

**Cabinet Resolution No. (142) of 2024**  
**Imposing a Top-up Tax on Multinational Enterprises**

**The Cabinet**

**Having reviewed:**

- The Constitution;
- Federal Law No. (1) of 1972 concerning the Competences of Ministries and the Powers of Ministers, as amended;
- Federal Decree-Law No. (28) of 2022 concerning Tax Procedures, as amended;
- Federal Decree-Law No. (47) of 2022 on the Taxation of Corporations and Businesses, as amended; and
- Based on the Proposal of the Minister of Finance and the Cabinet's Approval thereof,

**Hereby resolves as follows:**

**Article (1) Levy of the Top-up Tax**

The top-up tax shall be levied on multinational enterprises in accordance with the cases, terms, conditions, rules, controls and procedures contained in the attachment.

**Article (2) Application of the Resolution to Fiscal Years**

This Resolution shall apply to fiscal years beginning on or after 1 January 2025.

**Article (3) Entry into Force and Publication**

This Resolution shall enter into as of 1 January 2025 and shall be published in the Official Gazette.

**Mohammed bin Rashid Al Maktoum**

**Prime Minister**

Issued by Us:

On: 30 Jumada II, 1446 AH

Corresponding to: 31 December, 2024 AD

**Cases, Provisions, Conditions, Rules, Controls, and Procedures  
on the Imposition of Top-up Tax on Multinational Enterprises  
Attached to Cabinet Decision No (142) of 2024**

**Article 1**

**Scope of Application**

**Article 1.1. Scope of this Decision**

- 1.1.1 This Decision shall apply to Constituent Entities that are members of an MNE Group that has annual revenue of EUR 750 million or more in the Consolidated Financial Statements of the Ultimate Parent Entity in at least two of the four Fiscal Years immediately preceding the tested Fiscal Year. Further rules are set out in Article 6.1 which modify the application of the consolidated revenue threshold in certain cases.
- 1.1.2 If one or more of the Fiscal Years of the MNE Group taken into account for purposes of Article 1.1.1 is of a period other than 12 months, for each of those Fiscal Years the EUR 750 million threshold is adjusted proportionally to correspond with the length of the relevant Fiscal Year.

**Article 1.2. MNE Group and Group**

- 1.2.1 An MNE Group means any Group that includes at least one Entity or Permanent Establishment that is not located in the Jurisdiction in which the Ultimate Parent Entity of the MNE Group is located.
- 1.2.2 A Group means a collection of Entities that are related through ownership or control such that the assets, liabilities, income, expenses and cash flows of those Entities:
- (a) are included in the Consolidated Financial Statements of the Ultimate Parent Entity; or
  - (b) are excluded from the Consolidated Financial Statements of the Ultimate Parent Entity solely on size or materiality grounds, or on the grounds that the Entity is held for sale.
- 1.2.3 A Group also means an Entity that is located in one Jurisdiction and has one or more Permanent Establishments located in other Jurisdictions provided that the Entity is not a part of another Group described in Article 1.2.2.

**Article 1.3. Constituent Entity**

- 1.3.1 A Constituent Entity is any of the following:
- (a) any Entity that is included in a Group; or
  - (b) any Permanent Establishment of a Main Entity that is within paragraph (a).
- 1.3.2 A Permanent Establishment that is a Constituent Entity under paragraph (b) above shall be treated as separate from the Main Entity and any other Permanent Establishment of that Main Entity.
- 1.3.3 A Constituent Entity does not include an Entity that is an Excluded Entity.

**Article 1.4. Ultimate Parent Entity**

1.4.1 Ultimate Parent Entity means either:

(a) an Entity that:

- i. owns directly or indirectly a Controlling Interest in any other Entity; and
- ii. is not owned, with a Controlling Interest, directly or indirectly by another Entity; or

(b) the Main Entity of a Group that is within Article 1.2.3.

#### **Article 1.5. Excluded Entity**

1.5.1 An Excluded Entity is an Entity that is:

- (a) a Governmental Entity;
- (b) an International Organisation;
- (c) a Non-profit Organisation;
- (d) a Pension Fund;
- (e) an Investment Fund that is an Ultimate Parent Entity; or
- (f) a Real Estate Investment Vehicle that is an Ultimate Parent Entity.

1.5.2 An Excluded Entity is also an Entity:

- (a) where at least 95% of the value of the Entity is owned (directly or through a chain of Excluded Entities) by one or more Excluded Entities referred to in Article 1.5.1 (other than a Pension Services Entity) and where that Entity:
  - i. operates exclusively or almost exclusively to hold assets or invest funds for the benefit of the Excluded Entity or Entities; and/or
  - ii. only carries out activities that are ancillary to those carried out by the Excluded Entity or Entities.
- (b) where at least 85% of the value of the Entity is owned (directly or through a chain of Excluded Entities), by one or more Excluded Entities referred to in Article 1.5.1 (other than a Pension Services Entity) provided that substantially all of the Entity's income is Excluded Dividends or Excluded Equity Gain or Loss that is excluded from the computation of Pillar Two Income or Loss in accordance with Articles 3.2.1(b) or (c).

1.5.3 A Filing Constituent Entity may elect not to treat an Entity as an Excluded Entity under Articles 1.5.2 and 1.9. An election under this Article is a Five-Year Election.

#### **Article 1.6 Sovereign Wealth Funds**

1.6.1 Notwithstanding Article 1.4, a sovereign wealth fund that meets the definition of a Governmental Entity is not an Ultimate Parent Entity.

1.6.2 Where the sovereign wealth fund described in Article 1.6.1 holds a direct Controlling Interest in an Entity, such Entity will be considered as the Ultimate Parent Entity of a Group provided that it:

- (a) owns directly or indirectly a Controlling Interest in another Entity, or

(b) is a Main Entity located in one Jurisdiction with one or more Permanent Establishments located in other Jurisdictions provided that the Main Entity is not a part of another Group described in Articles 1.2.2 or 1.6.2(a).

1.6.3 For the purposes of Article 1.6.2 and notwithstanding Article 1.2.2., a Group means the Ultimate Parent Entity referred to in Article 1.6.2 and:

(a) the Entities and Permanent Establishments referred to in Article 1.6.2(a) or (b); and

(b) the Entities that would have been excluded solely on size, materiality grounds or on the grounds that the Entity is held for sale if the Ultimate Parent Entity referred to in Article 1.6.2 would have been required to prepare Consolidated Financial Statements.

#### **Article 1.7. Permanent Establishments of Excluded Entities**

1.7.1 Where a Main Entity is an Excluded Entity in accordance with Article 1.5.1, its Permanent Establishments will also be treated as Excluded Entities.

1.7.2 For purposes of Article 1.5.2, the activities undertaken by the Permanent Establishments of a Main Entity shall be considered for purposes of determining whether the Main Entity meets the requirements in subparagraphs (i) or (ii) of Article 1.5.2(a), or Article 1.5.2(b). Where the requirements are met, the Permanent Establishments of the Main Entity will also be considered as Excluded Entities in accordance with Article 1.5.2.

#### **Article 1.8 Excluded Entity held by an Investment Fund or a Real Estate Investment Vehicle that is not a Group Entity**

1.8.1 For purposes of Article 1.5.2, the condition that requires a Group Entity to be owned (directly or through a chain of Excluded Entities) by one or more Excluded Entities referred to in Article 1.5.1 is deemed to be met where the first-mentioned Entity is held by an Investment Fund or a Real Estate Investment Vehicle that is not a Group Entity.

#### **Article 1.9. Entities held by Non-profit Organisations**

1.9.1 An Entity will be treated as an Excluded Entity provided that the following conditions are met:

(a) 100% of its value is owned directly or indirectly by one or more Non-profit Organisations;

(b) the aggregate revenue of the Group of which the Entity is a member is less than EUR 750 million if the revenue of the Non-profit Organisations and Excluded Entities under Article 1.5.2 were ignored; and

(c) the revenue of the Entity and all other Entities that are not Non-Profit Organizations and are not Excluded Entities under Article 1.5.2 is less than 25% of the revenue of the MNE Group.

1.9.2 Where the Fiscal Year of the MNE Group is a period other than 12 months, the computation under Article 1.9.1 (b) shall be adjusted in accordance with Article 1.1.2.

## **Article 2**

### **Charging Provision**

2.1 The following Entities shall pay the Top-up Tax for a Fiscal Year:

(a) Constituent Entities located in the UAE during that Fiscal Year, including those that are members of a Minority-owned Subgroup.

- (b) Joint Ventures and JV Subsidiaries located in the UAE during that Fiscal Year;
- (c) Stateless Constituent Entities created in accordance with the laws of the UAE and that are Reverse Hybrid Entities, with respect to any of their Pillar Two Income or Loss as allocated and computed in accordance with this Decision.

2.2 Notwithstanding Article 2.1:

- (a) the Constituent Entities of the Domestic Main Group and a Domestic Minority-owned Subgroup, may appoint a Domestic Designated Filing Entity to pay the Top-up Tax on behalf of the members of their Domestic Groups;
- (b) the Joint Venture and JV Subsidiaries of a Domestic JV Group may appoint a Domestic Designated Filing Entity to pay the Top-up Tax on behalf of the members of their Domestic JV Group; and
- (c) the Reverse Hybrid Entities referred to in Article 2.1 (c), may appoint a Domestic Designated Filing Entity that is a member of the Domestic Main Group or Domestic Minority-owned Subgroup to pay its Top-up Tax.

2.3 An Investment Entity located in the UAE is not subject to the Top-up Tax.

## Article 3

### Computation of Pillar Two Income or Loss

#### Article 3.1. Financial Accounts for the Determination of the Pillar Two Income or Loss

- 3.1.1 The Pillar Two Income or Loss of each Constituent Entity is the Financial Accounting Net Income or Loss determined for the Constituent Entity for the Fiscal Year adjusted for the items described in Article 3.2 to Article 3.5.
- 3.1.2 The Financial Accounting Net Income or Loss of a Constituent Entity for the Fiscal Year shall be determined in accordance with its standalone financial statements prepared in accordance with IFRS where:
  - (a) all of the Constituent Entities located in the UAE are required to prepare standalone financial statements in accordance with Federal Decree-Law No. 47 of 2022 or the applicable laws of the UAE;
  - (b) all of the standalone financial statements of the Constituent Entities located in the UAE are prepared in accordance with IFRS; and
  - (c) the financial year of all of the separate financial statements of the Constituent Entities located in the UAE is the same as the Fiscal Year of the Consolidated Financial Statements of the Ultimate Parent Entity.
- 3.1.3 Where the conditions of Article 3.1.2 are not met, the Financial Accounting Net Income or Loss is the net income or loss determined for a Constituent Entity in preparing Consolidated Financial Statements of the Ultimate Parent Entity and shall not include consolidation adjustments attributable to:
  - (a) intragroup transactions unless Article 3.2.8 applies;
  - (b) purchase price allocation where a Group Entity acquires a Controlling Interest in an Entity as a result of a business combination, unless the following conditions are satisfied:

- i. the acquisition date is prior to 1 December 2021; and
- ii. the MNE Group does not have sufficient records to determine its Financial Accounting Net Income or Loss based on the unadjusted carrying values of the acquired assets and liabilities.

The Financial Accounting Net Income or Loss shall include other consolidation adjustments not referred to in paragraphs (a) and (b) that are reflected in the Financial Accounting Net Income or Loss to the extent they can reliably and consistently be traced to the relevant Entity.

3.1.4 If it is not reasonably practicable to determine the Financial Accounting Net Income or Loss for a Constituent Entity based on the accounting standard used in the preparation of Consolidated Financial Statements of the Ultimate Parent Entity in accordance with Article 3.1.3, the Financial Accounting Net Income or Loss for the Constituent Entity for the Fiscal Year may be determined using another Acceptable Financial Accounting Standard or an Authorised Financial Accounting Standard (adjusted to prevent Material Competitive Distortions) if:

- (a) the financial accounts of the Constituent Entity are maintained based on that accounting standard;
- (b) the information contained in the financial accounts is reliable; and
- (c) permanent differences in excess of EUR 1 million that arise from the application of a particular principle or standard to items of income or expense or transactions that differs from the financial standard used in the preparation of the Consolidated Financial Statements of the Ultimate Parent Entity are conformed to the treatment required under the accounting standard used in the Consolidated Financial Statements of the Ultimate Parent Entity.

3.1.5 Articles 3.1.1 to 3.1.4 shall apply separately to a:

- (a) Joint Venture and JV Subsidiaries of a Domestic JV Group; and
- (b) Reverse Hybrid Entity created in accordance with the laws of the UAE.

### **Article 3.2. Adjustments to Determine the Pillar Two Income or Loss**

3.2.1 A Constituent Entity's Financial Accounting Net Income or Loss is adjusted for the following items to arrive at that Entity's Pillar Two Income or Loss:

- (a) Net Taxes Expense;
- (b) Excluded Dividends;
- (c) Excluded Equity Gain or Loss;
- (d) Included Revaluation Method Gain or Loss;
- (e) Gain or loss from disposition of assets and liabilities excluded under Article 6.3;
- (f) Asymmetric Foreign Currency Gains or Losses;
- (g) Policy Disallowed Expenses;
- (h) Prior Period Errors and Changes in Accounting Principles;
- (i) Accrued Pension Expense;

- (j) Accrued Pension Income; and
- (k) Excluded Insurance Reserves Expense.

3.2.2 At the election of the Filing Constituent Entity, a Constituent Entity may substitute in the computation of its Pillar Two Income or Loss the amount of stock-based compensation allowed as a deduction in the computation of its taxable income in the UAE for the amount expensed in its financial accounts for a cost or expense of such Constituent Entity that was paid with stock-based compensation, to the extent that such deduction is allowed under the Federal Decree-Law No. 47 of 2022. If the stock-based compensation expense arises in connection with an option that expires without exercise, the Constituent Entity must include the total amount previously deducted in the computation of its Pillar Two Income or Loss for the Fiscal Year in which the option expires. The election is a Five-Year Election and must be applied consistently to the stock-based compensation of all Constituent Entities located in the UAE for the year in which the election is made and all subsequent Fiscal Years. If the election is made in a Fiscal Year after some of the stock-based compensation of a transaction has been recorded in the financial accounts, the Constituent Entity must include in the computation of its Pillar Two Income or Loss for that Fiscal Year an amount equal to the excess of the cumulative amount allowed as an expense in the computation of its Pillar Two Income or Loss in previous Fiscal Years over the cumulative amount that would have been allowed as an expense if the election had been in place in those Fiscal Years. If the election is revoked, the Constituent Entity must include in the computation of its Pillar Two Income or Loss for the revocation year the amount deducted pursuant to the election that exceeds financial accounting expense accrued in respect of the stock-based compensation that has not been paid.

3.2.3 Transactions between Constituent Entities are subject to the following:

- (a) when a transaction between Constituent Entities located in different Jurisdictions is not recorded in the same amount in the financial accounts of both Constituent Entities, or an asset is transferred at the disposing entity's carrying value or is not recorded consistently with the Arm's Length Principle, the Pillar Two Income or Loss of the Constituent Entities that are party to the transaction must be adjusted so that the transaction is recorded in the same amount and consistently with the Arm's Length Principle unless the adjustment is a unilateral adjustment and making such an adjustment would result in double taxation or double non-taxation under this Decision;
- (b) a loss from a sale or other transfer of an asset between two Constituent Entities located in the UAE 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 Pillar Two Income or Loss;
- (c) rules for allocating income or loss between a Main Entity and its Permanent Establishments are found in Article 3.4.

3.2.4 Qualified Refundable Tax Credits and Marketable Transferable Tax Credit shall be treated as income in the computation of Pillar Two Income or Loss of a Constituent Entity. Non-Qualified Refundable Tax Credits and Non-Marketable Transferable Tax Credits shall not be treated as income in the computation of Pillar Two Income or Loss of a Constituent Entity.

3.2.5 With respect to assets and liabilities that are subject to fair value or impairment accounting in the Consolidated Financial Statements, a Filing Constituent Entity may elect to determine gains and losses using the realisation principle for purposes of computing Pillar Two Income. The election is a Five-Year Election and applies to all Constituent Entities located in the UAE to which the election applies. The election applies to all assets and liabilities of such Constituent Entities, unless the Filing Constituent Entity chooses to limit the election to tangible assets of such Constituent Entities or to

Constituent Entities that are Investment Entities. Under this election:

- (a) all gains or losses attributable to fair value or impairment accounting with respect to an asset or liability shall be excluded from the computation of Pillar Two Income or Loss;
- (b) the carrying value of an asset or liability for purposes of determining gain or loss shall be its carrying value adjusted for accumulated depreciation at the later of:
  - (i) the first day of the election year, or
  - (ii) the date the asset was acquired or liability was incurred; and
- (c) if the election is revoked, the Pillar Two Income or Loss of the Constituent Entities is adjusted by the difference at the beginning of the revocation year between the fair value of the asset or liability and the carrying value of the asset or liability determined pursuant to the election and adjusted for accumulated depreciation.

3.2.6 Where there is Aggregate Asset Gain in the UAE in a Fiscal Year, the Filing Constituent Entity may make, under this Article 3.2.6, an Annual Election for the UAE to adjust Pillar Two Income or Loss with respect to each previous Fiscal Year in the Look-back Period in the manner described in paragraphs (b) and (c) and to spread any remaining Adjusted Asset Gain over the Look-back Period in the manner described in paragraph (d). The Effective Tax Rate and Top-up Tax, if any, for any previous Fiscal Year must be re-calculated under Article 5.4.1. When an election is made under this Article:

- (a) Covered Taxes with respect to any Net Asset Gain or Net Asset Loss in the Election Year shall be excluded from the computation of Adjusted Covered Taxes.
- (b) The Aggregate Asset Gain in the Election Year shall be carried-back to the earliest Loss Year and set-off ratably against any Net Asset Loss of any Constituent Entity located in the UAE.
- (c) If, for any Loss Year, the Adjusted Asset Gain exceeds the total amount of Net Asset Loss of all Constituent Entities located in the UAE, the Adjusted Asset Gain shall be carried forward to the following Loss Year (if any) and applied ratably against any Net Asset Loss of any Constituent Entity located in the UAE.
- (d) Any Adjusted Asset Gain that remains after the application of paragraphs (b) and (c) shall be allocated evenly to each Fiscal Year in the Look-back Period. The Allocated Asset Gain for the relevant year shall be included in the computation of Pillar Two Income or Loss for a Constituent Entity located in the UAE in that year in accordance with the following formula:

$$\text{Allocated Asset Gain for relevant year} \times \frac{\text{The specified Constituent Entity's Net Asset Gain in the Election Year}}{\text{The Net Asset Gain of all specified Constituent Entities in the Election Year}}$$

For the purposes of the above formula, a specified Constituent Entity is a Constituent Entity that has Net Asset Gain in the Election Year and was located in the UAE in the relevant year. If there is no specified Constituent Entity for a relevant year the Adjusted Asset Gain allocated to that year will be allocated equally to each Constituent Entity in the UAE in that year.

3.2.7 The computation of a Low-Tax Entity's Pillar Two Income or Loss shall exclude any expense attributable to an Intragroup Financing Arrangement that can reasonably be anticipated, over the expected duration of the arrangement to:

- (a) increase the amount of expenses taken into account in calculating the Pillar Two Income or

Loss of the Low-Tax Entity;

(b) without resulting in a commensurate increase in the taxable income of the High-Tax Counterparty. An amount received or receivable should not be treated as increasing the taxable income of a High-Tax Counterparty if it is eligible for an exclusion, exemption, deduction, credit or other tax benefit under local law and the amount of that benefit is calculated by reference to the amount received or receivable.

3.2.8 An Ultimate Parent Entity may elect to apply its consolidated accounting treatment to eliminate income, expense, gains, and losses from transactions between Constituent Entities that are located, and included in a tax consolidation group, in the UAE for purposes of computing each such Constituent Entity's Net Pillar Two Income or Loss. The election under this Article is a Five-Year Election. Upon making or revoking such election, appropriate adjustments shall be made for the purposes of this Decision such that there shall not be duplications or omissions of items of Pillar Two Income or Loss as a result of having made or revoked the election.

3.2.9 An insurance company shall exclude from the computation of Pillar Two Income or Loss amounts charged to policyholders for Taxes paid by the insurance company in respect of returns to the policy holders. An insurance company shall include in the computation of Pillar Two Income or Loss any returns to policyholders that are not reflected in Financial Accounting Net Income or Loss to the extent the corresponding increase or decrease in liability to the policyholders is reflected in its Financial Accounting Net Income or Loss.

3.2.10 Amounts recognised as a decrease to the equity of a Constituent Entity attributable to distributions paid or payable in respect of Additional Tier One Capital and Restricted Tier One Capital issued by the Constituent Entity shall be treated as an expense in the computation of its Pillar Two Income or Loss. Amounts recognised as an increase to the equity of a Constituent Entity attributable to distributions received or receivable in respect of Additional Tier One Capital held by the Constituent Entity shall be included in the computation of its Pillar Two Income or Loss.

3.2.11 A Constituent Entity's Financial Accounting Net Income or Loss must be adjusted as necessary to reflect the requirements of the relevant provisions of Articles 6 and 7.

3.2.12 At the election of the Filing Constituent Entity, a Constituent Entity may exclude income attributable to a Qualified Debt Release from the computation of a Constituent Entity's Pillar Two Income or Loss.

3.2.13 Notwithstanding Article 3.2.1(b), a Filing Constituent Entity may make a Five-Year Election for each Constituent Entity to include in the computation of Pillar Two Income all dividends with respect to Portfolio Shareholdings, regardless of whether these are Short-term Portfolio Shareholdings.

3.2.14 Notwithstanding Article 3.2.1(c), a Filing Constituent Entity may make a Five-Year Election to treat foreign exchange gains or losses as an Excluded Equity Gain or Loss, to the extent that:

- (a) such foreign exchange gains or losses are attributable to hedging instruments that hedge the currency exchange rate risk in Ownership Interests other than Portfolio Shareholdings;
- (b) such gain or loss is recognised in Other Comprehensive Income at the level of the Consolidated Financial Statements; and
- (c) the hedging instrument is considered an effective hedge under the Authorized Financial Accounting Standard used in the preparation of the Consolidated Financial Statements.

### **Article 3.3. International Shipping Income exclusion**

3.3.1 For an MNE Group that has International Shipping Income, each Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income shall be excluded from the computation of its Pillar Two Income or Loss under Article 3.2 for the Jurisdiction in which it is located. Where the computation of a Constituent Entity's International Shipping Income or Qualified Ancillary International Shipping Income results in a loss, the loss shall be excluded from the computation of its Pillar Two Income or Loss.

3.3.2 International Shipping Income means the net income obtained by a Constituent Entity from:

- (a) the transportation of passengers or cargo by ships that it operates in international traffic, whether the ship is owned, leased or otherwise at the disposal of the Constituent Entity;
- (b) the transportation of passengers or cargo by ships operated in international traffic under slot-chartering arrangements;
- (c) leasing a ship, to be used for the transportation of passengers or cargo in international traffic, on charter fully equipped, crewed and supplied;
- (d) leasing a ship on a bare boat charter basis, for the use of transportation of passengers or cargo in international traffic, to another Constituent Entity;
- (e) the participation in a pool, a joint business or an international operating agency for the transportation of passengers or cargo by ships in international traffic; and
- (f) the sale of a ship used for the transportation of passengers or cargo in international traffic provided that the ship has been held for use by the Constituent Entity for a minimum of one year.

International Shipping Income shall not include net income obtained from the transportation of passengers or cargo by ships via inland waterways within the same Jurisdiction.

3.3.3 Qualified Ancillary International Shipping Income means net income obtained by a Constituent Entity from the following activities that are performed primarily in connection with the transportation of passengers or cargo by ships in international traffic:

- (a) leasing a ship on a bare boat charter basis to another shipping enterprise that is not a Constituent Entity, provided that the charter does not exceed three years;
- (b) sale of tickets issued by other shipping enterprises for the domestic leg of an international voyage;
- (c) leasing and short-term storage of containers or detention charges for the late return of containers;
- (d) provision of services to other shipping enterprises by engineers, maintenance staff, cargo handlers, catering staff, and customer services personnel; and
- (e) investment income where the investment that generates the income is made as an integral part of the carrying on the business of operating the ships in international traffic.

3.3.4 The aggregated Qualified Ancillary International Shipping Income of all Constituent Entities located in a Jurisdiction shall not exceed 50% of those Constituent Entities' International Shipping Income.

3.3.5 The costs incurred by a Constituent Entity that are directly attributable to its international shipping

activities listed in Article 3.3.2 and the costs directly attributable to its qualified ancillary activities listed in Article 3.3.3 shall be deducted from the Constituent Entity's revenues from such activities to compute its International Shipping Income and Qualified Ancillary International Shipping Income. Other costs incurred by a Constituent Entity that are indirectly attributable to a Constituent Entity's international shipping activities and qualified ancillary activities shall be allocated on the basis of the Constituent Entity's revenues from such activities in proportion to its total revenues. All direct and indirect costs attributed to a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income shall be excluded from the computation of its Pillar Two Income or Loss.

- 3.3.6 In order for a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income to qualify for the exclusion from its Pillar Two Income or Loss under this Article, the Constituent Entity must demonstrate that the strategic or commercial management of all ships concerned is effectively carried on from within the Jurisdiction where the Constituent Entity is located.

#### **Article 3.4. Allocation of Income or Loss between a Main Entity and a Permanent Establishment**

- 3.4.1 The Financial Accounting Net Income or Loss of a Constituent Entity that is a Permanent Establishment in accordance with paragraphs (a), (b) and (c) of the definition in Article 18.1 is the net income or loss reflected in the separate financial accounts of the Permanent Establishment. If the Permanent Establishment does not have separate financial accounts, then the Financial Accounting Net Income or Loss is the amount that would have been reflected in its separate financial accounts if prepared on a standalone basis and in accordance with the accounting standard used in the preparation of the Consolidated Financial Accounts of the Ultimate Parent Entity.
- 3.4.2 The Financial Accounting Net Income or Loss of a Permanent Establishment referred to in Article 3.4.1 shall be adjusted, if necessary:
- (a) in the case of a Permanent Establishment as defined by paragraphs (a) and (b) of the definition in Article 18.1, to reflect only the amounts and items of income and expense that are attributable to the Permanent Establishment in accordance with the applicable Tax Treaty or domestic law of the Jurisdiction where it is located regardless of the amount of income subject to tax and the amount of deductible expenses in that Jurisdiction;
  - (b) in the case of a Permanent Establishment as defined by paragraph (c) of the definition in Article 18.1, to reflect only the amounts and items of income and expense that would have been attributed to it in accordance with Article 7 of the OECD Model Tax Convention.
- 3.4.3 In case of a Constituent Entity that is a Permanent Establishment in accordance with paragraph (d) of the definition in Article 18.1, its income used for computing Financial Accounting Net Income or Loss is the income being exempted in the Jurisdiction where the Main Entity is located and attributable to the operations conducted outside that Jurisdiction. The expenses used for computing Financial Accounting Net Income or Loss are those that are not deducted for taxable purposes in the Jurisdiction where the Main Entity is located and that are attributable to such operations.
- 3.4.4 The Financial Accounting Net Income or Loss of a Permanent Establishment is not taken into account in determining the Pillar Two Income or Loss of the Main Entity, except as provided in Article 3.4.5.
- 3.4.5 A Pillar Two Loss of a Permanent Establishment shall be treated as an expense of the Main Entity (and not of the Permanent Establishment) for purposes of computing its Pillar Two Income or Loss to the extent that the loss of the Permanent Establishment is treated as an expense in the computation of the domestic taxable income of such Main Entity and is not set off against an item of income that is subject to tax under the laws of both the Jurisdiction of the Main Entity and the Jurisdiction of the Permanent Establishment. Pillar Two Income subsequently arising in the

Permanent Establishment shall be treated as Pillar Two Income of the Main Entity (and not the Permanent Establishment) up to the amount of the Pillar Two Loss that previously was treated as an expense for purposes of computing the Pillar Two Income or Loss of the Main Entity.

### **Article 3.5. Allocation of Income or Loss from a Flow-through Entity**

3.5.1 The Financial Accounting Net Income or Loss of a Constituent Entity that is a Flow-through Entity is allocated as follows:

- (a) in the case of a Permanent Establishment through which the business of the Entity is wholly or partly carried out, the Financial Accounting Net Income or Loss of the Entity is allocated to that Permanent Establishment in accordance with Article 3.4;
- (b) in the case of a Tax Transparent Entity that is not the Ultimate Parent Entity, any Financial Accounting Net Income or Loss remaining after application of paragraph (a) is allocated to its Constituent Entity-owners in accordance with their Ownership Interests; and
- (c) in the case of a Tax Transparent Entity that is the Ultimate Parent Entity or a Reverse Hybrid Entity, any Financial Accounting Net Income or Loss remaining after application of paragraph (a) is allocated to it.

3.5.2 The rules of Article 3.5.1 shall be applied separately with respect to each Ownership Interest in the Flow-through Entity.

3.5.3 Prior to the application of Article 3.5.1, the Financial Accounting Net Income or Loss of a Flow-through Entity shall be reduced by the amount allocable to its owners that are not Group Entities and that hold their Ownership Interest in the Flow-through Entity directly or through a Tax Transparent Structure.

3.5.4 Article 3.5.3 does not apply to:

- (a) an Ultimate Parent Entity that is a Flow-through Entity; or
- (b) any Flow-through Entity owned by such an Ultimate Parent Entity (directly or through a Tax Transparent Structure).

The treatment of these Entities is addressed in Article 7.1.

3.5.5 The Financial Accounting Net Income or Loss of a Flow-through Entity is reduced by the amount that is allocated to another Constituent Entity.

3.5.6 The direct or indirect owner of an Ownership Interest in a Tax Transparent Entity shall treat any tax credits that flows-through a Tax Transparent Entity as tax credits of the owner. The allocation of the tax credits shall be allocated in the same proportion as the Financial Accounting Income or Loss allocated to the owners in accordance with Articles 3.5.1 to 3.5.5. Where the tax credits are allocated differently to the owners in accordance with the domestic tax law of the Jurisdictions where the owners are located and the Tax Transparent Entity is created, then the allocation of the tax credit under this provision shall follow such allocation made under the domestic laws.

3.5.7 The provisions of Article 3.5.6 shall not apply where a Filing Constituent Entity makes an Equity Investment Inclusion Election or in the case of a Qualified Flow-through Tax Benefit. In those cases, Article 7.5 shall apply.

## Article 4

### Computation of Adjusted Covered Taxes

#### Article 4.1. Adjusted Covered Taxes

- 4.1.1 The Adjusted Covered Taxes of a Constituent Entity for the Fiscal Year shall be equal to the current tax expense accrued in its Financial Accounting Net Income or Loss with respect to Covered Taxes for the Fiscal Year adjusted by:
- (a) the net amount of its Additions to Covered Taxes for the Fiscal Year (as determined under Article 4.1.2) and Reductions to Covered Taxes for the Fiscal Year (as determined under Article 4.1.3);
  - (b) the Total Deferred Tax Adjustment Amount (as determined under Article 4.4); and
  - (c) any increase or decrease in Covered Taxes recorded in equity or Other Comprehensive Income relating to amounts included in the computation of Pillar Two Income or Loss that will be subject to tax under local tax rules.
- 4.1.2 The Additions to Covered Taxes of a Constituent Entity for the Fiscal Year is the sum of:
- (a) any amount of Covered Taxes accrued as an expense in the profit before taxation in the financial accounts;
  - (b) any amount of Pillar Two Loss Deferred Tax Asset used under Article 4.5.3;
  - (c) any amount of Covered Taxes that is paid in the Fiscal Year and that relates to an uncertain tax position where that amount has been treated for a previous Fiscal Year as a Reduction to Covered Taxes under Article 4.1.3(d); and
  - (d) any amount of credit, refund or the transferable amount in respect of a Qualified Refundable Tax Credit or of a Marketable Transferable Tax Credit that is recorded as a reduction to the current tax expense.
- 4.1.3 The Reductions to Covered Taxes of a Constituent Entity for the Fiscal Year is the sum of:
- (a) the amount of current tax expense with respect to income excluded from the computation of Pillar Two Income or Loss under Article 3;
  - (b) any amount of credit, refund or the transferable amount in respect of a tax credit that is not recorded as a reduction to the current tax expense and that is not derived from a Qualified Refundable Tax Credit or Marketable Transferable Tax Credit;
  - (c) any amount of Covered Taxes refunded or credited to a Constituent Entity, or the amount received by the Constituent Entity for the transfer of a tax credit, that was not treated as an adjustment to current tax expense in the financial accounts, except where they are derived from a Qualified Refundable Tax Credit or a Marketable Transferable Tax Credit;
  - (d) the amount of current tax expense which relates to an uncertain tax position; and
  - (e) any amount of current tax expense that is not expected to be paid within three years of the last day of the Fiscal Year.
- 4.1.4 No amount of Covered Taxes may be taken into account more than once.
- 4.1.5 In a Fiscal Year in which there is no Net Pillar Two Income in the UAE, if the Adjusted Covered

Taxes for the UAE are less than zero and less than the Expected Adjusted Covered Taxes Amount, the Constituent Entities located in the UAE shall be treated as having Additional Current Top-up Tax in the UAE under Article 5.4 arising in the current Fiscal Year equal to the difference between these amounts. The Expected Adjusted Covered Taxes Amount is equal to the Pillar Two Income or Loss for the UAE multiplied by the Minimum Rate.

- 4.1.6 A Filing Constituent Entity may make an Annual Election to substitute the Additional Current Top-up Tax referred to in Article 4.1.5 with an excess negative tax expense carry-forward in accordance with the following:
- (a) the excess negative tax expense for a Fiscal Year shall be equal to the amount computed under Article 4.1.5 for that Fiscal Year;
  - (b) the excess negative tax expense carry-forward must be utilised in all relevant subsequent computations of the Jurisdictional Effective Tax Rate;
  - (c) in each subsequent Fiscal Year in which there are positive Pillar Two Income and Adjusted Covered Taxes in the UAE, the aggregate Adjusted Covered Taxes shall be reduced (but not below zero) by the remaining balance of the excess negative tax expense carry-forward and the balance of such carry-forward shall be reduced by the same amount;
  - (d) the excess negative tax expense attributable to an amount of a loss that is carried back and applied against income for prior taxable years for domestic tax purposes must be taken into account in the current Fiscal Year under Article 4.1.5 and cannot be included in the excess negative tax expense carry-forward;
  - (e) the negative amount of Adjusted Covered Taxes will not be less than the Expected Covered Taxes Amount under Article 4.1.5;
  - (f) the excess negative tax expense carry-forward shall remain an attribute of a transferor group where the MNE Group disposes of one or more Constituent Entities in the UAE;
  - (g) where the MNE Group disposes of all Constituent Entities located in the UAE and re-acquires or establishes Constituent Entities located in the UAE in a subsequent Fiscal Year, the balance of the excess negative tax expense carry-forward shall be taken into account in determining the Adjusted Covered Taxes for the UAE beginning with such Fiscal Year; and
  - (h) the MNE Group shall maintain a record of the outstanding balance of the excess negative tax expense carry-forward.

## **Article 4.2. Definition of Covered Taxes**

4.2.1 Covered Taxes means:

- (a) Taxes recorded in the financial accounts of a Constituent Entity with respect to its income or profits or its share of the income or profits of a Constituent Entity in which it owns an Ownership Interest;
- (b) Taxes imposed in lieu of a generally applicable corporate income tax; and
- (c) Taxes levied by reference to retained earnings and corporate equity, including a Tax on multiple components based on income and equity.

4.2.2 Covered Taxes does not include any amount of:

- (a) Top-up Tax accrued by a Parent Entity under a Qualified IIR in another Jurisdiction;
- (b) Top-up Tax accrued by a Constituent Entity under a Qualified Domestic Minimum Top-up Tax in another Jurisdiction;
- (c) Taxes attributable to an adjustment made by a Constituent Entity as a result of the application of a Qualified UTPR in another Jurisdiction;
- (d) A Disqualified Refundable Imputation Tax;
- (e) Taxes paid by an insurance company in respect of returns to policyholders.

**Article 4.3. Allocation of Covered Taxes from one Constituent Entity to another Constituent Entity**

4.3.1 Article 4.3.2 applies to the allocation of Covered Taxes in respect of Permanent Establishments, Tax Transparent Entities and Hybrid Entities as well as the allocation of CFC taxes and taxes on distributions from one Constituent Entity to another.

4.3.2 The following provisions apply with respect to Covered Taxes allocated from one Constituent Entity to another Constituent Entity:

- (a) in relation to Covered Taxes on income attributable to a Permanent Establishment:
  - i. no amount of Covered Taxes included in the financial accounts of a Main Entity located outside the UAE and charged by another Jurisdiction shall be allocated to a Permanent Establishment located in the UAE; and
  - ii. no amount of Covered Taxes included in the financial accounts of a Main Entity located in the UAE allocable to a Permanent Establishment located outside the UAE in accordance with Article 4.3.2(a) of the Pillar Two Model Rules shall be allocated to the Main Entity;
- (b) the amount of any Covered Taxes included in the financial accounts of a Tax Transparent Entity with respect to Pillar Two Income or Loss allocated to a Constituent Entity-owner pursuant to Article 3.5.1(b) is allocated to that Constituent Entity-owner;
- (c) in the case of Covered Taxes that arise from a Controlled Foreign Company Tax Regime, no amount of Covered Taxes included in the financial accounts of a Constituent Entity-owner located outside the UAE shall be allocated to a Constituent Entity located in the UAE;
- (d) in the case of a Constituent Entity that is a Hybrid Entity located in the UAE, no amount of Covered Taxes included in the financial accounts of a Constituent Entity-owner located outside the UAE on income of such Hybrid Entity shall be allocated to the Hybrid Entity located in the UAE; and
- (e) no amount of Covered Taxes payable outside the UAE on distributions and deemed distributions made by a Constituent Entity located in the UAE to a Constituent Entity-owner located outside the UAE shall be allocated to the distributing Constituent Entity located in the UAE. For purposes of this paragraph, a deemed distributions refers to situations where the underlying interest is treated as an equity interest for tax purposes in the Jurisdiction imposing the tax and for financial accounting purposes.

4.3.3 In relation to Articles 4.3.2(c) and (d) of the Pillar Two Model Rules, an amount of Covered Taxes on Passive Income may be allocated to the Constituent Entity-owner located in the UAE in accordance with the following provisions:

- (a) an amount of Covered Taxes, reflected in the financial statements of the direct or indirect Constituent Entity-owner, on their share of the income of the Constituent Entity located outside the UAE that is a controlled foreign company or a Hybrid Entity shall be determined as if it was allocated to the last-mentioned Entity;
- (b) in respect of Passive Income, the amount referred in paragraph (a) shall be equal to the lesser of:
  - i. the amount of Covered Taxes referred in paragraph (a); or
  - ii. the Top-up Tax Percentage for the Constituent Entity's Jurisdiction, determined without regard to the amount referred in paragraph (a), multiplied by the amount of the Constituent Entity's Passive Income includible under a Controlled Foreign Company Tax Regime or fiscal transparency rule in the UAE;
- (c) the amount of Covered Taxes that may be allocated to the direct or indirect Constituent Entity-owner located in the UAE is equal to the amount determined in accordance with paragraph (a) after subtracting that same amount after considering the limitation in paragraph (b).

4.3.4 Where the Pillar Two Income of a Permanent Establishment is treated as Pillar Two Income of the Main Entity pursuant to Article 3.4.5, any Covered Taxes arising in the location of the Permanent Establishment and associated with such income are treated as Covered Taxes of the Main Entity up to an amount not exceeding such income multiplied by the highest corporate tax rate on ordinary income in the Jurisdiction where the Main Entity is located.

**Article 4.4. Mechanism to address temporary differences**

4.4.1 The Total Deferred Tax Adjustment Amount for a Constituent Entity for the Fiscal Year is equal to the deferred tax expense accrued in its Financial Accounting Net Income or Loss if the applicable tax rate is below the Minimum Rate or, in any other case, such deferred tax expense recast at the Minimum Rate, with respect to Covered Taxes for the Fiscal Year subject to the adjustments set forth in Articles 4.4.2 and 4.4.3 and the following exclusions:

- (a) The amount of deferred tax expense with respect to items excluded from the computation of Pillar Two Income or Loss under Article 3;
- (b) The amount of deferred tax expense with respect to Disallowed Accruals and Unclaimed Accruals;
- (c) The impact of a valuation adjustment or accounting recognition adjustment with respect to a deferred tax asset;
- (d) The amount of deferred tax expense arising from a re-measurement with respect to a change in the applicable domestic tax rate; and
- (e) The amount of deferred tax expense with respect to the generation and use of tax credits.

4.4.2 The Total Deferred Tax Adjustment Amount is adjusted as follows:

- (a) Increased by the amount of any Unclaimed Accrual paid during the Fiscal Year;
- (b) Increased by the amount of any Recaptured Deferred Tax Liability determined in a preceding Fiscal Year which has been paid during the Fiscal Year; and
- (c) Reduced by the amount that would be a reduction to the Total Deferred Tax Adjustment

Amount due to recognition of a loss deferred tax asset for a current year tax loss, where a loss deferred tax asset has not been recognised because the recognition criteria are not met.

- 4.4.3 If the taxpayer can demonstrate that a deferred tax asset recorded at a rate lower than the Minimum Rate is attributable to a Pillar Two Loss, such deferred tax asset may be recast at the Minimum Rate in the Fiscal Year in which the Pillar Two Loss was incurred. The Total Deferred Tax Adjustment Amount is reduced by the amount that a deferred tax asset is increased due to being recast under this Article.
- 4.4.4 To the extent a deferred tax liability, that is not a Recapture Exception Accrual, is taken into account under this Article and such amount is not paid within the five subsequent Fiscal Years, the amount must be recaptured pursuant to this Article. The amount of the Recaptured Deferred Tax Liability determined for the current Fiscal Year shall be treated as a reduction to Covered Taxes in the fifth preceding Fiscal Year and the Effective Tax Rate and Top-up Tax of such Fiscal Year shall be recalculated under the rules of Article 5.4.1. The Recaptured Deferred Tax Liability for the current Fiscal Year is the amount of the increase in a category of deferred tax liability that was included in the Total Deferred Tax Adjustment Amount in the fifth preceding Fiscal Year that has not reversed by the end of the last day of the current Fiscal Year, unless such amount relates to a Recapture Exception Accrual as set forth in Article 4.4.5.
- 4.4.5 Recapture Exception Accrual means the tax expense accrued attributable to changes in associated deferred tax liabilities, in respect of:
- (a) Cost recovery allowances on tangible assets
  - (b) The cost of a licence or similar arrangement from the government for the use of immovable property or exploitation of natural resources that entails significant investment in tangible assets;
  - (c) Research and development expenses;
  - (d) De-commissioning and remediation expenses;
  - (e) Fair value accounting on unrealised net gains;
  - (f) Foreign currency exchange net gains;
  - (g) Insurance reserves and insurance policy deferred acquisition costs;
  - (h) Gains from the sale of tangible property located in the UAE that are reinvested in tangible property in the UAE; and
  - (i) Additional amounts accrued as a result of accounting principle changes with respect to categories (a) through (h).
- 4.4.6 Disallowed Accrual means:
- (a) Any movement in deferred tax expense accrued in the financial accounts of a Constituent Entity which relates to an uncertain tax position; and
  - (b) Any movement in deferred tax expense accrued in the financial accounts of a Constituent Entity which relates to distributions from a Constituent Entity.
- 4.4.7 Unclaimed Accrual means any increase in a deferred tax liability recorded in the financial accounts of a Constituent Entity for a Fiscal Year that is not expected to be paid within the time period set forth in Article 4.4.4 and for which the Filing Constituent Entity makes an Annual Election not to include in Total Deferred Tax Adjustment Amount for such Fiscal Year.

4.4.8 Article 4.4.1(e) shall not apply to foreign tax credits that give rise to Substitute Loss Carry-forward Deferred Tax Assets to the extent that such foreign tax credits are used to offset tax liability on income included in the Constituent Entity's Pillar Two Income or Loss. The amount of a Substitute Loss Carry-forward Deferred Tax Asset is equal to the lesser of:

- (a) the amount of the foreign tax credit in respect of the foreign source income inclusion that the domestic tax regime allows to be carried forward from the year in which the Constituent Entity had a tax loss (before taking into account any foreign source income) to a subsequent year; and
- (b) the amount of the Constituent Entity's tax loss for the tax year (before taking into account any foreign source income) multiplied by the applicable domestic tax rate.

#### **Article 4.5. The Pillar Two Loss Election**

- 4.5.1 In lieu of applying the rules set forth in Article 4.4, a Filing Constituent Entity may make a Pillar Two Loss Election for the UAE. When a Pillar Two Loss Election is made for the UAE, a Pillar Two Loss Deferred Tax Asset is established in each Fiscal Year in which there is a Net Pillar Two Loss for the UAE. The Pillar Two Loss Deferred Tax Asset is equal to the Net Pillar Two Loss in a Fiscal Year for the UAE multiplied by the Minimum Rate.
- 4.5.2 The balance of the Pillar Two Loss Deferred Tax Asset is carried forward to subsequent Fiscal Years, reduced by the amount of Pillar Two Loss Deferred Tax Asset used in a Fiscal Year.
- 4.5.3 The Pillar Two Loss Deferred Tax Asset must be used in any subsequent Fiscal Year in which there is Net Pillar Two Income in the UAE in an amount equal to the lower of the Net Pillar Two Income multiplied by the Minimum Rate or the amount of available Pillar Two Loss Deferred Tax Asset.
- 4.5.4 If the Pillar Two Loss Election is subsequently revoked, any remaining Pillar Two Loss Deferred Tax Asset is reduced to zero, effective as of the first day of the first Fiscal Year in which the Pillar Two Loss Election is no longer applicable. Subsequently, the deferred tax assets and liabilities for each Constituent Entity in the UAE, if any, will be taken into account as if they had been calculated under Articles 4.4 and 9.1 for the prior Fiscal Year.
- 4.5.5 The Pillar Two Loss Election must be filed with the first Pillar Two Information Return of the MNE Group or with the first Top-up Tax Return of the MNE Group, whichever is filed earlier, or with both if they are required to be submitted for the first Fiscal Year in which the MNE Group has a Constituent Entity located in the Jurisdiction.
- 4.5.6 A Flow-through Entity that is a UPE of an MNE Group may make a Pillar Two Loss Election under this Article. When such an election is made, the Pillar Two Loss Deferred Tax Asset shall be calculated in accordance with Articles 4.5.1 to 4.5.5, however, the Pillar Two Loss Deferred Tax Asset shall be calculated with reference to the Pillar Two Loss of the Flow-through Entity after reduction in accordance with Article 7.1.2.

#### **Article 4.6. Post-filing Adjustments and Tax Rate Changes**

- 4.6.1 An adjustment to a Constituent Entity's liability for Covered Taxes for a previous Fiscal Year, including one that derives from a loss carried-back, recorded in the financial accounts shall be treated as an adjustment to Covered Taxes in the Fiscal Year in which the adjustment is made, unless the adjustment relates to a Fiscal Year in which there is a decrease in Covered Taxes for the UAE. In the case of a decrease in Covered Taxes included in the Constituent Entity's Adjusted Covered Taxes for a previous Fiscal Year, the Effective Tax Rate and Top-up Tax for such Fiscal Year must be recalculated under Article 5.4.1. In the Article 5.4.1 recalculations, the Adjusted

Covered Taxes determined for the Fiscal Year shall be reduced by the amount of the decrease in Covered Taxes and Pillar Two Income determined for the Fiscal Year and any intervening Fiscal Years shall be adjusted as necessary and appropriate. A Filing Constituent Entity may make an Annual Election to treat an immaterial decrease in Covered Taxes as an adjustment to Covered Taxes in the Fiscal Year in which the adjustment is made. An immaterial decrease in Covered Taxes is an aggregate decrease of less than EUR 1 million in the Adjusted Covered Taxes determined for the UAE for a Fiscal Year.

- 4.6.2 The amount of deferred tax expense resulting from a reduction to the applicable domestic tax rate shall be treated as an adjustment under Article 4.6.1 to a Constituent Entity's liability for Covered Taxes claimed under Article 4.1 for a previous Fiscal Year when such reduction results in the application of a rate that is less than the Minimum Rate.
- 4.6.3 The amount of deferred tax expense, when paid, that has resulted from an increase to the applicable domestic tax rate shall be treated as an adjustment under Article 4.6.1 to a Constituent Entity's liability for Covered Taxes claimed under Article 4.1 for a previous Fiscal Year when such amount was originally recorded at a rate less than the Minimum Rate. This adjustment is limited to an amount that is equal to an increase of deferred tax expense up to such deferred tax expense recast at the Minimum Rate.
- 4.6.4 If more than EUR 1 million of the amount accrued by a Constituent Entity as current tax expense and included in Adjusted Covered Taxes for a Fiscal Year is not paid within three years of the last day of such year, the Effective Tax Rate and Top-up Tax for the Fiscal Year in which the unpaid amount was claimed as a Covered Tax must be recalculated in accordance with Article 5.4.1 by excluding such unpaid amount from Adjusted Covered Taxes.

## Article 5

### Computation of Effective Tax Rate and Top-up Tax

#### Article 5.1. Determination of Effective Tax Rate

- 5.1.1 The Effective Tax Rate of the MNE Group with Net Pillar Two Income shall be calculated for each Fiscal Year. The Effective Tax Rate of the MNE Group is equal to the sum of the Adjusted Covered Taxes of each Constituent Entity located in the UAE divided by the Net Pillar Two Income of the UAE for the Fiscal Year. For purposes of Article 5, each Stateless Constituent Entity subject to the provisions of this Decision shall be treated as if it was a single Constituent Entity located in the UAE.
- 5.1.2 The Net Pillar Two Income of the UAE for a Fiscal Year is the positive amount, if any, computed in accordance with the following formula:

$$\text{Net Pillar Two Income} = \text{Pillar Two Income of all Constituent Entities} - \text{Pillar Two Losses of all Constituent Entities}$$

Where:

- (a) the Pillar Two Income of all Constituent Entities is the sum of the Pillar Two Income of all Constituent Entities located in the UAE determined in accordance with Article 3 for the Fiscal Year; and
- (b) the Pillar Two Losses of all Constituent Entities is the sum of the Pillar Two Losses of all Constituent Entities located in the UAE determined in accordance with Article 3 for the Fiscal Year.

- 5.1.3 Adjusted Covered Taxes and Pillar Two Income or Loss of Constituent Entities that are Investment Entities are excluded from the determination of the Effective Tax Rate in Article 5.1.1 and the determination of Net Pillar Two Income in Article 5.1.2.

## Article 5.2. Top-up Tax

- 5.2.1 The Top-up Tax Percentage for a Fiscal Year shall be the positive percentage point difference, if any, computed in accordance with the following formula:

$$\text{Top up Tax Percentage} = \text{Minimum Rate} - \text{Effective Tax Rate}$$

Where the Effective Tax Rate is the Effective Tax Rate determined in accordance with Article 5.1 for the Fiscal Year.

- 5.2.2 The Excess Profit for the Fiscal Year is the positive amount, if any, computed in accordance with the following formula:

$$\text{Excess Profit} = \text{Net Pillar Two Income} - \text{Substance based Income Exclusion}$$

Where:

- (a) The Net Pillar Two Income is the Net Pillar Two Income of the UAE determined under Article 5.1.2 for the Fiscal Year; and
  - (b) The Substance-based Income Exclusion is the Substance-based Income Exclusion determined under Article 5.3 for the UAE for the Fiscal Year (if any).
- 5.2.3 The Top-up Tax for a Fiscal Year is equal to the positive amount, if any, computed in accordance with the following formula:

$$\text{Top-up Tax} = (\text{Top-up Tax Percentage} \times \text{Excess Profit}) + \text{Additional Current Top-up Tax}$$

Where:

- (a) The Top-up Tax Percentage is the percentage point difference determined in accordance with Article 5.2.1 for the Fiscal Year;
  - (b) The Excess Profit is the Excess Profit determined in accordance with Article 5.2.2 for the Fiscal Year; and
  - (c) The Additional Current Top-up Tax is the amount determined, or treated as Additional Current Top-up Tax, under Article 4.1.5 or Article 5.4.1 for the Fiscal Year.
- 5.2.4 Unless a Domestic Designated Filing Entity has been appointed to pay the Top-up Tax or except where Article 5.4.2 applies, the Top-up Tax of a Constituent Entity shall be determined for each Constituent Entity located in the UAE that has Pillar Two Income determined in accordance with Article 3 for the Fiscal Year included in the computation of Net Pillar Two Income of the UAE in accordance with the following formula:

*Pillar Two Income of the Constituent Entity*

$$\text{Top up Tax of a Constituent Entity} = \text{Top up Tax} \times \frac{\text{Pillar Two Income of the Constituent Entity}}{\text{Aggregate Pillar Two Income of all Constituent Entities}}$$

Where:

- (a) The Top-up Tax is the Top-up Tax determined in accordance with Article 5.2.3 for the Fiscal Year;
- (b) The Pillar Two Income of the Constituent Entity is the Pillar Two Income of the Constituent Entity located in the UAE determined in accordance with Article 3.2 for the Fiscal Year;
- (c) The aggregate Pillar Two Income of all Constituent Entities is the aggregate Pillar Two Income of all Constituent Entities located in the UAE that have Pillar Two Income for the Fiscal Year included in the computation of Net Pillar Two Income in accordance with Article 5.1.2.

5.2.5 Where a Domestic Designated Filing Entity has not been appointed to pay the Top-up Tax, the Top-up Tax is attributable to a recalculation under Article 5.4.1 and there is no Net Pillar Two Income in the UAE for the current Fiscal Year, the Top-up Tax shall be allocated using the formula in Article 5.2.4 based on the Pillar Two Income of the Constituent Entities in the Fiscal Years for which the recalculations under Article 5.4.1 were performed.

5.2.6 Where the Effective Tax Rate computed in accordance with Article 5.1.1 is less than zero and the Top-up Tax Percentage computed in accordance with Article 5.2.1 is above the Minimum Rate, the following provisions shall apply:

- (a) the Excess Negative Tax Expense shall be excluded from its aggregate Adjusted Covered Taxes and an excess negative tax expense carry-forward shall be established;
- (b) the Excess Negative Tax Expense for a Fiscal Year is equal to the negative Adjusted Covered Taxes for that Fiscal Year;
- (c) the excess negative tax expense carry-forward must be utilised in all relevant subsequent computations of the Jurisdictional Effective Tax Rate;
- (d) in each subsequent Fiscal Year in which there is positive Pillar Two Income and Adjusted Covered Taxes in the UAE, the aggregate Adjusted Covered Taxes shall be reduced (but not below to zero) by the remaining balance of the excess negative tax expense carry-forward and such carry-forward shall be reduced by the same amount;
- (e) the excess negative tax expense attributable to an amount of a loss that is carried back and applied against income for prior taxable years for domestic tax purposes must be taken into account in the current Fiscal Year under Article 5.2.1 and cannot be included in the excess negative tax expense carry-forward;
- (f) the excess negative tax expense carry-forward shall remain an attribute of a transferor group where the MNE Group disposes of one or more Constituent Entities in the UAE;
- (g) where the MNE Group disposes of all Constituent Entities in the UAE and re-acquires or establishes Constituent Entities in the UAE in a subsequent Fiscal Year, the balance of the excess negative tax expense carry-forward shall be taken into account in determining the Adjusted Covered Taxes for the UAE beginning with such Fiscal Year;

- (h) the MNE Group shall maintain a record of the outstanding balance of the excess negative tax expense carry-forward.

### **Article 5.3. Substance-based Income Exclusion**

- 5.3.1 The Net Pillar Two Income for the UAE shall be reduced by the Substance-based Income Exclusion of the UAE to determine the Excess Profit for purposes of computing the Top-up Tax under Article 5.2. A Filing Constituent Entity of an MNE Group may make an Annual Election not to apply the Substance-based Income Exclusion by not computing the exclusion or claiming it in the computation of Top-up Tax in the Top-up Tax Return filed for the Fiscal Year.
- 5.3.2 The Substance-based Income Exclusion amount is the sum of the payroll carve-out and the tangible asset carve-out for each Constituent Entity, except for Constituent Entities that are Investment Entities, located in the UAE.
- 5.3.3 The payroll carve-out for a Constituent Entity located in the UAE is equal to 5% of its Eligible Payroll Costs of Eligible Employees that perform activities for the MNE Group in the UAE, except Eligible Payroll costs that are:
- (a) capitalised and included in the carrying value of Eligible Tangible Assets;
  - (b) attributable to a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income under Article 3.3.5 that is excluded from the computation of Pillar Two Income or Loss for the Fiscal Year.
- 5.3.4 The tangible asset carve-out for a Constituent Entity located in the UAE is equal to 5% of the carrying value of Eligible Tangible Assets located in the UAE. Eligible Tangible Assets means:
- (a) property, plant, and equipment located in the UAE;
  - (b) natural resources located in the UAE;
  - (c) a lessee's right of use of tangible assets located in the UAE; and
  - (d) a licence or similar arrangement from the government for the use of immovable property or exploitation of natural resources that entails significant investment in tangible assets.
- For this purpose, the tangible asset carve-out computation shall not include the carrying value of property (including land or buildings) that is held for sale, lease or investment. The tangible asset carve-out computation shall not include the carrying value of tangible assets used in the generation of a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income (i.e. ships and other maritime equipment and infrastructure). The carrying value of tangible assets attributable to a Constituent Entity's excess income over the cap for Qualified Ancillary International Shipping Income under Article 3.3.4 shall be included in the tangible asset carve-out computation.
- 5.3.5 The computation of carrying value of Eligible Tangible Assets for purposes of Article 5.3.4 shall be based on the average of the carrying value (net of accumulated depreciation, amortisation, depletion, or impairment losses and including any amount attributable to capitalisation of payroll expense) at the beginning and ending of the Reporting Fiscal Year as recorded for the purposes of preparing the Consolidated Financial Statements of the Ultimate Parent Entity.
- 5.3.6 For purposes of Articles 5.3.3 and 5.3.4, the Eligible Payroll Costs and Eligible Tangible Assets of a Constituent Entity that is a Permanent Establishment are those included in its separate financial

accounts as determined by Article 3.4.1 and adjusted in accordance with Article 3.4.2, provided that the Eligible Employees and Eligible Tangible Assets are located in the Jurisdiction where the Permanent Establishment is located. The Eligible Payroll Costs and Eligible Tangible Assets of a Permanent Establishment are not taken into account for the Eligible Payroll Costs and Eligible Tangible Assets of the Main Entity. The Eligible Payroll Costs and Eligible Tangible Assets of a Permanent Establishment whose income has been wholly or partly excluded in accordance with Articles 3.5.3 and 7.1.4 are excluded from the Substance-based Income Exclusion computations of the MNE Group in the same proportion.

5.3.7 For purposes of Articles 5.3.3 and 5.3.4, Eligible Payroll Costs and Eligible Tangible Assets of a Flow-through Entity that are not allocated under Article 5.3.6 are allocated as follows:

- (a) if the Financial Accounting Net Income or Loss of the Flow-through Entity has been allocated to the Constituent Entity-owner under Article 3.5.1(b), then the Entity's Eligible Payroll Costs and Eligible Tangible Assets are allocated in the same proportion to the Constituent Entity-owner provided it is located in the Jurisdiction where the Eligible Employees and Eligible Tangible Assets are located;
- (b) if the Flow-through Entity is the Ultimate Parent Entity, then Eligible Payroll Costs and Eligible Tangible Assets located in the Jurisdiction where the Ultimate Parent Entity is located are allocated to it and reduced in proportion to the income that is excluded under Article 7.1.1; and
- (c) all other Eligible Payroll Costs and Eligible Tangible Assets of the Flow-through Entity are excluded from the Substance-based Income Exclusion computations of the MNE Group.

5.3.8 A Filing Constituent Entity may claim only a subset of the total Eligible Payroll Costs and Eligible Tangible Assets when calculating the Substance-based Income Exclusion amount under the provisions of this Decision.

5.3.9 Eligible Payroll Costs and Eligible Tangible Assets attributable to income excluded under Article 7.2.1 shall be excluded from the computation of the Substance-based Income Exclusion. The amount excluded under this provision is equal to the total Eligible Payroll Costs and total carrying value of the Eligible Tangible Assets multiplied by the ratio of the Pillar Two Income excluded under Article 7.2.1 to the total Pillar Two Income determined for the Ultimate Parent Entity before the exclusion under Article 7.2.1.

5.3.10 For purposes of Article 5.3.3, a Constituent Entity employer located in the UAE will be entitled to 100% of the Eligible Payroll Costs of an Eligible Employee where such employee undertakes more than 50% of its activities for the Constituent Entity employer during the relevant Fiscal Year within the UAE. Where an Eligible Employee undertakes 50% or less of its activities for its Constituent Entity employer during the relevant Fiscal Year within the UAE, the Constituent Entity employer will be entitled to the proportional Eligible Payroll Costs in accordance with the following formula:

$$\text{Proportional Eligible Payroll Costs} = \text{Eligible Payroll Costs} \times \frac{\text{Work Time in the UAE}}{\text{Total Work Time}}$$

Where:

- (a) Eligible Payroll Costs means the total Eligible Payroll Costs of the Eligible Employee that performs activities for the MNE Group for the relevant Fiscal Year.
- (b) Work Time in the UAE means the total of time that the Eligible Employee worked for the Constituent Entity employer located in the UAE during the relevant Fiscal Year.

- (c) Total Work Time means the total of time that the Eligible Employee worked for the Constituent Entity employer during the relevant Fiscal Year.

5.3.11 Where Article 5.3.4 applies with respect to an Eligible Tangible Asset of a Constituent Entity owner or lessee located in the UAE, such Constituent Entity will be entitled to 100% of the carrying value of an Eligible Tangible Asset where more than 50% of the time, during the relevant Fiscal Year, the asset is located within the UAE. Where an Eligible Tangible Asset is located within the UAE 50% or less of the time during the relevant Fiscal Year, the Constituent Entity owner or lessee will be entitled to the proportional carrying value of the Eligible Tangible Asset in accordance with the following formula:

$$\text{Proportional Carrying Value of the Eligible Tangible Asset} = \text{Eligible Tangible Asset} \times \frac{\text{Time in the UAE}}{\text{Total Time}}$$

Where:

- (a) Eligible Tangible Asset means the total carrying value of Eligible Tangible Asset of the Constituent Entity owner or lessee for the relevant Fiscal Year.
- (b) Time in the UAE means the total of time that the Eligible Tangible Asset was located in the UAE during the relevant Fiscal Year.
- (c) Total Time means the total time that the Eligible Tangible Asset was owned by the Constituent Entity owner or leased by the Constituent Entity lessee during the relevant Fiscal Year.

5.3.12 For purposes of Articles 5.3.4 and 5.3.5, the following provisions apply in the case of an operating lease:

- (a) if a lessee does not recognise a right-of-use asset with respect to a leased asset in its financial accounts, a fictional or hypothetical right-of-use asset cannot be created for purposes of the Pillar Two Rules;
- (b) the lessor will be allowed to take a portion of the carrying value of an asset into account for computing the amount of its Eligible Tangible Asset if the lessor and the asset are located in the UAE in accordance with Articles 5.3.4 and 5.3.11;
- (c) the amount referred to in paragraph (b) is equal to the excess, if any, of the lessor's average carrying value of the asset determined at the beginning and end of the Fiscal Year over the average amount of the lessee's right of use asset determined at the beginning and end of the Fiscal Year;
- (d) for purposes of paragraph (c), if the lessee is not a Constituent Entity, the lessee's right-of-use asset shall be equal to the un-discounted amount of payments remaining due under the lease, including any extensions that would be taken into account in determining a right-of-use asset under the financial accounting standard used to determine the Financial Accounting Net Income or Loss of the lessor;
- (e) in the case of a short-term rental asset, the lessee's right-of-use asset shall be deemed to be nil;
- (f) for purposes of paragraph (e), a short-term rental asset is an asset that is regularly leased several times to different lessees during the Fiscal Year and the average lease period, including any renewals and extensions, with respect to each lessee is 30 days or less.

5.3.13 For purposes of Article 5.3.5, the carrying value of an asset shall:

- (a) not include any increases and any subsequent incremental increase in depreciation resulting from the revaluation model;
- (b) take into account adjustments that derive from purchase price allocation as a result of the acquisition of an Ownership Interest in an Entity by a member of the Group; and
- (c) not take into account adjustments that derive from inter-company sales.

#### **Article 5.4. Additional Current Top-up Tax**

- 5.4.1 If the Effective Tax Rate and Top-up Tax for a prior Fiscal Year is required or permitted to be recalculated pursuant to an Effective Tax Rate Adjustment Article,
- (a) the Effective Tax Rate and Top-up Tax for the prior Fiscal Year shall be recalculated in accordance with the rules of Article 5.1 through Article 5.3 after taking into account the adjustments to Adjusted Covered Taxes and Pillar Two Income or Loss required by the relevant Effective Tax Rate Adjustment Article; and
  - (b) any amount of incremental Top-up Tax resulting from such recalculation shall be treated as Additional Current Top-up Tax under Article 5.2.3 arising in the current Fiscal Year.
- 5.4.2 Unless Article 2.2 applies, if there is an Additional Current Top-up Tax attributable to the operation of Article 4.1.5, the Pillar Two Income of each Constituent Entity located in the UAE shall be equal to the result of the Top-up Tax allocated to such Entity under this Article divided by the Minimum Rate. The amount of Additional Current Top-up Tax allocated to each Constituent Entity for purposes of this Article shall be allocated only to Constituent Entities that record an Adjusted Covered Taxes amount that is less than zero and less than the Pillar Two Income or Loss of such Constituent Entity multiplied by the Minimum Rate. The allocation shall be made pro-rata based upon the following amount for each of those Constituent Entities:

$$(Pillar\ Two\ Income\ or\ Loss\ \times\ Minimum\ Rate) - Adjusted\ Covered\ Taxes$$

#### **Article 5.5. De minimis exclusion**

- 5.5.1 At the election of the Filing Constituent Entity, and notwithstanding the requirements otherwise provided in Article 5, the Top-up Tax for the Constituent Entities located in the UAE shall be deemed to be zero for a Fiscal Year if, for such Fiscal Year:

- (a) the Average Pillar Two Revenue is less than EUR 10 million; and
- (b) the Average Pillar Two Income or Loss is a loss or is less than EUR 1 million.

The election under this Article is an Annual Election.

- 5.5.2 For purposes of Article 5.5.1, the Average Pillar Two Revenue (or Pillar Two Income or Loss) is the average of the Pillar Two Revenue (or Pillar Two Income or Loss) for the current and the two preceding Fiscal Years. If there were no Constituent Entities with Pillar Two Revenue or Pillar Two Losses in the first or second preceding Fiscal Year, such year or years shall be excluded from the calculation of the Average Pillar Two Revenue and the Average Pillar Two Income or Loss.

- 5.5.3 For purposes of Article 5.5.2:

- (a) the Pillar Two Revenue for a Fiscal Year is the sum of the revenue of all Constituent Entities (including Minority-Owned Constituent Entities) located in the UAE for such Fiscal Year, taking into account the adjustments calculated in accordance with Article 3;

- (b) the Pillar Two Income or Loss for a Fiscal Year is the Net Pillar Two Income of the UAE, if any, or the Net Pillar Two Loss of the UAE (including the Pillar Two Income or Loss of Minority-Owned Constituent Entities located in the UAE);
- (c) Post-filing Adjustments pursuant to an Effective Tax Rate Adjustment Article that result in a decrease of the Pillar Two Income or the Pillar Two Revenue for a previous Fiscal Year shall not be considered for purposes of Article 5.5 for the relevant Fiscal Year or Years; and
- (d) Post-filing Adjustments pursuant to an Effective Tax Rate Adjustment Article that result in an increase of the Pillar Two Income or the Pillar Two Revenue for a previous Fiscal Year shall be taken into account for that Fiscal Year such that a recalculation shall be made to determine the application of Article 5.5 for the relevant Fiscal Year or Years.

5.5.4 An election under Article 5.5 shall not apply to a Constituent Entity that is a Stateless Constituent Entity subject to the provisions of this Decision and the revenue and Pillar Two Income or Loss of a Stateless Constituent Entity and of an Investment Entity shall be excluded from the computations in Article 5.5.3.

#### **Article 5.6. Minority-Owned Constituent Entities**

5.6.1 The computation of the Effective Tax Rate and Top-up Tax for the UAE in accordance with Articles 3 to 7, and Article 8.2 with respect to members of a Minority-Owned Subgroup shall apply as if they were a separate MNE Group. The Adjusted Covered Taxes and Pillar Two Income or Loss of members of a Minority-Owned Subgroup are excluded from the determination of the remainder of the MNE Group's Effective Tax Rate in Article 5.1.1 and Net Pillar Two Income in Article 5.1.2.

5.6.2 The Effective Tax Rate and Top-up Tax of a Minority-Owned Constituent Entity that is not a member of a Minority-Owned Subgroup is computed on an entity basis in accordance with Articles 3 to 7, and Article 8.2. The Adjusted Covered Taxes and Pillar Two Income or Loss of the Minority-Owned Constituent Entity are excluded from the determination of the remainder of the MNE Group's Effective Tax Rate in Article 5.1.1 and Net Pillar Two Income in Article 5.1.2.

## **Article 6**

### **Corporate Restructurings and Holding Structures**

#### **Article 6.1. Application of Consolidated Revenue Threshold to Group Mergers and Demergers**

6.1.1 For the purposes of Article 1.1:

- (a) If two or more Groups merge to form a single Group in any of the four Fiscal Years prior to the tested Fiscal Year, then the consolidated revenue threshold of the MNE Group for any Fiscal Year prior to the merger is deemed to be met for that year if the sum of the revenue included in each of their Consolidated Financial Statements for that year is equal to or greater than EUR 750 million.
- (b) Where an Entity that is not a member of any Group (acquirer) acquires or merges with an Entity or Group (target) in the tested Fiscal Year and the target or acquirer does not have Consolidated Financial Statements in any of the four Fiscal Years prior to the tested Fiscal Year because it was not a member of any Group in that year, the consolidated revenue threshold of the MNE Group is deemed to be met for that year if the sum of the revenue included in each of their Financial Statements or Consolidated Financial Statements for that year is equal to or greater than EUR 750 million.

- (c) Where a single MNE Group within the scope of this Decision demerges into two or more Groups (each a demerged Group), the consolidated revenue threshold is deemed to be met by a demerged Group:
  - i. with respect to the first tested Fiscal Year ending after the demerger, if the demerged Group has annual revenues of EUR 750 million or more in that year;
  - ii. with respect to the second to fourth tested Fiscal Years ending after the demerger, if the demerged Group has annual revenues of EUR 750 million or more in at least two of the Fiscal Years following the year of the demerger.

6.1.2 For the purposes of Article 6.1.1 a merger is any arrangement where:

- (a) all or substantially all of the Group Entities of two or more separate Groups are brought under common control such that they constitute Group Entities of a combined Group; or
- (b) an Entity that is not a member of any Group is brought under common control with another Entity or Group such that they constitute Group Entities of a combined Group.

6.1.3 For the purposes of Article 6.1.1 a demerger is any arrangement where the Group Entities of a single Group are separated into two or more Groups that are no longer consolidated by the same Ultimate Parent Entity.

#### **Article 6.2. Constituent Entities joining and leaving an MNE Group**

6.2.1 Except to the extent provided in Article 6.2.2, the following provisions apply where an Entity (the target) becomes or ceases to be a Constituent Entity of an MNE Group as a result of a transfer of direct or indirect Ownership Interests in such Entity during the Fiscal Year (the acquisition year):

- (a) where the target joins or leaves a Group or the target becomes the Ultimate Parent Entity of a new Group, the target will be treated as a member of the Group for the purposes of the provisions of this Decision if any portion of its assets, liabilities, income, expenses or cash flows are included on a line-by-line basis in the Consolidated Financial Statements of the Ultimate Parent Entity in the acquisition year;
- (b) in the acquisition year, an MNE Group shall take into account only the Financial Accounting Net Income or Loss and Adjusted Covered Taxes of the target that are taken into account in the Consolidated Financial Statements of the Ultimate Parent Entity for purposes of applying this Decision;
- (c) in the acquisition year and each succeeding year, the target shall determine its Pillar Two Income or Loss and Adjusted Covered Taxes using its historical carrying value of the assets and liabilities;
- (d) the computation of the target's Eligible Payroll Costs under Article 5.3.3 shall take into account only those costs reflected in the financial statements used to determine the Pillar Two Income or Loss;
- (e) the computation of carrying value of the target's Eligible Tangible Assets for purposes of Article 5.3.4 shall be adjusted proportionally to correspond with the length of the relevant Fiscal Year that the target was a member of the MNE Group;
- (f) with the exception of the Pillar Two Loss Deferred Tax Asset, the deferred tax assets and deferred tax liabilities of a Constituent Entity that are transferred between MNE Groups shall be taken into account under this Decision by the acquiring MNE Group in the same manner

and to the same extent as if the acquiring MNE Group controlled the Constituent Entity when such assets and liabilities arose; and

- (g) deferred tax liabilities of a target that have previously been included in its Total Deferred Tax Adjustment Amount shall be treated as reversed for purposes of applying Article 4.4.4 by the disposing MNE Group and treated as arising in the acquisition year for purposes of applying Article 4.4.4 by the acquiring MNE Group, except that in such cases any subsequent reduction to Covered Taxes under Article 4.4.4 shall have effect in the year in which the amount is recaptured.

- 6.2.2 For purposes of the implementation of this Decision, the acquisition or disposal of a Controlling Interest in a Constituent Entity will be treated as an acquisition or disposal of the assets and liabilities if the Jurisdiction in which the target Constituent Entity is located, or in the case of a Tax Transparent Entity, the Jurisdiction in which the assets are located, treats the acquisition or disposal of that Controlling Interest in the same or similar manner as an acquisition or disposition of the assets and liabilities and imposes a Covered Tax on the seller based on the difference between their tax basis and the consideration paid in exchange for the Controlling Interest or the fair value of the assets and liabilities.

### **Article 6.3. Transfer of Assets and Liabilities**

- 6.3.1 Subject to Article 3.2.3, in the case of a disposition or acquisition of assets and liabilities, a disposing Constituent Entity will include the gain or loss on disposition in the computation of its Pillar Two Income or Loss and an acquiring Constituent Entity will determine its Pillar Two Income or Loss using the acquiring Constituent Entity's carrying value of the acquired assets and liabilities determined under the accounting standard used by the financial statements used for the purposes of determining the Pillar Two Income or Loss.
- 6.3.2 If the disposition or acquisition of assets and liabilities is part of a Pillar Two Reorganisation Article 6.3.1 shall not apply and:
  - (a) a disposing Constituent Entity will exclude any gain or loss on the disposition from the computation of its Pillar Two Income or Loss; and
  - (b) an acquiring Constituent Entity will determine its Pillar Two Income or Loss after the acquisition using the disposing Entity's carrying values of the acquired assets and liabilities upon disposition.
- 6.3.3 If a disposition or acquisition of assets and liabilities is part of a Pillar Two Reorganisation in which a disposing Constituent Entity recognises Non-qualifying Gain or Loss, Articles 6.3.1 and 6.3.2 shall not apply and:
  - (a) the disposing Constituent Entity will include gain or loss on the disposition in its Pillar Two Income or Loss computation to the extent of the Non-qualifying Gain or Loss; and
  - (b) an acquiring Constituent Entity will determine its Pillar Two Income or Loss after the acquisition using the disposing Entity's carrying value of the acquired assets and liabilities upon disposition adjusted consistent with local tax rules to account for the Non-qualifying Gain or Loss.
- 6.3.4 At the election of the Filing Constituent Entity, a Constituent Entity of an MNE Group that is required or permitted to adjust the basis of its assets and the amount of its liabilities to fair value for tax purposes in the UAE in which it is located, shall:
  - (a) Include in the computation of its Pillar Two Income or Loss an amount of gain or loss in respect

of each of its assets and liabilities that is equal to:

- i. the difference between the carrying value for financial accounting purposes of the asset or liability immediately before and the fair value of the asset or liability immediately after the date of the event that triggered the tax adjustment (the triggering event);
  - ii. decreased (or increased) by the Non-Qualifying Gain (or Loss), if any, arising in connection with the triggering event;
- (b) use the fair value for financial accounting purposes of the asset or liability immediately after the triggering event to determine Pillar Two Income or Loss in Fiscal Years ending after the triggering event; and
- (c) include the net total of the amounts determined in 6.3.4(a) in the Constituent Entity's Pillar Two Income or Loss in one of the following ways:
- i. the net total of the amounts is included in the Fiscal Year in which the triggering event occurs; or
  - ii. an amount equal to the net total of the amounts divided by five is included in the Fiscal Year in which the triggering event occurs and in each of the immediate four subsequent Fiscal Years, unless the Constituent Entity leaves the MNE Group in a Fiscal Year within this period, in which case the remaining amount will be wholly included in that Fiscal Year.

#### **Article 6.4. Joint Ventures**

6.4.1 Articles 3 to 7 and Article 8.2 shall apply for the purposes of computing any Top-up Tax of the Joint Venture and its JV Subsidiaries as if they were Constituent Entities of a separate MNE Group and as if the Joint Venture was the Ultimate Parent Entity of that Group.

#### **Article 6.5. Multi-Parented MNE Groups**

6.5.1 The following provisions apply to Multi-Parented MNE Groups:

- (a) the Entities and Constituent Entities of each Group are treated as members of a single MNE Group for purposes of this Decision (the Multi-Parented MNE Group);
- (b) an Entity (other than an Excluded Entity) shall be treated as a Constituent Entity if it is consolidated on a line-by-line basis by the Multi-Parented MNE Group or its Controlling Interests are held by Entities in the Multi-Parented MNE Group;
- (c) the Consolidated Financial Statements of the Multi-Parented MNE Group shall be the Consolidated Financial Statements referred to in the definition of Stapled Structure or Dual-listed arrangement (as relevant) prepared under an Acceptable Financial Accounting Standard, which is deemed to be the accounting standard of the Ultimate Parent Entity; and
- (d) the Ultimate Parent Entities of the separate Groups that comprise the Multi-Parented MNE Group shall be the Ultimate Parent Entities of the Multi-Parented MNE Group (when applying the provisions of this Decision in respect of a Multi-Parented MNE Group, references to an Ultimate Parent Entity shall apply, as required, as if they were references to multiple Ultimate Parent Entities).

## Article 7

### Tax Neutrality and Distribution Regimes

#### Article 7.1. Ultimate Parent Entity that is a Flow-through Entity

7.1.1 The Pillar Two Income for a Fiscal Year of a Flow-through Entity that is the Ultimate Parent Entity of an MNE Group shall be reduced by the amount of Pillar Two Income attributable to each Ownership Interest in that Ultimate Parent Entity if:

- (a) the holder of the Ownership Interest is subject to tax on such income for a taxable period that ends within 12 months of the end of the Ultimate Parent Entity's Fiscal Year and:
  - (i) the holder of the Ownership Interest is subject to tax on the full amount of such income at a nominal rate that equals or exceeds the Minimum Rate; or
  - (ii) it can be reasonably expected that the aggregate amount of Covered Taxes paid by the Ultimate Parent Entity and other Entities that are part of the Tax Transparent Structure and Taxes of the holder of the Ownership Interest on such income equals or exceeds the amount that results from multiplying the full amount of such income by the Minimum Rate; or
- (b) the direct holder is a natural person that:
  - (i) is a tax resident in the UAE; and
  - (ii) holds Ownership Interests that, in the aggregate, are a right to 5% or less of the profits and assets of the Ultimate Parent Entity; or
- (c) the holder is a Governmental Entity, an International Organisation, a Non-profit Organisation, or a Pension Fund that
  - (i) is resident in the UAE; and
  - (ii) holds Ownership Interests that, in the aggregate, are a right to 5% or less of the profits and assets of the Ultimate Parent Entity.

7.1.2 In computing its Pillar Two Loss for a Fiscal Year, a Flow-through Entity that is the Ultimate Parent Entity of an MNE Group shall reduce its Pillar Two Loss for such Fiscal Year by the amount of Pillar Two Loss attributable to each Ownership Interest, except to the extent that the holders of Ownership Interests are not allowed to use the loss in computing their separate taxable income.

7.1.3 A Flow-through Entity that reduces its Pillar Two Income pursuant to Article 7.1.1 shall reduce its Covered Taxes proportionally.

7.1.4 Articles 7.1.1 through 7.1.3 shall apply to a Permanent Establishment:

- (a) through which a Flow-Through Entity that is the Ultimate Parent Entity of an MNE Group wholly or partly carries out its business; or
- (b) through which the business of a Tax Transparent Entity is wholly or partly carried out if the Ultimate Parent Entity's Ownership Interest in that Tax Transparent Entity is held directly or through a Tax Transparent Structure.

#### Article 7.2. Ultimate Parent Entity subject to Deductible Dividend Regime

- 7.2.1 To the extent that a Deductible Dividend Regime is allowed under the Federal Decree-Law No. 47 of 2022, for purposes of computing its Pillar Two Income or Loss for a Fiscal year, an Ultimate Parent Entity that is subject to a Deductible Dividend Regime shall reduce (but not below zero) its Pillar Two Income for such Fiscal Year by the amount that is distributed as a Deductible Dividend within 12 months of the end of the Fiscal Year if:
- (a) the dividend is subject to tax in the hands of the dividend recipient for a taxable period that ends within 12 months of the end of the Ultimate Parent Entity's Fiscal Year, and:
    - (i) the dividend recipient is subject to tax on such dividend at a nominal rate that equals or exceeds the Minimum Rate;
    - (ii) it can be reasonably expected that the aggregate amount of Covered Taxes paid by the Ultimate Parent Entity and Taxes paid by the dividend recipient on the dividend income equals or exceeds the amount that results from multiplying the full amount of such income by the Minimum Rate; or
    - (iii) the dividend recipient is a natural person and the dividend is a patronage dividend from a supply Cooperative; or
  - (b) the dividend recipient is a natural person that:
    - (i) is a tax resident in the UAE; and
    - (ii) holds Ownership Interests that, in the aggregate, are a right to 5% or less of the profits and assets of the Ultimate Parent Entity.
  - (c) the dividend recipient is resident in the UPE Jurisdiction and is:
    - (i) a Governmental Entity,
    - (ii) an International Organisation,
    - (iii) a Non-profit Organisation or
    - (iv) a Pension Fund that is not a Pension Services Entity.
- 7.2.2 An Ultimate Parent Entity that reduces its Pillar Two Income pursuant to Article 7.2.1 shall reduce its Covered Taxes (other than the Taxes for which the dividend deduction was allowed, including taxes that are based on corporate equity or retained earnings) proportionally and shall reduce its Pillar Two Income by the same amount.
- 7.2.3 If the Ultimate Parent Entity holds an Ownership Interest in another Constituent Entity subject to the Deductible Dividend Regime (directly or through a chain of such Constituent Entities), Articles 7.2.1 and 7.2.2 shall apply to each other Constituent Entity in the UPE Jurisdiction that is subject to the Deductible Dividend Regime to the extent that its Pillar Two Income is further distributed by the Ultimate Parent Entity to recipients that meet the requirements of Article 7.2.1.
- 7.2.4 Patronage dividends received by a person who is not a natural person from a supply Cooperative are subject to tax to the extent they reduce an expense or cost that is deductible in the computation of the recipient's taxable income.

### **Article 7.3. Investment Entity Tax Transparency Election**

- 7.3.1 A Filing Constituent Entity may elect to treat a Constituent Entity that is an Investment Entity as a Tax Transparent Entity if the Constituent Entity-owner located in the UAE is subject to tax under a mark-to-market or similar regime based on the annual changes in the fair value of its Ownership Interest in the Entity and the tax rate applicable to the Constituent Entity-owner with respect to such income equals or exceeds the Minimum Rate. For this purpose, a Constituent Entity that indirectly owns an Ownership Interest in an Investment Entity through a direct Ownership Interest in another Investment Entity is considered to be subject to tax under a mark-to-market or similar regime with respect to the indirect Ownership Interest in the first-mentioned Entity if it is subject to a mark-to-market or similar regime with respect to the direct Ownership Interest in the second-mentioned Entity.
- 7.3.2 The election under this Article is a Five-Year Election. If the election is revoked, gain or loss from the disposition of an asset or liability held by the Investment Entity shall be determined based on the fair value of the assets or liabilities on the first day of the revocation year.
- 7.3.3 For purpose of this provision, a Constituent Entity-owner that is a policyholder-owned, regulated mutual insurance company and that owns an Ownership Interest in an Investment Entity is considered to be subject to tax under a mark-to-market or similar regime based on the annual changes in the fair value of its Ownership Interest in the Investment Entity at a rate that equals or exceeds the Minimum Rate.

#### **Article 7.4. Taxable Distribution Method Election**

- 7.4.1 At the election of the Filing Constituent Entity, a Constituent Entity-owner located in the UAE that is not an Investment Entity may apply the Taxable Distribution Method with respect to its Ownership Interest in a Constituent Entity that is an Investment Entity if the Constituent Entity-owner can be reasonably expected to be subject to tax on distributions from the Investment Entity at a tax rate that equals or exceeds the Minimum Rate.
- 7.4.2 Under the Taxable Distribution Method:
- (a) distributions and deemed distributions of the Investment Entity's Pillar Two Income are included in the Pillar Two Income of the Constituent Entity-owner located in the UAE (other than an Investment Entity) that received the distribution;
  - (b) the Local Creditable Tax Gross-up is included in the Pillar Two Income and Adjusted Covered Taxes of the Constituent Entity-owner located in the UAE (other than an Investment Entity) that received the distribution; and
  - (c) the Constituent Entity-owner's proportionate share of the Investment Entity's Undistributed Net Pillar Two Income for the Tested Year is treated as Pillar Two Income of the Investment Entity for the Reporting Fiscal Year.
- 7.4.3 The Undistributed Net Pillar Two Income for a Fiscal Year is the amount of the Investment Entity's Pillar Two Income, if any, for the Tested Year reduced (but not below zero) by:
- (a) any Covered Taxes of the Investment Entity;
  - (b) distributions and deemed distributions to shareholders other than Constituent Entities that are Investment Entities in the Testing Period;
  - (c) Pillar Two Losses arising in the Testing Period; and
  - (d) Investment Loss Carry-forwards.

- 7.4.4 Undistributed Net Pillar Two Income for the Tested Year cannot be reduced by distributions or deemed distributions to the extent that such distributions were treated as a reduction to Undistributed Net Pillar Two Income of a previous Tested Year. For purposes of computing Undistributed Net Pillar Two Income, a Pillar Two Loss is reduced to the extent it reduced Undistributed Net Pillar Two Income at the end of a previous Fiscal Year. If a Pillar Two Loss for a Fiscal Year is not reduced to zero before the end of the last Tested Period that includes such Fiscal Year, the remainder becomes an Investment Loss Carry-forward and is reduced in the same manner as a Pillar Two Loss in subsequent Fiscal Years.
- 7.4.5 For purposes of Article 7.4,
- (a) the Tested Year is the third year preceding the Reporting Fiscal Year;
  - (b) the Testing Period is the period beginning with the first day of the Tested Year and ending with the last day of the Reporting Fiscal Year that the Ownership Interest was held by a Group Entity;
  - (c) a deemed distribution arises when a direct or indirect Ownership Interest in the Investment Entity is transferred to a non-Group Entity and is equal to the proportionate share of the Undistributed Net Pillar Two Income attributable to such Ownership Interest on the date of such transfer (determined without regard to the deemed distribution); and
  - (d) the Local Creditable Tax Gross-up is the amount of Covered Taxes incurred by the Investment Entity that is allowed as a credit against the Constituent Entity-owner's tax liability arising in connection with a distribution from the Investment Entity.
- 7.4.6 The election under this Article is a Five-Year Election. If the election is revoked, Constituent Entity-owner's proportionate share of the Investment Entity's Undistributed Net Pillar Two Income for the Tested Year at the end of the Fiscal Year preceding the revocation year is treated as Pillar Two Income of the Investment Entity for the revocation year.
- 7.4.7 The Investment Entity is not subject to this Decision on the Undistributed Net Pillar Two Income treated as Pillar Two Income.

#### **Article 7.5. Equity Investment Inclusion Election and Qualified Flow-through Tax Benefits**

- 7.5.1 A Filing Constituent Entity may make an Equity Investment Inclusion Election to include in the Pillar Two Income or Loss of a Constituent Entity, the accounting gain, profit, or loss with respect to any:
- (a) fair value gains and losses and impairments on that Ownership Interest where the owner:
    - i. is taxable on a mark-to-market basis or on the impairment, provided that the tax consequences of the mark-to-market movements or impairments on the Ownership Interests are reflected in the income tax expense; or
    - ii. is taxable on a realization basis and the income tax expense includes deferred tax expense on the mark-to-market movements or impairments on the Ownership Interests;
  - (b) the profit and loss attributable to that Ownership Interest where the interest is in the Tax Transparent Entity and the owner accounts for the interest using the equity method; and
  - (c) the dispositions of that Ownership Interest which give rise to gains or losses that are included in the owner's domestic taxable income, excluding any gain fully offset, and the proportionate

share of any gain partially offset, by any deduction or other similar relief particular to the type of gain.

- 7.5.2 The accounting gain, profit, or loss included in the Pillar Two Income or Loss pursuant to Article 7.5.1 shall be adjusted in accordance with Article 3.2 except for Article 3.2.1(c).
- 7.5.3 Notwithstanding Article 4.1.3 (a) and 4.4.1(a), where an Equity Investment Inclusion Election is made, all current and deferred tax expense or benefits that are derived from the accounting gain, profit, or loss included in the Pillar Two Income or Loss in accordance with Article 7.5.1 shall be included in the computation of Adjusted Covered Taxes subject to the relevant provisions of this Decision.
- 7.5.4 An owner subject to the Equity Investment Inclusion Election shall not apply Articles 7.5.1, 7.5.2 and 7.5.3 to a Qualified Flow-through Tax Benefit that flows through a Qualified Ownership Interest. Instead, the following provisions shall apply:
- (a) the amount of a Qualified Flow-through Tax Benefit will be allowed as a positive amount in the Adjusted Covered Taxes of the direct owner of a Qualified Ownership Interest or an indirect owner of such an interest through a chain of Tax Transparent Entities that are not Constituent Entities of the MNE Group to the extent the Qualified Flow-through Tax Benefit was treated for financial accounting purposes as reducing a tax expense;
  - (b) the amount of a Qualified Flow-through Tax Benefit is equal to the amount of the tax credit or tax-deductible loss that have flowed through to the owner through a Qualified Ownership Interest to the extent that it reduces the owner's investment in the Qualified Ownership Interest by:
    - i. the amount of such tax credit or tax loss;
    - ii. the amount of any distributions (including a return of capital) to the owner; or
    - iii. the amount of proceeds from a sale of all or part of the Qualified Ownership Interest.
  - (c) for the purposes of paragraph (b), a tax deductible loss is equal to the amount of the tax loss multiplied by the statutory rate applicable to the owner;
  - (d) the provisions of this Article 7.5.4 shall not cause the owner's investment to be less than zero and accordingly no amount shall be treated as reducing the investment to the extent it would reduce the investment below zero;
  - (e) where the owner's investment has been reduced to zero due to the obtention of tax credits or tax deductible losses through a Qualified Ownership Interest, or after receiving distributions (including a return of capital) or proceeds from the sale of all or part of the Qualified Ownership Interest:
    - i. any subsequent amount of any of tax credits or tax deductible losses obtained by the owner through a Qualified Ownership Interest shall be treated as a negative amount in the owner's Adjusted Covered Taxes; and
    - ii. any subsequent amount of any distributions (including a return of capital), proceeds from the sale of all or part of the Qualified Ownership Interest, or Qualified Refundable Tax Credits obtained through the Qualified Ownership Interest shall be treated as a negative amount in the owner's Adjusted Covered Taxes to the extent of the amount of any Qualified

Flow-through Tax Benefit that flowed through the Qualified Ownership Interest and that were treated as a positive amount in the owner's Adjusted Covered Taxes.

- 7.5.5 An owner subject to Article 7.5.4 that uses the proportional amortization method to account for its Qualified Ownership Interest for financial accounting purposes shall apply such method for determining the amount of investment that is recovered each year. Owners that do not use the proportional amortization method may irrevocably elect to apply this methodology provided that the election is made in the first Fiscal Year in which they acquire the Qualified Ownership Interest or are subject to Pillar Two Rules.
- 7.5.6 Where the proportional amortization method is applied in accordance with Article 7.5.5, any tax credit or tax loss that flows through or any distributions (including a return of capital) or proceeds from sales shall be treated as a reduction to the investment in proportion to the expected tax benefits ratio.
- 7.5.7 The expected tax benefits ratio is the ratio of the tax credits and tax losses that flowed through or are received in the Fiscal Year to the total of such items that are expected to flow through or are received in respect of the Qualified Ownership Interest over the term of the investment.
- 7.5.8 The amount of tax credits or tax losses that flow through or distributions (including a return of capital) or proceeds from sales received, in respect of the Qualified Ownership Interest, in excess of the reduction to the investment shall not be included as a positive amount in the owner's Adjusted Covered Taxes.

## Article 8

### Filing of Top-Up Tax Return and Safe Harbours

#### Article 8.1 Top-up Tax Return Filing

- 8.1.1 Each Constituent Entity, Joint Venture and JV Subsidiary located in the UAE shall file a Top-up Tax Return with the Federal Tax Authority. The return may be filed by either the Constituent Entity, Joint Venture or JV Subsidiary itself or by a Domestic Designated Filing Entity on its behalf.
- 8.1.2 The Top-up Tax Return shall be filed in the manner specified by the Federal Tax Authority no later than 15 months after the last day of the Reporting Fiscal Year or 18 months after the last day of the Reporting Fiscal Year that is the first Transition Year of any Constituent Entity of the MNE Group.
- 8.1.3 The Top-up Tax Return developed by the Federal Tax Authority shall require the equivalent information and reporting requirements set out in the Pillar Two Information Return. The Constituent Entities, Joint Ventures, JV Subsidiaries or Domestic Designated Filing Entity may choose to apply the simplified Jurisdictional reporting framework provided in the Pillar Two Information Return.

#### Article 8.2. Safe Harbours

##### 8.2.1 Transitional CbCR Safe Harbour

- 8.2.1.1 During the Transition Period, at the election of the Filing Constituent Entity, and notwithstanding Article 5, the Jurisdictional Top-up Tax of the UAE shall be deemed to be zero for a Fiscal Year if:
- (a) the MNE Group reports Total Revenue of less than EUR 10 million and Profit (Loss) before Income Tax of less than EUR 1 million in the UAE on its Qualified CbC Report for the Fiscal Year;

- (b) the MNE Group has a Simplified Effective Tax Rate that is equal to or greater than the Transition Rate in the UAE for the Fiscal Year; or
- (c) the MNE Group's Profit (Loss) before Income Tax in the UAE is equal to or less than the Substance-based Income Exclusion amount as calculated under Articles 5.3 and 9.2, for entities reported in the UAE in the Country-by-Country Report.

8.2.1.2 Article 8.2.1.1 shall apply to the Joint Venture and JV Subsidiaries as if they were Constituent Entities of a separate MNE Group, except that the Pillar Two Income or Loss and Total Revenue would be the ones reported in their Qualified Financial Statements.

8.2.1.3 The following adjustments shall be made for purposes of Article 8.2.1.1:

- (a) where the Ultimate Parent Entity is a Flow-through Entity or subject to a Deductible Dividend Regime, the Profit (Loss) before Income Tax (and any associated taxes) of that Entity shall be reduced to the extent where such amount is attributable to or distributed as a result of an Ownership Interest held by a Qualified Person;
- (b) a Net Unrealised Fair Value Loss shall be excluded from Profit (Loss) Before Income Tax if that loss exceeds EUR 50 million in the UAE;
- (c) the Profit (Loss) before Income Tax, Total Revenue and Taxes of an Investment Entity shall be reflected only in the Jurisdictions of its direct Constituent Entity-owners in proportion to their Ownership Interest;
- (d) in the case of a Hybrid Arbitrage Arrangement entered into after 15 December 2022:
  - i. excluding any expense or loss from the Profit (Loss) before Income Tax of the UAE arising from a Deduction Non-inclusion Arrangement or Duplicate Loss Arrangement; and
  - ii. excluding any income tax expense from the income tax expense of the Entities reported in the UAE arising from a Duplicate Tax Recognition Arrangement.
- (e) the amount of uncertain tax positions shall be removed from the income tax expense; and
- (f) where a loss arising in a Permanent Establishment is reflected in the Profit (Loss) before Income Tax of the Jurisdiction where the Permanent Establishment is reported and such loss is also reflected in the Profit (Loss) before Income Tax of the Jurisdiction of the head office or Main Entity, the amount of the loss shall be removed from the Profit (Loss) before Income Tax of the Jurisdiction of the head office or Main Entity;
- (g) taxes that are not Covered Taxes shall be removed from the income tax expense;
- (h) the amount of the income tax expense from taxes imposed on a Permanent Establishment by the Jurisdiction of the Permanent Establishment shall be allocated exclusively to that Jurisdiction;

8.2.1.4 Article 8.2.1.1 shall not apply where:

- (a) the UAE is the UPE Jurisdiction and the Ultimate Parent Entity is a Flow-through Entity unless all the Ownership Interests in the Ultimate Parent Entity are held by Qualified Persons;
- (b) the Top-up Tax that may arise from Stateless Reverse Hybrid Entities subject to the provisions of this Decision;
- (c) Multi-parented MNE Groups where a single Qualified CbC Report does not include the information of the combined groups;
- (d) the Top-up Tax computation of Constituent Entities subject to the provisions of this Decision have not benefited from Article 8.2.1.1 or an equivalent foreign provision in a previous Fiscal Year in

which the MNE Group is subject to the Pillar Two Rules, unless the MNE Group did not have any Constituent Entities in the UAE in the previous year; and

- (e) the MNE Group uses data from different sources of Qualified Financial Statements for that same Entity or Permanent Establishment in the calculations required in Article 8.2.1.

8.2.1.5 Notwithstanding Article 2.3, Article 8.2.1.1 applies to the Top-up Tax of the Constituent Entities located in the UAE irrespective of whether an Investment Entity is reported in the UAE in the Country-by-Country Report.

8.2.1.6 Article 8.2.1.1(a) does not apply where the Ultimate Parent Entity controls Entities located in the UAE that are not consolidated on a line-by-line basis because they are held for sale and the sum of the revenue of such Entities when combined with the Total Revenue in the UAE equals or exceeds EUR 10 million.

8.2.1.7 For purposes of Article 8.2.1.1(c), the Substance-based Income Exclusion shall not take into account the payroll and tangible assets of:

- (a) Entities not reported in the UAE in the Country-by-Country Report;
- (b) Excluded Entities; and
- (c) Constituent Entities that are located in different Jurisdictions in accordance with this Decision and the Country-by-Country Report.

8.2.1.8 Where the MNE Group is not required to file a Qualified CBC Report, Article 8.2.1.1 may apply provided that the MNE Group includes in its Top-up Tax Return for the Fiscal Year the data from Qualified Financial Statements that would have been reported as Total Revenues and Profit (Loss) Before Income Tax in a Qualified CBC Report and such data is used for purposes of the calculations of pursuant to Article 8.2.1.1.

8.2.1.9 Amounts from intra-group transactions treated as income in the Qualified Financial Statements of the recipient and as an expense in the Qualified Financial Statements of the payer shall be included in Total Revenues and Profit (Loss) Before Tax for the purpose of the computations in Article 8.2.1.1 without further adjustments, irrespective of the treatment of these transactions for tax purposes in the Jurisdiction of the recipient or the payer or in the Country-by-Country Report.

8.2.1.10 Where the financial statements used to prepare the Country-by-Country Report contains assets that were valued based on purchase price allocation due to the acquisition of a Controlling Interest as a result of a business combination, the Country-by-Country Report will be considered to be prepared and filed using Qualified Financial Statements provided that:

- (a) the MNE Group has not submitted a Country-by-Country Report for a Fiscal Year beginning after 31 December 2022 that was based on the Constituent Entity's reporting package or separate financial statements without the purchase price allocation adjustments, except where the Constituent Entity was required by law or regulation to change its reporting package or separate financial statements to include purchase price allocation adjustments; and
- (b) any reduction to the Constituent Entity's income attributable to an impairment of goodwill related to transactions entered into after 30 November 2021 must be added back to the Profit (Loss) before Income Tax:
  - i. for purposes of applying the test in Article 8.2.1.1(c); and
  - ii. for purposes of applying the test in Article 8.2.1.1(b), but only if the financial accounts do not also have a reversal of deferred tax liability or recognition or increase of a deferred tax asset in respect of the impairment of goodwill.

8.2.1.11 For purposes of the provisions in Article 8.2.1:

- (a) **Deduction Non-inclusion Arrangement** means an arrangement under which one Constituent Entity directly or indirectly provides credit or otherwise makes an investment in another Constituent Entity that results in an expense or loss in the financial statements of a Constituent Entity to the extent that:
- i. there is no commensurate increase in the revenue or gain in the financial statements of the Constituent Entity counterparty; or
  - ii. the Constituent Entity counterparty is not reasonably expected over the life of the arrangement to have a commensurate increase in its taxable income.

An arrangement will not be a Deduction Non-inclusion Arrangement to the extent that the relevant expense or loss is solely with respect to Additional Tier One Capital.

- (b) **Duplicate Loss Arrangement** means an arrangement that results in an expense or loss being included in the financial statement of a Constituent Entity to the extent that:
- i. the expense or loss is also being included as an expense or loss in the financial statement of another Constituent Entity; or
  - ii. the arrangement also gives rise to a duplicate amount that is deductible for purposes of determining the taxable income of another Constituent Entity in another Jurisdiction.
- (c) **Duplicate Tax Recognition Arrangement** means an arrangement that results in more than one Constituent Entity including part or all of the same income tax expense in its:
- i. Adjusted Covered Taxes; or
  - ii. Simplified Effective Tax Rate for the purposes of applying the Transitional CbCR Safe Harbour;

unless such arrangement also results in the income subject to the tax being included in the relevant financial statements of each such Constituent Entity. An arrangement will not be a Duplicate Tax Recognition Arrangement if it arises solely because the Simplified Effective Tax Rate of a Constituent Entity does not require adjustments for income tax expenses which would be allocated to another Constituent Entity in determining the first Constituent Entity's Adjusted Covered Taxes.

- (d) **Hybrid Arbitrage Arrangement** means a:
- i. Deduction Non-inclusion Arrangement
  - ii. Duplicate Loss Arrangement; or
  - iii. Duplicate Tax Recognition Arrangement.
- (e) **Net Unrealised Fair Value Loss** means the sum of all losses, as reduced by any gains, which arise from changes in the fair value of Ownership Interests (except for Portfolio Shareholdings).
- (f) **Profit (Loss) Before Income Tax** means an MNE Group's Profit (Loss) Before Income Tax in a Jurisdiction as reported on its Qualified CbC Report.
- (g) **Qualified Financial Statements** means:
- i. the accounts used to prepare the Consolidated Financial Statements of the Ultimate Parent Entity;

- ii. separate financial statements of each Constituent Entity provided they are prepared in accordance with either an Acceptable Financial Accounting Standard or an Authorised Financial Accounting Standard if the information contained in such statements is maintained based on that accounting standard and it is reliable; or
  - iii. in the case of a Constituent Entity that is not included in the Consolidated Financial Statements of the Ultimate Parent Entity on a line-by-line basis solely due to size or materiality grounds, the financial accounts of that Constituent Entity that are used for preparation of the MNE Group's Country-by-Country Report.
- (h) **Qualified CbC Report** means a Country-by-Country Report prepared and filed using Qualified Financial Statements irrespective whether different Qualified Financial Statements are used for different Jurisdictions tested under Article 8.2.1.1.
- (i) **Qualified Person** means
- i. in respect of an Ultimate Parent Entity that is a Flow-through Entity, a holder described in Article 7.1.1 (a) to (c); and
  - ii. in respect of an Ultimate Parent Entity that is subject to Deductible Dividend Regime, a holder described in Article 7.2.1 (a) to (c).
- (j) **Total Revenue** means an MNE Group's Total Revenues in a Jurisdiction as reported on its Qualified CbC Report.
- (k) **Simplified Covered Taxes** means a Jurisdiction's income tax expense as reported in the MNE Group's Qualified Financial Statements after any adjustment required by Article 8.2.1.
- (l) **Simplified Effective Tax Rate** means the effective tax rate calculated by dividing the Jurisdiction's Simplified Covered Taxes by its Profit (Loss) Before Income Tax as reported on the MNE Group's Qualified CbC Report.
- (m) **Transition Period** means the period that covers all of the Fiscal Years that begin before 1 January 2027 and end before 1 July 2028.
- (n) **Transition Rate** means:
- i. 16% for Fiscal Years beginning in 2025;
  - ii. 17% for Fiscal Years beginning in 2026.

## 8.2.2 Simplified Calculations Safe Harbour

8.2.2.1 At the election of the Filing Constituent Entity, and notwithstanding Article 5, the Top-up Tax (other than Additional Current Top-up Tax) for the UAE shall be deemed to be zero for a Fiscal Year provided that the MNE Group meets one of the following tests with respect to its operations in the UAE:

- (a) Routine Profits Test;
- (b) De Minimis Test; or
- (c) Effective Tax Rate Test.

8.2.2.2 A Constituent Entity may use a Simplified Income Calculation, Simplified Revenue Calculation, or a Simplified Tax Calculation for the purposes of determining whether any of the tests in Article 8.2.2.1 are met in the Fiscal Year.

The Simplified Income Calculation, Simplified Revenue Calculation and Simplified Tax Calculation of Constituent Entities shall be combined with the Pillar Two computations of Constituent Entities that do not meet the definition of Non-material Constituent Entities in Article 8.2.2.7 to determine whether the UAE meets any of the tests in Article 8.2.2.3.

#### 8.2.2.3 An MNE Group meets:

- (a) the **Routine Profits Test** if its Pillar Two Income in the UAE as determined under the Simplified Income Calculation is equal or less than the amount that results from computing the Substance-based Income Exclusion for the UAE in accordance with Article 5.3;
- (b) the **De Minimis Test** if the Average Pillar Two Revenue in the UAE as determined under the Simplified Revenue Calculation is less than EUR 10 million, and the Average Pillar Two Income in the UAE is less than EUR 1 million or has a loss as determined under the Simplified Income Calculation in accordance with Article 5.5; or
- (c) the **Effective Tax Rate Test** if the Effective Tax Rate of the UAE as determined under the Simplified Income Calculation and the Simplified Tax Calculation, is at least 15% as determined in accordance with Article 5.1.1.

#### 8.2.2.4 The Simplified Revenue Calculation includes the following calculations:

- (a) a Filing Constituent Entity may make an Annual Election so the Pillar Two Revenue of a Non-Material Constituent Entity is equal to the Total Revenue of the Non-Material Constituent Entity as determined in accordance with the Relevant CBC Regulations.

#### 8.2.2.5 The Simplified Income Calculation includes the following calculations:

- (a) a Filing Constituent Entity may make an Annual Election so the Pillar Two Income or Loss of a Non-Material Constituent Entity is equal to the Total Revenue of the Non-Material Constituent Entity as determined in accordance with the Relevant CBC Regulations.

#### 8.2.2.6 The Simplified Tax Calculation includes the following calculations:

- (a) a Filing Constituent Entity may make an Annual Election so the Adjusted Covered Taxes of a Non-Material Constituent Entity is equal to Income Tax Accrued (current year) of the Non-Material Constituent Entity as determined in accordance with the Relevant CBC Regulations.

#### 8.2.2.7 For purposes of the provisions in Article 8.2.2:

- (a) **Non-material Constituent Entity** means an Entity, including its Permanent Establishments, that is not consolidated on a line-by-line basis in the Consolidated Financial Statements of the Ultimate Parent Entity solely on size or materiality grounds and is considered a Constituent Entity in accordance with Article 1.2.2, provided that:
  - i. the Consolidated Financial Statements are those that are described in paragraphs (a) or (c) of the definition provided under Article 18.1;
  - ii. the Consolidated Financial Statements are externally audited; and
  - iii. in the case of an Entity with a Total Revenue that exceeds EUR 50 million, its financial accounts that are used to complete the CbC Report are prepared in accordance with an Acceptable Financial Accounting Standard or an Authorised Financial Accounting Standard.
- (b) **Relevant CbC Regulations** means the Country-by-Country Reporting regulations of the UPE Jurisdiction or of the surrogate parent entity Jurisdiction if a Country-by-Country Report is not filed in the UPE Jurisdiction. If the UPE Jurisdiction does not have Country-by-Country Report legislation and an MNE Group is not required to file a Country-by-Country Report in any

Jurisdiction, Relevant CbC Regulations shall mean the OECD BEPS Action 13 Final Report and the OECD Guidance on the Implementation of Country-by-Country Reporting.

### **8.2.3 Disapplication of a Safe Harbour**

8.2.3.1 An election made under the provisions of Article 8.2 shall not apply in circumstances

where:

- (a) Top-up Tax could be charged under the provisions of this Decision if the Effective Tax Rate for the UAE computed in accordance with Article 5 was below the Minimum Rate; and
- (b) the Federal Tax Authority notifies the Liable Constituent Entity (or Entities) within 36 months after the filing of the Top-up Tax Return of specific facts and circumstances that may have materially affected the eligibility of the Constituent Entities located in the UAE for the relevant safe harbour and invites the Liable Constituent Entity (or Entities) to clarify within six months the effect of those facts and circumstances on the eligibility of those Constituent Entities for that safe harbour; and
- (c) the Liable Constituent Entity (or Entities) fail(s) to demonstrate within the response period that those facts and circumstances did not materially affect the eligibility of the Constituent Entities for the relevant safe harbour.

8.2.3.2 For purposes of Article 8.2.3 (b), the Federal Tax Authority may notify some of the Liable Constituent Entities instead of all of the Liable Constituent Entities in cases where it is difficult, under particular circumstances, to notify all the Liable Constituent Entities.

## **Article 9**

### **Transition rules**

#### **Article 9.1. Tax Attributes Upon Transition**

- 9.1.1 When determining the Effective Tax Rate for the UAE in a Transition Year, and for each subsequent year, the MNE Group shall take into account all of the deferred tax assets and deferred tax liabilities reflected or disclosed in the financial accounts of all of the Constituent Entities in the UAE for the Transition Year. Such deferred tax assets and liabilities must be taken into account at the lower of the Minimum Rate or the applicable domestic tax rate. A deferred tax asset that has been recorded at a rate lower than the Minimum Rate may be taken into account at the Minimum Rate if the taxpayer can demonstrate that the deferred tax asset is attributable to a Pillar Two Loss. For purposes of applying this Article, the impact of any valuation adjustment, or accounting recognition adjustment with respect to a deferred tax asset is disregarded.
- 9.1.2 Deferred tax assets arising from items excluded from the computation of Pillar Two Income or Loss under Article 3, including those that derive from deductions that are not allowed for accounting purposes, must be excluded from the Article 9.1.1 computation when such deferred tax assets are generated in a transaction that takes place after 30 November 2021.
- 9.1.3 In the case of a domestic or cross-border transfer of assets between Constituent Entities after 30 November 2021 and before the commencement of a Transition Year, the Pillar Two tax basis in the acquired assets (other than inventory) shall be based upon the disposing Entity's carrying value of the transferred assets upon disposition with the deferred tax assets and liabilities brought into the application of the Pillar Two Rules determined on that basis.
- 9.1.4 For purposes of Article 9.1.1:

- (a) a deemed deferred tax asset from losses that have not been recognised due to an accounting recognition adjustment or valuation allowance, or because the recognition criteria was not met, may be generated;
- (b) the deferred tax assets and deferred tax liabilities shall not be subject to any adjustments under Article 4.4.1(a), (b), (c), or (d), or Article 4.4.4, except for the adjustments referred to in Article 9.1.2;
- (c) notwithstanding Article 4.4.1(e), deferred tax assets that derive from a tax credit carry-forward shall be taken into account and their amount shall be equal to the deferred tax assets accrued in the financial accounts if the tax rate used to determine the deferred tax assets is below the Minimum Rate or, in any other case, such deferred tax assets shall be determined in accordance with the following formula:

$$\frac{\text{Deferred tax assets in the financial accounts}}{\text{Applicable domestic tax rate}} \times \text{Minimum Rate}$$

Where:

- (a) Deferred tax assets in the financial accounts means the deferred tax assets reflected or disclosed in the financial accounts attributable to a tax credit carry-forward arising in the UAE.
- (b) Applicable domestic tax rate means the tax rate applicable to the Constituent Entity in the Fiscal Year preceding the Transition Year.
- (c) Minimum rate means the rate as defined by Article 18.1.

9.1.5 For purposes of Article 9.1.4 (c), the following provisions apply where the tax rate applicable to the Constituent Entity changes in a subsequent Fiscal Year:

- (a) the formula must be re-applied to the outstanding balance of the tax credit in the financial accounts to determine the revised deferred tax asset for purposes of this Decision;
- (b) the change in the amount of the deferred tax asset resulting from re-application of the formula in Article 9.1.5 shall not be treated as deferred tax expense included in the computation of Adjusted Covered Taxes in the re-application year; and
- (c) the deferred tax expense for the re-application year and subsequent years shall be determined by reference to the amount of the reversal of the deferred tax asset after re-application of the formula in Article 9.1.5.

9.1.6 The Transition Year referred to in Article 9.1.3 is the Transition Year of the disposing Constituent Entity. The Transition Year of the disposing Constituent Entity is the first year in which its low-taxed income becomes subject to charge under the Pillar Two Rules irrespective of when other Constituent Entities in the UAE are subject to the Pillar Two Rules.

9.1.7 For purposes of Article 9.1.3, a transfer of assets includes but is not limited to:

- (a) any transfer of rights to an item of economic value in which the acquiring Entity creates or increases the carrying value of an asset in its financial accounts and the disposing Entity recognises the corresponding amount of income after 30 November 2021 and before the commencement of a Transition Year;

- (b) transfers or deemed transfers of assets within the same Entity;
  - (c) sale of an asset;
  - (d) capital leases, which are accounted for in the same or similar manner as a purchase of an asset;
  - (e) licenses that are effectively treated as a sale for accounting purposes;
  - (f) transfers of assets through a sale of a Controlling Interest;
  - (g) prepayment of royalties or rents, where the licensor/lessor records the prepayment as income and the licensee/lessee capitalizes and amortizes the asset in its financial accounts;
  - (h) total return swaps where the underlying asset is transferred to the financial accounts of the Entity that acquired the rights to income and capital gains generated by an underlying asset;
  - (i) migration of an Entity/Entities where an MNE Group receives a step-up in the tax basis or carrying value (e.g. based on fair value of assets) of the relocated assets; and
  - (j) changes to fair value accounting where the Entity records the relevant gains or losses from fair value changes of the underlying asset and corresponding adjustments to the carrying value of the asset.
- 9.1.8 Article 9.1.3 does not apply to a lease, license, or a total return swap where the transacting parties account for the income and corresponding expense items in the same Fiscal Years.
- 9.1.9 For purposes of Article 9.1.3, the following provisions shall apply for purposes of determining the Pillar Two tax basis in the acquired assets that are transferred between Constituent Entities after 30 November 2021:
- (a) the carrying value of the transferred assets may be increased by capitalised expenditures or decreased by amortization or depreciation that arise after the transaction and before the beginning of the Transition Year, in accordance with the accounting standard used in the financial statements used for purposes of determining the Pillar Two Income or Loss;
  - (b) any increased depreciation or amortization attributable to recording assets at fair value in the financial accounting of the acquiring Entity must be excluded from the computation of the Pillar Two Income or Loss; and
  - (c) where an acquiring Constituent Entity recorded the asset acquired at fair value in its financial accounts, it may instead use the carrying value of that asset reflected in its financial accounts in all subsequent years if it would otherwise be entitled to take into account a deferred tax asset equal to the Minimum Rate multiplied by the difference in the local tax basis in the asset and the Pillar Two carrying value of the asset determined under Article 9.1.3.
- 9.1.10 For purposes of Article 9.1.1, any deferred tax asset or liability arising in the financial accounts used for the computation of the Pillar Two Income or Loss as a result of a transaction described in Article 9.1.3 shall be disregarded except where and to the extent that:
- (a) a Covered Tax was paid by:
    - i. the disposing Entity; or
    - ii. a member of the disposing Entity's domestic consolidated tax group; and

- (b) any deferred tax assets that would have been recognised under Article 9.1.1 by the disposing Constituent Entity with respect to the assets transferred had the transaction in Article 9.1.3 not occurred.

9.1.11 For purposes of the exception in Article 9.1.10:

- (a) The MNE Group has the burden of proving:
  - i. the amount of tax paid in respect of the transaction;
  - ii. the amount referred to in Article 9.1.10(b); and
  - iii. the amount of any Covered Taxes that are attributable to the transaction and that would have been allocated to the disposing Entity under Article 4.3;
- (b) the deferred tax asset referred to in Article 9.1.10 shall not exceed the Minimum Rate multiplied by the difference in the local tax basis in the asset and the Pillar Two carrying value of the asset determined under Article 9.1.3;
- (c) the deferred tax asset referred to in Article 9.1.6 shall not reduce the Adjusted Covered Taxes of a Constituent Entity; and
- (d) the deferred tax asset referred to in Article 9.1.6 shall be adjusted annually in proportion to any decrease in the carrying value of the asset for the year.

9.1.12 The following provisions apply where the Top-up Tax applies to Constituent Entities in the UAE in a Fiscal Year that begins on or before the Fiscal Year that a Qualified IIR or Qualified UTPR first become applicable to those Constituent Entities:

- (a) the Fiscal Year that the Qualified IIR or Qualified UTPR came into effect for such Constituent Entities will be the new Transition Year and the attributes of those Constituent Entities will be reset in accordance with the other provisions of this Article;
- (b) any excess negative tax expense carry-forward under Article 4.1.6 or Article 5.2.6 shall be eliminated at the beginning of the new Transition Year;
- (c) Article 4.4.4 shall not apply to any deferred tax liability that was taken into account in computing the Effective Tax Rate under the provisions of the Top-up Tax and that was not recaptured prior to the new Transition Year, but it shall apply to deferred tax liabilities that are taken into account in and after the new Transition Year;
- (d) in relation to Article 4.5, any Pillar Two Loss Deferred Tax Asset that arose in a year preceding the new Transition Year must be eliminated and the Filing Constituent Entity may make a new Pillar Two Loss election in the new Transition Year;
- (e) Article 9.1.2 shall apply to transactions occurring after 30 November 2021 and before the beginning of the new Transition Year;
- (f) where the Top-up Tax was payable due to the application of Article 4.1.5 in respect of a deferred tax asset attributable to a tax loss, such deferred tax asset shall not be treated as arising from items excluded from the computation of Pillar Two Income or Loss under Article 3.

## **Article 9.2. Transitional relief for the Substance-based Income Exclusion**

9.2.1 For the purposes of applying Article 5.3.3, the value of 5% shall be replaced with the value set out in the table set out below for each Fiscal Year beginning in each of the following calendar years:

<b>Fiscal Year Beginning In</b>	<b>Article 5.3.3 Rate</b>
2025	9.6%
2026	9.4%
2027	9.2%
2028	9.0%
2029	8.2%
2030	7.4%
2031	6.6%
2032	5.8%

9.2.2 For the purposes of applying Article 5.3.4, the value of 5% shall be replaced with the value set out in the table set out below for each Fiscal Year beginning in each of the following calendar years:

<b>Fiscal Year Beginning In</b>	<b>Article 5.3.4 Rate</b>
2025	7.6%
2026	7.4%
2027	7.2%
2028	7.0%
2029	6.6%
2030	6.2%
2031	5.8%
2032	5.4%

### **Article 9.3 Initial Phase of International Activity**

9.3.1 Notwithstanding the requirements otherwise provided in Article 5, the Top-up Tax calculated pursuant to this Decision shall be reduced to zero during the initial phase of an MNE Group's international activity provided that none of the ownership interests of the Constituent Entities located in the UAE are held by a Parent Entity subject to a Qualified IIR in another Jurisdiction.

9.3.2 An MNE Group is in its initial phase of its international activity if, for a Fiscal Year:

- (a) it has Constituent Entities in no more than six Jurisdictions; and
  - (b) the sum of the Net Book Values of Tangible Assets of all Constituent Entities located in all Jurisdictions other than the reference Jurisdiction does not exceed EUR 50 million.
- 9.3.3 For the purposes of Article 9.3.2, the reference Jurisdiction of an MNE Group is the Jurisdiction where the MNE Group has the highest total value of Tangible Assets for the Fiscal Year in which the MNE Group originally meets the threshold in Article 1.1.1. The total value of Tangible Assets in a Jurisdiction is the sum of the Net Book Values of all Tangible Assets of all the Constituent Entities of the MNE Group that are located in that Jurisdiction.
- 9.3.4 This Article shall not apply for any Fiscal Year that starts later than five years after the first day of the first Fiscal Year when the MNE Group originally meets the threshold in Article 1.1.1. For MNE Groups that meet the threshold in Article 1.1.1 as of 31 December 2023, the period of five years will start at the time a Qualified UTPR comes into effect.

## **Article 10**

### **Currency**

- 10.1 Where the calculations of the Top-up Tax are based on the standalone financial statements pursuant to Article 3.1.2, all calculations shall be made using the functional currency of the standalone financial statements.
- 10.2 Article 10.1 does not apply where two or more standalone financial statements of the Constituent Entities of Domestic Group are using different functional currencies. In this case, the Filing Constituent Entity shall make a Five-Year Election to use the presentation currency of the Consolidated Financial Statements of the Ultimate Parent Entity or UAE Dirhams for purposes of the Top-up Tax calculation.
- 10.3 If an amount that is relevant to the calculations required under Article 10.1 is denominated in a currency other than the functional currency of the standalone financial statements and is not converted to the functional currency in the course of preparing the standalone financial statements, that amount is to be converted to the functional currency using the foreign currency translation principles of the financial accounting standard that would have been used to convert the amount to the functional currency if that conversion were undertaken in the course of preparing the standalone financial statements.
- 10.4 Where the calculations of the Top-up Tax are based on the accounts used for preparing Consolidated Financial Statements of the Ultimate Parent Entity in accordance with Article 3.1.3, all calculations shall be made using the presentation currency of the Consolidated Financial Statements of the Ultimate Parent Entity of the MNE Group.
- 10.5 For purposes of Article 10.4, if an amount that is relevant to the calculations required under this Decision is denominated in a currency other than the presentation currency of the Consolidated Financial Statements and is not converted to the presentation currency in the course of preparing the Consolidated Financial Statements, that amount is to be converted to the presentation currency using the foreign currency translation principles of the financial accounting standard that would have been used to convert the amount to the presentation currency if that conversion were undertaken in the course of preparing the Consolidated Financial Statements.
- 10.6 For purposes of determining whether a threshold in this Decision is met, the relevant amounts expressed in a currency other than the EUR have to be converted into EUR using the average of

the daily reference rates of the month of December prior to the commencement of the relevant Fiscal Year, as quoted by:

- (a) the European Central Bank;
  - (b) where the European Central Bank does not provide a foreign exchange reference rate for the local currency of a Jurisdiction, the average foreign exchange rate will be determined by that quoted by the Central Bank of the UAE; or
  - (c) if neither the European Central Bank nor the Central Bank of the UAE quotes a daily rate of exchange in respect of the two currencies, the foreign exchange rate shall be determined by another source acceptable to the Federal Tax Authority.
- 10.7 For purposes of Article 3.2.1 (f), the adjustments for Asymmetric Foreign Currency Gains or Losses shall be determined by reference to the Constituent Entity's tax functional currency and accounting functional currency and the resulting amount of the required adjustment shall be converted to the functional currency of the standalone financial statements in the case of Article 3.1.2 or to the presentation currency of the Consolidated Financial Statements of the Ultimate Parent Entity of the MNE Group in the case of Article 3.1.3 or 3.1.5 .
- 10.8 For purposes of Article 15, the Pillar Two Information Return shall be filled using the presentation currency of the Consolidated Financial Statements of the Ultimate Parent Entity of the MNE Group.
- 10.9 For purposes of Article 8.1, the Top-up Tax Return shall be filed in the currency used for the calculations of the Top-up Tax. The Top-up Tax due has to be converted into UAE Dirhams using the average of the daily reference rates of the month of December prior to the commencement of the relevant Fiscal Year in accordance with the same procedure in Article 15.6.

## **Article 11**

### **Payment of Tax**

- 11.1. The Constituent Entity, Joint Venture, JV Subsidiary or Domestic Designated Filing Entity must pay any Top-up Taxes in accordance with Article 2 in UAE Dirhams, on the date the Top-up Tax Return is due.

## **Article 12**

### **Joint and Several Liability**

- 12.1 All Constituent Entities of a Domestic Main Group and Domestic Minority-owned Sub-Group located in the UAE and all Reverse Hybrid Entities referred to in Article 2.1 (c) shall be jointly and severally liable for the full amount of the Top-up Tax attributable to members of those Groups and to the Reverse Hybrid Entities.
- 12.2 All Joint Ventures and JV Subsidiaries of a Domestic JV Group located in the UAE shall be jointly and severally liable for the full amount of the Top-up Tax attributable to members of that Domestic JV Group.
- 12.3 Any partner, beneficiary or any other person who holds an Ownership Interest in a Constituent Entity that is not a legal person, that are created under the laws of the UAE and that is required to pay the Top-up Tax in accordance with Article 2.1 shall be jointly and severally liable to pay the Top-up Tax of that Constituent Entity to the extent of its Ownership Interests in that Entity.

## **Article 13**

### **Registration and De-registration**

- 13.1 Any Entity that is subject to Top-up Tax pursuant to this Decision and a Domestic Designated Filing Entity, shall register with the Federal Tax Authority in the form and manner and within the timeline prescribed by it.
- 13.2 The Federal Tax Authority shall, at its discretion and based on information available to the Federal Tax Authority, have the ability to register an Entity for purposes of the implementation of this Decision effective from the date the Entity is required to register pursuant to Article 13.1.
- 13.3 A Entity shall file a tax deregistration application with the Federal Tax Authority where it ceases to exist or ceases to be in scope under Article 1, in the form and manner and within the timeline prescribed by the Federal Tax Authority.

## **Article 14**

### **Applicability of Certain Provisions of Corporate Tax Law**

- 14.1 The following provisions of Federal Decree-Law No. 47 of 2022 referred to above shall apply to this Decision:
- (a) Article 50 – General Anti-abuse Rule.
  - (b) Article 56 – Record Keeping.
  - (c) Article 59 – Clarifications.
  - (d) Article 60 – Assessment of Corporate Tax and Penalties.
- 14.2 For the purposes of Article 14.1 the following applies:
- (a) Reference to a Taxable Person shall include reference to a Constituent Entity and Parent Entity, as applicable.
  - (b) Reference to Corporate Tax shall include reference to taxes imposed under the provisions of this Decision.
  - (c) Reference to Tax Period shall include reference to Fiscal Year.
- 14.3 For purposes of Article 14.1(d), during the Fiscal Year beginning on or before 31 December 2026 but not including a Fiscal Year that ends after 30 June 2028, no penalties or sanctions shall apply in connection with the filing of a Top-up Tax Return or the Pillar Two Information Return where the Federal Tax Authority considers that an MNE Group has taken reasonable measures to ensure the correct application of the provisions of this Decision.
- 14.4 The Minister may determine how other provisions of Federal Decree-Law No. 47 of 2022 referred to above may apply to this Decision.

## Article 15

### Pillar Two Information Return Filing

- 15.1 The Entities that will be specified in a decision of the Minister shall be required to file the Pillar Two Information Return with the Federal Tax Authority in accordance with the conditions and procedures specified in such decision.
- 15.2 The Pillar Two Information Return shall be filed in the standard template that was published by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting on 17 July 2023 (as amended from time to time) and shall include the following information concerning the MNE Group (which shall be specified, expanded or restricted in accordance with the Pillar Two Implementation Framework including through the development of simplified reporting procedures):
- (a) identification of the Constituent Entities, including their tax identification numbers (if they exist), the Jurisdiction in which they are located and their status under the Pillar Two Rules;
  - (b) Information on the overall corporate structure of the MNE Group including the Controlling Interests that any Group Entity has in any other Entity of the same Group;
  - (c) the information necessary to compute:
    - i. the effective tax rate for each Jurisdiction and the Top-up Tax of each Constituent Entity under provisions equivalent to those set out under Chapter 5 of the Pillar Two Model Rules;
    - ii. the Top-up Tax of a member of the JV Group under provisions equivalent to those set out under Chapter 6 of the Pillar Two Model Rules;
    - iii. the allocation of Top-up Tax under the IIR, and the UTPR Top-up Tax Amount to each Jurisdiction, under provisions equivalent to those set out under Chapter 2 of the Pillar Two Model Rules;
  - (d) a record of the elections made in accordance with the relevant provisions of this Decision; and
  - (e) other information that is agreed as part of the Pillar Two Implementation Framework and is necessary to carry out the administration of the Pillar Two Rules.
- 15.3 The Pillar Two Information Return shall apply the definitions and instructions contained in the standard template that was published by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting on 17 July 2023 (as amended from time to time).
- 15.4 The Pillar Two Information Return and the notifications pursuant to this Article shall be filed with the Federal Tax Authority no later than 15 months after the last day of the Reporting Fiscal Year.
- 15.5 The Federal Tax Authority may modify the information, filing and notification requirements of the Pillar Two Information Return to align those requirements with those provided under the Pillar Two Implementation Framework (including the development of simplified reporting procedures).
- 15.6 The Federal Tax Authority shall issue a decision specifying the form of the Pillar Two Information Return.

## Article 16

### Commentary and Guidance

This Decision shall be interpreted and applied consistently with the Commentary and Agreed Administrative Guidance as adopted by the Minister.

## Article 17

### Decisions of the Minister

The Minister may issue any rules, conditions, controls and procedures to ensure that the provisions of this Decision are aligned with the objectives of the Pillar Two Model Rules, the Commentary and the Agreed Administrative Guidance.

## Article 18

### Definitions

In the application of the provisions of this Decision, the following words and expressions shall have meanings assigned against each, unless the context otherwise requires:

#### 18.1. Defined Terms

**UAE** means the United Arab Emirates.

**Ministry** means the Ministry of Finance.

**Minister** means the Minister of Finance.

**Acceptable Financial Accounting Standard** means IFRS and the generally accepted accounting principles of Australia, Brazil, Canada, Member States of the European Union, Member States of the European Economic Area, Hong Kong (China), Japan, Mexico, New Zealand, the People's Republic of China, the Republic of India, the Republic of Korea, Russia, Singapore, Switzerland, the United Kingdom, and the United States of America.

**Accrued Pension Expense** means the difference between the amount of pension liability expense included in the Financial Accounting Net Income or Loss and the amount contributed to a Pension Fund for the Fiscal Year. Accrued Pension Expense shall not include expenses that are accrued for direct pension payments to former employees.

**Accrued Pension Income** means the sum of the pension income and the amount of pension contributions, if any, during the Fiscal Year.

**Additional Current Top-up Tax** is the amount of tax determined in Article 5.4 and any amount treated as Additional Current Top-up Tax determined under Article 5.4, such as the amount determined under Article 4.1.5.

**Additional Tier One Capital** means an instrument issued by a Constituent Entity pursuant to prudential regulatory requirements applicable to the banking sector that is convertible to equity or written down if a pre-specified trigger event occurs and that has other features which are designed to aid loss absorbency in the event of a financial crisis.

**Additions to Covered Taxes** is defined in Article 4.1.2.

**Adjusted Asset Gain** in respect of Aggregate Asset Gain that is subject to an election under Article 3.2.6 means an amount equal to the Aggregate Asset Gain in the Election Year, reduced by any amount of such gain that has been applied against the Net Asset Loss in a prior Loss Year under Article 3.2.6(b) or (c).

**Adjusted Covered Taxes** is defined in Article 4.1.1.

**Aggregate Asset Gain** in respect of an election under Article 3.2.6, means the net gain in the Election Year from the disposition of Local Tangible Assets by all Constituent Entities located in the Jurisdiction excluding the gain or loss on a transfer of assets between Group Members.

**Agreed Administrative Guidance** means guidance on the interpretation or administration of the Pillar Two Model Rules issued by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting.

**Annual Election** means an election made by a Filing Constituent Entity and that applies only for the Fiscal Year for which the election is made.

**Allocated Asset Gain** in respect of an election under Article 3.2.6, means the Adjusted Asset Gain that is allocated to a Fiscal Year in the Lookback Period under Article 3.2.6(d).

**Arm's Length Principle** means the principle under which transactions between Constituent Entities must be recorded by reference to the conditions that would have been obtained between independent enterprises in comparable transactions and under comparable circumstances.

**Asymmetric Foreign Currency Gains or Losses** means foreign currency gains or losses of an entity whose accounting and tax functional currencies are different and that are:

- (a) included in the computation of a Constituent Entity's taxable income or loss and attributable to fluctuations in the exchange rate between its accounting functional currency and its tax functional currency;
- (b) included in the computation of a Constituent Entity's Financial Accounting Net Income or Loss and attributable to fluctuations in the exchange rate between its tax functional currency and its accounting functional currency;
- (c) included in the computation of a Constituent Entity's Financial Accounting Net Income or Loss and attributable to fluctuations in the exchange rate between a third foreign currency and its accounting functional currency; and
- (d) attributable to fluctuations in the exchange rate between a third foreign currency and its tax functional currency, whether or not such foreign currency gain or loss is included in taxable income.

The tax functional currency is the functional currency used to determine the Constituent Entity's taxable income or loss for a Covered Tax in the Jurisdiction in which it is located. The accounting functional currency is the functional currency used to determine the Constituent Entity's Financial Accounting Net Income or Loss. A third foreign currency is a currency that is not the Constituent Entity's tax functional currency or accounting functional currency.

**Authorised Accounting Body** is the body with legal authority in a Jurisdiction to prescribe, establish, or accept accounting standards for financial reporting purposes.

**Authorised Financial Accounting Standard**, in respect of any Entity, means a set of generally acceptable accounting principles permitted by an Authorised Accounting Body in the Jurisdiction where that Entity is located.

**Average Pillar Two Income or Loss** is defined in Article 5.5.2.

**Average Pillar Two Revenue** is defined in Article 5.5.2.

**Commentary** means any commentary to the Pillar Two Model Rules as developed by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting as amended from time to time.

**Consolidated Financial Statements** means:

- (a) the financial statements prepared by an Entity in accordance with an Acceptable Financial Accounting Standard, in which the assets, liabilities, income, expenses and cash flows of that Entity and the Entities in which it has a Controlling Interest are presented as those of a single economic unit;
- (b) where an Entity meets the definition of a Group under Article 1.2.3, the financial statements of the Entity that are prepared in accordance with an Acceptable Financial Accounting Standard;
- (c) where the Ultimate Parent Entity has financial statements described in paragraph (a) or (b) that are not prepared in accordance with an Acceptable Financial Accounting Standard, the financial statements are those that have been prepared in accordance with another Authorised Financial Accounting Standard subject to adjustments to prevent any Material Competitive Distortions; and
- (d) where the Entity does not prepare financial statements described in the paragraphs above, the Consolidated Financial Statements of the Entity are those that would have been prepared by the Entity if such financial statements were compulsory in accordance with law or regulations and were prepared in accordance with an Authorised Financial Accounting Standard that is either an Acceptable Financial Accounting Standard or another Authorised Financial Accounting Standard that is adjusted to prevent any Material Competitive Distortions.

**Constituent Entity (CE)** is defined in Article 1.3.1.

**Constituent Entity-owner** means a Constituent Entity that directly or indirectly owns an Ownership Interest in another Constituent Entity of the same MNE Group.

**Controlled Foreign Company Tax Regime** means a set of tax rules (other than an IIR) under which a direct or indirect shareholder of a foreign entity (the controlled foreign company or CFC) is subject to current taxation on its share of part or all of the income earned by the CFC, irrespective of whether that income is distributed currently to the shareholder.

**Controlling Interest** means an Ownership Interest in an Entity such that the interest holder:

- (a) is required to consolidate the assets, liabilities, income, expenses and cash flows of the Entity on a line-by-line basis in accordance with an Acceptable Financial Accounting Standard; or
- (b) would have been required to consolidate the assets, liabilities, income, expenses and cash flows of the Entity on a line-by-line basis if the interest holder had prepared Consolidated Financial Statements.

A Main Entity is deemed to have the Controlling Interests of its Permanent Establishments.

**Cooperative** means an Entity that collectively markets or acquires goods or services on behalf of its members and that is subject to a tax regime in the Jurisdiction in which it is located that is designed to ensure tax neutrality in respect of members' property or services sold through the cooperative and property or services acquired by members through the cooperative.

**Covered Taxes** is defined in Article 4.2.

**Deductible Dividend** means, with respect to a Constituent Entity that is subject to a Deductible Dividend Regime,

- (a) a distribution of profits to the holder of an Ownership Interest that is deductible from taxable income of the Constituent Entity under the laws of the Jurisdiction in which it is located; or
- (b) a patronage dividend to a member of a Cooperative.

**Deductible Dividend Regime** means a tax regime designed to yield a single level of taxation on the owners of an Entity through a deduction from the income of the Entity for distributions of profits to the owners. For this purpose, patronage dividends of a Cooperative are treated as distributions to owners. A Deductible Dividend Regime also includes a regime applicable to Cooperatives that exempts the Cooperative from taxation.

**Designated Filing Entity** means the Constituent Entity, other than the Ultimate Parent Entity, that has been appointed by the MNE Group to file the Pillar Two Information Return on behalf of the MNE Group.

**Designated Local Entity** means the Constituent Entity of an MNE Group that is located in the UAE and that has been appointed by the other Constituent Entities located in the UAE of the MNE Group to file the Pillar Two Information Return, or to submit the notifications under Article 15.3.

**Disallowed Accrual** is defined in Article 4.4.6.

**Disqualified Refundable Imputation Tax** means any amount of Tax, other than a Qualified Imputation Tax, accrued or paid by a Constituent Entity that is:

- (a) refundable to the beneficial owner of a dividend distributed by such Constituent Entity in respect of that dividend or creditable by the beneficial owner against a tax liability other than a tax liability in respect of such dividend; or
- (b) refundable to the distributing corporation upon distribution of a dividend.

A withholding tax on dividends imposed on a dividend recipient and withheld by the distributing Entity is not a Disqualified Refundable Imputation Tax, even if part or all of the withholding tax is ultimately refunded to the dividend recipient by the tax authority.

**Domestic Designated Filing Entity** means:

- (a) a Constituent Entity that files the Top-up Tax Return and pays the Top-up Tax on behalf of all members of a Domestic Main Group, a Domestic Minority-owned Subgroup or a Reverse Hybrid Entity; or
- (b) a Joint Venture or JV Subsidiary that files the Top-up Tax Return and pays the Top-up Tax on behalf of all members of a Domestic JV Group.

**Domestic Group** means:

- (a) one or more Constituent Entities of an MNE Group located in the UAE (**Domestic Main Group**);
- (b) one or more Constituent Entities, located in the UAE, of the same Minority-owned Subgroup (**Domestic Minority-owned Subgroup**): or
- (c) a Joint Venture, a Joint Venture and one or more JV Subsidiaries, or one or more JV Subsidiaries, located in the UAE, of the same JV Group (**Domestic JV Group**).

**Dual-listed Arrangement** means an arrangement entered into by two or more Ultimate Parent Entities of separate Groups, under which:

- (a) the Ultimate Parent Entities agree to combine their business by contract alone;

- (b) pursuant to contractual arrangements the Ultimate Parent Entities will make distributions (with respect to dividends and in liquidation) to their shareholders based on a fixed ratio;
- (c) their activities are managed as a single economic entity under contractual arrangements while retaining their separate legal identities;
- (d) the Ownership Interests in the Ultimate Parent Entities comprising the agreement are quoted, traded or transferred independently in different capital markets; and
- (e) the Ultimate Parent Entities prepare Consolidated Financial Statements in which the assets, liabilities, income, expenses and cash flows of all the Entities of the Groups are presented together as those of a single economic unit and that are required by a regulatory regime to be externally audited.

**Effective Tax Rate** is defined in Article 5.1.1.

**Election Year** in respect of an Annual Election means the year for which the election is made.

**Eligible Employees** means employees, including part-time employees, of a Constituent Entity that is a member of the MNE Group and independent contractors participating in the ordinary operating activities of the MNE Group under the direction and control of the MNE Group.

**Eligible Payroll Costs** means employee compensation expenditures (including salaries, wages, and other expenditures that provide a direct and separate personal benefit to the employee, such as health insurance and pension contributions), payroll and employment taxes, and employer social security contributions.

**Eligible Tangible Assets** is defined in Article 5.3.4.

**Entity** means:

- (a) any juridical person; or
- (b) an arrangement that prepares separate financial accounts, such as a partnership or trust;

but does not include natural person, central, state, or local government or their administration or agencies that carry out government functions.

**Equity Investment Inclusion Election** means a Five-Year Election made on a Jurisdictional basis to apply the provisions of Article 7.5 with respect to all Ownership Interests (other than a Portfolio Shareholding) owned by Constituent Entities located in a Jurisdiction, except that the election cannot be revoked with respect to an Ownership Interest if a loss with respect to that Ownership interest has been taken into account in the computation of the Pillar Two Income or Loss during the period in which this election was in effect.

**Effective Tax Rate Adjustment Article** means Article 3.2.6, Article 4.4.4, Article 4.6.1, Article 4.6.4.

**EUR** means the currency of the European Monetary Union.

**Excess Profit** is defined in Article 5.2.2.

**Excluded Dividends** means dividends or other distributions received or accrued in respect of an Ownership Interest, except for:

- (a) a Short-term Portfolio Shareholding, and
- (b) an Ownership Interest in an Investment Entity that is subject to an election under Article 7.4.

**Excluded Entity** is defined in Article 1.5.1 and Article 1.5.2.

**Excluded Equity Gain or Loss** means the gain, profit or loss included in the Financial Accounting Net Income or Loss of the Constituent Entity arising from:

- (a) gains and losses from changes in fair value of an Ownership Interest, except for a Portfolio Shareholding;
- (b) profit or loss in respect of an Ownership Interest included under the equity method of accounting; and
- (c) gains and losses from disposition of an Ownership Interest, except for a disposition of a Portfolio Shareholding.

**Excluded Insurance Reserves Expense** means, any expense of a Constituent Entity that is an insurance company, in respect of the movement of insurance reserves of the Entity to the extent that the amount of the expense is equal to the amount of any of the following:

- (a) Excluded Dividends, net of any investment management fees, from a security held on behalf of a policyholder; or
- (b) Excluded Equity Gains or Losses from a security held on behalf of a policyholder.

**Filing Constituent Entity** is an Entity filing the Top-up Tax Return in accordance with Article 8.1.

**Financial Accounting Net Income or Loss** is defined in Articles 3.1.2 and 3.1.3.

**Fiscal Year** means an accounting period with respect to which the Constituent Entities prepare their standalone financial statements or the Ultimate Parent Entity of the MNE Group prepares its Consolidated Financial Statements, as the context requires. In the case of Consolidated Financial Statements as defined in paragraph (d) of its definition, Fiscal Year means the calendar year.

**Five-Year Election** means an election made by a Filing Constituent Entity with respect to a Fiscal Year (the election year) that cannot be revoked with respect to the election year or the four succeeding Fiscal Years. If a Five-Year Election is revoked with respect to a Fiscal Year (the revocation year), a new election cannot be made with respect to the four Fiscal Years succeeding the revocation year.

**General Government** means the central administration, agencies whose operations are under its effective control, state and local governments and their administrations.

**Governmental Entity** means an Entity that meets all of the following criteria set out in paragraphs (a) to (d) below:

- (a) it is part of or wholly-owned by a government (including any political subdivision or local authority thereof);
- (b) it has the principal purpose of:
  - (i) fulfilling a government function; or
  - (ii) managing or investing that government's or Jurisdiction's assets through the making and holding of investments, asset management, and related investment activities for the government's or Jurisdiction's assets;

and does not carry on a trade or business;

- (c) it is accountable to the government on its overall performance, and provides annual information reporting to the government; and

- (d) its assets vest in such government upon dissolution and to the extent it distributes net earnings, such net earnings are distributed solely to such government with no portion of its net earnings inuring to the benefit of any private person.

**Group** is defined in Article 1.2.2 and 1.2.3.

**Group Entity**, in respect of any Entity or Group, means an Entity that is a member of the same Group.

**High-Tax Counterparty** means a Constituent Entity that is located in a Jurisdiction that is not a Low-Tax Jurisdiction or that is located in a Jurisdiction that would not be a Low-Tax Jurisdiction if its Effective Tax Rate were determined without regard to any income or expense accrued by that Entity in respect of an Intragroup Financing Arrangement.

**IFRS** means the International Financial Reporting Standards.

**IIR** means the rules equivalent to Article 2.1 to Article 2.3 of the Pillar Two Model Rules.

**Included Revaluation Method Gain or Loss** means the net gain or loss, increased or decreased by any associated Covered Taxes, for the Fiscal Year in respect of all property, plant and equipment that arises under an accounting method or practice that:

- (a) periodically adjusts the carrying value of such property to its fair value;
- (b) records the changes in value in Other Comprehensive Income; and
- (c) does not subsequently report the gains or losses recorded in Other Comprehensive Income through profit and loss.

**Insurance Investment Entity** means an Entity that:

- (a) would meet the definition of an Investment Fund or a Real Estate Investment Vehicle except that it is established in relation to liabilities under an insurance or annuity contract; and
- (b) is wholly-owned by an Entity or by a number of Entities which are all members of the same MNE Group, that are subject to regulation in its location as an insurance company.

The Entities referred to in paragraph (b) of this definition also include Flow-through Entities provided that they are subject to regulations in the same manner as an insurance company.

**Intermediate Parent Entity** means a Constituent Entity (other than an Ultimate Parent Entity, Partially-Owned Parent Entity, Permanent Establishment, or Investment Entity) that owns (directly or indirectly) an Ownership Interest in another Constituent Entity in the same MNE Group.

**International Organisation** means any intergovernmental organisation (including a supranational organisation) or wholly-owned agency or instrumentality thereof that meets all of the criteria set out in paragraphs (a) to (c) below:

- (a) it is comprised primarily of governments;
- (b) it has in effect a headquarters or substantially similar agreement (for example, arrangements that entitle the organisation's offices or establishments in the Jurisdiction (e.g. a subdivision, or a local, or regional office) to privileges and immunities) with the Jurisdiction in which it is established; and
- (c) law or its governing documents prevent its income inuring to the benefit of private persons.

**International Shipping Income** is defined in Article 3.3.2.

**Intragroup Financing Arrangement** means any arrangement entered into between two or more members of the MNE Group whereby a High Tax Counterparty directly or indirectly provides credit or otherwise makes an investment in a Low Tax Entity.

**Investment Entity** means:

- (a) an Investment Fund, a Real Estate Investment Vehicle or Insurance Investment Entity;
- (b) an Entity that is at least 95% owned directly by an Entity described in paragraph (a) or through a chain of such Entities and that operates exclusively or almost exclusively to hold assets or invest funds for the benefit of such Investment Entities; and
- (c) an Entity where at least 85% of the value of the Entity is owned by an Entity referred to in paragraph (a) provided that substantially all of the Entity's income is Excluded Dividends or Excluded Equity Gain or Loss that is excluded from the computation of Pillar Two Income or Loss in accordance with Articles 3.2.1 (b) or (c).

**Investment Fund** means an Entity that meets all of the criteria set out in paragraphs (a) to (g) below:

- (a) it is designed to pool assets (which may be financial and non-financial) from a number of investors (some of which are not connected);
- (b) it invests in accordance with a defined investment policy;
- (c) it allows investors to reduce transaction, research, and analytical costs, or to spread risk collectively;
- (d) it is primarily designed to generate investment income or gains, or protection against a particular or general event or outcome;
- (e) investors have a right to return from the assets of the fund or income earned on those assets, based on the contributions made by those investors;
- (f) the Entity or its management is subject to a regulatory regime in the Jurisdiction in which it is established or managed (including appropriate anti-money laundering and investor protection regulation); and
- (g) it is managed by investment fund management professionals on behalf of the investors.

**Joint Venture (JV)** means an Entity whose financial results are reported under the equity method in the Consolidated Financial Statements of the Ultimate Parent Entity provided that the Ultimate Parent Entity holds directly or indirectly at least 50% of its Ownership Interests. A Joint Venture does not include:

- (a) an Ultimate Parent Entity of an MNE Group that is subject to the Pillar Two Rules;
- (b) an Excluded Entity as defined by Article 1.5.1;
- (c) an Entity whose Ownership Interest held by the MNE Group are held directly through an Excluded Entity referred to in Article 1.5.1 and the Entity:
  - i. operates exclusively or almost exclusively to hold assets or invest funds for the benefit of its investors;
  - ii. carries out activities that are ancillary to those carried out by the Excluded Entity; or

iii. substantially all of its income is excluded from the computation of Pillar Two Income or Loss in accordance with Articles 3.2.1(b) and (c).

(d) an Entity that is held by an MNE Group composed exclusively of Excluded Entities; or

(e) a JV Subsidiary.

**JV Group** means a Joint Venture and its JV Subsidiaries.

**JV Subsidiary** means an Entity whose assets, liabilities, income, expenses and cash flows are consolidated by a Joint Venture under an Acceptable Financial Accounting Standard (or would have been consolidated had it been required to consolidate such items in accordance with an Acceptable Financial Accounting Standard). A Permanent Establishment whose Main Entity is the Joint Venture or a JV Subsidiary shall be treated as a separate JV Subsidiary.

**Jurisdiction** means any state or jurisdiction with fiscal autonomy, which may include the UAE as the context may require.

**Liable Constituent Entity (or Entities)** means one or several Constituent Entities located in the UAE that could be liable for Top-up Tax if a Safe Harbour in Article 8.2 did not apply.

**Local Tangible Asset** means immovable property located in the same Jurisdiction as the Constituent Entity.

**Look-back Period** in respect of an election under Article 3.2.6, means the Election Year and the four prior Fiscal Years.

**Loss Year** in respect of Jurisdiction for which the Filing Constituent Entity has made an election under Article 3.2.6, means a Fiscal Year in the Lookback Period for which there is a Net Asset Loss for a Constituent Entity located in that Jurisdiction and the total amount of Net Asset Loss of all such Constituent Entities exceeds the total amount of their Net Asset Gain.

**Low-Tax Entity** means a Constituent Entity located in a Low Tax Jurisdiction or a Jurisdiction that would be a Low-Tax Jurisdiction if the Effective Tax Rate for the Jurisdiction were determined without regard to any income or expense accrued by that Entity in respect of an Intragroup Financing Arrangement.

**Low-Tax Jurisdiction**, in respect of an MNE Group in any Fiscal Year, means a Jurisdiction where the MNE Group has Net Pillar Two Income and is subject to an Effective Tax Rate (as determined under Article 5) in that period that is lower than the Minimum Rate.

**Main Entity**, in respect of a Permanent Establishment, is the Entity that includes the Financial Accounting Net Income or Loss of the Permanent Establishment in its financial statements.

**Marketable Price Floor** means 80% of the net present value of the tax credit, where such value is determined based on the yield to maturity on a debt instrument issued by the government that issued the tax credit with equal or similar maturity (and up to 5-year maturity) issued in the same Fiscal Year as the tax credit is transferred (or if not transferred, the Origination Year). For purposes of this definition:

(a) the amount of the tax credit is the face value of the credit or the remaining creditable amount in relation to the tax credit; and

(b) the cash flow projection to be factored in the calculation of the net present value shall be based on the maximum amount that can be used each year under the legal design of the credit.

**Marketable Transferable Tax Credit** means a tax credit that can be used by the holder of the credit to reduce its liability for a Covered Tax in the Jurisdiction that issued the tax credit provided that the following

conditions are met:

(a) in the case of the originator of the tax credit:

- i. the tax credit regime needs to be designed in a way that the originator can transfer the credit to an unrelated party in the Fiscal Year in which it satisfies the eligibility criteria for the credit (Origination Year) or within 15 months of the end of the Origination Year; and
- ii. the tax credit is transferred to an unrelated party within 15 months of the end of the Origination Year (or, if not transferred or transferred between related parties, similar tax credits trade between unrelated parties within 15 months of the end of the Origination Year) at a price that equals or exceeds the Marketable Price Floor;

(b) in the case of the purchaser of the tax credit:

- i. the tax credit regime needs to be designed in a way that the purchaser can transfer the credit to an unrelated party in the Fiscal Year in which it purchased the tax credit;
- ii. the legal framework under which the tax credit is provided allows the purchaser to transfer the tax credit to an unrelated party and subjects the purchaser to the same or less stringent legal restrictions on the transfer of the credit than the ones applicable to the originator; and
- iii. the purchaser acquires the credit from an unrelated party at a price that equals or exceeds the Marketable Price Floor.

For purposes of this definition an originator and purchaser are considered related parties if one owns, directly or indirectly, at least 50% of the Ownership Interest in the other (or, in the case of a company, at least 50% of the aggregate vote and value of the company's shares) or another person owns, directly or indirectly, at least 50% of the Ownership Interest (or, in the case of a company, at least 50% of the aggregate vote and value of the company's shares) in each of the Originator and purchaser. In any case, an Originator and purchaser are considered related parties if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same person or persons.

**Material Competitive Distortion** in respect of the application of a specific principle or procedure under a set of generally accepted accounting principles means an application that results in an aggregate variation greater than EUR 75 million in a Fiscal Year as compared to the amount that would have been determined by applying the corresponding IFRS principle or procedure. Where the application of a specific principle or procedure results in a Material Competitive Distortion, the accounting treatment of any item or transaction subject to that principle or procedure must be adjusted to conform to the treatment required for the item or transaction under IFRS in accordance with any Agreed Administrative Guidance.

**Minimum Rate** means fifteen percent (15%).

**Minority-Owned Constituent Entity** means a Constituent Entity where the Ultimate Parent Entity has a direct or indirect Ownership Interest in that Entity of 30% or less.

**Minority-Owned Parent Entity** means a Minority-Owned Constituent Entity that holds, directly or indirectly, the Controlling Interests of another Minority-Owned Constituent Entity, except where the Controlling Interests of the first-mentioned Entity are held, directly or indirectly, by another Minority-Owned Constituent Entity.

**Minority-Owned Subgroup** means a Minority-Owned Parent Entity and its Minority-Owned Subsidiaries.

**Minority-Owned Subsidiary** means a Minority-Owned Constituent Entity whose Controlling Interests are held, directly or indirectly, by a Minority-Owned Parent Entity.

**MNE Group** is defined in Articles 1.2.1.

**MNE Group's Allocable Share of the Investment Entity's Pillar Two Income** is defined in Article 7.3.4.

**Multi-Parented MNE Group** means two or more Groups where:

- (a) the Ultimate Parent Entities of those Groups enter into an arrangement that is a Stapled Structure or a Dual-listed Arrangement; and
- (b) at least one Entity or Permanent Establishment of the combined Group is located in a different Jurisdiction with respect to the location of the other Entities of the combined Group.

**Net Asset Gain** in respect of an election under Article 3.2.6, means the net gain from the disposition of Local Tangible Assets by a Constituent Entity located in the Jurisdiction for which the election was made excluding the gain or loss on a transfer of assets to another Group Member.

**Net Asset Loss** in respect of a Constituent Entity and a Fiscal Year, means the net loss from the disposition of Local Tangible Assets by that Constituent Entity in that year excluding the gain or loss on a transfer of assets to another Group Member. The amount of Net Asset Loss shall be reduced by the amount of Net Asset Gain or Adjusted Asset Gain which is set-off against such loss pursuant to the application of Article 3.2.6(b) or (c) as a result of a previous election made under Article 3.2.6.

**Net Book Value of Tangible Assets** means the average of the beginning and end values of Tangible Assets after taking into account accumulated depreciation, depletion, and impairment, as recorded in the financial statements.

**Net Pillar Two Income** of a Jurisdiction is defined in Article 5.1.2.

**Net Pillar Two Loss** is the nil or negative amount, if any, computed in accordance with the following formula:

$$\text{Net Pillar Two Loss} = \text{Pillar Two Income of all Constituent Entities} - \text{Pillar Two Losses of all Constituent Entities}$$

Where:

- (a) the Pillar Two Income of all Constituent Entities is the sum of the Pillar Two Income of all Constituent Entities located in the UAE determined in accordance with Article 3 for the Fiscal Year; and
- (b) the Pillar Two Losses of all Constituent Entities is the sum of the Pillar Two Losses of all Constituent Entities located in the UAE determined in accordance with Article 3 for the Fiscal Year.

**Net Taxes Expense** means the net amount of:

- (a) any Covered Taxes accrued as an expense and any current and deferred Covered Taxes included in the income tax expense, including Covered Taxes on income that is excluded from the Pillar Two Income or Loss computation;
- (b) any deferred tax asset attributable to a loss for the Fiscal Year;
- (c) any Qualified Domestic Minimum Top-up Tax accrued as an expense;
- (d) any taxes arising pursuant to the Qualified IIR and Qualified UTPR, accrued as an expense;
- (e) any Disqualified Refundable Imputation Tax accrued as an expense; and
- (f) taxes accrued by an insurance company in respect of returns to policyholders to the extent Article 3.2.9

applies in relation to those taxes.

**Non-Marketable Transferable Tax Credit** is a tax credit that, if held by the Originator, is transferable but is not a Marketable Transferable Tax Credit, and if held by a purchaser, is not a Marketable Transferable Tax Credit.

**Non-profit Organisation** means an Entity that meets all of the following criteria:

- (a) it is established and operated in its Jurisdiction of residence:
  - (i) exclusively for religious, charitable, scientific, artistic, cultural, athletic, educational, or other similar purposes; or
  - (ii) as a professional organisation, business league, chamber of commerce, labour organisation, agricultural or horticultural organisation, civic league or an organisation operated exclusively for the promotion of social welfare;
- (b) substantially all of the income from the activities mentioned in paragraph (a) is exempt from income tax in its Jurisdiction of residence;
- (c) it has no shareholders or members who have a proprietary or beneficial interest in its income or assets;
- (d) the income or assets of the Entity may not be distributed to, or applied for the benefit of, a private person or non-charitable Entity other than:
  - (i) pursuant to the conduct of the Entity's charitable activities;
  - (ii) as payment of reasonable compensation for services rendered or for the use of property or capital; or
  - (iii) as payment representing the fair market value of property which the Entity has purchased, and
- (e) upon termination, liquidation or dissolution of the Entity, all of its assets must be distributed or revert to a Non-profit Organisation or to the government (including any Governmental Entity) of the Entity's Jurisdiction of residence or any political subdivision thereof;

but does not include any Entity carrying on a trade or business that is not directly related to the purposes for which it was established.

**Non-Qualified Refundable Tax Credit** means a tax credit that is not a Qualified Refundable Tax Credit but that is refundable in whole or in part.

**Non-qualifying Gain or Loss** means the lesser of the gain or loss of the disposing Constituent Entity arising in connection with a Pillar Two Reorganisation that is subject to tax in the disposing Constituent Entity's location and the financial accounting gain or loss arising in connection with the Pillar Two Reorganisation.

**OECD Model Tax Convention** means the OECD (2017), Model Tax Convention on Income and on Capital: Condensed Version 2017.

**Other Comprehensive Income** means items of income and expense that are not recognised in profit or loss as required or permitted by the Authorised Financial Accounting Standard used in the Consolidated Financial Statements. Other Comprehensive Income is usually reported as an adjustment to equity in the statement of financial position (balance sheet).

**Ownership Interest** means any equity interest that carries rights to the profits, capital or reserves of an

Entity (including a Flow-through Entity), including the profits, capital or reserves of a Main Entity's Permanent Establishment(s). For purposes of this definition:

- (a) an equity interest is an interest that is accounted for as equity under the financial accounting standard used in the preparation of the Consolidated Financial Statements of the Ultimate Parent Entity; and
- (b) where different types of equity interests are issued by an Entity, equal regard should be given to each equity interest that carries rights to profits, capital or reserves, unless otherwise provided by a provision of this Decision.

**Parent Entity** means an Ultimate Parent Entity that is not an Excluded Entity, an Intermediate Parent Entity, or a Partially-Owned Parent Entity.

**Partially-Owned Parent Entity** means a Constituent Entity (other than an Ultimate Parent Entity, Permanent Establishment, or Investment Entity) that:

- (a) owns (directly or indirectly) an Ownership Interest in another Constituent Entity of the same MNE Group; and
- (b) has more than 20% of the Ownership Interests in its profits held directly or indirectly by persons that are not Constituent Entities of the MNE Group.

**Passive Income** means income included in Pillar Two Income that is:

- (a) a dividend or dividend equivalents;
- (b) interest or interest equivalent;
- (c) rent;
- (d) royalty;
- (e) annuity; or
- (f) net gains from property of a type that produces income described in paragraphs (a) to (e),

but only to the extent a Constituent Entity-owner is subject to tax on such income under a Controlled Foreign Company Tax Regime or as a result of an Ownership Interest in a Hybrid Entity.

**Pension Fund** means:

- (a) an Entity that is established and operated in a Jurisdiction exclusively or almost exclusively to administer or provide retirement benefits and ancillary or incidental benefits to individuals:
  - i. regulated as such by that Jurisdiction or one of its political subdivisions or local authorities; or
  - ii. those benefits are secured or otherwise protected by national regulations and funded by a pool of assets held through a fiduciary arrangement or trustor to secure the fulfilment of the corresponding pension obligations against a case of insolvency of the MNE Group; and
- (b) a Pension Services Entity.

**Pension Services Entity** means an Entity that is established and operated exclusively or almost exclusively:

- (a) to invest funds for the benefit of Entities referred to in paragraph (a) of the definition of Pension Fund; or
- (b) to carry out activities that are ancillary to those regulated activities carried out by the Entities referred to

in paragraph (a) of the definition of Pension Fund provided that they are members of the same Group.

**Permanent Establishment** means:

- (a) a place of business (including a deemed place of business) situated in a Jurisdiction and treated as a permanent establishment in accordance with an applicable Tax Treaty in force provided that such Jurisdiction taxes the income attributable to it in accordance with a provision similar to Article 7 of the OECD Model Tax Convention on Income and on Capital;
- (b) if there is no applicable Tax Treaty in force, a place of business (including a deemed place of business) in respect of which a Jurisdiction taxes under its domestic law the income attributable to such place of business on a net basis similar to the manner in which it taxes its own tax residents;
- (c) if a Jurisdiction has no corporate income tax system, a place of business (including a deemed place of business) situated in that Jurisdiction that would be treated as a permanent establishment in accordance with the OECD Model Tax Convention on Income and on Capital provided that such Jurisdiction would have had the right to tax the income attributable to it in accordance with Article 7 of that model; or
- (d) a place of business (or a deemed place of business) that is not already described in paragraphs (a) to (c) through which operations are conducted outside the Jurisdiction where the Entity is located provided that such Jurisdiction exempts the income attributable to such operations.

**Pillar Two Implementation Framework** means the procedures to be developed by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting in order to develop administrative rules, guidance, and procedures that will facilitate the co-ordinated implementation of the Pillar Two Model Rules.

**Pillar Two Income of all Constituent Entities** is defined in Article 5.1.2(a)

**Pillar Two Income or Loss** of a Constituent Entity is defined in Article 3.1.1.

**Pillar Two Information Return** means the GloBE Information Return developed in accordance with the Pillar Two Implementation Framework that contains the information described in Article 15.

**Pillar Two Loss Deferred Tax Asset** is defined in Article 4.5.

**Pillar Two Loss Election** is defined in Article 4.5.1.

**Pillar Two Losses of all Constituent Entities** is defined in Article 5.1.2(b).

**Pillar Two Model Rules** means the model rules set out in the document entitled Tax Challenges Arising from the Digitalisation of the Economy — Global Anti-Base Erosion Model Rules (Pillar Two) published by the OECD on 20 December 2021.

**Pillar Two Reorganisation** means a transformation or transfer of assets and liabilities such as in a merger, demerger, liquidation, or similar transaction where:

- (a) the consideration for the transfer is, in whole or in significant part, equity interests issued by the acquiring Constituent Entity or by a person connected with the acquiring Constituent Entity, or, in the case of a liquidation, equity interests of the target (or, when no consideration is provided, where the issuance of an equity interest would have no economic significance);
- (b) the disposing Constituent Entity's gain or loss on those assets is not subject to tax, in whole or in part; and
- (c) the tax laws of the Jurisdiction in which the acquiring Constituent Entity is located require the acquiring Constituent Entity to compute taxable income after the disposition or acquisition using the disposing Constituent Entity's tax basis in the assets, adjusted for any Non-qualifying Gain or Loss on the

disposition or acquisition.

For purposes of this definition, transformation means a change in the form of an Entity and includes a contribution of assets to the capital of an existing Entity where the Entity does not issue new or additional Ownership Interests in exchange for the contributed property because the transaction does not result in a change in the relative ownership of the Entity.

**Pillar Two Revenue** is defined in Article 5.5.3(a) for the purposes of Article 5.5.2.

**Pillar Two Rules** means a Qualified IIR, Qualified UTPR or Qualified Domestic Minimum Top-up Tax including the provisions of this Decision.

**Policy Disallowed Expenses** means:

- (a) expenses accrued by the Constituent Entity for illegal payments, including bribes and kickbacks; and
- (b) expenses accrued by the Constituent Entity for fines and penalties that equal or exceed EUR 50,000 (or an equivalent in the functional currency in which the Constituent Entity's Financial Accounting Net Income or Loss was calculated).

**Portfolio Shareholding** means Ownership Interests in an Entity that are held by the MNE Group and that carry rights to less than 10% of the profits, capital, reserves, or voting rights of that Entity at the date of the distribution or disposition, or in the case of fair value movements, at the end of the Fiscal Year.

**Prior Period Errors and Changes in Accounting Principles** means all changes in the opening equity at the beginning of the Fiscal Year of a Constituent Entity attributable to:

- (a) a correction of an error in the determination of Financial Accounting Net Income in a previous Fiscal Year that affected the income or expenses includible in the computation of Pillar Two Income or Loss for such Fiscal Year, except to the extent such error correction resulted in a material decrease to a liability for Covered Taxes subject to Article 4.6; or
- (b) a change in accounting principle or policy that affects income or expenses includible in the computation of Pillar Two Income or Loss.

**Qualified Ancillary International Shipping Income** is defined in Article 3.3.3.

**Qualified Debt Release** means a debt release:

- (a) pursuant to a procedure undertaken under a statutorily provided insolvency or bankruptcy proceedings pursuant to domestic law that are:
  - i. supervised by a court or other judicial body in the relevant Jurisdiction; or
  - ii. under which an independent insolvency administrator is appointed;
- (b) pursuant to an arrangement with one or more creditors that are not closely related to the debtor and it is reasonable to assume based on an opinion of a qualified independent party that the debtor would be insolvent within 12 months of the date of the release in the absence of the release of debts owed to non-closely related creditors under the arrangement; or
- (c) where paragraphs (a) or (b) do not apply and the debtor's liabilities exceed the fair market value of its assets determined immediately before the debt release, the amount owed by the debtor to a non-closely related creditor to the extent of the lesser of:

- i. the excess of the debtor's liabilities over the fair market value of its assets determined immediately before the debt release; and
- ii. the reduction in the debtor's attributes under the tax laws of the Jurisdiction where the debtor is located resulting from the debt release.

For the purposes of this definition, a creditor is closely related to the debtor if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same persons or enterprises. In any case, a creditor or debtor shall be considered to be closely related to the other if either one possesses directly or indirectly more than 50% of the Ownership Interest in the other (or, in the case of a company, more than 50% of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) or if another person or enterprise possesses directly or indirectly more than 50% of the Ownership Interest (or, in the case of a company, more than 50% of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) in the creditor and debtor.

**Qualified Domestic Minimum Top-up Tax** means a tax under the law of a Jurisdiction that has the status of a qualified domestic minimum top-up tax for the Fiscal Year as determined by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting and published on the OECD's website in accordance with the definition of a Qualified Domestic Minimum Top-up Tax in Article 10.1 of the Pillar Two Model Rules.

**Qualified IIR** means a set of rules equivalent to Article 2.1 to Article 2.3 of the Pillar Two Model Rules that have qualified status for the Fiscal Year as determined by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting and published on the OECD's website in accordance with the definition of a Qualified IIR in Article 10.1 of the Pillar Two Model Rules.

**Qualified Imputation Tax** means a Covered Tax accrued or paid by a Constituent Entity that is refundable or creditable to the beneficial owner of a dividend distributed by such Constituent Entity (or, in the case of a Covered Tax accrued or paid by a Permanent Establishment, a dividend distributed by the Main Entity) to the extent that the refund is payable, or the credit is provided:

- (a) by a Jurisdiction other than the Jurisdiction which imposed the Covered Taxes under a foreign tax credit regime;
- (b) to a beneficial owner of the dividend that is subject to tax at a nominal rate that equals or exceeds the Minimum Rate on the dividend on a current basis under the domestic law of the Jurisdiction which imposed the Covered Taxes on the Constituent Entity;
- (c) to an individual beneficial owner of the dividend who is tax resident in the Jurisdiction which imposed the Covered Taxes on the Constituent Entity and who is subject to tax on the dividends as ordinary income; or
- (d) to a Governmental Entity, an International Organisation, a resident Non-profit Organisation, a resident Pension Fund, a resident Investment Entity that is not a Group Entity, or a resident life insurance company to the extent that the dividends are received in connection with a pension fund business and subject to tax in a similar manner as a dividend received by Pension Fund.

For purposes of paragraph (d), a Non-Profit Organisation or Pension Fund is resident in a Jurisdiction if it is created and managed in that Jurisdiction, and an Investment Entity is resident in a Jurisdiction if it is created and regulated in the Jurisdiction. A life insurance company is resident in the Jurisdiction in which it is located.

**Qualified Ownership Interest** means:

- (a) an investment in a Tax Transparent Entity:
  - (i) that is treated as an equity interest for local tax purposes; and
  - (ii) that would be treated as an equity interest under an Authorised Financial Accounting Standard in

the Jurisdiction in which the Tax Transparent Entity operates, where the assets, liabilities, income, expenses, and cash flows of the Tax Transparent Entity are not consolidated on a line-by-line basis in the Consolidated Financial Statements of the Ultimate Parent Entity; and

- (b) the total return with respect to that investment (including distributions and benefits of tax losses and Qualified Refundable Tax Credits derived through the Tax Transparent Entity, but excluding tax credits other than Qualified Refundable Tax Credits) is expected to be less than the total amount invested by the investor such that a portion of the investment will be returned in the form of tax credits other than Qualified Refundable Tax Credits (regardless of whether such tax credits are expected to be transferred or used to reduce the investor's Covered Tax liability).

For purposes of paragraph (b), the determination of the expected total return is made at the time the investment is entered into and is based on facts and circumstances, including the terms of the investment.

An investment will not be considered a Qualified Ownership Interest:

- (a) unless the investor has a bona fide economic interest in the Flow-Through Entity and is not protected from loss of its investment; or
- (b) where a Jurisdiction only permits the benefits of tax credits to be transferred through such interests when the developer or investor is subject to the Pillar Two Model Rules.

**Qualified Refundable Tax Credit** means a refundable tax credit designed in a way such that it must be paid as cash or available as cash equivalents within four years from when a Constituent Entity satisfies the conditions for receiving the credit under the laws of the Jurisdiction granting the credit. A tax credit that is refundable in part is a Qualified Refundable Tax Credit to the extent it must be paid as cash or available as cash equivalents within four years from when a Constituent Entity satisfies the conditions for receiving the credit under the laws of the Jurisdiction granting the credit. A Qualified Refundable Tax Credit does not include any amount of tax creditable or refundable pursuant to a Qualified Imputation Tax or a Disqualified Refundable Imputation Tax.

**Qualified UTPR** means a set of rules equivalent to Article 2.4 to Article 2.6 of the Pillar Two Model Rules that have qualified status for the Fiscal Year as determined by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting and published on the OECD's website in accordance with the definition of a Qualified UTPR in Article 10.1 of the Pillar Two Model Rules.

**Qualified Flow-through Tax Benefit** means a tax benefit that has flowed through a Qualified Ownership Interest attributable to a:

- (a) tax credit, other than a Qualified Refundable Tax Credit; or
- (b) a tax deductible loss.

**Qualifying Competent Authority Agreement** means a bilateral or multilateral agreement or arrangement between Competent Authorities that provides for the automatic exchange of annual Pillar Two Information Returns.

**Real Estate Investment Vehicle** means an Entity the taxation of which achieves a single level of taxation either in its hands or the hands of its interest holders (with at most one year of deferral), provided that the Entity holds predominantly immovable property and is itself widely held. A tax neutral vehicle that holds Ownership Interest in a Real Estate Investment Vehicle is treated as being subject to a single level of taxation.

**Recaptured Deferred Tax Liability** is defined in Article 4.4.4.

**Recapture Exception Accrual** is defined in Article 4.4.5.

**Reductions to Covered Taxes** is defined in Article 4.1.3.

**Reporting Fiscal Year** means the Fiscal Year that is the subject of the Pillar Two Information Return or Top-up Tax Return.

**Restricted Tier One Capital** means an instrument issued by a Constituent Entity pursuant to prudential regulatory requirements applicable to the insurance sector that is convertible to equity or written down if a pre-specified trigger event occurs and that has other features which are designed to aid loss absorbency in the event of a financial crisis.

**Short-term Portfolio Shareholding** means a Portfolio Shareholding that has been economically held by the Constituent Entity that receives or accrues the dividends or other distributions for less than one year at the date of the distribution.

**Stapled Structure** means an arrangement entered into by two or more Ultimate Parent Entities of separate Groups, under which:

- (a) 50% or more of the Ownership Interests in the Ultimate Parent Entities of the separate Groups are by reason of form of ownership, restrictions on transfer, or other terms or conditions combined with each other, and cannot be transferred or traded independently. If the combined Ownership Interests are listed, they are quoted at a single price; and
- (b) one of those Ultimate Parent Entities prepares Consolidated Financial Statements in which the assets, liabilities, income, expenses and cash flows of all the Entities of the Groups are presented together as those of a single economic unit and that are required by a regulatory regime to be externally audited.

**Stateless Constituent Entity** means a Constituent Entity described in Article 18.3.2(b) and Article 18.3.3(d).

**Substance-based Income Exclusion** is defined in Article 5.3.

**Substitute Loss Carry-forward Deferred Tax Asset** means a deferred tax asset that derives from a:

- (a) foreign tax credit provided that all of the following conditions apply:
  - (i) the Jurisdiction requires that foreign source income offset domestic source losses before foreign tax credits may be applied against tax imposed on foreign source income;
  - (ii) the Constituent Entity has a domestic tax loss that is fully or partially offset by foreign source income; and
  - (iii) the domestic tax regime allows foreign tax credits to be used to offset a tax liability in a subsequent year in relation to income that is included in the computation of the Constituent Entity's Pillar Two Income or Loss; or
- (b) loss recapture mechanism applicable in a Controlled Foreign Company Tax Regime that:
  - (i) provides for an equivalent or less generous result as the one in paragraph (a) of this definition; and
  - (ii) similarly allows excess foreign tax credits arising in a subsequent year to offset the domestic tax liability on domestic source income that has been re-sourced as foreign income.

**Tax** means a compulsory unrequited payment to General Government.

**Taxable Distribution Method** is defined in Article 7.4.2.

**Tax Treaty** means an agreement for the avoidance of double taxation with respect to taxes on income and on capital.

**Tested Year** is defined in Article 7.4.5.

**Testing Period** is defined in Article 7.4.5.

**Top-up Tax** means the top-up tax computed for the UAE, the Jurisdiction or Constituent Entity pursuant to Article 5.2, as the context requires.

**Top-up Tax Return** is the tax return referred in Article 8.1.

**Top-up Tax Percentage** is defined in Article 5.2.1.

**Total Deferred Tax Adjustment Amount** is defined in Article 4.4.1.

**Transition Year**, for a Jurisdiction, means the first Fiscal Year that the MNE Group comes within the scope of a Qualified IIR or Qualified UTPR in respect of that Jurisdiction or the Top-up Tax under this Decision.

**Ultimate Parent Entity (UPE)** is defined in Article 1.4.

**Undistributed Net Pillar Two Income** is defined in Article 7.4.3.

**UPE Jurisdiction** means the Jurisdiction where the Ultimate Parent Entity is located.

**UTPR** means the provisions of a Jurisdiction that are equivalent to Article 2.4 to Article 2.6 of the Pillar Two Model Rules.

**UTPR Jurisdiction** means a Jurisdiction that has a Qualified UTPR in force.

**UTPR Top-up Tax Amount** means the amount of Top-up Tax allocated to a UTPR Jurisdiction under the UTPR.

## **Article 18.2. Definitions of Flow-through Entity, Tax Transparent Entity, Reverse Hybrid Entity, and Hybrid Entity**

18.2.1 An Entity is a **Flow-through Entity** to the extent it is fiscally transparent with respect to its income, expenditure, profit or loss in the Jurisdiction where it was created unless it is tax resident and subject to a Covered Tax on its income or profit in another Jurisdiction.

(a) A Flow-Through Entity is a **Tax Transparent Entity** with respect to its income, expenditure, profit or loss to the extent that it is fiscally transparent in the Jurisdiction in which its owner is located.

(b) A Flow-Through Entity is a **Reverse Hybrid Entity** with respect to its income, expenditure, profit or loss to the extent that it is not fiscally transparent in the Jurisdiction in which the owner is located.

18.2.2 An Entity is treated as fiscally transparent under the laws of a Jurisdiction, if that Jurisdiction treats the income, expenditure, profit or loss of that Entity as if it were derived or incurred by the direct owner of that Entity in proportion to its interest in that Entity.

18.2.3 An Ownership Interest in an Entity or a Permanent Establishment that is a Constituent Entity shall be treated as held through a **Tax Transparent Structure** if that Ownership Interest is held indirectly through a chain of Tax Transparent Entities.

18.2.4 A Constituent Entity that is not a tax resident and not subject to a Covered Tax or a Qualified Domestic Minimum Top-up Tax based on its place of management, place of creation, or similar criteria shall be treated as a Flow-Through Entity and a Tax Transparent Entity in respect of its income, expenditure, profit or loss to the extent that:

- (a) its owners are located in a Jurisdiction that treats the Entity as fiscally transparent;
- (b) it does not have a place of business in the Jurisdiction where it was created; and
- (c) the income, expenditure, profit or loss is not attributable to a Permanent Establishment.

18.2.5 An Entity that is treated as a separate taxable person for income tax purposes in the Jurisdiction where it is located is a **Hybrid Entity** with respect to its income, expenditure, profit or loss to the extent that it is fiscally transparent in the Jurisdiction in which its owner is located.

### **Article 18.3. Location of an Entity and a Permanent Establishment**

18.3.1 The location of an Entity that is not a Flow-through Entity is determined as follows:

- (a) if it is a tax resident in a Jurisdiction based on its place of management, place of creation or similar criteria, it is located in that Jurisdiction; and
- (b) in other cases, it is located in the Jurisdiction in which it was created.

18.3.2 The location of an Entity that is a Flow-through Entity is determined as follows:

- (a) if it is the Ultimate Parent Entity of the MNE Group or it is required to apply an IIR in accordance with an equivalent provision to Article 2.1 of the Pillar Two Model Rules, it is located in the Jurisdiction where it was created; and
- (b) in other cases, it shall be treated as a stateless Entity.

18.3.3 The location of a Permanent Establishment is determined as follows:

- (a) if it is described in paragraph (a) of the definition in Article 18.1, is located in the Jurisdiction where it is treated as a permanent establishment and is taxed under the applicable Tax Treaty in force;
- (b) if it is described in paragraph (b) of the definition in Article 18.1, is located in the Jurisdiction where it is subject to net basis taxation based on its business presence;
- (c) if it is described in paragraph (c) of the definition in Article 18.1, is located in the Jurisdiction where it is situated; and
- (d) if it is described in paragraph (d) of the definition in Article 18.1, is considered as a stateless Permanent Establishment.

18.3.4 Where by reason of Article 18.3.1, a Constituent Entity is located in more than one Jurisdiction (a dual-located Entity), then its status for a Fiscal Year for purposes of this Decision shall be determined as follows:

- (a) if it is located in two Jurisdictions that have an applicable Tax Treaty in force:
  - (i) it shall be located in the Jurisdiction where it is considered as a deemed resident for purposes of the Tax Treaty;
  - (ii) if the Tax Treaty requires the competent authorities to reach a mutual agreement on the deemed residence of the Constituent Entity for purposes of the Tax Treaty and no agreement

exists, then paragraph (b) shall apply;

(iii) if the Tax Treaty does not provide relief or exemption from tax because the Constituent Entity is a tax resident of both Contracting Parties, then paragraph (b) shall apply;

(b) if no Tax Treaty applies, then its location shall be determined as follows:

(i) it shall be located in the Jurisdiction where it paid the greater amount of Covered Taxes for the Fiscal Year, without considering the ones paid in accordance with a Controlled Foreign Company Tax Regime;

(ii) if the amount of Covered Taxes paid in all Jurisdictions is the same or zero, it shall be located in the Jurisdiction where it has the greater amount of Substance-based Income Exclusion computed on an entity basis in accordance with Article 5.3;

(iii) if the amount of the Substance-based Income Exclusion in all Jurisdictions is the same or zero, then it is considered a Stateless Constituent Entity unless it is the Ultimate Parent Entity of the MNE Group in which case it shall be located in the Jurisdiction where it was created.

18.3.5 Where, under Article 18.3.4, a dual-located Entity that is a Parent Entity is located in a Jurisdiction where it is not subject to a Qualified IIR, then the other Jurisdiction(s) can require such Entity to apply its Qualified IIR unless it is restricted by an applicable Tax Treaty in force.

18.3.6 Where an Entity has changed its location during the Fiscal Year, it shall be located in the Jurisdiction where it was located at the beginning of that year.