WHAT YOU SHOULD KNOW ABOUT...

The OECD/G20 Base Erosion and Profit Shifting (BEPS) Project 2.0, Two–Pillar Solution

BEPS-plained!

BEPS 2.0

An international effort to revise corporate tax rules – more than 135 member jurisdictions of the Inclusive Framework on BEPS have agreed to the Two-Pillar solution.

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Pillar 1

Will re-allocate some profits and in turn, taxes, from jurisdictions where the economic activities are conducted to where the markets (i.e. the customers) are. Under Pillar 1, Singapore will lose tax revenue because, although we have substantial economic activity based here, we have a small population and a small domestic market.

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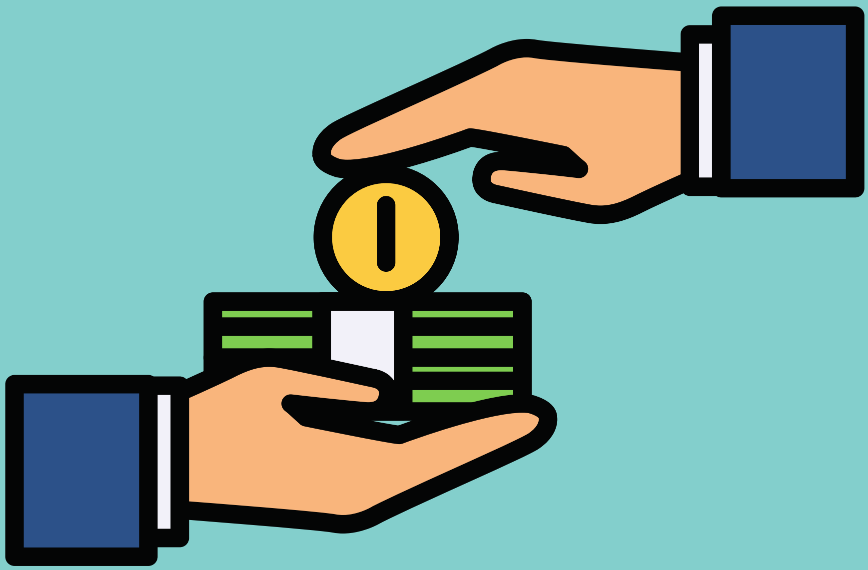

Pillar 2 consists of two components

(1) The Global Anti-Base Erosion (GloBE) Model Rules introduce a minimum effective tax rate (ETR) of 15% for large Multinational Entity (MNE) groups. If a MNE has an ETR of less than 15% in Singapore at the group level, other jurisdictions can collect the difference of up to 15%.

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Pillar 2 consists of two components

(2) The Subject-to-Tax Rule (STTR) allows a jurisdiction A to impose additional tax of up to 9% on certain payments (such as interest and royalty) that an entity in A makes to related entities in another jurisdiction B, if that payment is taxed at less than 9% in B.

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Responding to Pillar 2 GloBE

Singapore will adjust our tax system in response to Pillar 2 GloBE. We are exploring the possible implementation of a Minimum Effective Tax Rate (METR) top-up tax on affected MNE groups to raise the MNE group's effective tax rate in Singapore to 15%.

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BUDGET 2022

Potential impact of BEPS 2.0

It is difficult to assess the potential impact of BEPS 2.0 on our revenue collections given that international negotiations are still on-going and given data limitations. The eventual revenue impact also depends on how other Governments and the affected MNEs further react to implemented changes in international tax rules.

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The need to reinvest

While BEPS 2.0 may reduce the room for tax competition among countries, it does not reduce economic competition, including for investments. Singapore will continue to face many competitors around the world.

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The need to reinvest

Additional corporate tax revenue that can be generated from BEPS 2.0 (including METR, if implemented) will need to be reinvested to enhance our competitiveness.

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Post–BEPS 2.0

We will need to continually invest in our people, infrastructure and our business environment, to stay competitive in a post-BEPS 2.0 world. Only then will we be able to thrive, with steady economic growth and good jobs for Singaporeans.

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