIT regime and CIT rate:* GloBE rules will ensure that IF-member jurisdictions which do not have CIT regime or where the effective tax rate (ETR) is below 15%, following the common approach, taxation shall shift from state of source to the home-jurisdiction (state of residence) of the MNEs causing potential loss of revenue to such SIDS;
3) *Applicability of Pillar Two on MNEs in a particular jurisdiction in light of its scope; de minimis exclusion provisions and exclusion for International Shipping Income*: A case-by-case analysis of each MNE operating in a particular SIDS is required to ascertain the applicability of GloBE rules in that particular jurisdiction;
4) *Formulaic Substance Carve-Out*: Adoption of GloBE rules is going to create conflict with tax sparing rules;
5) *Application of Subject To Tax Rule (STTR)*: Some SIDS may have to consider introducing CIT regime with a nominal corporate tax rate of at least 9% in order to safeguard their respective business entities from a foreign top-up tax under the STTR;
6) *Introduction of Qualified Domestic Minimum Top-up Tax (QDMTT)*: It preserves the primary taxing rights for the jurisdiction where the income arises.

Based on the above discussions, certain common policy suggestions have been made in Part A of Chapter 4 for all SIDS, as briefly discussed hereunder:

a) *Corporate Income Tax Regime and CIT Rate*: The impacted SIDS have been bucketed into three categories and relevant recommendations have been provided;
b) *Introduction of Qualified Domestic Minimum Top-up Tax (QDMTT)*: It is recommended that in order to preserve tax sovereignty and their tax base, all SIDS which are part of the IF, may consider incorporating the QDMTT as it allows the

jurisdiction in which a low-taxed entity is resident to levy the top-up tax before application of the Income Inclusion Rule (IIR) at the level of the parent company;

c) *Safeguarding of business entities from a foreign top-up tax under the STTR*: It is recommended that SIDS which do not have CIT regime as of now and are IF member states may consider introducing CIT regime with a nominal corporate tax rate of at least 9% and those with nominal tax rate less than 9% may consider enhancing nominal corporate tax rate to at least 9% in order to safeguard their respective business entities from a foreign top-up tax under the STTR;

d) *Tax Incentive Schemes*: On-going incentives may be grandfathered and any potential tax ceding to another jurisdiction arising from tax sparing may be arrested/prevented through introduction of QDMTT. SIDS may consider changing tax-based incentives to grants and other forms of subsidy to better accommodate the GloBE rules. Future Special Economic Zone (SEZ) rules may be introduced in a manner which attract MNEs that are outside the scope of Pillar Two rules;

e) *Introduction of Transfer Pricing Legislation by jurisdictions on case-by-case basis*: While computing GloBE income, the inter se transactions between constituent entities (CEs) within or across jurisdictions are to be adjusted in line with the Arm's Length Principle. Hence, those SIDS which do not already have TP regulations and are desirous to opt for GloBE rules, would be required to incorporate TP regulations also in their domestic law; and

f) *Implementation of Common Reporting Standard for Automatic Exchange of Information by jurisdictions which are not committed to it as of now*: This is a positive demonstration by a country that it is committed to being a transparent, compliant and reputable international financial centre.

Policy suggestions have also been made separately in Part B of Chapter 4 for certain SIDS, namely, Bahamas, Bahrain, Barbados, Belize, and Maldives.

In conclusion (Chapter 5), it is *inter alia* observed that:

- domestic resource mobilisation and appropriate tax policy are a must for SIDS. More efforts need to be undertaken to optimise taxation structures and collection mechanisms;
- there is wide disparity in the existing tax administration capabilities of countries comprising SIDS. These capabilities will be tested further as implementation of GloBE rules may involve introduction of CIT and Transfer Pricing (TP) regime by certain tax administrations. Accordingly, there will be an urgent requirement to upgrade capacity of tax officials of some countries;
- use of financial centres for moving onshore profits to low tax regimes as well as for tax evasion and money laundering purposes needs to be highly discouraged;
- the Pillar Two Proposals would increase (after-tax) investment costs for the MNEs affected. This would likely have a negative effect on investment and activity, but the magnitude of this effect is estimated to be relatively small, i.e., less than 0.1% of GDP in the medium to long term;
- tax incidence may not be the sole criterion for global investors for setting up business in SIDS, since MNEs put equal emphasis on global connectivity, pro-business environment, diverse talent pool and political stability while deciding on an attractive business destination.

CHAPTER 1

INTRODUCTION

1.1 Base Erosion and Profit Shifting Recommendations on Digitalisation

With rapid globalisation and seamless use of technology permeating all walks of life, multinational enterprises (MNEs) rampantly indulged in tax planning devices which made use of gaps in the interaction of different tax systems and tax treaties to artificially reduce taxable income or shift profits to low-tax jurisdictions in which little or no economic activity was performed. In response to this concern, and at the request of the Group of Twenty (G20), the Organisation for Economic Co-operation and Development (OECD) published the Base Erosion and Profit Shifting (BEPS) Action Plan in July 2013, following which, 15 BEPS Action Reports were finalised by the OECD in 2015. BEPS Action 1 Report[2] titled 'Addressing the Tax Challenges of the Digital Economy' provides that the digital economy is the result of a transformative process brought by information and communication technology (ICT), which has made technologies cheaper, more powerful, and widely standardised, improving business processes and bolstering innovation across all sectors of the economy. Some of the key features of the digital economy and its business models exacerbate BEPS risks. To address broader tax challenges raised by the digital economy, the following options were analysed:

- a new nexus in the form of a significant economic presence;
- a withholding tax on certain types of digital transactions; and
- an equalization levy.

Countries were given the option to introduce any of the above three options in their domestic laws as additional safeguards against BEPS, provided they respect existing treaty obligations.

1.2 Brief Introduction to Pillar One and Pillar Two

Notwithstanding recommendations of the BEPS Action Report 1, taxing rights arising out of digital activities and digital platforms could not be invoked by market jurisdictions as tax treaties still relied upon the fixed place concept. Accordingly, at the request of the G20, the Inclusive Framework continued to work on the issue, delivering an interim report in March 2018. In January 2019, members of the Inclusive Framework agreed to examine proposals in two pillars, which form the basis for a consensus solution to the tax challenges arising from digitalisation. Pillar One is focused on nexus and profit allocation whereas Pillar Two is focused on a global minimum tax intended to address remaining BEPS issues.[3] Thereafter, the OECD/G20 Inclusive Framework on BEPS (IF) agreed on 8 October 2021 to the Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy. The Two-Pillar Solution intends to ensure that multinational enterprises (MNEs) will be subject to a minimum tax rate of 15%, and will re-allocate the taxing rights on profit of the largest and most profitable MNEs to countries worldwide.[4] In

[2] Refer to 'Action 1: BEPS 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project' at http://www.oecd.org/tax/beps-2015-final-reports.htm.
[3] Refer to 'Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project' (Foreword) at https://doi.org/10.1787/beba0634-en.
[4] Refer to OECD Brochure 'Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy', October 2021 at https://www.oecd.org/tax/beps/brochure-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf.

regard to the present status on country-wise agreement to the Two-Pillar Solution, it may be mentioned that Kenya, Nigeria, Pakistan and Sri Lanka have as of June 2022 not joined the OECD's October Statement. Mauritania has since become a member of the IF and has joined the October Statement, bringing to 137 the total number of jurisdictions which are participating in the Two-Pillar Solution.[5]

The OECD in its report titled 'Tax Challenges Arising from Digitalisation – Economic Impact Assessment'[6] projected the global tax revenue effects from the Pillar One and Pillar Two Proposals as given below:

Estimated global tax revenue gains		In % of global CIT revenues	In USD billion
Pillar One		0.2%-0.5%	5-12
Pillar Two	Direct revenue gains	0.9%-1.7%	23-42
	Additional gains from reduced profit shifting	0.8%-1.1%	19-28
	Total Pillar Two	1.7%-2.8%	42-70
Total Pillar One and Pillar Two		**1.9%-3.2%**	**47-81**
US GILTI regime		0.4%-0.8%	9-21
Total, including GILTI		**2.3%-4.0%**	**56-102**

[5] Refer to 'OECD releases Model Rules on the Pillar Two Global Minimum Tax: Detailed review' by EY at https://globaltaxnews.ey.com/news/2021-6413-oecd-releases-model-rules-on-the-pillar-two-global-minimum-tax-detailed-review.

[6] Refer to OECD's report titled 'Tax Challenges Arising from Digitalisation – Economic Impact Assessment' (Table 1.1.) at https://www.oecd-ilibrary.org/docserver/0e3cc2d4-en.pdf?expires=1645597172&id=id&accname=guest&checksum=BCDA456EF4506AF36EFDBF9351B85E5E.

1.3 Pillar Two

In October 2021, members[7] of the Inclusive Framework reached an agreement (with four countries disagreeing, as mentioned above) for a two-pillar solution to address the tax challenges of the digitalisation of the economy and put a floor on tax competition[8] by reallocating certain profits to markets and ensure that at least a minimum amount of tax is paid. Under these recommendations, Pillar Two[9] *inter alia* consists of the following salient provisions:

- two interlocking domestic rules (together the Global anti-Base Erosion Rules (GloBE) rules):
  - (i) an Income Inclusion Rule (IIR), which imposes top-up tax on a parent entity in respect of the low taxed income of a constituent entity; and
  - (ii) an Undertaxed Payments Rule (UTPR), which denies deductions or requires an equivalent adjustment to the extent the low tax income of a constituent entity is not subject to tax under an IIR.
- the minimum tax rate used for purposes of the IIR and UTPR will be 15%.
- a treaty-based rule (the Subject to Tax Rule (STTR)) that allows source jurisdictions to impose limited source taxation on certain related party payments subject to tax below a minimum rate. The STTR will be creditable as a covered tax under the GloBE rules.
- the taxing right on the payment under STTR will be limited to the difference between the minimum rate and the tax rate (in the jurisdiction of the payee). The minimum rate for the STTR will be 9%.
- the GloBE rules will apply to MNEs that meet the EUR 750 million threshold as determined under BEPS Action 13 (Country-by-Country Reporting (CbCR)) in at least two out of the last four years. Countries are free to apply the IIR to MNEs headquartered in their country even if they do not meet the threshold. The GloBE rules will operate to impose a top-up tax using an effective tax rate test that is calculated on a jurisdictional basis and that uses a common definition of covered taxes and a tax base determined by reference to financial accounting income (with agreed adjustments consistent with the tax policy objectives of Pillar Two and mechanisms to address timing differences).
- the GloBE rules will have the status of a common approach. This means that IF members:
  - are not required to adopt the GloBE rules, but, if they choose to do so, they will implement and administer the rules in a way that is consistent with the outcomes provided for under Pillar Two, including in light of model rules and guidance agreed to by the IF;
  - accept the application of the GloBE rules applied by other IF members including agreement as to rule order and the application of any agreed safe harbours.
- the GloBE rules provide for an exclusion for international shipping income.
- the GloBE rules provide for a formulaic substance carve-out.

[7] Refer to 'Members of the OECD/G20 Inclusive Framework on BEPS, Updated: November 2021' at https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf.
[8] Refer to 'Developing Countries and the OECD/G20 Inclusive Framework on BEPS, OECD Report for the G20 Finance Ministers and Central Bank Governors', October 2021, Italy (Introduction) at https://www.oecd.org/tax/beps/developing-countries-and-the-oecd-g20-inclusive-framework-on-beps.pdf.
[9] Refer OECD's Statement dated 8 October 2021 on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy at https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf.

- the GloBE rules also provide for a de minimis exclusion for those jurisdictions where the MNE has revenues of less than EUR 10 million and profits of less than EUR 1 million.

As per OECD's FAQs on Global Anti-Base Erosion Model Rules (Pillar Two),[10] with a minimum effective tax rate of 15%, the GloBE rules are expected to generate around USD 150 billion in additional global tax revenues per year.

[10] Refer to 'OECD's FAQs on Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/pillar-two-model-GloBE-rules-faqs.pdf.

CHAPTER 2

SMALL ISLAND DEVELOPING STATES

2.1 Background[11]

Small Island Developing States (SIDS) are a distinct group of 38 United Nations (UN) Member States and 20 Non-UN Members/Associate Members of United Nations regional commissions that face unique social, economic and environmental vulnerabilities. SIDS were recognized as a special case both for their environment and development at the 1992 United Nations Conference on Environment and Development held in Rio de Janeiro, Brazil. The aggregate population of all the SIDS is 65 million, slightly less than 1% of the world's population, yet this group faces unique social, economic, and environmental challenges, like:

- remote geography;
- remoteness from international markets;
- small population size;
- high import and export costs for goods;
- irregular international traffic volumes;
- reliance on external markets for many goods;
- narrow resource base;
- vulnerability to exogenous economic shocks;
- fragile land and marine ecosystems;
- lack of economic alternatives.

2.2 List of SIDS Covered

The mandate of the Research Paper is to analyse the effects of Pillar Two on SIDS[12] that are Member States of the Group of Seventy-Seven (G-77) +China.[13] Thus, the 36 SIDS analysed are Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Federated States of Micronesia, Mauritius, Nauru, Papua New Guinea, Samoa, São Tomé and Príncipe, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Solomon Islands, Suriname, Timor-Leste, Tonga, Trinidad and Tobago, and Vanuatu.

[11] Refer to United Nations, 'About Small Island Developing States' at https://www.un.org/ohrlls/content/about-small-island-developing-states (accessed on 21 Feb. 2022).
[12] Refer to United Nations, 'List of SIDS' at https://www.un.org/ohrlls/content/list-sids (accessed on 21 Feb. 2022).
[13] Refer to The Group of 77 at the United Nations, 'The Member States of the Group of 77' at https://www.g77.org/doc/members.html (accessed on 21 Feb. 2022).

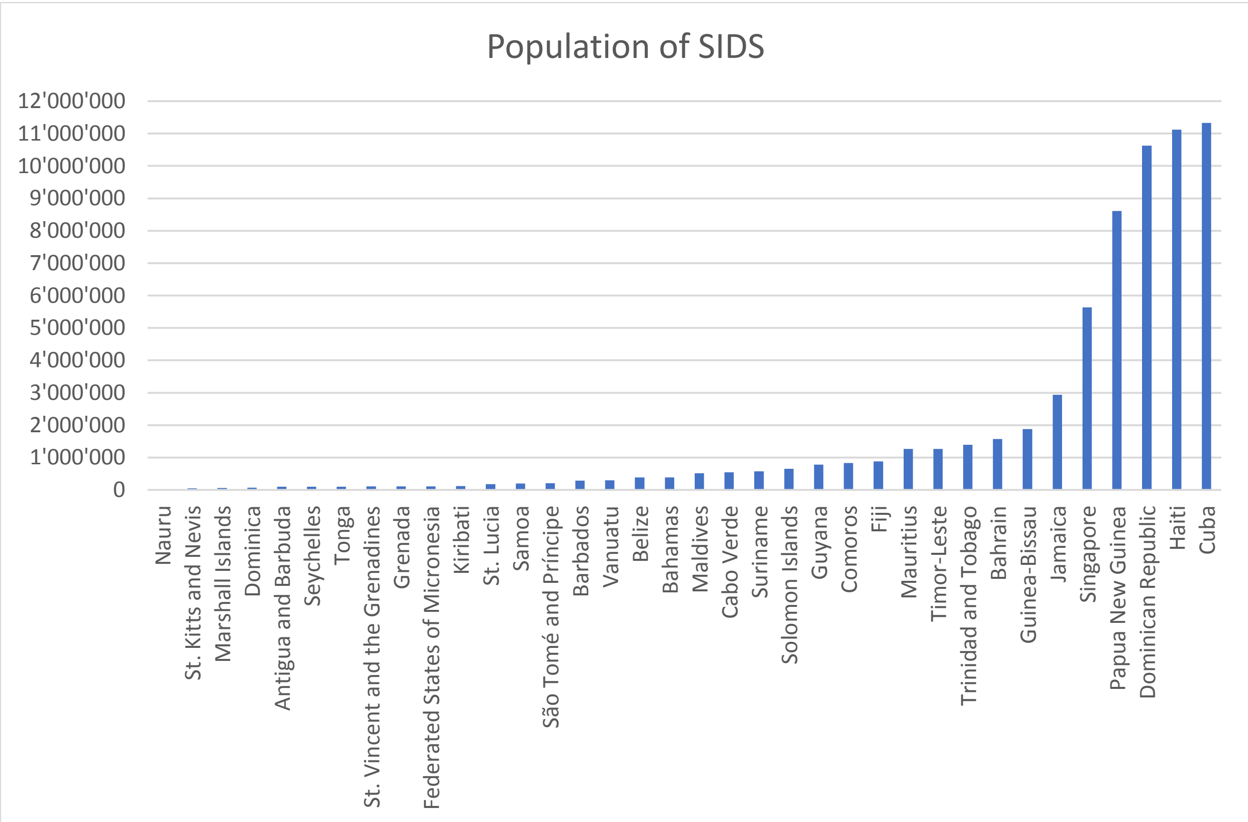
2.3 Analysis of SIDS on Certain Parameters Including Their Economic Framework

Before embarking upon the technical discussions on impact of Pillar Two on SIDS, it is expedient to analyse SIDS on certain parameters including their economic framework, as per discussions below.

2.3.1 Population Size

Most of the SIDS are very sparsely populated (refer to Table 1 in Annexure for country-wise details). It is noted that six SIDS have population less than 100,000 namely, Nauru, St. Kitts and Nevis, Marshall Islands, Dominica, Antigua and Barbuda and Seychelles. There are 19 countries which have population above 100,000 but less than 1,000,000. The remaining 11 countries have population above 1,000,000. Sparse population leads to capacity constraints, low level of industrialisation, dependence on imports for technology, goods and other necessary resources, thus limiting economies of scale. This makes various costs, like production, transportation, service delivery, infrastructure higher in SIDS.[14] An outline of the population of SIDS in absolute numbers is provided in Figure 1 below.

Figure 1



2.3.2 Income Category

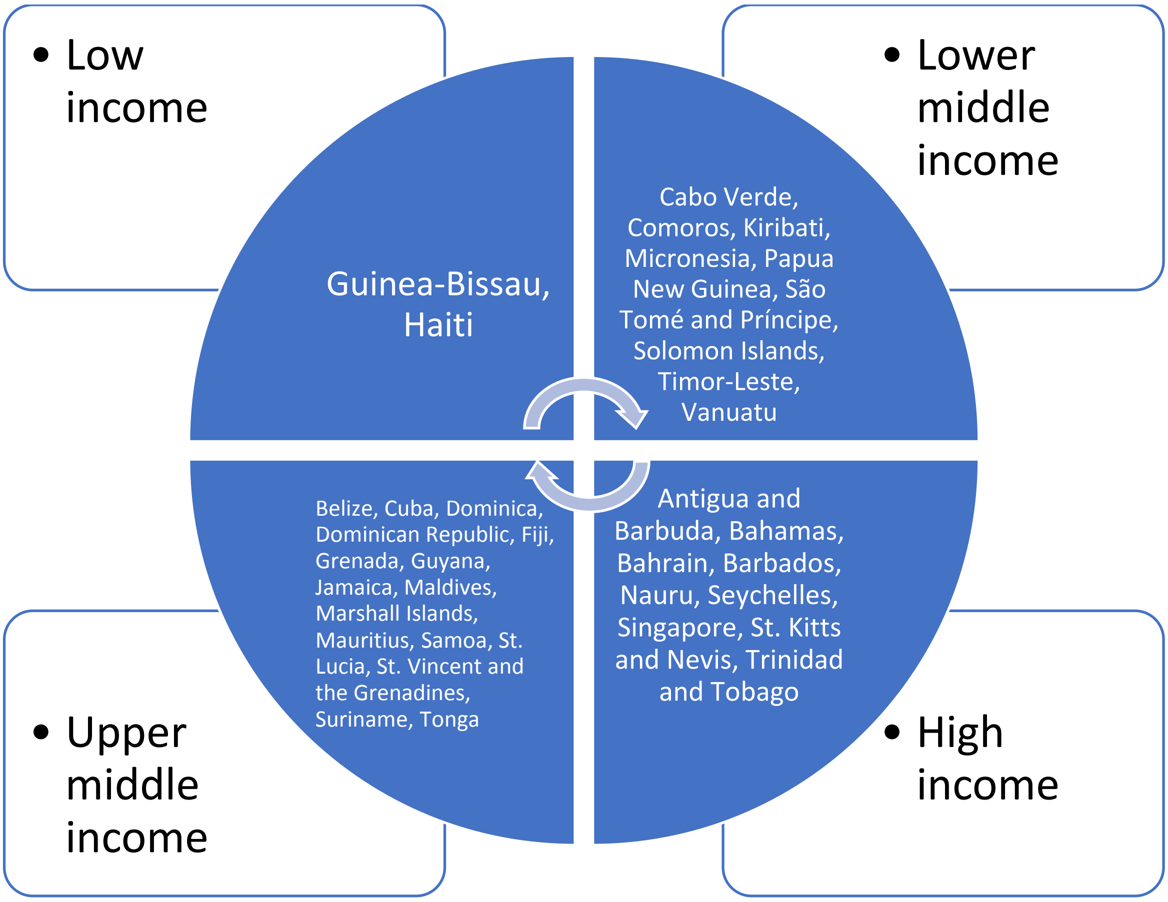
Based on World Bank Group's Doing Business 2020 Report, the economic profile of SIDS was analysed (refer to Table 1 in Annexure for country-wise details). It is noted that two SIDS lie in the low income category, nine fall under the lower middle income, 16 belong to

[14] Refer to Siân Herbert's 'Development characteristics of Small Island Developing States' at https://assets.publishing.service.gov.uk/media/5d554c0a40f0b6706d0d2faf/623_Development_Characteristics_of_Small_Island_Developing_States_Final.pdf (accessed on 28 Feb. 2022).

upper middle income and nine are under the high income category. An outline of SIDS based on their income category (economic profile) is provided in Figure 2 below.

Figure 2

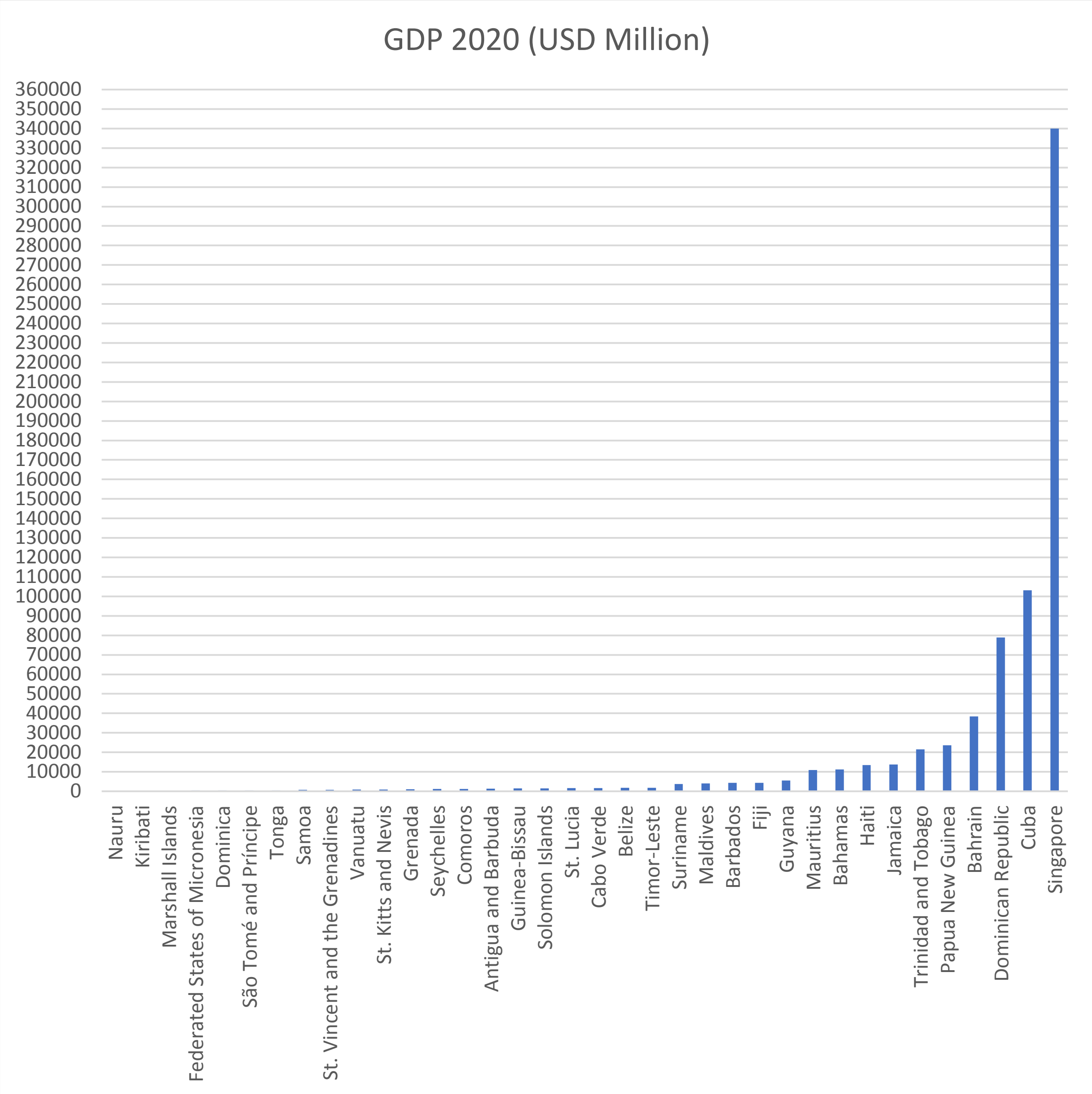
Income Category



2.3.3 Gross Domestic Product

Based on The World Bank's data, Gross Domestic Product (GDP) of SIDS was analysed (refer to Table 2 in Annexure for country-wise details). It is noted that 11 SIDS have GDP less than USD 1 billion, namely, Nauru, Kiribati, Marshall Islands, Federated States of Micronesia, Dominica, São Tomé and Príncipe, Tonga, Samoa, St. Vincent and the Grenadines, Vanuatu and St. Kitts and Nevis. 15 states have their GDP between USD 1-5 billion namely, Grenada, Seychelles, Comoros, Antigua and Barbuda, Guinea-Bissau, Solomon Islands, St. Lucia, Cabo Verde, Belize, Timor-Leste, Suriname, Maldives, Barbados, Fiji and Guyana. Eight countries have their GDP between USD 10-80 billion, namely, Mauritius, Bahamas, Haiti, Jamaica, Trinidad and Tobago, Papua New Guinea, Bahrain and Dominican Republic. Only two countries have GDP in excess of USD 100 billion, namely, Cuba and Singapore, with the latter towering above the rest of SIDS with its GDP as high as USD 340 billion. An outline of SIDS based on their GDP is provided in Figure 3 below.

Figure 3

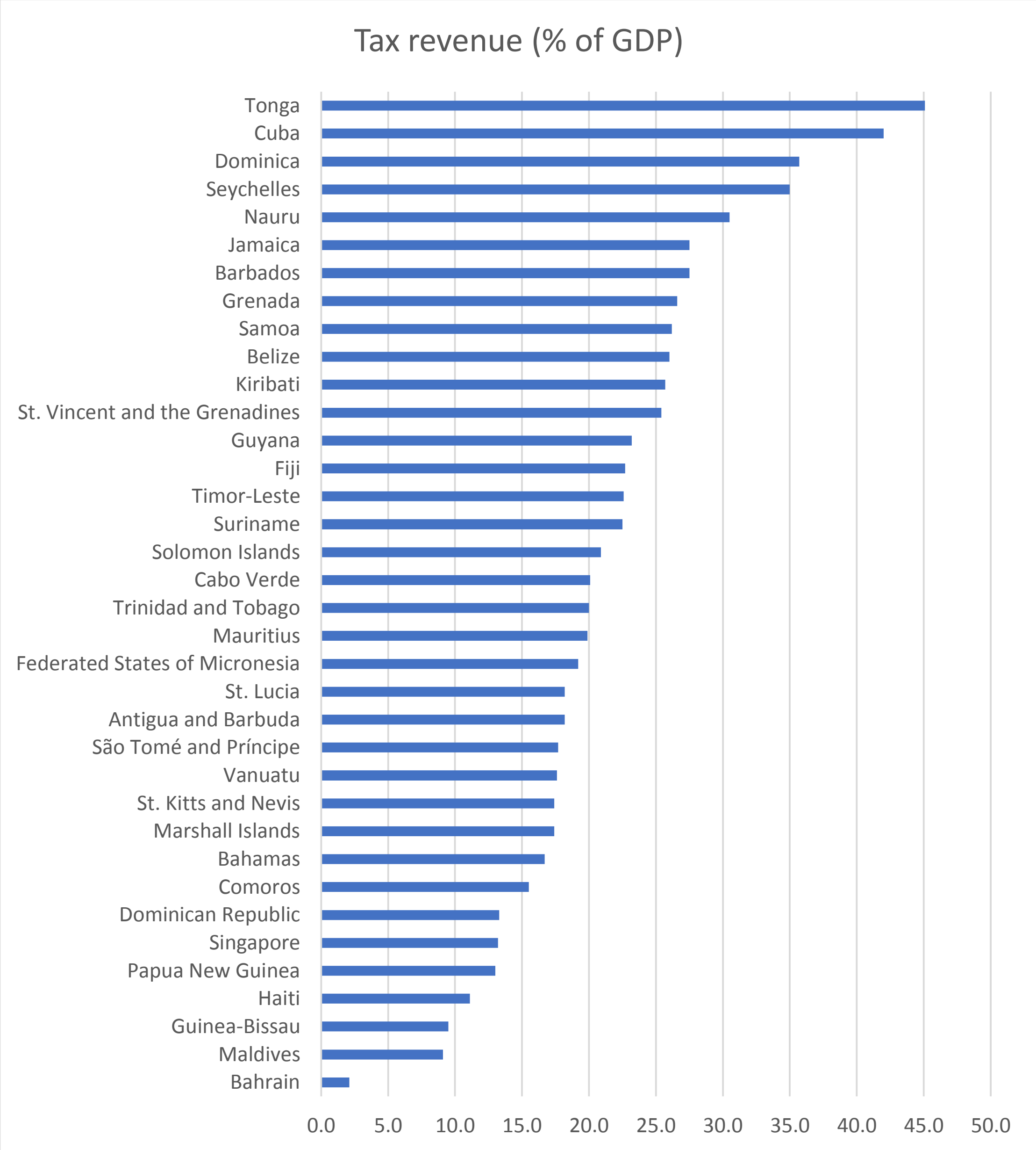


2.3.4 Tax Revenue (% of GDP)

Many developing countries have a low tax-to-GDP ratio. The most recent data indicates that about 60 developing countries fall below the 15 percent threshold. Tax revenues above 15 percent of a country's GDP are a key ingredient for economic growth and, ultimately, poverty reduction.[15] Based on The World Bank's data, tax revenue (% of GDP) of SIDS was analysed (refer to Table 2 in Annexure for country-wise details). It is noted that seven SIDS have tax-to-GDP ratio less than 15%, namely, Bahrain, Maldives, Guinea-Bissau, Haiti, Papua New Guinea, Singapore and Dominican Republic, whereas, 29 SIDS have tax-to-GDP ratio above 15%. An outline of SIDS based on their tax-to-GDP ratio is provided in Figure 4 below.

[15] Refer to 'Getting to 15 percent: addressing the largest tax gaps' by Raul Felix Junquera-Varela and Bernard Haven, December 18, 2018 at https://blogs.worldbank.org/governance/getting-15-percent-addressing-largest-tax-gaps (accessed on 28 Feb. 2022).

Figure 4



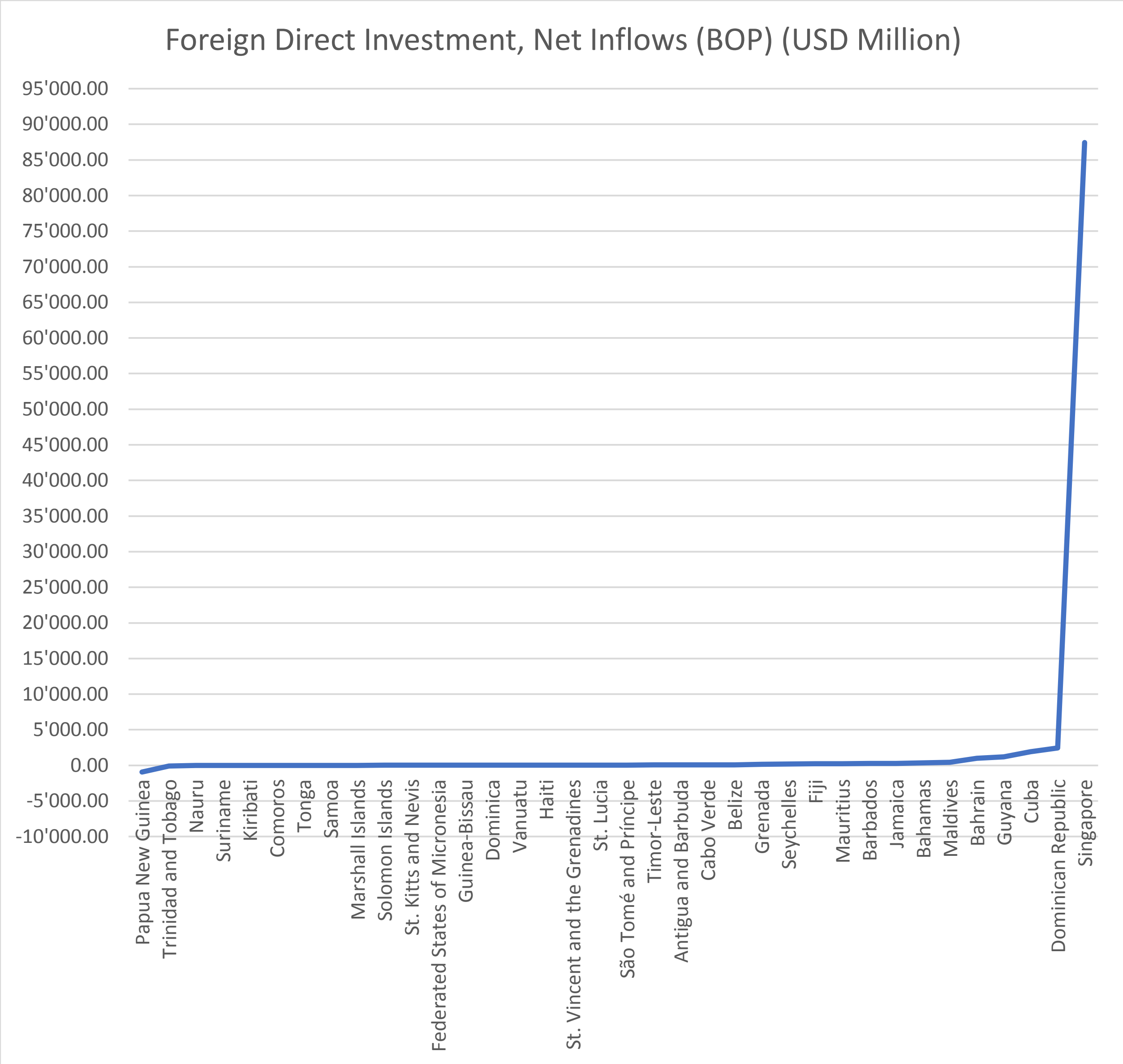
2.3.5 Foreign Direct Investment

Corporate income tax revenues and foreign direct investment are key pillars on which developing countries rely upon.[16] Based on the World Bank's data, Foreign Direct Investment (FDI) and Balance of Payments (BOP) of SIDS were analysed (refer to Table 2 in Annexure for country-wise details). It is noted that two countries have BOP in the negative, namely, Papua New Guinea and Trinidad and Tobago, which indicates that they are undergoing one or more experiences, like an accelerated development activity, high inflation leading to high imports; lower exports; and certain political or social issues causing flight of capital. Nauru has net FDI of zero, whereas, seven countries, namely, Suriname,

[16] Refer to 'Developing Countries and the OECD/G20 Inclusive Framework on BEPS, OECD Report for the G20 Finance Ministers and Central Bank Governors', October 2021, Italy (Introduction) at https://www.oecd.org/tax/beps/developing-countries-and-the-oecd-g20-inclusive-framework-on-beps.pdf.

Kiribati, Comoros, Tonga, Samoa, Marshall Islands and Solomon Islands have net FDI between USD 1-10 million. Thirteen countries have net FDI between USD 10-100 million, namely, St. Kitts and Nevis, Federated States of Micronesia, Guinea-Bissau, Dominica, Vanuatu, Haiti, St. Vincent and the Grenadines, St. Lucia, São Tomé and Príncipe, Timor-Leste, Antigua and Barbuda, Cabo Verde, Belize. Eight countries have their respective net FDI between USD 100-500 million, namely, Grenada, Seychelles, Fiji, Mauritius, Barbados, Jamaica, Bahamas and Maldives. Further analysis shows that there are five countries with net FDI above USD 1 billion, namely, Bahrain, Guyana, Cuba, Dominican Republic and Singapore, with Singapore towering above the rest of the pack with net FDI as high as USD 87 billion. An outline of SIDS based on their FDI and BOP is provided in Figure 5 below.

Figure 5



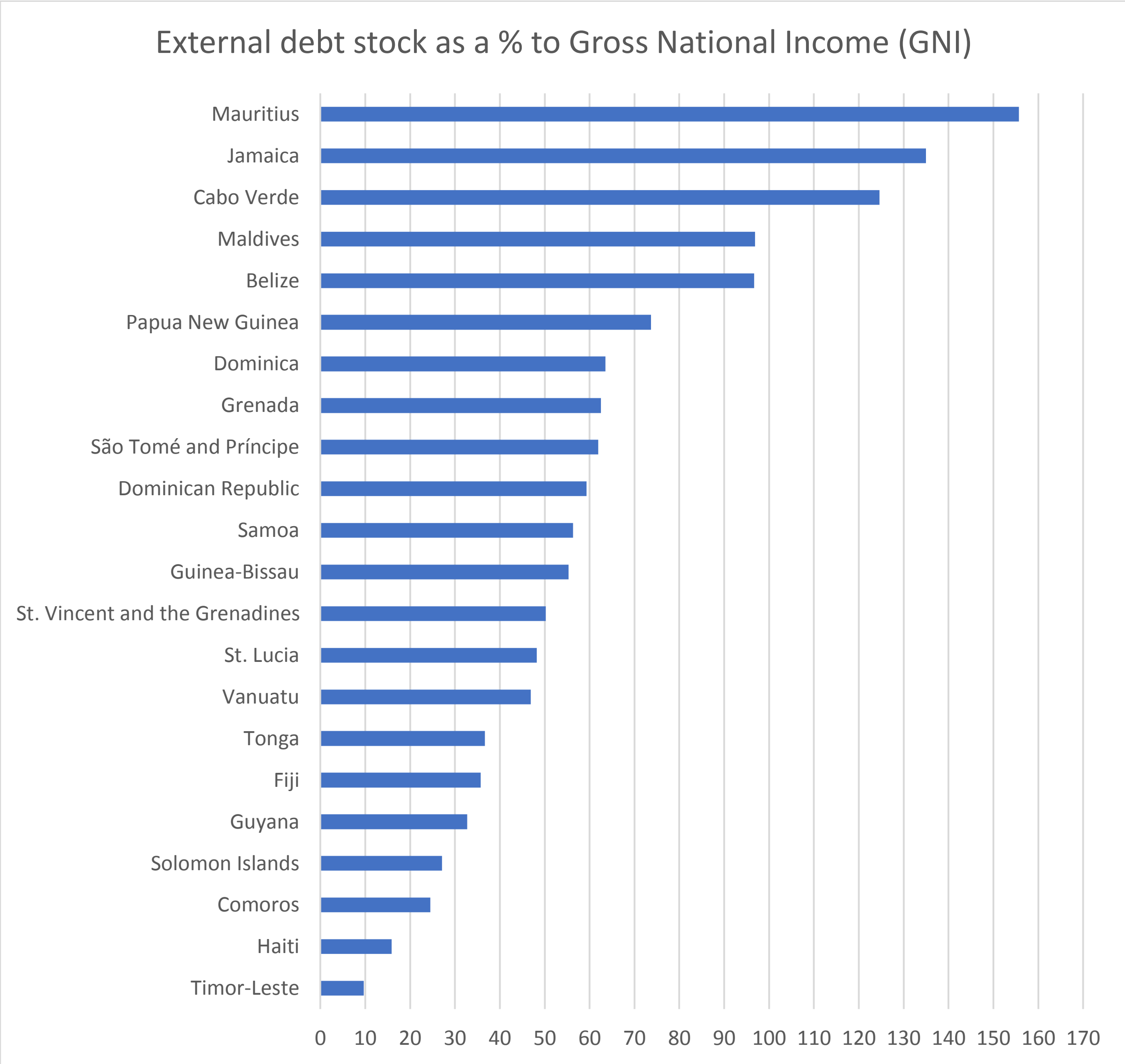
2.3.6 External Debt Stock as a % of Gross National Income (GNI)

COVID-19 has forced most countries to take on additional debt, and for low-income countries this may lead to a precarious fiscal position, particularly if interest rates are to rise.[17] The World Bank provides data as on 2020 for 22 SIDS in respect of External Debt Stock as a % to Gross National Income (GNI) (refer to Table 2 in Annexure for country-wise details). On analysing the same, it is observed that Timor-Leste and Haiti have a comfortable ratio around 15% or less. Five countries, namely, Comoros, Solomon Islands, Guyana, Fiji and Tonga have medium levels ranging between 25-40%. It is seen that 15 countries have high levels of external debts ranging from the vicinity of 50% to 150%, namely, Vanuatu, St. Lucia, St. Vincent and the Grenadines, Guinea-Bissau, Samoa, Dominican Republic, São Tomé and Príncipe, Grenada, Dominica, Papua New Guinea, Belize, Maldives, Cabo Verde, Jamaica and Mauritius. Few jurisdictions, namely, Belize, Maldives, Cabo Verde, Jamaica

[17] Ibid.

and Mauritius have the ratio in the vicinity of 100 and above, which makes them highly susceptible to liquidity issues. An outline of SIDS based on their External Debt Stock as a % to GNI is provided in Figure 6 below.

Figure 6



2.3.7 Inclusive Framework's Membership

It is noted that 21 countries out of 36 SIDS analysed are members of the IF, whereas, 15 countries have not taken membership of the IF (refer to Table 3 in Annexure for country-wise details). Categorisation of SIDS based on their respective IF membership is provided in Figure 7 below.

Figure 7

Inclusive Framework's Membership

2.3.8 Transfer Pricing Provisions in Domestic Law

It is observed that 17 countries comprising SIDS have transfer pricing (TP) provisions in their respective domestic laws, whereas, 19 countries do not have such provisions (refer to Table 3 in Annexure for country-wise details). Categorisation of SIDS based on existence of TP provisions in their respective domestic laws is provided in Figure 8 below.

Figure 8

Transfer Pricing Provisions in Domestic Law

2.3.9 Implementation of Common Reporting Standard for Automatic Exchange of Information

Under Common Reporting Standard (CRS) for Automatic Exchange of Information (AEOI), the participating jurisdictions exchange information automatically on a regular interval. Since tax and financial information is considered confidential and is protected by confidentiality provisions in most countries, the disclosure of such information to a foreign jurisdiction may be legally challenging. Also, in the absence of a legally binding agreement, there is a possibility that countries may not exchange information on a continuous and reliable manner. To address these concerns, countries enter into agreements which make it legally binding on countries and provide the legal basis for exchanging information.[18] There are three types of major international agreements for information exchange, as given below:

- Double Taxation Avoidance Agreements (DTAAs);
- Tax Information Exchange Agreements (TIEAs); and
- Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MCMAA): This convention has provisions for facilitating the exchange of information between the signatory jurisdictions. Countries who become members of MCMAA are then required to sign the Multilateral Competent Authority Agreement (MCAA) bilaterally with other countries to operationalise the exchange of information.

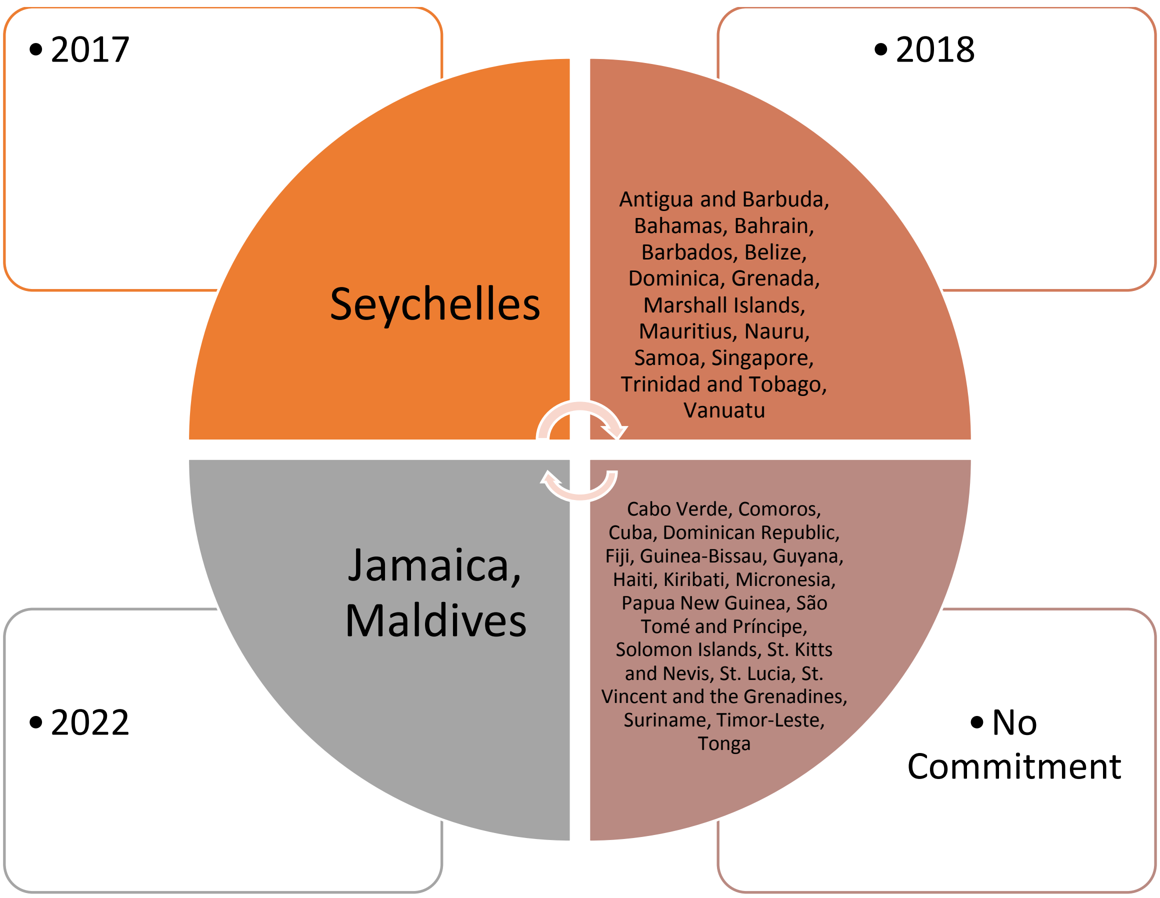
Implementation of Common Reporting Standard (CRS) for Automatic Exchange of Information (AEOI) is a positive demonstration by a country that it is committed to being a transparent, compliant and reputable international financial centre.

It is observed that 17 countries comprising SIDS have provided Commitment of 1st Exchange under the AEOI, whereas, 19 countries have given no such commitment (refer Table 3 in Annexure for country-wise details). Categorisation of SIDS based on Status of Commitment of 1st Exchange under the AEOI is provided in Figure 9 below.

[18] Refer to Financial Transparency Coalition, 'Automatic Exchange of Tax Information 2017' at https://financialtransparency.org/wp-content/uploads/2018/05/Automatic-Exchange-of-Tax-Information.pdf (accessed on 28 Feb. 2022).

Figure 9

Status of Commitment of 1st Exchange under the AEOI



2.3.10 Signatories of Multilateral Competent Authority Agreement (MCAA)

It is observed that 16 countries comprising SIDS are signatories of MCAA, whereas, 20 countries have not signed the same (refer to Table 3 in Annexure for country-wise details). Categorisation of SIDS based on signing of MCAA is provided in Figure 10 below.

Figure 10

Signatories of MCAA

2.3.11 Corporate Income Tax and Domestic Law Provisions

The Corporate Income Tax (CIT) and relevant tax provisions as contained in the domestic laws of 36 SIDS were analysed in detail from the perspective of Pillar Two (refer to Table 4 in Annexure for country-wise details). A synopsis thereof is provided in Figure 11 below which demonstrates that Bahamas, Bahrain, Belize and Vanuatu have not introduced the CIT regime, whereas, Barbados, Marshall Islands and Timor-Leste have it but the tax rate is below 15%. It is also observed that most countries have provisions for carry forward of business losses and allow various incentives to attract FDI.

Figure 11

Summary of CIT and Domestic Law Provisions

Sl. No.	State	Applicability of CIT	CIT =/> 15%	Carry forward of Business Losses	Provision of Incentives to attract FDI
1	Antigua and Barbuda	Yes	Yes	Yes	Yes
2	Bahamas	No	No	No	No
3	Bahrain	No	No	No	No
4	Barbados	Yes	No	Yes	Yes
5	Belize	No	No	No	Yes
6	Cabo Verde	Yes	Yes	Yes	Yes
7	Comoros	Yes	Yes	Yes	Yes
8	Cuba	Yes	Yes	Yes	Yes

Sl. No.	State	Applicability of CIT	CIT =/> 15%	Carry forward of Business Losses	Provision of Incentives to attract FDI
9	Dominica	Yes	Yes	Yes	Yes
10	Dominican Republic	Yes	Yes	Yes	Yes
11	Fiji	Yes	Yes	Yes	Yes
12	Grenada	Yes	Yes	Yes	Yes
13	Guinea-Bissau	Yes	Yes	Yes	Yes
14	Guyana	Yes	Yes	Yes	Yes
15	Haiti	Yes	Yes	Yes	Yes
16	Jamaica	Yes	Yes	Yes	Yes
17	Kiribati	Yes	Yes	Yes	Yes
18	Maldives	Yes	Yes	Yes	Yes
19	Marshall Islands	Yes	No	No	Yes
20	Federated States of Micronesia	Yes	Yes	Yes	Yes
21	Mauritius	Yes	Yes	Yes	Yes
22	Nauru	Yes	Yes	Yes	No
23	Papua New Guinea	Yes	Yes	Yes	Yes
24	Samoa	Yes	Yes	Yes	Yes
25	São Tomé and Príncipe	Yes	Yes	Yes	Yes
26	Seychelles	Yes	Yes	Yes	Yes
27	Singapore	Yes	Yes	Yes	Yes
28	St. Kitts and Nevis	Yes	Yes	Yes	Yes
29	St. Lucia	Yes	Yes	Yes	Yes
30	St. Vincent and the Grenadines	Yes	Yes	Yes	Yes
31	Solomon Islands	Yes	Yes	Yes	Yes
32	Suriname	Yes	Yes	Yes	Yes
33	Timor-Leste	Yes	No	Yes	Yes
34	Tonga	Yes	Yes	Yes	No
35	Trinidad and Tobago	Yes	Yes	Yes	Yes
36	Vanuatu	No	No	No	No

Domestic resource mobilisation and appropriate tax policy are a must for SIDS. More efforts need to be undertaken to optimise taxation structures and collection mechanisms.[19]

2.4 *SIDS Acting as Offshore Financial Centres (OFCs)*

Amongst the SIDS under study in this Research Paper, some of these Countries, Territories, and Jurisdictions act majorly as Offshore Financial Centres (OFCs)[20] namely, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Dominica, Grenada, Marshall Islands,

[19] Refer to OECD, 'The Impact of Covid-19 Crisis on External Debt in Small Island Developing States' at https://www.oecd.org/dac/financing-sustainable-development/External-debt-in-small-island-developing-states(SIDS).pdf (accessed on 28 Feb. 2022).
[20] Refer to 'Offshore Financial Centers, IMF Background Paper' (Table 1) at https://www.imf.org/external/np/mae/oshore/2000/eng/back.htm (accessed on 28 Feb. 2022).

Federated States of Micronesia, Mauritius, Nauru, Seychelles, Singapore,[21] St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Vanuatu.

2.4.1 Broad categories of OFCs

The banks which engage in offshore business in OFCs can be broadly divided into two groups. First, there are 'letter-box or brass-plate' companies which act as a front providing legal and booking channels for business that is in effect conducted elsewhere, i.e., predominantly in the traditional financial centres located in the countries of residence of the banks which control such letter-box companies. The second group of banks has genuine transactions offices, i.e., they conduct banking operations consisting of deposit banking and final lending with business conducted with at least some measure of independent decision making.[22]

2.4.2 Raison d'etre for setting-up OFCs

Small countries, with small domestic financial sectors, may choose to develop offshore business and become an OFC for a number of reasons. These include income generating activities and employment in the host economy, and government revenue through licensing fees, etc.[23] In addition, other examples of uses[24] of OFCs are *inter alia* as below:

> *a) **"Offshore banking licenses**: The attractions of the OFC may include no capital tax, no withholding tax on dividends or interest, no tax on transfers, no corporation tax, no capital gains tax, no exchange controls, light regulation and supervision, less stringent reporting requirements, and less stringent trading restrictions.*
>
> *b) **Offshore corporations or international business corporations (IBCs)**: IBCs can be used to create complex financial structures. IBCs may be set up with one director only. In some cases, residents of the OFC host country may act as nominee directors to conceal the identity of the true company directors. In some OFCs, bearer share certificates may be used. In other OFCs, registered share certificates are used, but no public registry of shareholders is maintained. In many OFCs, the costs of setting up IBCs are minimal and they are generally exempt from all taxes. IBCs are a popular vehicle for managing investment funds.*
>
> *c) **Insurance companies:** A commercial corporation establishes a captive insurance company in an OFC to manage risk and minimize taxes. The attractions of an OFC in these circumstances include favorable income/withholding/capital tax regime and low or weakly enforced actuarial reserve requirements and capital standards.*
>
> *d) **Special purpose vehicles:** One of the most rapidly growing uses of OFCs is the use of special purpose vehicles (SPV) to engage in financial activities in a more favorable tax environment. The SPV, and hence the onshore parent, benefit from the favorable tax treatment in the OFC. Financial institutions also make use of SPVs to take advantage of less restrictive regulations on their activities. Banks, in particular, use them to raise Tier I capital in the lower tax environments of OFCs. SPVs are also set up by non-bank financial institutions to*

[21] Singapore is also categorized as Regional Financial Center by the International Monetary Fund (IMF). Singapore has well-developed financial markets and infrastructure which adds a considerable amount of value to transactions undertaken for non-residents.

[22] Refer IMF's 'International Financial Centers and Financial Innovation' at https://www.elibrary.imf.org/view/books/071/05675-9780939934904-en/ch06.xml (accessed on 22 Feb. 2022).

[23] Refer to 'Offshore Financial Centers, IMF Background Paper' at https://www.imf.org/external/np/mae/oshore/2000/eng/back.htm (accessed on 22 Feb. 2022).

[24] Ibid. (Box 1)

take advantage of more liberal netting rules than faced in home countries, reducing their capital requirements.

e) ***Tax planning:*** *Wealthy individuals make use of favorable tax environments in, and tax treaties with, OFCs, often involving offshore companies, trusts, and foundations. There is also a range of schemes that, while legally defensible, rely on complexity and ambiguity, often involving types of trusts not available in the client's country of residence. Multinational companies route activities through low tax OFCs to minimize their total tax bill through transfer pricing, i.e., goods may be made onshore but invoices are issues offshore by an IBC owned by the multinational, moving onshore profits to low tax regimes.*

f) ***Tax evasion and money laundering:*** *There are also individuals and enterprises who rely on banking secrecy to avoid declaring assets and income to the relevant tax authorities. Those moving money gained from illegal transactions also seek maximum secrecy from tax and criminal investigations.*

g) ***Asset management and protection:*** *Wealthy individuals and enterprises in countries with weak economies and fragile banking systems may want to keep assets overseas to protect them against the collapse of their domestic currencies and domestic banks, and outside the reach of existing or potential exchange controls. If these individuals also seek confidentiality, then an account in an OFC is often the vehicle of choice. In some cases, fear of wholesale seizures of legitimately acquired assets is also a motive for going offshore. In this case, confidentiality is very important. Also, many individuals facing unlimited liability in their home jurisdictions seek to restructure ownership of their assets through offshore trusts to protect those assets from onshore lawsuits. Some offshore jurisdictions have legislation in place that protects those who transfer property to a personal trust from forced inheritance provisions in the home countries."*

CHAPTER 3

IMPACT OF PILLAR TWO PROPOSALS

The primary purpose of the OECD/G20 project on digitalisation was to shore up tax revenues of market jurisdictions to account for the contribution made by users in the market jurisdictions so as to compensate such jurisdictions for the revenue generated by them for the MNEs. The secondary purpose of the OECD/G20 project was to address remaining BEPS issues related to low-tax jurisdictions.[25] The latter is being achieved with the introduction of minimum tax rate of 15% to be applied through the concepts of IIR and UTPR formulated under the GloBE Rules[26] so as to ensure that taxes are paid in the parent jurisdiction of the MNEs. This puts market or source jurisdictions with no CIT or with effective CIT rate less than 15% at a disadvantage as taxes foregone by such jurisdictions would be paid in the parent jurisdiction (home country) of the MNEs.

3.1 Response of United Arab Emirates to the Pillar Two Proposal

The United Arab Emirates (UAE), a member of the IF and a leading financial hub, has concurred with the Two-Pillar Solution, and is amongst the first countries to come up with policy formulation in its domestic law in response to the proposals.

3.1.1 Present tax structure in the UAE

As of now, i.e., prior to adoption of GloBE rules, the tax structure in the UAE[27] is *inter alia* as below:

- In practice, oil companies and subsidiaries of foreign banks are the only entities subject to corporate income tax in the UAE;
- Up to AED[28] 1,000,000, tax rate is Nil and upwards of AED 1,000,000, it ranges between 10-55% depending upon the taxable income;
- Net operating losses incurred by the taxpayer may be carried forward indefinitely to be set off against the income of future years, although Abu Dhabi restricts the carry-forward of loss relief to 1 year only and allows use of this carry-forward only once in every 5 years;
- Several emirates in the UAE have tax free zones where businesses are offered incentives such as exemptions from income tax and customs duties, the possibility of 100% foreign ownership, streamlined administrative procedures, etc;
- There are currently no transfer pricing rules in the UAE. However, the UAE in 2019 introduced the country-by-country reporting (CbCR) obligation.

[25] Refer to Kuldeep Sharma's 'Global Minimum Corporate Tax: Interaction of Income Inclusion Rule with Controlled Foreign Corporation and Tax-sparing Provisions', South Centre Policy Brief 22 at https://www.southcentre.int/wp-content/uploads/2022/01/Tax-PB-22.pdf.

[26] Refer to OECD's 'Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.pdf.

[27] Refer to the International Bureau for Fiscal Documentation (IBFD) at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_ae_s_1.&refresh=1645539407371%23gtha_ae_s_1.

[28] Arab Emirates Dirham

3.1.2 Corporate tax regime announced by the UAE in response to Pillar Two

On 26 July 2021, the Ministry of Finance issued an official statement confirming the UAE's support of the global minimum effective tax rate as proposed under "Pillar Two" of the OECD BEPS project.[29] In an endeavour to enhance its position as a prominent hub for investment, business and in order to meet international standards for tax transparency and harmful tax practices, UAE has proposed a headline corporate tax rate of 9% for taxable income exceeding AED 375,000 effective for financial years starting on or after 1 June 2023. A nil CIT rate for taxable income up to AED 375,000 is expected to support small and medium sized businesses and start-ups.

The prominent provisions of these regulations, as mentioned in the FAQ[30] released by the UAE Ministry of Finance are as below:

- UAE CIT will apply to all UAE businesses and commercial activities alike, except for the extraction of natural resources, which will remain subject to Emirate level[31] corporate taxation and be outside the scope of the UAE CIT;
- Dividends and capital gains earned by a UAE business from its qualifying shareholdings will be exempt from UAE CIT;
- A different tax rate (yet to be announced) for large multinationals that have consolidated global revenues in excess of EUR 750 million shall apply that meets the specific criteria set with reference to Pillar Two;
- The investment in real estate by individuals in their personal capacity will not be subject to UAE CIT provided the individual is not required to obtain a commercial license or permit to carry out such activity in the UAE. Similarly, individuals will not be subject to UAE CIT on dividends, capital gains and other income earned from owning shares or other securities in their personal capacity. Interest and other income earned by an individual from bank deposits or saving schemes will not be subject to UAE CIT;
- Foreign entities and individuals will be subject to UAE CIT only if they conduct a trade or business in the UAE in an ongoing or regular manner. UAE CIT will generally not be levied on a foreign investor's income from dividends, capital gains, interest, royalties and other investment returns;
- Free zone businesses will be subject to UAE CIT, but the UAE CIT regime will continue to honour the CIT incentives currently being offered to free zone businesses that comply with all regulatory requirements and that do not conduct business with mainland UAE;
- Banking operations will be subject to UAE CIT (further details awaited);
- The UAE CIT regime will allow a business to use losses incurred (as from the UAE CIT effective date) to offset taxable income in subsequent financial periods, provided certain conditions are met (further details awaited). Tax losses from one group company may be used to offset taxable income of another group company, provided certain conditions are met (further details awaited);
- A UAE group of companies can elect to form a tax group and be treated as a single taxable person, provided certain conditions are met. A UAE tax group will only be required to file a single tax return for the entire group;
- Foreign CIT paid on UAE taxable income will be allowed as a tax credit against the UAE CIT liability;

[29] Refer to 'Press Release: The Ministry of Finance announces the introduction of a Corporate Tax in the UAE' at https://www.mof.gov.ae/en/media/materials/News/Pages/31012022.aspx (accessed on 23 Feb. 2022).
[30] Refer to 'FAQ released by the UAE Ministry of Finance' at https://www.mof.gov.ae/en/resourcesAndBudget/Pages/faq.aspx (accessed on 23 Feb. 2022).
[31] In UAE, CIT is determined at an Emirate level through tax decrees. Currently, at an Emirate level, the UAE only levies corporate tax on oil and gas companies and branches of foreign banks.

- UAE withholding tax will not be applicable on domestic and cross-border payments of any nature under the UAE CIT regime;
- UAE businesses will need to comply with transfer pricing rules and documentation requirements set with reference to the OECD Transfer Pricing Guidelines.

Though further details from the UAE Ministry of Finance on certain aspects covered above are awaited, it is expected that more directions will be in the offing *inter alia* on the following lines:

- a tax rate of 15% or a Qualified Domestic Minimum Top Up Tax (QDMTT) for entities that are part of multinational groups that have consolidated global revenues in excess of EUR 750 million shall be announced which shall meet the specific criteria set with reference to Pillar Two;
- since UAE CIT will generally not be levied on a foreign investor's income from dividends, capital gains, interest, royalties and other investment returns, this implies that the UAE CIT regime will only tax foreign companies and individuals that have a permanent establishment (PE) in the UAE and it would be reasonable to expect that the UAE shall design its domestic 'taxable presence' rules in line with international practice.

3.1.3 Advantages of introducing the new tax rules

The UAE's new corporate tax has been received in a 'positive manner' by businesses, as the new levy is going to replace most of the fees companies presently have to pay.[32] These new rules are expected to *inter alia* provide certain additional benefits as mentioned below:

- enhance UAE's position as a prominent hub for investment and business;
- meet international standards for tax transparency and harmful tax practices;
- the STTR under Pillar Two allows countries to levy a 'top-up' tax on certain related party payments where the recipient company in its home jurisdiction is not subject to a tax rate of at least 9% on those payments. With a statutory UAE CIT rate of 9%, UAE businesses may not face a foreign top-up tax under the STTR;
- a nil CIT rate for taxable income up to AED 375,000 is expected to support small & medium sized businesses and start-ups.

3.2 Impact of Pillar Two Proposals on Small Island Developing States

The Pillar Two recommendations are envisaged to have a profound impact on SIDS (especially those which are members of IF) who do not have the CIT regime at present and where the effective CIT rate is less than the minimum tax rate of 15% proposed under the Pillar Two. Another crucial aspect to be borne in mind is that all SIDS which are members of IF have agreed to the Two-Pillar Solution. A deeper analysis of the impact of Pillar Two Proposals on SIDS is conducted in the following paragraphs.

3.2.1 Membership of the Inclusive Framework

As of now, SIDS which are members of IF are, namely, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Cabo Verde, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Maldives, Mauritius, Papua New Guinea, Samoa, Seychelles, Singapore, St. Kitts

---

[32] Refer to 'No UAE income tax for now, minister says in the wake of corporate tax move' at https://www.arabianbusiness.com/gcc/uae/no-uae-income-tax-for-now-minister (accessed on 23 Feb. 2022).

and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago. All these jurisdictions have given their concurrence to the Two-Pillar Solution. Therefore, following the common approach, these jurisdictions are obligated to accept the application of the GloBE rules applied by other IF members even if they don't adopt the GloBE rules themselves. If there is no CIT regime in any of these jurisdictions or if the effective tax rte in any of these jurisdictions is below the minimum tax rate of 15%, GloBE rules will ensure taxation in the home-jurisdiction (state of residence) of the MNEs. Hence, to this extent, profits arising (sourced) in these jurisdictions would not get taxed therein.

There is a substantial chunk of SIDS which are not part of the IF, namely, Comoros, Cuba, Fiji, Guinea-Bissau, Guyana, Kiribati, Marshall Islands, Micronesia, Nauru, São Tomé and Príncipe, Solomon Islands, Suriname, Timor-Leste, Tonga, Vanuatu. As of now, none of them has separately agreed to the Two-Pillar Solution. Hence, none of these SIDS may get directly impacted by the GloBE rules.

3.2.2 Status of Corporate Income Tax Regime

Out of the 36 SIDS analysed, Bahamas, Bahrain, Belize and Vanuatu do not have any CIT regime at present. Out of these four jurisdictions, Bahamas, Bahrain, Belize are part of the IF, hence, following the common approach, they are obligated to comply with the Pillar Two recommendations in light of their concurrence to these proposals. If these three states do not introduce a CIT regime, GloBE rules will ensure taxation in the home-jurisdiction (state of residence) of the MNEs. Hence, to this extent, profits arising (sourced) in these jurisdictions would not get taxed in Bahamas, Bahrain, Belize respectively, if these jurisdictions continue to not have a CIT regime.

It is also seen that Barbados, Marshall Islands and Timor-Leste have corporate tax rate less than the minimum agreed rate of 15% under Pillar Two. Out of these three jurisdictions, Barbados is part of IF, hence, following the common approach, it is obligated to comply with all the Pillar Two recommendations in light of its concurrence to these proposals. If the tax rate in Barbados continues to be below the minimum tax rate of 15%, GloBE rules will ensure partial taxation in the home-jurisdiction (state of residence) of the MNEs. Hence, to this extent, profits arising (sourced) in Barbados would not get fully taxed there if it continues to apply an effective tax rate (ETR) below 15%.

3.2.3 Scope of GloBE Rules

The GloBE rules apply to Constituent Entities (CEs) that are members of an MNE Group that has annual revenue of EUR 750 million or more, as determined under BEPS Action 13 (country by country reporting), in the consolidated financial statements of the Ultimate Parent Entity (UPE) in at least two of the four fiscal years immediately preceding the tested fiscal year. This implies that these rules will apply in SIDS only in respect of certain select MNEs that meet the above stated threshold at an MNE Group level and not across the board on all MNEs. Thus, a case by case analysis of each MNE operating in a particular SIDS is required to ascertain the applicability of GloBE rules in that particular country. Further, Government entities, international organisations, non-profit organisations, pension funds or investment funds that are UPEs of an MNE Group or any holding vehicles used by such entities, organisations or funds are not subject to the GloBE rules.

3.2.4 De minimis exclusion

The GloBE rules provide for a de minimis exclusion for those jurisdictions where the MNE has revenues of less than EUR 10 million and profits of less than EUR 1 million. Considering the smaller size of certain SIDS economies like Nauru (GDP: USD 118 million), Kiribati (GDP: USD 200 million), Marshall Islands (GDP: USD 239 million); the EUR 750 million threshold (scope of GloBE rules) and the de minimis exclusion, it is quite possible that these rules may not apply to majority of MNEs operating in the smaller jurisdictions, though a case by case analysis of each MNE operating in a particular jurisdiction is required to ascertain the precise applicability of GloBE rules in that country.

3.2.5 Exclusion for International Shipping Income

The GloBE rules provide for an exclusion for international shipping income. Hence, MNEs deriving their income principally from international shipping through their operations in certain SIDS which have grown as international shipping hubs (like Bahamas, Jamaica and Mauritius)[33] and which are leading flags of registration (like Antigua and Barbuda, Bahamas and the Marshall Islands)[34] may not be covered. Article 3.3.6 of OECD's Global Anti-Base Erosion Model Rules (Pillar Two)[35] provides that in order to qualify for the exclusion, a CE must demonstrate that the strategic or commercial management of all ships concerned is effectively carried on from within the jurisdiction where the entity is located.

3.2.6 Common Approach

Although not mandatory, the GloBE rules will have the status of a 'common approach' as adopted by 137 jurisdictions, as of now. This implies that if some of these jurisdictions do not implement the rules, the agreement on a common approach means that one jurisdiction accepts the application of the rules by another in respect of MNEs operating in its jurisdiction.[36] Thus:

- SIDS are free to implement the rules;
- implementation of GloBE rules needs to be consistent with the general guidelines;
- those SIDS which are IF members, even if they do not implement the GloBE rules, will have to accept the application of the GloBE rules applied by other IF members.

This implies that Vanuatu which does not have a CIT regime in its domestic legislation and is neither a member of IF, is not obligated to accept the application of GloBE rules by another jurisdiction in respect of MNEs operating in its jurisdiction. Marshall Islands and Timor-Leste have CIT rate less than the minimum agreed rate of 15% and these jurisdictions are also non-members of IF, hence, they too are not obligated to accept the application of GloBE rules by another jurisdiction in respect of MNEs operating in their respective jurisdictions.

Adoption of GloBE rules as a common approach *inter alia* provides that IF members applying nominal rates below the STTR rate to covered payments would agree to incorporate the STTR into their bilateral treaties with other IF members when requested to do so, indicating that the STTR would be applied as a minimum standard.[37]

---

[33] Refer to the United Nations Conference on Trade and Development (UNCTAD) Policy Brief No. 85, May 2021at https://unctad.org/system/files/official-document/presspb2021d3_en.pdf.
[34] Ibid.
[35] Refer to OECD's 'Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.pdf.
[36] Refer to 'Lexology: The Anti-Global Base Erosion Rules released: what it means for MNE taxation' at https://www.lexology.com/library/detail.aspx?g=362f01c3-c717-4e61-9fd1-ce18066fb612#:~:text=Although%20not%20mandatory%2C%20the%20GloBE,MNEs%20operating%20in%20its%20jurisdiction (accessed on 24 Feb. 2022).
[37] Refer to 'KPMG Global Release: OECD/G20 Inclusive Framework Agreement on BEPS 2.0' at https://home.kpmg/xx/en/home/insights/2021/06/tax-policy-perpectives.html (accessed on 25 Feb. 2022).

3.2.7 Formulaic Substance Carve-Out

The GloBE rules provide for a formulaic substance carve-out that will exclude an amount of income that is 5% of the carrying value of tangible assets and payroll. In a transition period of 10 years, the amount of income excluded will be 8% of the carrying value of tangible assets and 10% of payroll, declining annually by 0.2 percentage points for the first five years, and by 0.4 percentage points for tangible assets and by 0.8 percentage points for payroll for the last five years.[38] In this context, FAQ 7[39] issued by the OECD on Pillar Two states as below:

> *"The substance carve-out excludes from the GloBE tax base a certain amount of income calculated by reference to a fixed return on assets and payroll expenses in each jurisdiction. The amount of this substance-based income exclusion is equal to the sum of (i) 5% of the carrying value of tangible assets located in the jurisdiction and (ii) 5% of the payroll costs for employees that perform activities in the jurisdiction. The GloBE rules also provide for a 10-year transition period in recognition of the potential impact of the GloBE rules on existing incentives and existing investment. The Transition Period starts with a 10% carve-out for payroll costs and 8% carve-out for tangible assets, with these carve-out percentages declining to 5% over time.*
> *A substance carve-out based on assets and payroll costs allows a jurisdiction to continue to offer tax incentives that reduce taxes on routine returns from investment in substantive activities, without triggering additional GloBE top-up tax. Given the carve-out covers investment in both tangible assets and payroll it will have broad application to a wide range of different industries."*

A number of SIDS provide a variety of tax incentives in their domestic laws to attract FDI, namely,[40] Antigua and Barbuda, Barbados, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Micronesia, Papua New Guinea, Samoa, São Tomé and Príncipe, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Solomon Islands, Suriname, Timor-Leste and Trinidad and Tobago. As an illustration, Cabo Verde under its Tax Benefits Code (TBC) provides for several incentives aimed at supporting the financial sector, as mentioned below (refer to articles 23 to 33 of the TBC):[41]

(i) *"Financial investments: Income derived from certificates of deposit and long-term bank deposits benefits from a CIT exemption of up to 75% (depending on the maturity date of the deposits).*

(ii) *Savings funds: Income derived from a retirement savings fund (RSF), education savings fund (ESF) and retirement/education savings fund (R/ESF) established and operating under Cape Verdean legislation benefit from an exemption from CIT. Effective 1 January 2018, the exemption applies to income up to CVE 50,000 per year (approximately EUR 450). Prior to 1 January 2018, the exemption applied on income up to CVE 30,000.*

(iii) *Securities market (bonds): Income from bonds or similar products (except debt securities listed on the securities market) derived until 31 December 2025 benefits from a reduced CIT rate of 5%.*

---

38 Refer to OECD's Statement dated 8 October 2021 on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy at https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf.
39 Refer to 'OECD's FAQs on Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/pillar-two-model-GloBE-rules-faqs.pdf.
40 Refer to Table 4 of Annexure.
41 Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_cv_s_1.&refresh=1645211983905%23gtha_cv_s_1.

Additionally, dividends from shares listed on the stock exchange are exempt from CIT until 31 December 2025.

(iv) Investment funds (securities and real estate funds): Income derived from securities funds established and operating under Cape Verdean legislation is taxed as follows:

- *Cape Verdean-source income is exempt from CIT;*
- *foreign income is subject to CIT at the rate of 10%; and*
- *capital gains are subject to CIT at the rate of 10%.*

Income derived from real estate funds established under Cape Verdean legislation is taxed as follows:

- *real estate income (after deducting respective expenses) benefits from a reduced CIT rate of 10%; and*
- *capital gains benefit from a reduced CIT rate of 15% applied on 50% of the income, resulting in an effective rate of 7.5%.*

Income received by unit holders in securities funds and real estate investment funds established under Cape Verdean legislation is exempt from CIT.

(v) Venture capital funds: Income derived from venture capital funds established under Cape Verdean legislation, as well as income received by the unit holders in venture capital funds, is exempt from CIT.

(vi) Security savings funds: Income derived from security savings funds established and operating under Cape Verdean legislation is exempt from CIT.

The positive difference between the amount due at the closing of the security savings funds and the amounts deposited is subject to the CIT, under the taxation rules applicable to category D income (see Individual Taxation section 1.2.1.), at the rate of 5%.

(vii) Credit institutions with restricted authorization (ICARs) licensed until 31 December 2018 benefit from the following:

- *customs duties exemption on the importation of materials and equipment that are exclusively destined to the establishment of the financial institution; and*
- *reduced CIT rate of 10% applicable until 31 December 2021 (not applicable on profits derived from transactions with residents). Profits realized from 1 January 2022 onwards shall be taxed at the standard rate in force.*

The general tax regime applies to new ICARs licensed from 1 January 2019 onwards."

The importance of tax incentives for developing countries can be gauged from OECD's 'Building an investment tax incentives database'[42] findings that in 80% of countries covered, at least one tax incentive supports an area related to the Sustainable Development Goals. This is why, it is equally difficult for SIDS to give up on tax incentives.

Due to tax incentives and consequent taxes spared, even though the head-line CIT rate may be higher, the effective tax rate (ETR) may be much lower than the minimum tax rate of 15% agreed under the GloBE rules. It is important to remember that what we are talking about is a 15 per cent ETR to be paid by multinationals, not the statutory rate set out in a country's tax laws. Many countries have reasonable corporate tax rates in their laws but most multinationals currently pay a lot less as a result of deductions, exemptions, loopholes, or tax avoidance strategies. As a result, even though 15 per cent may sound low to some, it is quite significant because we are talking about the rate actually paid. The minimum tax puts a floor on tax competition, and is expected to generate around $150 billion in additional global tax revenues.[43]

---

[42] Refer to OECD's 'Building an investment tax incentives database' at https://www.oecd-ilibrary.org/finance-and-investment/building-an-investment-tax-incentives-database_62e075a9-en.

[43] Refer to 'How global corporate tax deal was struck, OECD official Grace Perez-Navarro recounts' at

It has been clarified in FAQ 7[44] by the OECD that a substance carve-out based on assets and payroll costs allows a jurisdiction to continue to offer tax incentives that reduce taxes on routine returns from investment in substantive activities, without triggering additional GloBE top-up tax. This may not happen entirely in all situations. As an illustration, from an African viewpoint,[45] IIR may compel countries to give up on tax incentive regimes as explained below:

> *"An analysis gives the average corporate tax rate for Africa as 27.46%. Tax incentives, giveaways and loopholes result in a far lower effective tax rate for African countries. For instance, with a nominal tax rate of 30%, where the actual profit of an MNE could not be established, the Nigeria tax authorities, under its laws, subject such companies to a deemed profit taxation which results in an ETR of only 6%. This means that, as far as Nigeria is concerned, the difference between the proposed global minimum effective tax rate of 15% and the 6% ETR will be taxed by the country of residence of the MNE group using the IIR. This generates a situation for developing countries in which they have to shore up their ETR by overhauling their tax incentive regimes and retooling domestic legal framework for more effective taxation of MNEs to avoid losing a significant portion of their tax right/base to a developed country."*

Considering the design of GloBE rules, it can also be inferred that IIR would wean taxation to the State of residence at the expense of the State of source (which has spared taxes to attract FDI), which is apparently disadvantageous for SIDS. An expert opinion[46] on this matter is as below:

> *"When one comes to the IIR, the substance-based carve-out is the touchstone to make sure that value created in a jurisdiction should not be subject to taxation in the ultimate parent's jurisdiction. However, the scope of the present proposal is extremely limited, implying that really profitable activities, even if effectively related to a jurisdiction, may be subject to the IIR. This situation is especially problematic when one considers that developing countries rely on their tax jurisdiction (which includes the power not to tax) in order to attract investments."*

Adoption of GloBE rules is, therefore, going to create conflict with the tax sparing rules. This is demonstrated by an illustration below.

Illustration #1[47]

Let us assume that a Company A under an MNE Group is located in Jurisdiction A which is a low-tax jurisdiction where corporate tax rate is Nil and there is another Company B under the

---

https://cfo.economictimes.indiatimes.com/news/how-global-corporate-tax-deal-was-struck-oecd-official-grace-perez-navarro-recounts/87010778 (accessed on 25 Feb. 2022).

44 Refer to 'OECD's FAQs on Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/pillar-two-model-GloBE-rules-faqs.pdf.

45 Refer to 'What Does the G7 Proposal on Taxation of the Digitalised Economy Mean for African countries?' at https://afripoli.org/what-does-the-g7-proposal-on-taxation-of-the-digitalised-economy-mean-for-african-countries (accessed on 25 Feb. 2022).

46 Refer to Luis Eduardo Schoueri's 'Some Considerations on the Limitation of Substance-Based Carve-Out in the Income Inclusion Rule of Pillar Two', Bulletin for International Taxation, 2021 (Volume 75), No. 11/12, published online: 25 November 2021 at https://research.ibfd.org/#/doc?url=/collections/bit/html/bit_2021_11_o2_10.html (accessed on 25 Feb. 2022).

47 Refer to Kuldeep Sharma's 'Global Minimum Corporate Tax: Interaction of Income Inclusion Rule with Controlled Foreign Corporation and Tax-sparing Provisions', South Centre Policy Brief 22 at https://www.southcentre.int/wp-content/uploads/2022/01/Tax-PB-22.pdf (accessed on 25 Feb. 2022).

same MNE Group which is located in Jurisdiction B where corporate tax rate is 25%. Jurisdiction B has tax sparing rules in its domestic law which allow 100% tax exemption to certain eligible corporates and Company B complies with all requisite conditions so as to avail the tax exemption. The amount of top-up tax under IIR in respect of the constituent entities (CEs) is constructed through an illustration hereunder so as to analyse its conflict with tax sparing rules:

Table A

CE	Globe Income	Adjusted Covered Taxes	Jurisdictional ETR	Top-up Tax Percentage	Total Carveout*	Determination of Excess Profit	Determination of amount of Top-up Tax allocated to the UPE
Company A	100	0	0	15	17	83	12.45
Company B	100	0	0	15	23	77	11.55

Calculation of Substance-based Income Exclusion					
CE	Payroll expenses	Payroll carveout (at 10%)	Carrying value of tangible assets	Tangible assets Carveout (at 8%)	Total Carveout*
Company A	50	5	150	12	17
Company B	150	15	100	8	23

The example above demonstrates that the taxes spared by Jurisdiction B are allocated to the UPE. The impact of Payroll and Tangible assets Carveouts is limited to an extent, i.e., in their absence, the amount of Top-up Tax would have been 15, whereas, with Carveouts, it is 11.55. The impact of Carveouts will increase if Payroll expenses and Carrying value of Tangible assets in Company B are substantially higher and instead of 100% tax exemption, there is 50% tax exemption in Jurisdiction B, as demonstrated in the example given below:

Table B

CE	Globe Income	Adjusted Covered Taxes	Jurisdictional ETR	Top-up Tax Percentage	Total Carveout**	Determination of Excess Profit	Determination of amount of Top-up Tax allocated to the UPE
Company A	100	0	0	15	17	83	12.45
Company B	100	12.5	12.5	2.5	82	18	0.45

Calculation of Substance-based Income Exclusion					
CE	Payroll expenses	Payroll carveout (at 10%)	Carrying value of tangible assets	Tangible assets Carveout (at 8%)	Total Carveout**
Company A	50	5	150	12	17
Company B	500	50	400	32	82

It is also to be noted that the higher carveout rates apply in the transition period of ten years, following which, the carveout rate will drop substantially to 5%. Notwithstanding the carveout rate and the quantum of payroll expenses and carrying value of tangible assets, the above illustration adequately demonstrates that taxes spared by the state of source are getting shifted to the state of UPE under the IIR. The IIR, therefore, impinges on tax sovereignty of developing countries which have decided not to tax by introducing tax-sparing provisions.[48]

3.2.8 Application of Subject To Tax Rule

The Subject to Tax Rule (STTR) is a treaty-based rule that allows source jurisdictions to impose limited source taxation (on gross basis) on certain related party payments which are subject to tax below a minimum rate in the Associated Enterprise's (AE) jurisdiction. The STTR is intended to help source countries protect their tax base, especially for countries with lower administrative capacities. It is premised on the rationale that a source jurisdiction that has ceded its right to tax particular items of income under the treaty should nevertheless be able to apply a top-up tax to the agreed minimum rate if as a result of certain structures the income is taxed at below the minimum rate in the other contracting jurisdiction.[49] In this regard, it has been inter alia clarified in FAQ 2[50] by the OECD as below:

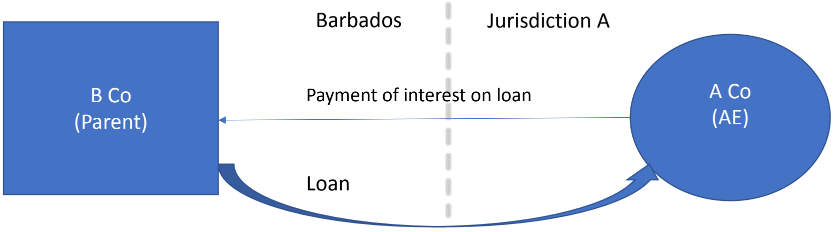
> *"developing countries are expected to be able to further protect their tax base through the application of a treaty based Subject to Tax Rule (STTR) which will allow countries to retain their taxing right, which they may have otherwise ceded under a tax treaty, on certain payments made to related parties abroad which often pose BEPS risks, such as interest and royalties."*

The STTR would apply to royalties, interest and other defined payments made to an IF member state that applies a nominal corporate tax rate lower than a minimum STTR rate of 9%. It is, apparently, because of this factor that UAE has adopted the nominal corporate tax rate of 9% so that UAE businesses may not face a foreign top-up tax under the STTR. Hence, SIDS which do not have CIT regime as of now and are IF member states, namely, Bahamas, Bahrain and Belize may consider introducing CIT regime with a nominal corporate tax rate of at least 9% in order to safeguard their respective business entities from a foreign top-up tax under the STTR.

Barbados (an IF member state) is having nominal corporate tax rate of 5.5% at present. In order to further understand application of STTR in its case, let's consider an illustration given below:

[48] Refer to Belisa Ferreira Liotti's 'Limits of International Cooperation: The Concept of "Jurisdiction Not to Tax" from the BEPS Project to GloBE', IBFD Bulletin for International Taxation, 2022 (Volume 76), No. 2 at https://research.ibfd.org/#/search?N=3+10&Ne=7487&Nu=global_rollup_key&Np=2&Ntk=Text&Ntt=Belisa%20Ferreira%20Liotti&Nty=1&Ntx=mode+matchallpartial (accessed on 13 March 2022).
[49] Refer to 'KPMG report: Summary and initial analysis of Pillar Two Blueprint' at https://assets.kpmg/content/dam/kpmg/us/pdf/2020/10/tnf-kpmg-report-pillar-two-blueprint-oct12-2020.pdf (accessed on 26 Feb. 2022).
[50] Refer to 'OECD's FAQs on Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/pillar-two-model-GloBE-rules-faqs.pdf.

Illustration #2 to understand application of STTR



B Co has granted loan to its AE A Co in response to which A Co is paying interest to its parent B Co in Barbados

On applying STTR, A Co. in Jurisdiction A would tax at source payment of interest to B. Co. in Barbados at the rate of 3.5%, i.e., 9% less 5.5%.

Hence, Barbados may consider enhancing its nominal corporate tax rate to at least 9% in order to safeguard its business entities from a foreign top-up tax under the STTR.

3.2.9 Introduction of Qualified Domestic Minimum Top-up Tax

Article 5.2.3 of OECD's Global Anti-Base Erosion Model Rules (Pillar Two)[51] provides that Top-up Tax for a jurisdiction is reduced by any applicable Qualified Domestic Minimum Top-up Tax (QDMTT). Chapter 10 of OECD's Global Anti-Base Erosion Model Rules (Pillar Two)[52] *inter alia* defines QDMTT as below:

> *"Qualified Domestic Minimum Top-up Tax means a minimum tax that is included in the domestic law of a jurisdiction and that:*
>
> > *(a) determines the Excess Profits of the Constituent Entities located in the jurisdiction (domestic Excess Profits) in a manner that is equivalent to the GloBE Rules;*
> >
> > *(b) operates to increase domestic tax liability with respect to domestic Excess Profits to the Minimum Rate for the jurisdiction and Constituent Entities for a Fiscal Year; and*
> >
> > *(c) is implemented and administered in a way that is consistent with the outcomes provided for under the GloBE Rules and the Commentary, provided that such jurisdiction does not provide any benefits that are related to such rules.*
>
> *A Qualified Domestic Minimum Top-up Tax may compute domestic Excess Profits based on an Acceptable Financial Accounting Standard permitted by the Authorised Accounting Body or an Authorised Financial Accounting Standard adjusted to prevent any Material Competitive Distortions, rather than the financial accounting standard used in the Consolidated Financial Statements."*

In regard to QDMTT, it has been *inter alia* clarified in FAQ 2[53] by the OECD as below:

> *"Countries that adopt the GloBE rules are not required to introduce domestic top-up taxes on their own resident taxpayers, but may choose to do so. To the extent a*

[51] Refer to 'OECD's Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.pdf.
[52] Ibid.
[53] Refer to 'OECD's FAQs on Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/pillar-two-model-GloBE-rules-faqs.pdf.

> *country chooses to implement a qualified domestic minimum tax, such tax will reduce the amount of top-up tax that may otherwise be applicable under the GloBE rules and payable in another jurisdiction. For example, if top-up tax of 100 is due with respect to a jurisdiction under the GloBE rules, but such jurisdiction imposes its own qualified domestic minimum tax of 100, there will be no incremental top-up tax due under the GloBE rules. This crediting of a qualified domestic minimum top-up tax against a top-up tax liability under the GloBE preserves the primary taxing rights for the jurisdiction where the income arises."*

The effect of levy of QDMTT of 15% under Pillar Two in a jurisdiction would result in capturing of entire tax within that particular jurisdiction itself and will not result in levy of Top-up tax at the level of the UPE. This is further explained by way of an illustration given below.

Illustration #3 to understand the effect of levy of QDMTT

Let us continue from Table B in Illustration #1 *supra* and assume only Jurisdiction B introduces QDMTT of 15%. Hence, the Top-up Tax allocated to the UPE in these changed circumstances for Company A and B is recomputed as below:

Table C

CE	Globe Income	Adjusted Covered Taxes	Jurisdictional ETR	Top-up Tax Percentage	Total Carveout**	Determination of Excess Profit	Increase in domestic tax liability with respect to domestic Excess Profits upto the Minimum Rate of 15%	Determination of amount of Top-up Tax allocated to the UPE
Company A	100	0	0	15	17	83	0	12.45
Company B	100	12.5	12.5	2.5	82	18	0.45	0

Calculation of Substance-based Income Exclusion					
CE	Payroll expenses	Payroll carveout (at 10%)	Carrying value of tangible assets	Tangible assets Carveout (at 8%)	Total Carveout**
Company A	50	5	150	12	17
Company B	500	50	400	32	82

It is, therefore, seen that the introduction of QDMTT of 15% by Jurisdiction B results in capturing of entire tax within Jurisdiction B itself and no Top-up tax gets allocated to the UPE. On the other hand, as Jurisdiction A did not introduce any QDMTT, hence, the UPE gets Top-up tax allocated under the GloBE. Thus, this crediting of a QDMTT against a Top-Up tax liability under the GloBE preserves the primary taxing rights for the jurisdiction where the income arises.

At the same time, SIDS may be cognisant of the fact that the definition of QDMTT under Chapter 10 of GloBE Model rules *inter alia* provides that QDMTT is to be implemented and administered by a jurisdiction in a way that is consistent with the outcomes provided for under the GloBE Rules and the Commentary, provided that such jurisdiction does not provide any benefits that are related to such rules. For example, if a non-tax subsidy is calculated in reference to the amount paid as a domestic minimum tax so that it effectively reduces or waives the tax, then other countries might not consider the relevant domestic minimum tax as a qualified domestic top-up tax, with the result, GloBE top-up tax may apply at the level of the UPE.[54]

Levy of QDMTT by SIDS may not increase the over-all tax liability of the MNEs, as in the absence of QDMTT, the corresponding and equivalent amount of tax would have been paid by the UPE. QDMTT only ensures that taxes get paid in the jurisdiction where they are sourced from and where the income arises. Non-introduction of QDMTT by SIDS may, therefore, indicate that either they are tax havens with no substantial economic activities or they are consciously giving up on their primary taxing right which may label them as tax havens, more so in light of the fact that a number of these countries have a high 'External debt stock as a % to Gross National Income (GNI)' and low 'Tax revenue (% of GDP)' due to which, domestic resource mobilisation should be an utmost priority for them.

Countries could adopt a more targeted domestic minimum tax that would apply only to the income of MNEs' domestic entities that would otherwise be taxed by other countries under GloBE. This would require limited changes in the GloBE legislation and little additional compliance burden for in-scope MNEs that would already need to calculate the top-up tax that would apply under GloBE to the relevant constituent entities.[55]

It is interesting to note that Singapore's budget[56] for 2022, presented on 18 February 2022, is contemplating the Minimum effective tax rate regime, with comments as below:

- *Singapore is exploring a "top-up tax" called a minimum effective tax rate regime due to Pillar Two of BEPS 2.0.*
- *The minimum effective tax rate regime would top up a multinational enterprise (MNE) group's effective tax rate in Singapore to 15%, and would apply to MNE groups in Singapore with annual revenues of at least €750 million in consolidated financial statements of the ultimate parent entity.*

---

[54] Refer to Noam Noked, 'The Case for Domestic Minimum Taxes on Multinationals' at https://www.taxnotes.com/tax-notes-international/corporate-taxation/case-domestic-minimum-taxes-multinationals/2022/02/07/7d4qj?highlight=noam%20noked (accessed on 28 Feb. 2022).

[55] Refer to Noam Noked, 'Potential Response to GLOBE: Domestic Minimum Taxes in Countries Affected by the Global Minimum Tax' at https://www.taxnotes.com/tax-notes-international/base-erosion-and-profit-shifting-beps/potential-response-globe-domestic-minimum-taxes-countries-affected-global-minimum-tax/2021/05/17/59nny?highlight=noam%20noked (accessed on 28 Feb. 2022).

[56] Refer to KPMG, 'Singapore: Tax measures in budget 2022' at https://home.kpmg/us/en/home/insights/2022/02/tnf-singapore-tax-measures-in-budget-2022.html (accessed on 28 Feb. 2022).

CHAPTER 4

POLICY SUGGESTIONS AND OPTIONS FOR SIDS

Domestic resource mobilisation and appropriate tax policy are a must for SIDS. More efforts need to be undertaken to optimise taxation structures and collection mechanisms.[57] The Pillar Two proposals have presented an opportunity for SIDS to adopt those provisions which may provide them incremental revenue generation. There is a strong case for SIDS with high debt levels and low tax to GDP ratio to re-invent themselves as no CIT or low effective tax rates have not helped matters. If this opportunity presented by Pillar Two is not availed, the next case scenario for SIDS is to increase CIT rate and do away with tax based incentives across the board for all companies, whether domestic or part of MNE set-up, an alternative which may not be a feasible proposition at all.

The 36 SIDS analysed have diverse social, demographic, economic backgrounds and tax laws, which have been analysed in detail in Chapter 2. Minimum tax rate of 15% puts a floor on tax competition at least for those MNEs which shall be covered under the scope of Pillar Two. In the absence of QDMTT provisions, the top-up tax is exclusively getting paid in the country of residence of the UPE. In order to allow source based taxation, adoption of QDMTT is therefore recommended. In this backdrop and other relevant factors thrown in by the Pillar Two Proposals, their effect may be common for the entire set of SIDS on certain parameters or may vary from country to country, as analysed in detail in Chapter 3. Based on this analysis, certain policy suggestions have been made in this Chapter for the whole set of countries comprising SIDS (under Part A) along with customised advisory for certain individual countries (under Part B).

Part A

4.1 Corporate Income Tax Regime

In view of the common approach applicable for GloBE rules, SIDS which are IF members, namely, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Cabo Verde, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Maldives, Mauritius, Papua New Guinea, Samoa, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago, even if they don't implement the GloBE rules themselves, they will have to accept the application of the GloBE rules applied by other IF members. This implies that if ETR of MNEs based in these SIDS is less than 15%, revenue sourced from these SIDS shall get taxed in the country of residence of the UPE. The SIDS that will get impacted may be categorised as below:

a) SIDS which do not have CIT regime at present, i.e., Bahamas, Bahrain, Belize. Hence, following the UAE precedence, these countries may consider introducing CIT regime in their respective jurisdictions. It is further recommended that a residence-based taxation may be introduced that taxes the worldwide profits of its resident businesses, and only the country sourced business income of non-residents. This approach would be consistent with most other countries. The determination of residence for CIT purposes would typically be based on the place of incorporation/registration, or the place of effective management and control of the business.

[57] Refer to OECD, 'The Impact of Covid-19 Crisis on External Debt in Small Island Developing States' at https://www.oecd.org/dac/financing-sustainable-development/External-debt-in-small-island-developing-states(SIDS).pdf.

b) SIDS having CIT regime but tax rate is below 15%, e.g, Barbados, where, with effect from income year 2019, the tax rates are as follows:
   - 5.5% on all taxable income up to BBD 1 million;
   - 3% on all taxable income exceeding BBD 1 million but not exceeding BBD 20 million;
   - 2.5% on all taxable income exceeding BBD 20 million but not exceeding BBD 30 million; and
   - 1% on all taxable income exceeding BBD 30 million.

   The STTR under Pillar Two allows countries to levy a 'top-up' tax on certain related party payments where the recipient company in its home jurisdiction is not subject to a tax rate of at least 9% on those payments. With a statutory CIT rate of 5.5%, Barbados businesses may face a foreign top-up tax under the STTR. Hence, Barbados would do well to enhance the tax rate to at least 9% in order to protect its overseas business from application of STTR. Also, in order to prevent shifting of tax base under IIR to the home country of the MNE, Barbados may consider introducing QDMTT into its domestic laws.

c) The headline tax rate in remaining SIDS may be higher than 15% but ETR of MNEs in these jurisdictions may be less than 15% due to grant/availing of tax exemptions. Hence, most countries which provide for tax exemptions may end up taxing the CEs in their respective jurisdictions at an ETR of less than 15%. The GloBE rules provide for a formulaic substance carve-out that excludes an amount of income that is 5% of the carrying value of tangible assets and payroll. In a transition period of 10 years, the amount of income excluded will be 8% of the carrying value of tangible assets and 10% of payroll. It has been analysed in detail in Chapter 3 that despite 'Formulaic Substance Carve-Out', GloBE rules would still wean taxation to the State of residence at the expense of the State of source (which has spared taxes to attract FDI), which is apparently disadvantageous for SIDS. Adoption of GloBE rules is, therefore, seen to be creating a conflict with the tax sparing rules. Accordingly, SIDS may consider a minimum effective tax rate regime that would top up an MNE group's effective tax rate to 15%, and would apply to MNE groups operating in a particular jurisdiction with annual revenues of at least €750 million in consolidated financial statements of the UPE. This way, tax is not ceded to another jurisdiction, as discussed in detail in the following paragraphs.

4.2 Introduction of Qualified Domestic Top-up Tax

GloBE Model Rules released on 20 December 2021 have added a new concept of QDMTT, a concept that previously was not included in the OECD Report[58] on Pillar Two Blueprint. Jurisdictions have been allowed under the GloBE rules to opt into this possibility, thereby, changing the ordering rule of the IIR. This allows a jurisdiction to introduce a rule, which effectively duplicates the Model for top-up tax, but ensures that the tax is collected by that local jurisdiction and is not ceded to another jurisdiction. Assuming low-tax jurisdictions take this path, it may reduce the complexity of the rules in many circumstances while achieving the goal of the Pillar Two project of providing a floor for tax competition.[59] In order to preserve tax sovereignty and their tax base, all SIDS which are part of the IF, may consider incorporating the QDMTT as it allows the jurisdiction in which a low-taxed entity is resident to levy the top-up tax before application of the IIR at the level of the parent company.

[58] Refer to 'OECD Report on Pillar Two Blueprint' at https://www.oecd.org/tax/beps/tax-challenges-arising-from-digitalisation-report-on-pillar-two-blueprint-abb4c3d1-en.htm.
[59] Refer 'KPMG's Update on Pillar 2 agreement – December 2021' at https://home.kpmg/xx/en/home/insights/2021/12/inclusive-framework-beps-agreement-20-december-2021.html (accessed on 26 Feb. 2022).

However, if an MNE records profits in a constituent entity in a tax haven without carrying on commensurate economic activities therein, other countries might tax those profits even if the tax haven imposes a QDMTT. Other countries' tax claims could be based on transfer pricing rules, Controlled Foreign Company (CFC) regime and other anti-avoidance doctrines. In such cases, MNEs may have an incentive to exit tax havens that adopt QDMTT.[60] Accordingly, SIDS may adopt QDMTT depending upon the intensity of economic activities conducted by MNEs and the prevalence of support infrastructure in each country. That being said, SIDS having well-developed financial markets, infrastructure, trained man-power which adds a considerable amount of value to transactions undertaken for non-residents and political stability may not witness exodus of MNEs, as tax-saving is generally not the sole criterion prompting MNEs to shift base.

4.3 Safeguard business entities from a foreign top-up tax under the STTR

SIDS which do not have CIT regime as of now and are IF member states, namely, Bahamas, Bahrain and Belize may consider introducing CIT regime with a nominal corporate tax rate of at least 9% in order to safeguard their respective business entities from a foreign top-up tax under the STTR. Also, Barbados (an IF member) may consider enhancing its nominal corporate tax rate to at least 9% in order to safeguard its business entities from a foreign top-up tax under the STTR.

4.4 Tax Incentive Schemes

Till adequate resources are mobilised by way of enhancement in tax collections, SIDS' reliance on FDI makes sense. The importance of tax incentives for developing countries can be gauged from OECD's 'Building an investment tax incentives database'[61] findings that in 80% of developing countries covered, at least one tax incentive supports an area related to the Sustainable Development Goals. This is why, it is equally difficult for SIDS to give up on tax incentives. A number of SIDS grant various kinds of tax exemptions (*inter alia* including setting up of special economic zones (SEZs)) in order to attract FDI, namely, Antigua and Barbuda, Barbados, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Micronesia, Papua New Guinea, Samoa, São Tomé and Príncipe, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Solomon Islands, Suriname, Timor-Leste and Trinidad and Tobago. SIDS may consider changing tax-based incentives to grants and other forms of subsidy to better accommodate the GloBE rules. On-going incentives may be grandfathered and any potential tax ceding to another jurisdiction arising from tax sparing may be arrested/prevented through introduction of QDMTT. Future SEZ rules may be introduced in a manner which attract MNEs that are outside the scope of Pillar Two rules.

4.5 Transfer Pricing Legislation

As of now, TP provisions exist in few SIDS, namely, Cabo Verde, Comoros, Cuba, Dominican Republic, Fiji, Guinea-Bissau, Jamaica, Maldives, Nauru, Papua New Guinea, Samoa, São Tomé and Príncipe, Seychelles, Singapore, St. Vincent and the Grenadines, Solomon Islands and Haiti. Article 3.2.3 of OECD's Global Anti-Base Erosion Model Rules (Pillar Two)[62] *inter alia* provides as below:

---

[60] Refer to Noam Noked, 'The Case for Domestic Minimum Taxes on Multinationals' at https://www.taxnotes.com/tax-notes-international/corporate-taxation/case-domestic-minimum-taxes-multinationals/2022/02/07/7d4qj?highlight=noam%20noked (accessed on 28 Feb. 2022).

[61] Refer to OECD's 'Building an investment tax incentives database' at https://www.oecd-ilibrary.org/finance-and-investment/building-an-investment-tax-incentives-database_62e075a9-en.

[62] Refer to 'OECD's Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.pdf.

> *Any transaction between Constituent Entities located in different jurisdictions that is not recorded in the same amount in the financial accounts of both Constituent Entities or that is not consistent with the Arm's Length Principle must be adjusted so as to be in the same amount and consistent with the Arm's Length Principle. A loss from a sale or other transfer of an asset between two Constituent Entities located in the same jurisdiction that is not recorded consistent with the Arm's Length Principle shall be recomputed based on the Arm's Length Principle if that loss is included in the computation of GloBE Income or Loss.*

This implies that while computing GloBE income the inter se transactions between CEs within or across jurisdictions are to be adjusted in line with the Arm's Length Principle. Hence, those SIDS which do not already have TP regulations and are desirous to opt for GloBE rules would be required to incorporate TP regulations also in their domestic law.

4.6 Implementation of Common Reporting Standard for Automatic Exchange of Information

As of now, 17 countries[63] comprising SIDS have provided commitment of 1st Exchange under the Automatic Exchange of Information (AEOI), namely, Antigua and Barbuda, Bahamas, Bahrain, Barbados, Belize, Dominica, Grenada, Marshall Islands, Mauritius, Nauru, Samoa, Seychelles, Singapore, Trinidad and Tobago, Vanuatu, Jamaica and Maldives. Implementation of Common Reporting Standard (CRS) for AEOI is a positive demonstration by a country that it is committed to being a transparent, compliant and reputable international financial centre. The remaining 19 jurisdictions,[64] namely, Cabo Verde, Comoros, Cuba, Dominican Republic, Fiji, Guinea-Bissau, Guyana, Haiti, Kiribati, Federated States of Micronesia, Papua New Guinea, São Tomé and Príncipe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Solomon Islands, Suriname, Timor-Leste, Tonga who have not committed to the CRS as of now may also consider providing their respective commitment to it at an early date in order to exhibit their willingness to be a transparent and responsible international financial hub.

Part B

4.7 Policy suggestions for Bahamas

Bahamas lies in the Latin America & Caribbean region; is sparsely populated, numbering 385,640; is a high-income service economy heavily dependent on tourism, financial services and has grown as an international shipping hub. Its GDP size is USD 11.25 billion; tax revenue (% of GDP) is 16.7; and FDI stands at USD 360 million. Bahamas is a member of the IF; is committed to the CRS but does not have CIT or TP regimes. In this light, the following policy measures are being suggested, in brief, for the Bahamas in response to the Pillar Two Proposals:

- may consider introducing CIT and TP regimes;
- in order to preserve its tax base, as it is a member of the IF, may consider incorporating the QDMTT and consider a minimum effective tax rate regime that would top up an MNE group's effective tax rate to 15%, and would apply to MNE

---

[63] Refer to Table 3 of Annexure, which in turn refers to OECD's Global Forum on Transparency and Exchange of Information for tax purposes, Automatic Exchange of Information (AEOI): Status of Commitments as of 5 January 2022 at https://www.oecd.org/tax/transparency/AEOI-commitments.pdf.

[64] Ibid.

groups operating in Bahamas with annual revenues of at least €750 million in consolidated financial statements of the UPE;
- may consider introducing nominal CIT rate of at least 9% in order to safeguard its business entities from a foreign top-up tax under the STTR;
- income of individuals in their personal capacity may not be subjected to tax;
- foreign entities and individuals may be subjected to CIT only if they conduct a trade or business in an ongoing or regular manner;
- a nil CIT rate for taxable income up to a certain limit may be prescribed so as to support small & medium sized businesses and start-ups;
- foreign CIT paid on Bahamas taxable income may be allowed as a tax credit against the Bahamas CIT liability;
- carry forward of business losses may be allowed; and
- need for capacity building and peer learning for its tax officials.

4.8 Policy suggestions for Bahrain

Bahrain will have to be cognisant of the fact that UAE has recently offered the most competitive CIT regime in the region in response to the Pillar Two proposals. With Egypt, Jordan, Kuwait, Lebanon, Oman, Saudi Arabia and Qatar imposing standard CIT at rates between 10% to 22.5%, it will have to match these regimes in an inspiring and innovative manner.

Bahrain lies in the Middle East & North Africa region; has population of 1,569,439; is a high-income economy heavily dependent on oil revenues and has in recent times invested in services and tourism sectors. Its GDP size is USD 38.47 billion; tax revenue (% of GDP) is 2.1; and FDI stands at USD 1 billion. Bahrain is a member of the IF; is committed to the CRS but does not have CIT (the only income tax in Bahrain is levied on oil companies and is governed by Amiri Decree 22/1979) or TP regimes. In this light, the following policy measures are being suggested, in brief, for Bahrain in response to the Pillar Two Proposals:

- may consider introducing CIT and TP regimes, as its tax revenue (% of GDP) is a measly 2.1;
- in order to preserve its tax base, as it is a member of the IF, may consider incorporating the QDMTT and consider a minimum effective tax rate regime that would top up an MNE group's effective tax rate to 15%, and would apply to MNE groups operating in Bahrain with annual revenues of at least €750 million in consolidated financial statements of the UPE;
- may consider introducing nominal CIT rate of at least 9% in order to safeguard its business entities from a foreign top-up tax under the STTR;
- income of individuals in their personal capacity may not be subjected to tax;
- foreign entities and individuals may be subjected to CIT only if they conduct a trade or business in an ongoing or regular manner;
- a nil CIT rate for taxable income up to a certain limit may be prescribed so as to support small & medium sized businesses and start-ups;
- foreign CIT paid on Bahrain taxable income may be allowed as a tax credit against the Bahrain CIT liability;
- carry forward of business losses may be allowed; and
- need for capacity building and peer learning for its tax officials.

4.9 Policy suggestions for Belize

Belize lies in the Latin America & Caribbean region; is sparsely populated, numbering 383,071; is an upper middle-income economy dependent on tourism, followed by exports of crude oil, marine products, sugar, citrus, and bananas. Its GDP size is USD 1.76 billion; tax revenue (% of GDP) is 26.0; FDI stands at USD 76.20 million; and external debt stock as a % to GNI is quite high at 96.70. Belize is a member of the IF; is committed to the CRS but does not have CIT (effective 1 January 2020, income tax is not payable on the chargeable income of a company, other than a company engaged in petroleum operation) or TP regimes. Under the Free Zones Act of 2005, Commercial Free Zones (CFZs) are set up at several locations throughout Belize for the purpose of attracting foreign investment. In this light, the following policy measures are being suggested, in brief, for Belize in response to the Pillar Two Proposals:

- may consider introducing CIT and TP regimes;
- in order to preserve its tax base, as it is a member of the IF, may consider incorporating the QDMTT and consider a minimum effective tax rate regime that would top up an MNE group's effective tax rate to 15%, and would apply to MNE groups operating in Belize with annual revenues of at least €750 million in consolidated financial statements of the UPE;
- may consider introducing nominal CIT rate of at least 9% in order to safeguard its business entities from a foreign top-up tax under the STTR;
- income of individuals in their personal capacity may not be subjected to tax;
- foreign entities and individuals may be subjected to CIT only if they conduct a trade or business in an ongoing or regular manner;
- a nil CIT rate for taxable income up to a certain limit may be prescribed so as to support small & medium sized businesses and start-ups;
- foreign CIT paid on Belize taxable income may be allowed as a tax credit against the Belize CIT liability;
- carry forward of business losses may be allowed;
- on-going incentives may be grandfathered. Future CFZ rules may be introduced in a manner which attract MNEs that are outside the scope of Pillar Two rules; and
- need for capacity building and peer learning for its tax officials.

4.10 Policy suggestions for Barbados

Barbados lies in the Latin America & Caribbean region; is sparsely populated, numbering 286,641; is a high-income economy dependent on tourism, followed by other services related activities and agriculture. Its GDP size is USD 4.36 billion; tax revenue (% of GDP) is 27.5; and FDI stands at USD 262.10 million. Barbados is a member of the IF; is committed to the CRS; has CIT regime (headline CIT rate is 5.5%) but does not have TP regime. Barbados allows business losses to be carried forward and provides incentives to companies operating in various industries and sectors. In this light, the following policy measures are being suggested, in brief, for Barbados in response to the Pillar Two Proposals:

- may consider increasing nominal CIT rate to at least 9% in order to safeguard its business entities from a foreign top-up tax under the STTR;
- in order to preserve its tax base, as it is a member of the IF, may consider incorporating the QDMTT and consider a minimum effective tax rate regime that would top up an MNE group's effective tax rate to 15%, and would apply to MNE groups operating in Barbados with annual revenues of at least €750 million in consolidated financial statements of the UPE;
- may consider introducing TP regime; and
- on-going incentives may be grandfathered. Future incentives may be introduced in a manner which attract MNEs that are outside the scope of Pillar Two rules;
- need for capacity building and peer learning for its tax officials.

4.11 Policy suggestions for Maldives

Maldives lies in the South Asian region; is sparsely populated, numbering 515,696; is an upper middle-income economy dependent on tourism, fishing and shipping. Its GDP size is USD 4.03 billion; tax revenue (% of GDP) is 9.1; FDI stands at USD 440.71 million and external debt stock as a % to GNI is quite high at 96.9. Maldives is a member of the IF; is committed to the CRS; has CIT and TP regimes. Banks are subject to tax at the rate of 25% of their taxable income. Corporates (other than banks) are taxed at 15% of taxable income in excess of MVR 500,000. For taxable income below MVR 500,000, tax rate is Nil. Maldives allows business losses to be carried forward and the Special Economic Zones (SEZs) Act *inter alia* allows relief from business profit tax. In this light, the following policy measures are being suggested, in brief, for Maldives in response to the Pillar Two Proposals:

- in order to preserve its tax base (its tax revenue (% of GDP) is quite low at 9.1 and external debt stock as a % to GNI is quite high at 96.9), as it is a member of the IF, may consider incorporating the QDMTT and consider a minimum effective tax rate regime that would top up an MNE group's effective tax rate to 15%, and would apply to MNE groups operating in Maldives with annual revenues of at least €750 million in consolidated financial statements of the UPE;
- on-going incentives may be grandfathered. Future SEZ rules may be introduced in a manner which attract MNEs that are outside the scope of Pillar Two rules; and
- need for capacity building and peer learning for its tax officials.

CHAPTER 5

CONCLUSION

Digital economy is a lucrative source of revenue for developing countries.[65] Domestic resource mobilisation and appropriate tax policy are a must for SIDS. More efforts need to be undertaken to optimise taxation structures and collection mechanisms.[66] As per OECD's FAQs on Global Anti-Base Erosion Model Rules (Pillar Two),[67] with a minimum effective tax rate of 15%, the GloBE rules are expected to generate around USD 150 billion in additional global tax revenues per year. The Pillar Two proposals have, therefore, presented an opportunity for SIDS, which are members of the IF, to adopt those provisions which may provide them incremental revenue generation and at the same time, arrest ceding of taxes to another jurisdiction. There is a strong case for SIDS with high debt levels and low tax revenue to re-invent their taxation structure as no CIT or low effective tax rates have not helped matters.

The largest multinationals set up large numbers of offshore companies in tax havens and shift significant capital to them. In some cases, the ratio of the profits of these companies to the overall GDP of selected tax havens even exceeded 1000%.[68] Use of financial centres for moving onshore profits to low tax regimes as well as for tax evasion and money laundering purposes needs to be highly discouraged. This is why we are now witnessing intense legislative work, both at the international and national levels, aimed at tightening tax systems in this area. The Pillar Two Proposal is one of the outcomes of these developments. The European Union lists[69] non-cooperative jurisdictions from time to time (which include few SIDS) to encourage positive change in their tax legislation and practices through cooperation. It is mainly about improving the transparency of corporations' reporting of the size of their operations in different countries and eliminating the discretion of tax havens.

It cannot be denied that Pillar Two would reduce the differences in effective tax rates across jurisdictions, which are one of the main drivers of profit shifting. Reducing these tax rate differentials would reduce MNEs' incentives to shift profit to low-tax jurisdictions. This would prompt MNEs to reassess their profit shifting strategies, and it is quite likely that some MNEs would consider that the gains of certain profit shifting schemes would no longer be worth the costs. Nevertheless, the reduction of profit shifting is expected to contribute significantly to the global revenue gains from Pillar Two.[70]

---

[65] Refer to Abdul Muheet Chowdhary, 'South Asia and the Need for Increased Tax Revenues from the Digitalized Economy', SouthViews No. 234, 18 February 2022 at https://www.southcentre.int/category/publications/southviews/ (accessed on 28 Feb. 2022).

[66] Refer to OECD, 'The Impact of Covid-19 Crisis on External Debt in Small Island Developing States' at https://www.oecd.org/dac/financing-sustainable-development/External-debt-in-small-island-developing-states(SIDS).pdf.

[67] Refer to 'OECD's FAQs on Global Anti-Base Erosion Model Rules (Pillar Two)' at https://www.oecd.org/tax/beps/pillar-two-model-GloBE-rules-faqs.pdf.

[68] Refer to Małgorzata Kutera, 'The Role of Tax Havens in Tax Avoidance by Multinationals' at https://www.researchgate.net/publication/324062993_The_Role_of_Tax_Havens_in_Tax_Avoidance_by_Multinationals/link/5c805cd592851c69505c6b8f/download (accessed on 28 Feb. 2022).

[69] Refer to 'Taxation: EU list of non-cooperative jurisdictions' at https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/ (accessed on 11 March 2022).

[70] Refer to OECD's report titled 'Tax Challenges Arising from Digitalisation – Economic Impact Assessment' at https://www.oecd-ilibrary.org/docserver/0e3cc2d4-en.pdf?expires=1645597172&id=id&accname=guest&checksum=BCDA456EF4506AF36EFDBF9351B85E5E.

Countries like UAE,[71] Singapore,[72] South Africa[73] have already indicated that they will propose legislative amendments to implement Pillar Two rules once the framework is finalised and translate it into a local context.

Lessons for SIDS from UAE's response to Pillar Two Proposals: The key features of the proposed UAE CIT regime such as a nil CIT for small businesses and start-ups, exemptions for UAE based headquarters and international business hubs, no taxation on foreign direct investment, no withholding tax, no taxation on personal income, and a minimal compliance burden for businesses is expected to strengthen its position as a global hub for business, investment and may further accentuate its ambition of becoming a leading international financial centre. The UAE's new corporate tax has been received in a 'positive manner' by businesses, as the new levy is going to replace most of the fees companies presently have to pay.[74]

Need for capacity building and peer learning for SIDS: There is wide disparity in the existing tax administration capabilities of countries comprising SIDS. These capabilities will be tested further as implementation of GloBE rules may involve introduction of CIT and TP regime by certain tax administrations. Accordingly, there will be an urgent requirement to upgrade capacity of tax officials of some countries. This can be achieved through various programmes conducted by the UN, the African Tax Administration Forum, South Centre, OECD and similar multilateral organisations. Tax administrations of SIDS can also rely on peer learning by requisitioning the services of working or retired tax officials of developing countries for short periods of time.

The Two-Pillar solution is expected to have an impact on MNE investment, innovation and economic activity at global level. By raising additional tax revenues, the proposals would increase (after-tax) investment costs for the MNEs affected. This would likely have a negative effect on investment and activity, but the magnitude of this effect is estimated to be relatively small, i.e., less than 0.1% of GDP in the medium to long term.[75] With the introduction of GloBE rules, the tax incidence of MNEs operating in SIDS may get enhanced, however, that in itself may not prompt them to shift base. Tax may not be the sole criterion for global investors for shifting or setting up business in SIDS, since MNEs put equal emphasis on global connectivity, pro-business environment, diverse talent pool and political stability while deciding on an attractive business destination. Further, minimal compliance burden for businesses is expected to strengthen the SIDS' position as global hubs for business, investment and as leading international financial centres.

---

[71] Refer to 'Press Release: The Ministry of Finance announces the introduction of a Corporate Tax in the UAE' at https://www.mof.gov.ae/en/media/materials/News/Pages/31012022.aspx.

[72] Refer to KPMG, 'Singapore: Tax measures in budget 2022' at https://home.kpmg/us/en/home/insights/2022/02/tnf-singapore-tax-measures-in-budget-2022.html (accessed on 26 Feb. 2022).

[73] Refer to 'Budget Review 2022, National Treasury, Republic of South Africa, 23 February 2022' http://www.treasury.gov.za/documents/national%20budget/2022/review/FullBR.pdf (accessed on 28 Feb. 2022).

[74] Refer to 'No UAE income tax for now, minister says in the wake of corporate tax move' at https://www.arabianbusiness.com/gcc/uae/no-uae-income-tax-for-now-minister (accessed on 23 Feb. 2022).

[75] Refer to OECD's report titled 'Tax Challenges Arising from Digitalisation – Economic Impact Assessment', Para. 30 at https://www.oecd-ilibrary.org/docserver/0e3cc2d4-en.pdf?expires=1646399767&id=id&accname=guest&checksum=6E6A3EC5F75904B2AB5B4038E84D742B.

ANNEXURE

States under analysis, i.e., Small Island Developing States[76] that are members of G-77[77]

Table 1

S. N.	State		Region	Income Category	Country Population
1	Antigua and Barbuda[78]		Latin America & Caribbean	High income	96,286
2	Bahamas[79]		Latin America & Caribbean	High income	385,640
3	Bahrain[80]		Middle East & North Africa	High income	1,569,439
4	Barbados[81]		Latin America & Caribbean	High income	286,641
5	Belize[82]		Latin America & Caribbean	Upper middle income	383,071
6	Cabo Verde[83]		Sub-Saharan Africa	Lower middle income	543,767
7	Comoros[84]		Sub-Saharan Africa	Lower middle income	832,322

76 Refer to https://www.un.org/ohrlls/content/list-sids (accessed on 18 Feb. 2022).
77 Refer to https://www.g77.org/doc/members.html (accessed on 18 Feb. 2022).
78 Refer to Doing Business 2020, World Bank Group, Economy Profile of Antigua and Barbuda at https://openknowledge.worldbank.org/bitstream/handle/10986/32942/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Antigua-and-Barbuda.pdf?sequence=1&isAllowed=y.
79 Refer to Doing Business 2020, World Bank Group, Economy Profile of Bahamas at https://www.doingbusiness.org/content/dam/doingBusiness/country/b/bahamas/BHS.pdf.
80 Refer to Doing Business 2020, World Bank Group, Economy Profile of Bahrain at https://openknowledge.worldbank.org/bitstream/handle/10986/33005/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Bahrain.pdf?sequence=1&isAllowed=y.
81 Refer to Doing Business 2020, World Bank Group, Economy Profile of Barbados at https://documents1.worldbank.org/curated/en/530861574747817549/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Barbados.pdf.
82 Refer to Doing Business 2020, World Bank Group, Economy Profile of Belize at https://www.doingbusiness.org/content/dam/doingBusiness/country/b/belize/BLZ.pdf.
83 Refer to Doing Business 2020, World Bank Group, Economy Profile of Cabo Verde at https://openknowledge.worldbank.org/bitstream/handle/10986/32996/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Cabo-Verde.txt?sequence=2&isAllowed=y.
84 Refer to Doing Business 2020, World Bank Group, Economy Profile of Comoros at https://www.doingbusiness.org/content/dam/doingBusiness/country/c/comoros/COM.pdf.

S. N.	State		Region	Income Category	Country Population
8	Cuba[85]		Latin America & Caribbean	Upper middle income	11,330,000
9	Dominica[86]		Latin America & Caribbean	Upper middle income	71,625
10	Dominican Republic[87]		Latin America & Caribbean	Upper middle income	10,627,165
11	Fiji[88]		East Asia & Pacific	Upper middle income	883,483
12	Grenada[89]		Latin America & Caribbean	Upper middle income	111,454
13	Guinea-Bissau[90]		Sub-Saharan Africa	Low income	1,874,309
14	Guyana[91]		Latin America & Caribbean	Upper middle income	779,004
15	Haiti[92]		Latin America & Caribbean	Low income	11,123,176
16	Jamaica[93]		Latin America & Caribbean	Upper middle income	2,934,855

[85] Refer to The World Bank, Data on Cuba at https://data.worldbank.org/country/CU.
[86] Refer to Doing Business 2020, World Bank Group, Economy Profile of Dominica at https://documents1.worldbank.org/curated/en/645361574861534392/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Dominica.pdf.
[87] Refer to Doing Business 2020, World Bank Group, Economy Profile of Dominican Republic at https://documents1.worldbank.org/curated/en/434181574862414008/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Dominican-Republic.pdf.
[88] Refer to Doing Business 2020, World Bank Group, Economy Profile of Fiji at https://documents1.worldbank.org/curated/en/849261574859407168/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Fiji.pdf.
[89] Refer to Doing Business 2020, World Bank Group, Economy Profile of Grenada at https://www.doingbusiness.org/content/dam/doingBusiness/country/g/grenada/GRD.pdf.
[90] Refer to Doing Business 2020, World Bank Group, Economy Profile of Guinea-Bissau https://www.doingbusiness.org/content/dam/doingBusiness/country/g/guinea-bissau/GNB.pdf.
[91] Refer to Doing Business 2020, World Bank Group, Economy Profile of Guyana at https://www.doingbusiness.org/content/dam/doingBusiness/country/g/guyana/GUY.pdf.
[92] Refer to Doing Business 2020, World Bank Group, Economy Profile of Haiti at https://www.doingbusiness.org/content/dam/doingBusiness/country/h/haiti/HTI.pdf.
[93] Refer to Doing Business 2020, World Bank Group, Economy Profile of Jamaica at https://openknowledge.worldbank.org/bitstream/handle/10986/32967/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Jamaica.pdf?sequence=1&isAllowed=y.

S. N.	State		Region	Income Category	Country Population
17	Kiribati[94]		East Asia & Pacific	Lower middle income	115,847
18	Maldives[95]		South Asia	Upper middle income	515,696
19	Marshall Islands[96]		East Asia & Pacific	Upper middle income	58,413
20	Federated States of Micronesia[97]		East Asia & Pacific	Lower middle income	112,640
21	Mauritius[98]		Sub-Saharan Africa	Upper middle income	1,265,303
22	Nauru[99]		East Asia & Pacific	High income	10,834
23	Papua New Guinea[100]		East Asia & Pacific	Lower middle income	8,606,316
24	Samoa[101]		East Asia & Pacific	Upper middle income	196,130
25	São Tomé and Príncipe[102]		Sub-Saharan Africa	Lower middle income	211,028
26	Seychelles[103]		Sub-Saharan Africa	High income	96,762

[94] Refer to Doing Business 2020, World Bank Group, Economy Profile of Kiribati at https://openknowledge.worldbank.org/bitstream/handle/10986/32962/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Kiribati.pdf?sequence=1&isAllowed=y.

[95] Refer to Doing Business 2020, World Bank Group, Economy Profile of Maldives at https://openknowledge.worldbank.org/bitstream/handle/10986/32911/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Maldives.pdf?sequence=1&isAllowed=y.

[96] Refer to Doing Business 2020, World Bank Group, Economy Profile of Marshall Islands at https://openknowledge.worldbank.org/bitstream/handle/10986/32835/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Marshall-Islands.pdf?sequence=1&isAllowed=y.

[97] Refer to Doing Business 2020, World Bank Group, Economy Profile of Federated States of Micronesia at https://www.doingbusiness.org/content/dam/doingBusiness/country/m/micronesia/FSM.pdf.

[98] Refer to Doing Business 2020, World Bank Group, Economy Profile of Mauritius at https://openknowledge.worldbank.org/bitstream/handle/10986/32954/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Mauritius.pdf?sequence=1&isAllowed=y.

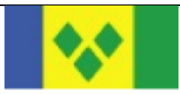
[99] Refer to World Bank Country Profile Nauru at https://data.worldbank.org/country/NR.

[100] Refer to Doing Business 2020, World Bank Group, Economy Profile of Papua New Guinea at https://documents1.worldbank.org/curated/en/110381575270133371/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Papua-New-Guinea.pdf.

[101] Refer to Doing Business 2020, World Bank Group, Economy Profile of Samoa at https://www.doingbusiness.org/content/dam/doingBusiness/country/s/samoa/WSM.pdf.

[102] Refer to Doing Business 2020, World Bank Group, Economy Profile of São Tomé and Príncipe at https://www.doingbusiness.org/content/dam/doingBusiness/country/s/sao-tome-and-principe/STP.pdf.

[103] Refer to Doing Business 2020, World Bank Group, Economy Profile of Seychelles at https://documents1.worldbank.org/curated/en/390961575288160636/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Seychelles.pdf.

S. N.	State		Region	Income Category	Country Population
27	Singapore[104]		East Asia & Pacific	High income	5,638,676
28	St. Kitts and Nevis[105]		Latin America & Caribbean	High income	52,441
29	St. Lucia[106]		Latin America & Caribbean	Upper middle income	181,889
30	St. Vincent and the Grenadines[107]		Latin America & Caribbean	Upper middle income	109,897
31	Solomon Islands[108]		East Asia & Pacific	Lower middle income	652,858
32	Suriname[109]		Latin America & Caribbean	Upper middle income	575,991
33	Timor-Leste[110]		East Asia & Pacific	Lower middle income	1,267,972
34	Tonga[111]		East Asia & Pacific	Upper middle income	103,197
35	Trinidad and Tobago[112]		Latin America & Caribbean	High income	1,389,858

[104] Refer to Doing Business 2020, World Bank Group, Economy Profile of Singapore at https://www.doingbusiness.org/content/dam/doingBusiness/country/s/singapore/SGP.pdf.
[105] Refer to Doing Business 2020, World Bank Group, Economy Profile of St. Kitts and Nevis at https://www.doingbusiness.org/content/dam/doingBusiness/country/s/st-kitts-and-nevis/KNA.pdf.
[106] Refer to Doing Business 2020, World Bank Group, Economy Profile of St. Lucia at https://openknowledge.worldbank.org/bitstream/handle/10986/32886/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-St-Lucia.pdf?sequence=1&isAllowed=y.
[107] Refer to Doing Business 2019, World Bank Group, Economy Profile of St. Vincent and the Grenadines at https://documents1.worldbank.org/curated/en/209421541424867324/pdf/131828-WP-DB2019-PUBLIC-St-Vincent-and-the-Grenadines.pdf.
[108] Refer to Doing Business 2020, World Bank Group, Economy Profile of Solomon Islands at https://www.doingbusiness.org/content/dam/doingBusiness/country/s/solomon-islands/SLB.pdf.
[109] Refer to Doing Business 2020, World Bank Group, Economy Profile of Suriname at https://openknowledge.worldbank.org/bitstream/handle/10986/32846/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Suriname.pdf?sequence=1&isAllowed=y.
[110] Refer to Doing Business 2020, World Bank Group, Economy Profile of Timor-Leste at https://openknowledge.worldbank.org/bitstream/handle/10986/32895/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Timor-Leste.pdf?sequence=1&isAllowed=y.
[111] Refer to Doing Business 2020, World Bank Group, Economy Profile of Tonga at https://documents1.worldbank.org/curated/en/349161575353052683/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Tonga.pdf.
[112] Refer to Doing Business 2020, World Bank Group, Economy Profile of Trinidad and Tobago at https://openknowledge.worldbank.org/bitstream/handle/10986/32845/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Trinidad-and-Tobago.pdf?sequence=1.

S. N.	State		Region	Income Category	Country Population
36	Vanuatu[113]		East Asia & Pacific	Lower middle income	292,680

Table 2

Sl. No.	State	GDP 2020 (USD Million)[114]	Tax revenue (% of GDP)[115]	Foreign Direct Investment, Net Inflows (BOP) (USD Million)[116]	External debt stock as a % to Gross National Income (GNI)[117]
1	Antigua and Barbuda	1,415	18.2[118]	73.53	No data for this country
2	Bahamas	11,250	16.7	359.32	No data for this country
3	Bahrain	38,475	2.1[119]	1,006.65	No data for this country
4	Barbados	4,366	27.5	262.10	No data for this country
5	Belize	1,764	26.0	76.20	96.7
6	Cabo Verde	1,704	20.1	74.12	124.6
7	Comoros	1,220	15.5[120]	3.87	24.5
8	Cuba	103,131	42.0[121]	1,900.00[122]	No data for this country
9	Dominica	470	35.7[123]	21.98	63.5
10	Dominican Republic	78,845	13.3	2,455.30	59.3

[113] Refer to Doing Business 2020, World Bank Group, Economy Profile of Vanuatu at https://documents1.worldbank.org/curated/en/530151575378757146/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Vanuatu.pdf.
[114] Refer to Gross domestic product 2020 at https://databank.worldbank.org/data/download/GDP.pdf.
[115] Refer to The World Bank, Tax revenue (% of GDP) at https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS.
[116] Refer to The World Bank, Foreign direct investment, net inflows at https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD.
[117] Refer to The World Bank, External debt stock (total amount of money owed to foreign creditors) as a % to Gross National Income (GNI) at https://databank.worldbank.org/source/world-development-indicators/Series/DT.DOD.DECT.GN.ZS#.
[118] Refer to OECD's Revenue Statistics in Latin America and the Caribbean 2021 - Antigua and Barbuda at https://www.oecd.org/tax/tax-policy/revenue-statistics-latin-america-and-caribbean-antigua-and-barbuda.pdf.
[119] Refer to Bahrain Tax Revenue: % of GDP, CEIC DATA at https://www.ceicdata.com/en/indicator/bahrain/tax-revenue--of-gdp#:~:text=Bahrain%20Tax%20revenue%3A%20%25%20of%20GDP%20was%20reported%20at%202.1%20%25,to%202017%2C%20with%2028%20observations.
[120] Refer to IMF Country Report No. 18/190, June 2018.
[121] Refer to OECD's Revenue Statistics in Latin America and the Caribbean 2021 – Cuba at https://www.oecd.org/tax/tax-policy/revenue-statistics-latin-america-and-caribbean-cuba.pdf.
[122] Refer to Reuters' Cuba attracts $1.9 billion in foreign investment despite U.S. sanctions at https://www.reuters.com/article/us-cuba-economy-tradefair-idUSKBN28I37O.
[123] Refer to Dominica - General government revenue in % of GDP at https://knoema.com/atlas/Dominica/topics/Economy/Financial-Sector-General-Government-finance/General-government-revenue-percent-of-GDP.

Sl. No.	State	GDP 2020 (USD Million)[114]	Tax revenue (% of GDP)[115]	Foreign Direct Investment, Net Inflows (BOP) (USD Million)[116]	External debt stock as a % to Gross National Income (GNI)[117]
11	Fiji	4,376	22.7	239.38	35.7
12	Grenada	1,089	26.6[124]	148.81	62.5
13	Guinea-Bissau	1,432	9.5	20.41	55.3
14	Guyana	5,471	23.2[125]	1,194.48	32.7
15	Haiti	13,418	11.1[126]	30.00	15.9
16	Jamaica	13,812	27.5	265.10	135.0
17	Kiribati	200	25.7	2.62	No data for this country
18	Maldives	4,030	9.1	440.71	96.9
19	Marshall Islands	239	17.4	6.59	No data for this country
20	Federated States of Micronesia	408	19.2	20.21	No data for this country
21	Mauritius	10,914	19.9	245.94	155.7
22	Nauru	118	30.5	0.0[127]	No data for this country
23	Papua New Guinea	23,592	13.0	-935.49	73.7
24	Samoa	807	26.2	4.43	56.3
25	São Tomé and Príncipe	473	17.7[128]	47.11	61.9
26	Seychelles	1,125	35.0	175.11	No data for this country
27	Singapore	339,998	13.2	87,445.14	No data for this country
28	St. Kitts and Nevis	927	17.4	13.85	No data for this country
29	St. Lucia	1,703	18.2	35.11	48.2
30	St. Vincent and the Grenadines	810	25.4	30.86	50.2
31	Solomon Islands	1,551	20.9	8.98	27.1
32	Suriname	3,808	22.5[129]	1.04	No data for this

[124] Refer to Grenada - General government revenue in % of GDP at https://knoema.com/atlas/Grenada/topics/Economy/Financial-Sector-General-Government-finance/General-government-revenue-percent-of-GDP#:~:text=Grenada%20%2D%20General%20government%20revenue%20in%20%25%20of%20GDP&text=In%202020%2C%20general%20government%20revenue,)%20for%20Grenada%20was%2026.6%20%25.

[125] Refer to OECD's Revenue Statistics in Latin America and the Caribbean 2021 – Guyana at https://www.oecd.org/tax/tax-policy/revenue-statistics-latin-america-and-caribbean-guyana.pdf.

[126] Refer to IMF Executive Board Concludes 2019 Article IV Consultation with Haiti at https://www.imf.org/en/News/Articles/2020/01/28/pr2021-haiti-imf-executive-board-concludes-2019-article-iv-consultation.

[127] Refer to Nauru - Net foreign direct investment inflows in current prices at https://knoema.com/atlas/Nauru/topics/Economy/Balance-of-Payments-Capital-and-financial-account/Net-FDI-inflows.

[128] Refer to São Tomé and Príncipe: Domestic Tax System and Tax Revenue Potential, data as on 2008 at https://www.elibrary.imf.org/view/journals/001/2009/215/article-A001-en.xml.

[129] Refer to Suriname - General government revenue in % of GDP at https://knoema.com/atlas/Suriname/topics/Economy/Financial-Sector-General-Government-finance/General-government-revenue-percent-of-GDP.

Sl. No.	State	GDP 2020 (USD Million)[114]	Tax revenue (% of GDP)[115]	Foreign Direct Investment, Net Inflows (BOP) (USD Million)[116]	External debt stock as a % to Gross National Income (GNI)[117]
					country
33	Timor-Leste	1,821	22.6	72.38	9.7
34	Tonga	512	45.1[130]	4.23	36.7
35	Trinidad and Tobago	21,530	20.0	-102.58	No data for this country
36	Vanuatu	855	17.6	24.61	46.9

Table 3

Sl. No.	State	Member of Inclusive Framework[131]	Transfer Pricing provisions exist in Domestic Law[132]	AEOI: Status of Commitment[133]	MCAA Signatory[134]
1	Antigua and Barbuda	Yes	No	2018	Yes
2	Bahamas	Yes	No	2018	Yes
3	Bahrain	Yes	No	2018	Yes
4	Barbados	Yes	No	2018	Yes
5	Belize	Yes	No	2018	Yes
6	Cabo Verde	Yes	Yes	No Commitment	No
7	Comoros	No	Yes	No Commitment	No
8	Cuba	No	Yes	No Commitment	No
9	Dominica	Yes	No	2018	Yes
10	Dominican Republic	Yes	Yes	No Commitment	No
11	Fiji	No	Yes	No Commitment	No
12	Grenada	Yes	No	2018	Yes
13	Guinea-Bissau	No	Yes	No Commitment	No
14	Guyana	No	No	No Commitment	No
15	Haiti	Yes	Yes[135]	No Commitment	No

[130] Refer to Tonga - General government revenue in % of GDP at https://knoema.com/atlas/Tonga/topics/Economy/Financial-Sector-General-Government-finance/General-government-revenue-percent-of-GDP.

[131] Refer to Members of the OECD/G20 Inclusive Framework on BEPS, Updated: November 2021 at https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf.

[132] Refer to IBFD Country Key Features at https://research.ibfd.org/#/search?N=3+10&Ne=7487&Nu=global_rollup_key&Np=2&Ns=sort_date_common|1.

[133] Refer to OECD's Global Forum on Transparency and Exchange of Information for tax purposes, Automatic Exchange of Information (AEOI): Status of Commitments as of 5 January 2022 at https://www.oecd.org/tax/transparency/AEOI-commitments.pdf.

[134] Refer to Signatories of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information and Intended First Information Exchange Date Status as of 31 January 2022 at https://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/crs-mcaa-signatories.pdf.

[135] Refer to Transfer Pricing Country Summary, Haiti, July 2018 by TPA Global at

Sl. No.	State	Member of Inclusive Framework[131]	Transfer Pricing provisions exist in Domestic Law[132]	AEOI: Status of Commitment[133]	MCAA Signatory[134]
16	Jamaica	Yes	Yes	2022	Yes
17	Kiribati	No	No	No Commitment	No
18	Maldives	Yes	Yes	2022	Yes
19	Marshall Islands	No	No	2018	Yes
20	Federated States of Micronesia	No	No	No Commitment	No
21	Mauritius	Yes	No[136]	2018	Yes
22	Nauru	No	Yes	2018	Yes
23	Papua New Guinea	Yes	Yes	No Commitment	No
24	Samoa	Yes	Yes	2018	Yes
25	São Tomé and Príncipe	No	Yes	No Commitment	No
26	Seychelles	Yes	Yes	2017	Yes
27	Singapore	Yes	Yes	2018	Yes
28	St. Kitts and Nevis	Yes	No	No Commitment	No
29	St. Lucia	Yes	No	No Commitment	No
30	St. Vincent and the Grenadines	Yes	Yes	No Commitment	No
31	Solomon Islands	No	Yes	No Commitment	No
32	Suriname	No	No	No Commitment	No
33	Timor-Leste	No	No	No Commitment	No
34	Tonga	No	No[137]	No Commitment	No
35	Trinidad and Tobago	Yes	No	2018	No
36	Vanuatu	No	No	2018	Yes

https://www.tpa-global.com/wp-content/uploads/2020/05/180712-haiti-transfer-pricing-country-summary-report-2018.pdf.

[136] The Director-General is allowed to adjust the liability of a taxpayer.

[137] Pursuant to the Income Tax Regulations 2008, the Commissioner may apply certain methods in determining the arm's length standard.

Table 4

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
1	Antigua and Barbuda[138]	Resident companies are taxed on their worldwide income.	25%	Carried forward for 6 years.	Fiscal Incentives Ordinance 1975 provides to manufacturers of an "approved product" exemption from taxes for varying periods, up to a maximum of 15 years.
2	Bahamas[139]	Does not impose any tax on income earned by companies, whether incorporated in the Bahamas or abroad.	Not applicable	Not applicable	Not applicable
3	Bahrain[140]	The only income tax in Bahrain is levied on oil companies and is governed by Amiri Decree 22/1979.	46%	Losses may be carried forward indefinitely.	The Decree does not provide for any incentives.
4	Barbados[141]	Barbados-resident companies are taxable on their worldwide income, while non-resident companies are taxable on their Barbados-source income and on foreign-source income that is	With effect from income year 2019, the tax rates are as follows: • 5.5% on all taxable income up to BBD 1 million; • 3% on all taxable income exceeding BBD 1 million but not exceeding BBD 20 million; • 2.5% on all taxable	With effect from income year 2015 a loss may be carried forward for 7 years. With effect from income year 2019 losses to set off 50% of the assessable	Barbados provides incentives to companies operating in various industries and sectors.

[138] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_ag_s_1.&refresh=1645194411578%23gtha_ag_s_1.
[139] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_bs_s_1.&refresh=1645195488056%23gtha_bs_s_1.
[140] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_bh_s_1.&refresh=1645195708503%23gtha_bh_s_1.
[141] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_bb_s_1.&refresh=1645207688113%23gtha_bb_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		remitted to Barbados (remittance basis of taxation).	income exceeding BBD 20 million but not exceeding BBD 30 million; and • 1% on all taxable income exceeding BBD 30 million.	income of that person for the next succeeding income year.	
5	Belize[142]	Effective 1 January 2020, income tax is not payable on the chargeable income of a company, other than a company engaged in petroleum operation.	Petroleum operations are subject to income tax of 40% on their chargeable income.	Losses incurred in any trade, business or vocation may be carried forward for 5 years.	Under the Free Zones Act of 2005, a commercial free zone (CFZ) is set up at several locations throughout Belize for the purpose of attracting foreign investment.
6	Cabo Verde[143]	A worldwide tax system applies, where CIT is levied on Cape Verdean and foreign-source income derived by resident companies, including capital gains. Non-resident companies are only subject to CIT on Cape Verdean-source income.	The standard CIT rate for Cape Verdean resident companies is 22%. This rate has been in effect since 1 January 2019. The standard CIT rate is increased by a fire brigade surcharge of 2% on the CIT due, thus resulting in an effective rate of 22.44%.	Any outstanding tax loss may be carried forward to be offset against taxable profits over the following 7 years. The deductible loss is capped at 50% of the taxable profit of the year.	Cabo Verde grants various tax incentives in order to promote investment. A special regime of taxation applies to maritime activities subject to conditions.
7	Comoros[144]	Corporate income tax is levied on profits and on any other kinds of income derived by	CIT applies at the standard rate of 35%. A reduced rate of 10% applies on profits derived from non-commercial activities.	Losses may be carried forward for set-off against taxable	A number of tax benefits are provided to encourage investment in the Comoros. These consist of: • preferential

[142] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_bz_s_1.&refresh=1645210229330%23gtha_bz_s_1.
[143] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_cv_s_1.&refresh=1645211000393%23gtha_cv_s_1.
[144] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_c5_s_1.&refresh=1645245556484%23gtha_c5_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		companies in the Comoros, following the territorial principle of taxation.		income for up to 3 years from the loss-making year.	regimes under the Investment Code; and • exemptions granted under the General Tax Code.
8	Cuba[145]	Corporates are taxed on their worldwide income.	CIT is 30%. For natural resource and mining sector, it is 50%.	Loss carry-forward is allowed for 5 fiscal years.	Tax exemptions are allowed to foreigner and franchise holders located in free-trade zones. Industrial estates are exempt from tax on profits and labour force tax.
9	Dominica[146]	Resident legal entities are subject to income tax on a worldwide basis. Non-resident legal entities are subject to income tax only on Dominica-source income.	From 1 January 2016, the applicable rate of income tax for a company is 25%.	Losses may be carried forward up to 5 years.	A complete or partial exemption from income tax may be granted for a period not longer than 10, 12 or 15 years, depending on the classification of the company, nature of the enterprise, the contribution it is expected to make to the economy, the number of persons employed, the area where it will be located, etc.
10	Dominican Republic[147]	The corporate tax system is based on the territorial source principle, whereby tax is only levied on business income derived from Dominican sources regardless of the	CIT is assessed at a flat rate of 27%.	Losses may be carried forward for a 5-year period.	Incentives (from taxes, duties, charges and fees for production and export activities in Free Trade Zones) apply for the first 25 years to entities located near the Dominican-Haitian border and for the first 15 years to those located throughout the remaining part of the

[145] Refer to IBFD at https://research.ibfd.org/#/doc?url=/collections/kf/html/kf_cu.html.
[146] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_dm_s_1.&refresh=1645248828946%23gtha_dm_s_1.
[147] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_do_s_1.&refresh=1645249548249%23gtha_do_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		nationality, domicile, and residence of those who take part in the operations or the place where the contracts are concluded.			country.
11	Fiji[148]	Resident companies are taxed on their worldwide income, while non-resident companies are taxed on their Fiji-sourced income.	The CIT rate on income is 20% from the year 2012. Companies that are listed on the SPSE and which have at least 40% local equity are subject to a reduced corporate tax rate of 10%. Approved regional or global headquarters, subject to conditions, are subject to a lower CIT rate of 17%.	Any loss incurred in the basis year in any company, can be carried forward and set off against its income for the next 4 succeeding years. From 1 August 2019, the losses incurred in a financial year starting on or after 1 January 2019 can be carried forward for 8 years.	Various tax incentives are available in Fiji including tax and duty exemptions, investment allowances, accelerated depreciation, tax-free region incentives, information communication technology incentives and medical investment incentives.
12	Grenada[149]	Worldwide income received by resident companies is generally subject to income tax.	Income tax is imposed at a rate of 28% on the annual net profit of a company in excess of Eastern Caribbean Dollar (ECD) 60,000. Income over ECD 36,000 but less than ECD 60,000 is charged	Any loss incurred can be carried forward and set off for the next 3 succeeding years.	The Free Trade and Processing Zone Act (FTPZ Act) provides for a 60-year tax exemption for companies that are granted concessions under the FTPZ for the following taxes: income tax (or any other similar

[148] Refer IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_fj_s_1.&refresh=1645250129403%23gtha_fj_s_1.

[149] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_gd_s_1.&refresh=1645250612828%23gtha_gd_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
			at a rate of 10%.		taxes), customs duties, VAT, excise tax and any other similar taxes, duties and tariffs on specified terms. Companies approved under the Fiscal Incentives Act are eligible for complete or partial exemption of income tax on profits arising from the sale of an approved product, for a period of 10, 12 or 15 years, depending on the classification of the approved company. The preferential tax regime provided to international companies and other such harmful tax practices were repealed in order to prevent EU blacklisting.
13	Guinea-Bissau[150]	Companies and other legal entities, Guinea-Bissauan or foreign, carrying on commercial or industrial activities in Guinea-Bissau are considered taxpayers for Business Income Tax (BIT) purposes based on the territoriality principle.	The standard BIT rate is 25%. Companies are also subject to a minimum tax liability equal to 1% of their gross annual turnover.	Any outstanding loss may be carried forward to be offset against taxable profits over the following 3 years.	During the operation phase, eligible companies benefit from reduced BIT rates for a maximum period of 7 years. Holders of mining permits are granted tax incentives that vary according to the prospecting, research or exploration period.
14	Guyana[151]	Resident	The rate of tax for	Companies	Any exemption from tax

[150] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_gw_s_1.&refresh=1645252575540%23gtha_gw_s_1.

[151] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_gy_ss_3&refresh=1645252021843%23gtha_gy_ss_3.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		companies are subject to CIT on their worldwide income. Non-resident companies are subject to tax on income directly accruing in or derived from Guyana.	commercial companies other than telephone companies is 40% while the rate for telephone companies is 45%; for non-commercial companies and small business engaged in manufacturing and construction services and registered with the Small Business Bureau it is 25%.	may carry forward losses for an unlimited number of years.	may not exceed 5 years. However, for new economic activity falling under certain categories, the exemption may be upto 10 years or beyond.
15	Haiti	Companies are subjected to CIT.[152]	CIT rate of 30%.[153]	Loss-carry forwards are granted for up to 5 years.[154]	Available incentives include a 100 percent exemption from income taxes for up to 15 years, followed by a gradual phasing out of the exemptions over 6 years.[155]
16	Jamaica[156]	Corporates resident in Jamaica are taxable on their worldwide income. Corporates not resident in Jamaica are taxable on income derived from Jamaica.	For resident companies the income tax rate is 25%; For year of assessment 2013, an additional 5% surcharge is imposed on large unregulated companies (those with gross income greater than JMD 500 million), giving a total rate of 30%.	Business losses can be carried forward indefinitely.	Entities operating in an SEZ have a low CIT rate of 12.5%, which can be reduced to 7.5%.
17	Kiribati[157]	Kiribati taxes the income of a resident corporate on a	CIT varies from 20% to 35%, depending upon the corporate's total income.	Losses may be carried forward and deducted	The taxable income from the specified business of the pioneer company during its tax concession

[152] Refer to Economy Profile of Haiti, Doing Business 2020, World Bank Group at https://www.doingbusiness.org/content/dam/doingBusiness/country/h/haiti/HTI.pdf.
[153] Ibid.
[154] Refer to IMF eLIBRARY Haiti: Selected Issues and Statistical Appendix (BOX 3) at https://www.elibrary.imf.org/view/journals/002/2007/292/article-A003-en.xml.
[155] Ibid.
[156] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_jm_s_1.&refresh=1645255867628%23gtha_jm_s_1.
[157] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_ki_s_1.&refresh=1645257859523%23gtha_ki_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		worldwide basis. A non-resident taxpayer will be taxed on the income sourced in Kiribati.		against income from a business in any of the following 3 tax years.	period is taxable at the rate of 10%, unless a different rate, not exceeding the standard rate of 30%, is specified in the declaration order. The tax concession period is 5 years, other than for mining, for which a 10-year period applies. New businesses commenced on certain outer islands after 1 January 1992 are taxed at the reduced rate of 10% for 5 years.
18	Maldives[158]	Corporate residents in the Maldives are taxed on their worldwide income.	Banks are subject to tax at the rate of 25% of their taxable income. Corporates (other than banks) are taxed @ 15% of taxable income in excess of MVR 500,000. For taxable income below MVR 500,000, tax rate is Nil.	Losses for any tax year may be carried forward and set-off against the person's taxable profits of the next tax year, up to 5 tax years from the end of the tax year in which the loss was incurred.	The SEZ Act *inter alia* allows relief from business profit tax.
19	Marshall Islands[159]	Gross revenue generated by incorporated and unincorporated business, from activities carried on within the Marshall Islands (i.e., onshore) for	Gross revenue tax is levied at the rate of USD 80 on the first USD 10,000 and 3% on the amount in excess of USD 10,000.	Not applicable.	Investors who intend to invest in the certain export-oriented sectors like offshore or deep-sea fishing; manufacturing for export, or for both export and local use; agriculture; and hotel and resort facilities, may

[158] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_mv_s_1.&refresh=1645258374171%23gtha_mv_s_1.
[159] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_mh_s_1.&refresh=1645258927860%23gtha_mh_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		economic benefit is taxed on a gross basis. Therefore, it may be implied that the Marshall Islands adopts a territorial system of taxation.			be exempted from paying gross revenue tax for a 5-year period from the date of commencement of business.
20	Federated States of Micronesia[160]	The basis of taxation for corporate income tax is worldwide.	CIT varies from 21% to 30%, depending upon the corporate's total income.	Net operating losses are allowed to be carried forward for up to 7 years.	Except for a few isolated cases, there is no form of tax holidays to promote trade and investment. Copra producers are exempt from tax.
21	Mauritius[161]	Worldwide income is taxable in Mauritius whether remitted or not. Non-residents are subject to tax on income accrued in or derived from Mauritius. Hence, Mauritius taxes income under both source and residence rules.	The basic rate of CIT is 15% with effect from 1 July 2008. As from 1 July 2017, companies engaged in exports of goods are taxable at the rate of 3% on the chargeable income derived from the export of goods. As from the year of assessment commencing 1 July 2020, banks are taxed at a rate ranging from 5% to 15% depending on the chargeable income.	Unrelieved losses may be carried forward for 5 years.	There are currently no (new) incentives granted in the form of tax holidays, investment credits, etc. However, it grants investment tax incentives[162] in agriculture (fisheries) and manufacturing sectors.
22	Nauru[163]	With effect from 1 July 2016, companies are subject to	Resident companies with annual gross revenues up to AUD 15 million are taxed @	A net loss for a tax year can be carried forward for	There are no tax incentives.

[160] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_fm_s_1.&refresh=1645259308986%23gtha_fm_s_1.

[161] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_mu_ss_0.&refresh=1645259701803%23gtha_mu_ss_0.

[162] Refer to OECD, 'Building an investment tax incentives database' at https://www.oecd-ilibrary.org/finance-and-investment/building-an-investment-tax-incentives-database_62e075a9-en.

[163] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_nr_ss_1&refresh=1645260195629%23gtha_nr_ss_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		business profits tax on business income sourced in Nauru. Non-resident persons deriving passive income from sources in Nauru are liable to withholding taxes.	20% and others are taxed @ 25%.	maximum 3 years and used as a deduction in a subsequent year.	
23	Papua New Guinea[164]	Companies are subject to income tax on corporate profits on a worldwide basis.	CIT is levied at the rate of 30% for all companies. Additional taxation may apply to gas and petroleum income.	With effect from 1 January 2019, losses can be carried forward for 7 years. Losses from agriculture business may be carried forward indefinitely. Resource sector companies can carry forward losses for 20 years. Losses incurred in primary production activities can be carried forward indefinitely.	A number of incentives are available. A range of targeted incentives apply to companies engaged in mining, petroleum and gas-related activities
24	Samoa[165]	Corporate income tax is levied on companies, but	The income tax rate for resident companies is 27%.	Losses may be carried forward.	A company that invests at least Samoan Tala (SAT) 100,000 in an approved tourism

[164] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_pg_s_1.&refresh=1645260937458%23gtha_pg_s_1.

[165] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_ws_s_1.&refresh=1645261689441%23gtha_ws_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		special provisions apply to insurance companies and non-resident international transport operators.			development is allowed a credit against its income tax payable at the rate of 100% of the investment subject to certain conditions.
25	São Tomé and Príncipe[166]	CIT is imposed on the worldwide income arising from business activities (industrial, commercial and agriculture) carried out by companies (including permanent establishments of non-resident entities).	The standard CIT rate is 25%. A special tax regime applies to the oil sector.	Any outstanding loss may be carried forward to be offset against taxable profits over the following 5 years.	Tax incentives include tax exemption for a period of 10 years.
26	Seychelles[167]	Resident and non-resident companies are subject to income tax only on their Seychelles-source income. The income tax system is generally based on a territoriality principle.	Companies are taxed @ 25% on the first Seychelles Rupee (SCR) 1 million and 30% on income above SCR 1 million. Companies listed on the Seychelles Securities exchange are taxed @25%. Telecommunications service providers, banks, insurance providers, and alcohol and tobacco manufacturers are taxed @ 25% on the first SCR 1 million and 33% on income above SCR 1 million.	Losses may not be carried forward for more than 5 years after the year in which the loss was incurred.	Various tax concessions are provided for companies in order to encourage investment in certain industries, including those in the tourism, fishery, agricultural and offshore sectors.

[166] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_st_s_1.&refresh=1645263052007%23gtha_st_s_1.

[167] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_sc_ss_3&refresh=1645266966737%23gtha_sc_ss_3.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
			Agricultural, fishery and tourism activities are exempt from tax on up to SCR 250,000 of the taxable income.		
27	Singapore[168]	Corporate income tax is levied on companies on the basis of territoriality and receipt.	The rate of corporate income tax is 17% with effect from the year of assessment 2010. With effect from the year of assessment 2020, the partial tax exemption is available as follows: • 75% exemption on the first SGD 10,000 of chargeable income; and • 50% exemption on the next SGD 190,000 of chargeable income. For the year of assessment 2020, all companies will receive a corporate income tax rebate of 25%, subject to a cap of SGD 15,000.	From the year of assessment 2006, losses may be carried back for 1 year. Carry forward of losses is also allowed which can be carried forward indefinitely.	Singapore has many special schemes of taxation for particular types of businesses which result in either complete exemption or reduced tax rates. Generally, the incentives are based on the character of the income concerned or the business which the incentives are designed to encourage.
28	St. Kitts and Nevis[169]	Companies that are incorporated and registered in St. Kitts are taxed on their worldwide taxable income.	Corporation tax is currently imposed at a rate of 33% on income earned in 2013 and assessed in 2014. As a COVID-19 relief measure, for the 6-month period of April to September of 2020 the rate is reduced to 25% if at least 75% of the company's staff is retained.	Losses incurred in an income year can be carried forward for 5 years.	A number of special tax regimes are currently available. The Fiscal Incentives Act provides that if a company is declared to be an approved enterprise to manufacture certain approved products, then the manufacturer would be entitled to a tax holiday period of between 10 and 15 years depending on the

[168] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/cta_sg_s_1.&refresh=1645263444362%23cta_sg_s_1.

[169] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_kn_s_1.&refresh=1645265481611%23gtha_kn_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
					classification of the approved enterprise.
29	St. Lucia[170]	Companies are subject to corporate income tax in respect of their worldwide income. Non-resident companies are subject to tax to the extent that they derive profits from St. Lucian sources.	Companies are subject to tax at a flat rate of 30%.	Losses may be carried forward and offset against profits in the following 6 years. However, only 50% of the taxable profits in any year may be offset by losses brought forward.	An approved manufacturing enterprise will be granted a tax holiday up to a maximum of 15 years.
30	St. Vincent and the Grenadines[171]	A company is chargeable to tax on its assessable income. Income tax is based on residence.	The general corporate income tax rate is 30%. Hotels are taxed at the rate of 29%.	Carry forward of business losses is allowed.	A number of special tax regimes are currently available. A tax holiday may also be granted to "enclave enterprises", i.e., enterprises that produce exclusively for export outside the CARICOM region. During the tax holiday period, an enterprise may be granted a full or partial exemption from income tax from the production day.
31	Solomon Islands[172]	Corporate tax is levied on a worldwide basis. A non-resident company is charged to tax in respect of income accrued	Effective 4 January 2000, resident companies are subject to corporate income tax at the rate of 30%. Mining companies are subject to corporate income tax at the rate	Losses can be carried forward for a period of 5 years. Losses for mining companies can be	Tax incentive are provided to promote export, tourism, and agricultural oriented investments conducive to growth and development to create employment

[170] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_lc_s_1.&refresh=1645265979273%23gtha_lc_s_1.
[171] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_vc_s_1.&refresh=1645266368634%23gtha_vc_s_1.
[172] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_sb_s_1.&refresh=1645280502530%23gtha_sb_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
		in or derived from the Solomon Islands.	35%.	carried forward for 7 years.	opportunities, increase export earnings and induce technology transfers.
32	Suriname[173]	Resident companies are subject to corporate income tax on their worldwide income.	Companies are subject to income tax at the rate of 36%, including branches of foreign companies.	Losses may be carried forward for 7 years.	The Investment Law 2001 provides for the establishment of free zones within which commercial activities will be exempt from income tax and import duties. No free zones have been established in Suriname to date. Industrial enterprises benefit from a 10-year tax holiday if the company satisfies certain conditions.
33	Timor-Leste[174]	Resident companies are taxable on worldwide income, while non-resident companies are taxable only on income sourced in Timor-Leste. Petroleum activities, including those under the Timor Sea Maritime Boundaries Treaty, are subject to income tax under a separate regime.	Companies are subject to income tax at the rate of 10%.	Losses incurred can be carried forward indefinitely.	In general, investors who present investment projects related to agriculture, livestock production, hunting, fishing, aquaculture, manufacturing industries, housing or tourism will benefit from 5 years of exemption from income tax, sales tax and services tax, as well as from exemptions of customs duties for goods and equipment used in the construction or management of the investment. The period of exemption is extended to 8 years for investments in Rural Zones (outside of the cities of Dili and Baucau)

[173] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_sr_s_1.&refresh=1645280862070%23gtha_sr_s_1.

[174] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_tl_ss_1&refresh=1645281193626%23gtha_tl_ss_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
					and to 10 years for investments in Peripheral Zones (the exclave of Oecusse and the island of Atauro).
34	Tonga[175]	Resident companies are subject to income tax on their worldwide income. Non-residents are taxed only on income derived or sourced in Tonga.	Corporate income tax is levied at the rate of 25%.	Losses not fully utilized in a given year can be carried forward without any restriction, and deducted against future business income until fully utilized.	Income tax related incentives are not provided.
35	Trinidad and Tobago[176]	Resident companies are subject to corporate income tax on their worldwide income, whilst non-resident companies, e.g., the local branch of an overseas company, are only subject to tax on income accruing in or derived from T&T.	Standard CIT rate is 30%. Depending upon the nature of operations, CIT varies from 15% (Insurance companies) to 50% (Petroleum operations).	Losses incurred in a tax year may generally be set off against chargeable profits of that tax year and carried forward indefinitely.	Under the Corporation Tax Act, an approved small company is eligible for a 5-year tax holiday, provided that it fulfils certain conditions. Under the Business Expansion Scheme, approved companies operating within a designated regional development area are eligible for a 5-year tax holiday. The Free Zones Act 1988 makes provision for the establishment of free trade zones in T&T. Within the zones, goods can be manufactured, assembled, inspected, repaired, modified or simply stored in a tax and duty-free

[175] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_to_s_1.&refresh=1645281603421%23gtha_to_s_1.

[176] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_tt_s_1.&refresh=1645282048169%23gtha_tt_s_1.

Sl. No.	State	Taxability of Corporates	Corporate Income Tax (CIT) Rate	Treatment of Business Losses	Provision of Tax Incentives
					environment. Such goods are deemed to be in international commerce. All goods exported or transferred between free zones remain duty free. An unlimited tax holiday in respect of corporate income tax on profits and withholding taxes on remittances to non-resident shareholders is available to entities established in free trade zones.
36	Vanuatu[177]	There is no tax imposed on corporate income. However, the Vanuatu Revenue Review Committee was launched by the Council of Ministers on 4 April 2016, with the objective of reviewing and reporting the country's tax and non-tax revenue systems. As such, an income tax regime was proposed with a corporate income tax rate of 17%.	Not applicable.	Not applicable.	Not applicable.

[177] Refer to IBFD at https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_vu_s_1.&refresh=1645282814408%23gtha_vu_s_1.

RECENT SOUTH CENTRE RESEARCH PAPERS

No.	Date	Title	Authors
91	February 2019	Key Issues for BAPA+40: South-South Cooperation and the BAPA+40 Subthemes	Vicente Paolo B. Yu III
92	March 2019	Notification and Transparency Issues in the WTO and ' November 2018 Communication	Aileen Kwa and Peter Lunenborg
93	March 2019	Regulating the Digital Economy: Dilemmas, Trade Offs and Potential Options	Padmashree Gehl Sampath
94	April 2019	Tax Haven Listing in Multiple Hues: Blind, Winking or Conniving?	Jahanzeb Akhtar and Verónica Grondona
95	July 2019	Mainstreaming or Dilution? Intellectual Property and Development in WIPO	Nirmalya Syam
96	Agosto 2019	Antivirales de acción directa para la Hepatitis C: evolución de los criterios de patentabilidad y su impacto en la salud pública en Colombia	Francisco A. Rossi B. y Claudia M. Vargas P.
97	August 2019	Intellectual Property under the Scrutiny of Investor-State Tribunals Legitimacy and New Challenges	Clara Ducimetière
98	September 2019	Developing Country Coalitions in Multilateral Negotiations: Addressing Key Issues and Priorities of the Global South Agenda	Adriano José Timossi
99	September 2019	Ensuring an Operational Equity-based Global Stocktake under the Paris Agreement	Hesham AL-ZAHRANI, CHAI Qimin, FU Sha, Yaw OSAFO, Adriano SANTHIAGO DE OLIVEIRA, Anushree TRIPATHI, Harald WINKLER, Vicente Paolo YU III
100	December 2019	Medicines and Intellectual Property: 10 Years of the WHO Global Strategy	Germán Velásquez
101	December 2019	Second Medical Use Patents – Legal Treatment and Public Health Issues	Clara Ducimetière
102	February 2020	The Fourth Industrial Revolution in the Developing Nations: Challenges and Road Map	Sohail Asghar, Gulmina Rextina, Tanveer Ahmed & Manzoor Illahi Tamimy (COMSATS)
103	February 2020	Eighteen Years After Doha: An Analysis of the Use of Public Health TRIPS Flexibilities in Africa	Yousuf A Vawda & Bonginkosi Shozi

104	March 2020	Antimicrobial Resistance: Examining the Environment as Part of the One Health Approach	Mirza Alas
105	March 2020	Intersección entre competencia y patentes: hacia un ejercicio pro-competitivo de los derechos de patente en el sector farmacéutico	María Juliana Rodríguez Gómez
106	March 2020	The Comprehensive and Progressive Agreement for the Trans-Pacific Partnership: Data Exclusivity and Access to Biologics	Zeleke Temesgen Boru
107	April 2020	Guide for the Granting of Compulsory Licenses and Government Use of Pharmaceutical Patents	Carlos M. Correa
108	April 2020	Public Health and Plain Packaging of Tobacco: An Intellectual Property Perspective	Thamara Romero
109	May 2020	Non-Violation and Situation Complaints under the TRIPS Agreement: Implications for Developing Countries	Nirmalya Syam
110	May 2020	Estudio preliminar del capítulo sobre propiedad intelectual del acuerdo MERCOSUR – UE	Alejandra Aoun, Alejo Barrenechea, Roxana Blasetti, Martín Cortese, Gabriel Gette, Nicolás Hermida, Jorge Kors, Vanesa Lowenstein, Guillermo Vidaurreta
111	May 2020	National Measures on Taxing the Digital Economy	Veronica Grondona, Abdul Muheet Chowdhary, Daniel Uribe
112	June 2020	La judicialización del derecho a la salud	Silvina Andrea Bracamonte and José Luis Cassinerio
113	June 2020	La evolución de la jurisprudencia en materia de salud en Argentina	Silvina Andrea Bracamonte and José Luis Cassinerio
114	June 2020	Equitable Access to COVID-19 Related Health Technologies: A Global Priority	Zeleke Temesgen Boru
115	July 2020	Special Section 301:US Interference with the Design and Implementation of National Patent Laws	Dr. Carlos M. Correa
116	August 2020	The TRIPS Agreement Article 73 Security Exceptions and the COVID-19 Pandemic	Frederick Abbott
117	September 2020	Data in Legal Limbo: Ownership, sovereignty, or a digital public goods regime?	Dr. Carlos M. Correa

118	September 2020	Re-thinking Global and Local Manufacturing of Medical Products After COVID-19	Dr. German Velásquez
119	October 2020	TRIPS Flexibilities on Patent Enforcement: Lessons from Some Developed Countries Relating to Pharmaceutical Patent Protection	Joshua D. Sarnoff
120	October 2020	Patent Analysis for Medicines and Biotherapeutics in Trials to Treat COVID-19	Srividya Ravi
121	November 2020	The World Health Organization Reforms in the Time of COVID-19	German Velásquez
122	November 2020	Analysis of the Overcapacity and Overfishing Pillar of the WTO Fisheries Subsidies Negotiations	Peter Lunenborg
123	November 2020	The United Nations Declaration on the Rights of Peasants and Other People Working in Rural Areas: One Step Forward in the Promotion of Human Rights for the Most Vulnerable	Maria Natalia Pacheco Rodriguez and Luis Fernando Rosales Lozada
124	November 2020	Practical Implications of 'Vaccine Nationalism': A Short-Sighted and Risky Approach in Response to COVID-19	Muhammad Zaheer Abbas, PhD
125	December 2020	Designing Pro-Health Competition Policies in Developing Countries	Vitor Henrique Pinto Ido
126	December 2020	How Civil Society Action can Contribute to Combating Antimicrobial Resistance	Mirza Alas Portillo
127	December 2020	Revisiting the Question of Extending the Limits of Protection of Pharmaceutical Patents and Data Outside the EU – The Need to Rebalance	Daniel Opoku Acquah
128	February 2021	Intellectual Property in the EU–MERCOSUR FTA: A Brief Review of the Negotiating Outcomes of a Long-Awaited Agreement	Roxana Blasetti In collaboration with Juan I. Correa
129	March 2021	The TRIPS waiver proposal: an urgent measure to expand access to the COVID-19 vaccines	Henrique Zeferino de Menezes
130	April 2021	Misappropriation of Genetic Resources and Associated Traditional Knowledge: Challenges Posed by Intellectual Property and Genetic Sequence Information	Nirmalya Syam and Thamara Romero
131	June 2021	TRIPS Flexibilities and TRIPS-plus Provisions in the RCEP Chapter on Intellectual Property: How Much Policy Space is Retained?	Vitor Henrique Pinto Ido
132	June 2021	Interpreting the Flexibilities Under the TRIPS Agreement	Carlos M. Correa

133	August 2021	Malaria and Dengue: Understanding two infectious diseases affecting developing countries and their link to climate change	By Mirza Alas
134	September 2021	Restructuring the Global Vaccine Industry	Felix Lobo
135	September 2021	Implementation of a TRIPS Waiver for Health Technologies and Products for COVID-19: Preventing Claims Under Free Trade and Investment Agreements	Carlos M. Correa, Nirmalya Syam and Daniel Uribe
136	September 2021	Canada's Political Choices Restrain Vaccine Equity: The Bolivia-Biolyse Case	Muhammad Zaheer Abbas
137	October 2021	The Ocean Economy: trends, impacts and opportunities for a post COVID-19 Blue Recovery in developing countries	David Vivas Eugui, Diana Barrowclough and Claudia Contreras
138	October 2021	Beyond Corporate Social Responsibility: Strengthening Human Rights Due Diligence through the Legally Binding Instrument on Business and Human Rights	Daniel Uribe Terán
139	October 2021	Governing Seed for Food Production: The International Treaty on Plant Genetic Resources for Food and Agriculture	Nina Isabelle Moeller
140	November 2021	Del SIDA al COVID-19: La OMS ante las crisis sanitarias globales	Germán Velásquez
141	November 2021	Utilising Public Health Flexibilities in the Era of COVID-19: An Analysis of Intellectual Property Regulation in the OAPI and MENA Regions	Yousuf A Vawda and Bonginkosi Shozi
142	4 January 2022	Competition Law and Access to Medicines: Lessons from Brazilian Regulation and Practice	Matheus Z. Falcão, Mariana Gondo and Ana Carolina Navarrete
143	11 January 2022	Direito Brasileiro da Concorrência e Acesso à Saúde no Brasil: Preços Exploratórios no Setor de Medicamentos	Bruno Braz de Castro
144	27 January 2022	A TRIPS-COVID Waiver and Overlapping Commitments to Protect Intellectual Property Rights Under International IP and Investment Agreements	Henning Grosse Ruse-Khan and Federica Paddeu
145	9 February 2022	The Right to Health in Pharmaceutical Patent Disputes	Emmanuel Kolawole Oke
146	16 February 2022	A Review of WTO Disputes on TRIPS: Implications for Use of Flexibilities for Public Health	Nirmalya Syam
147	28 February 2022	Can Negotiations at the World Health Organization Lead to a Just Framework for the Prevention, Preparedness and Response to Pandemics as Global Public Goods?	Viviana Muñoz Tellez

148	7 March 2022	Marine Genetic Resources Beyond National Jurisdictions: Negotiating Options on Intellectual Property	Siva Thambisetty
149	8 March 2022	The International Discourse on the Right to Development and the Need to Reinvigorate its Implementation	Yuefen Li, Daniel Uribe and Danish
150	21 March 2022	The Liability of Internet Service Providers for Copyright Infringement in Sri Lanka in Relation to Infringing Items Carried on their Networks: A Comparative Analysis with the US and English Law	Ruwan Fernando
151	19 April 2022	Escaping the Fragility/Conflict Poverty Trap: How the interaction between service delivery, capacity development and institutional transformation drives the process of transition out of fragility	Mamadou Dia
152	21 April 2022	An Examination of Selected Public Health Exceptions in Asian Patent Laws	Kiyoshi Adachi
153	26 April 2022	Patent Analysis for Medicines and Biotherapeutics in Trials to Treat COVID-19	Srividya Ravi
154	9 May 2022	COVID-19 Vaccines as Global Public Goods: between life and profit	Katiuska King Mantilla and César Carranza Barona
155	27 May 2022	Manufacturing for Export: A TRIPS-Consistent Pro-Competitive Exception	Carlos M. Correa and Juan I. Correa
156	1 June 2022	A Tough Call? Comparing Tax Revenues to Be Raised by Developing Countries from the Amount A and the UN Model Treaty Article 12B Regimes	Vladimir Starkov and Alexis Jin
157	3 June 2022	WTO Moratorium on Customs Duties on Electronic Transmissions: How much tariff revenue have developing countries lost?	Rashmi Banga
158	15 June 2022	Twenty Years After Doha: An Analysis of the Use of the TRIPS Agreement's Public Health Flexibilities in India	Muhammad Zaheer Abbas, PhD
159	15 July 2022	Reaping the Fruits of Research on Microorganisms: Prospects and Challenges for R&D and Industry in Sri Lanka	Ruwan Fernando
160	21 July 2022	Movement Forward on ABS for the Convention on Biological Diversity: Bounded Openness Over Natural Information	Joseph Henry Vogel, Manuel Ruiz Muller, Klaus Angerer, and Christopher May
161	26 July 2022	Two Pillar Solution for Taxing the Digitalized Economy: Policy Implications and Guidance for the Global South	Irene Ovonji-Odida, Veronica Grondona, Abdul Muheet Chowdhary

162	11 August 2022	The Proposed Standing Multilateral Mechanism and Its Potential Relationship with the Existing Universe of Investor – State Dispute Settlement	Danish and Daniel Uribe
163	19 August 2022	The Human Right to Science: From Fragmentation to Comprehensive Implementation?	Peter Bille Larsen and Marjorie Pamintuan

International Environment House 2
Chemin de Balexert 7-9
POB 228, 1211 Geneva 19
Switzerland

Telephone: (41) 022 791 8050
E-mail: south@southcentre.int

Website:
http://www.southcentre.int

ISSN 1819-6926