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Computation and Allocation of Top-Up Tax Under the Finnish Minimum Tax Act

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Abstract:

The OECD has developed rules on global minimum taxation as part of the Base Erosion and Profit Shifting project. These rules aim to ensure a minimum tax level of 15% for all large-scale groups by imposing a top-up tax on entities in low-taxed jurisdictions. Determining the groups that are subject to this new tax is done through a rather complex set of rules that compute an effective tax rate on a jurisdictional basis, based on the qualifying income and covered taxes of the group's constituent entities. If the effective tax rate of the jurisdiction does not meet the criteria, a top-up tax must also be computed and allocated to the appropriate entities. These rules have been implemented into Finnish legislation with the act 'laki suurten konsernien vähimmäisverosta' (1308/2023; Minimum Tax Act). The act is based on the EU's Minimum Tax Directive and, further, on the OECD's Global Anti-Base Erosion Model rules, and includes complex rules for the calculations necessary for the minimum taxation.

As the rules are complex and new, and the minimum taxation introduces numerous constructs, a general systematisation is needed. This master's thesis aims to answer questions on the computation and allocation rules of the Minimum Tax Act, as well as the information return requirements that are set out to report the results of computations. The questions are answered by analysing the components of qualifying income, covered taxes, effective tax rate, income inclusion rule, and under-taxed profits rule. These items are assessed both from the perspectives of taxation and financial accounting. To answer the latter question, the draft proposals for the information return are analysed.

The thesis concludes that for the computation rules set out in the Minimum Tax Act, both the financial accounting and taxation backgrounds must be taken into account. The items used in the rules are generally derived from the financial accounts, but certain adjustments are needed to align their treatment with the taxation rules in order to ensure the correct calculation of the effective tax rate – and top-up taxes if necessary. The information return, on the other hand, is an electronic form to report the numbers for the minimum tax computation. Issues with it may arise, however, if the national implementation fails to standardise its structure and contents. All in all, the landscape around the minimum tax act is constantly evolving and thus the thorough understanding of the basic rules of the act is key to ensuring compliance.

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Abbreviations

BEPS	Base Erosion and Profit Shifting
CbCR	Country-by-Country Reporting
DAC	Directive on Administrative Cooperation in the field of taxation
DMTT	Domestic Minimum Top-up Tax
ETR	Effective Tax Rate
GloBE	Global Anti-Base Erosion
IAS	International Accounting Standards
IF	Inclusive Framework
IFRS	International Financial Reporting Standards
IIR	Income Inclusion Rule
MNE	Multinational Enterprise
OECD	Organisation for Economic Co-operation and Development
PE	Permanent Establishment
QRTC	Qualified Refundable Tax Credit
UPE	Ultimate Parent Entity
UTPR	Undertaxed Payments Rule
XML	Extensible Markup Language

1 Introduction

1.1 Background and context

1.1.1 Base erosion and profit shifting project and the Pillar II

Base erosion and especially profit shifting constitute a serious risk to tax revenues, tax sovereignty, and fairness globally. This issue arises from the overlap of domestic tax rules and international rules designed to address double taxation, which create loopholes that can eliminate or significantly reduce taxation. To tackle this issue, the OECD developed a 15-point action plan initially released in 2013, which included instruments to better distribute taxing rights so that they align with the genuine economic activities. The action plan aims to provide a solution where profits are reported where the economic activities that generate them are carried out and where the value is created.[1]

To develop standards on base erosion and profit shifting (BEPS) related issues and to monitor the implementation of the project, the OECD and G20 established an Inclusive framework on BEPS. As of 2021, the Inclusive Framework, which consisted of 140 members representing over 95% of global GDP, released a two-pillar solution aimed at reforming international taxation and ensuring that taxes are paid in the jurisdictions where multinational groups actually operate.[2] As the Inclusive framework itself is not a legislative body, the released rules are drafted as model rules that act as a template with which jurisdictions can implement them.[3]

The first part of the approach, commonly referred to as Pillar One applies to large multinationals and reallocates taxable income among market jurisdictions.[4] The second part of the rules, or Pillar Two, consists of the Global Base Erosion (GloBE) Rules and the Subject to Tax Rule (STTR). The Pillar Two rules aim to provide a model for a system of international taxation where large multinational enterprises are taxed on their income in their operating countries at a minimum level. To ensure this minimum level of tax, the system under the GloBE rules sets a top-up tax to ensure

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[1] OECD 2013, pp. 5-8.
[2] OECD 2021a, p. 3.
[3] OECD 2021a, pp. 9.
[4] See OECD 2021b.

that profits are not taxed below the minimum rate.[5] The top-up tax is either imposed under the income inclusion rule to the parent entity or to other constituent entities in the group in accordance with the under taxed profits rule.

Subject to tax rule (STTR) is intended to help developing nations with limited administrative capacity protect their tax base. A developing country is defined as a state with a per capita GNI of USD 12,535 or less in 2019. The STTR applies to interest, royalties, and a set of other payments made between constituent entities and operates by allowing the source jurisdiction to apply additional tax that is recognised in the residence jurisdiction. It is implemented in tax treaties between developed and developing countries with the model STTR rules provided by the OECD.[6] Despite the OECD's intention, the STTR may also be included in tax treaties between developed countries.[7] The STTR allows the source jurisdiction to tax only at a rate limited to the difference between 9% of the gross amount of the relevant payment and the sum of the tax that the residence jurisdiction is entitled to impose on the payment under the tax treaty and the nominal corporate tax rate on the payment imposed by the residence jurisdiction. This also limits the scope of the application of the rule.[8]

1.1.2 Global base erosion rules and their implementation to the Finnish legislation

The GloBE rules have been adopted by the European Union with the Council's Directive 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union (hereinafter also referred to as Minimum Tax Directive). Although the GloBE model rules and the EU Minimum Tax Directive set a framework for the minimum tax calculations and reporting, many questions are still left to be resolved by the national governments.[9]

The Minimum Tax Directive was then implemented in the Finnish national legislation with the Minimum Tax Act.[10] According to the Governmental Proposal for Minimum Tax Act, the estimation of the impacts on tax income is difficult. However,

[5] OECD 2021a, p. 8.
[6] OECD 2023a, p. 3.
[7] Arnold 2024, p. 47.
[8] Ibid. p. 46.
[9] Tiitta – Männistö 2024, p. 2.
[10] Laki suurten konsernien vähimmäisverosta, 1308/2023.

a rough estimate suggests that the rules implemented will increase the national income from taxation by approximately 20 million euros per year during the first years after the implementation. The more important impact of the legislation will be indirect, as the legislation is expected to lower profit shifting and tax competition. The Governmental Proposal estimates that approximately 60-80 groups that have their ultimate parent entity in Finland will be within the scope of the legislation. Constituent entities in scope in Finland are estimated to be 2 800. A significant effect on these entities will be the administrative burden caused by the complex set of rules, especially for multinational groups. Administrative costs will also increase for the public side as the Tax Administration has to invest approximately 2 million euros in new IT systems and personnel to handle the new information returns. Additional costs will also be incurred in the future for monitoring, coordination, analytics, and risk management by the Tax Administration.[11]

The legislative framework set out by the GloBE rules, the Minimum Tax Directive, and the Finnish Minimum Tax Act is quite complex, with the Finnish act covering 200 sections. The contents of the act are further explained in the Governmental Proposal for the act, which in itself covers over 200 pages. Additionally, the OECD has provided a significant number of commentaries and guidance that further elaborate on the issues within the framework. Despite this, there has been only a limited amount of research on the subject, especially in the Finnish context.[12]

Furthermore, the act has been criticised for unclear and various definitions, which will further leave them open to interpretation. The Finnish Tax Administration states that it will publish its guidance on the practical implications of the minimum tax during the year 2024, but as of early November 2024, the Finnish Tax Administration has not yet published any administrative guidance on the Minimum Tax Act.[13] This means that there is a strong need for the systematisation of the subject as well as interpretation of the questions arising from the complex network of rules.

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[11] HE 77/2023 vp, pp. 26-29.
[12] Tiitta – Männistö p. 2.
[13] Tax Administration 2024a.

1.2 Subject of study and research questions

The Minimum Tax Act requires large groups to compute and report their income, effective tax rate, and top-up tax amount starting from the year 2024 and to submit their first top-up tax information return in June 2026. Owing to the complexity of the computation and reporting rules, this study aims to provide a general overview of the rules. In practice, this means determining the formulas needed for the computation of income (Chapter 3 of the Minimum Tax Act), covered taxes (Chapter 4), effective tax rate, and top-up tax amount (Chapter 5), as well as identifying the correct entities and the allocation basis required to perform the calculations. After establishing the rules, this study discusses the structure of the information return and certain issues related to it. To achieve this goal, this thesis aims to answer the following research questions:

1. What are the computation and allocation rules for the amount of top-up tax under the Finnish Minimum Tax Act?

2. What are the structural components, data requirements and potential challenges associated with the top-up tax information return outlined by the OECD and the EU's proposal for DAC9 directive?

This thesis operates within the Finnish Minimum Tax Act and does not, therefore, address the rules in other implementing jurisdictions. Many of the computation rules should be similar, however, as they are based on the GloBE model rules and the Minimum Tax Directive. The other part of the Pillar II package, i.e., the STTR, is not further analysed in this thesis due to the separate nature of the STTR and the fact that its application is limited owing to the requirement of separate provisions in tax treaties to be relevant. However, the STTR could be a potential subject for further studies.

The transitional rules, i.e., safe harbour rules, are also outside the scope of this thesis because of their transitional nature. Certain limitations to the industries in which the groups operate are also made, as the international maritime shipping industry is left out, given that they have separate and complex rules, for example, for the definition of income. The Minimum Tax Act also sets certain specific rules for the financial industry that are not analysed in depth in this study.

The Minimum Tax Act also governs restructuring and holding structures, which are likewise outside the scope of this study. Similarly, tax neutrality and distribution regimes are not further discussed in this study. Domestic minimum top-up taxes are only briefly introduced in this thesis as they are required for the computation of the effective tax rate. These items would also require further studies due to their complex set of rules and evolving guidance. Another briefly touched-upon subject is tax credits, which have received attention from the OECD in their guidance but are merely introduced in this study – again to allow for the computation of the effective tax rate.

1.3 Methodology and source material

1.3.1 Methodology

The questions presented in Chapter 1.2 are answered by systemising the legislative framework with the legal-dogmatic research method. Although the exact nature of legal dogmatics is not agreed upon among legal theorists, it can be described as research that aims to give a systematic exposition of the principles, rules, and concepts governing a particular legal field or institution. Thereafter, legal dogmatics analyses the relationship between the principles, rules, and concepts and attempts to resolve uncertainties and gaps in the existing law. In this way, a researcher can describe, legitimise, or identify solutions that best fit the system.[14] Key to conducting the analysis and solving the questions arising is to define precise and consistent legal concepts.[15]

The subject of legal dogmatic research are the legal sources with which information on the existing legal framework can be acquired. In Finland, legal sources are traditionally divided into three categories with a hierarchical order. The highest level of legal sources are the strongly binding sources, i.e., legislation and customary law. The second level pertains to weakly binding sources such as the purpose of the legislator and case law. The lowest level includes, acceptable sources, that are, for example, jurisprudence and general principles.[16] This approach does not fully account

[14] Smits 2015, pp. 209-222.
[15] Aarnio 1997, p. 40-49.
[16] Hirvonen 2020, p. 954-957.

for the role of EU law or soft law, which are especially important for the purposes of this thesis. The construct of legal sources is a methodological tool to evaluate, compare and interpret different sources and their views. In practice the hierarchy of the sources may be much more vague, and they could also be seen as supporting each other. For instance, an act on taxation in itself may be clear, but the use of other legal sources may reveal its ambiguity.[17]

The main legal sources for international taxation are legislation, customary law, case law, and jurisprudence. Legislation may also be divided into national and non-national sources, where non-national includes, for example, EU legislation. EU legislation consists of primary and secondary law. Primary law includes, for example, the fundamental rights and other sources that are binding on the member states as such. Secondary law includes regulations and directives, as well as decisions, recommendations, and opinions that are not in themselves binding on the member states. As directives, such as the Minimum Tax Directive, are implemented by the member states with national legislation, situations may arise where these two pieces are contradictory. The interpretive effect of EU legislation means that in an ambiguous situation with national and secondary EU legislation, the interpretation of the national act should follow the purpose of the EU legislation as closely as possible.[18]

As the legal dogmatic method is only limited to the systematisation and interpretation of existing law, it requires supporting method, which for this thesis is *de lege ferenda*. *De lege ferenda* is primarily used in assessing the solutions on the problems identified using the legal dogmatic method. The analysis performed on the information return in Chapter 6 of this thesis is done by presenting an overall view of the information requirements and then comparing these to the requirements of the Minimum Tax Act. Owing to the limited research and practical experience with the Minimum Tax Act, tax planning can also be used as a supporting method in this study. In tax planning, the aim is to either mitigate taxes or identify the effects of taxation on other decision-making processes. Unlike illegal tax evasion, tax planning operates within the intentional choices made by the legislator.[19]

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[17] Myrsky 2016, pp. 23-24.
[18] Malmgrén – Myrsky 2017, pp. 14-17.
[19] Knuutinen 2012, pp. 4-5.

In the course of preparing this master's thesis, generative artificial intelligence tools have been utilised as part of the proofreading process. Specifically, OpenAI's GPT-4 Turbo model has been employed to ensure the grammatical correctness of the text. The suggestions provided by the language model have been validated manually, and it has not been used to generate new text.

1.3.2 Sources

The main sources of legislation for this study are the Minimum Tax Act and the Minimum Tax Directive, which lay down the legislative framework on minimum taxation. The Governmental Proposal for the Minimum Tax Act serves as a tool to interpret the meaning of the Act itself. The Minimum Tax Act has already received a new Governmental Proposal to amend it, partly because the OECD has provided further guidance on certain issues.[20] These new proposals are utilised in this study.

To analyse the financial accounting rules needed for the minimum tax computations, IFRS is utilised. An alternative solution would have been to use Finnish accounting principles, but due to the international nature of the subject and the fact that most groups within the scope are obliged to report using IFRS due to their status as publicly listed entities, IFRS is better suited to the purposes of this study.

Due to the emergent nature of the subject, legal research on it is still limited. For the same reason, there is no case law around the minimum tax legislation. The Finnish Tax Administration publishes guidance for taxpayers, which contains the Tax Administration's recommendations for the interpretation and instructions for the application of the legislation. Despite its non-binding nature, it is usually highly informative and offers help in interpreting the legislation in a more practical manner.[21] As of early November 2024, the Finnish Tax Administration has not yet published its guidance on the Minimum Tax Act. If such guidance were published, it would have been taken into consideration; however, in its absence, this thesis relies on the OECD's commentary on the model rules.

[20] There are two Governmental proposals for the amendment. The first one HE 98/2024 introduces new legislation and the second one HE 156/2024 supplements the first proposal with minor corrections.
[21] Myrsky 2014, pp. 354-355.

The role of the OECD guidance, especially the Consolidated Commentary to the Global Anti-Base Erosion Model Rules, is important for the Finnish Minimum Tax Act and, due to a lack of other sources, for this thesis as well. It has been evaluated that the role of the OECD in interpretation will further increase in the future.[22] Even though the Pillar II is implemented nationally, the rules implemented are mainly drafted by the OECD, which does not possess the official authority as a legislative body but rather has the knowledge and resources in the substance of global taxation. It has been evaluated that the approach taken by the Finnish legislator leads to a situation where the national legislation is impacted by OECD commentaries and administrative guidance. Also, the fact that the Finnish Tax Administration will rely on OECD guidance when giving its own guidance to Finnish taxpayers raises the potential issue with the hierarchy of legal sources, where the OECD's guidance might contradict the nationally implemented legislation.[23] To this note, it must be reminded that the Governmental Proposals and the OECD's material cannot expand the obligations set out in the legislation, as under Section 81 of the Finnish Constitution, the state tax is governed by an Act containing provisions on the grounds for liability and the amount of tax.

To ensure objectivity and find alternative points of view, this study utilises the expert opinions that have been given during the development of the legislation. These are typically the opinions of scholars, industries affected, tax advisors such as the Big Four, and the implementing authorities. These actors often highlight points missed by the OECD, as well as raise issues that may occur based on the legislation.

1.4 Structure

This study largely adheres to the structure of the Minimum Tax Act, albeit with a slight rearrangement of the order. In a similar vein to the Act, this study commences with definitions of the groups and entities that fall within the scope of the legislation in Chapter 2. The rearrangement occurs in subsequent chapters, as this study introduces the components required to compute and apply the top-up tax rules prior to the Minimum Tax Act, which presents the top-up tax rules initially. Consequently, Chapter 3 introduces the first element in the effective tax rate calculation, specifically

[22] Malmgrén 2023, p. 3.
[23] Tiitta – Männistö, pp. 282-284.

the qualifying income. Thereafter, Chapter 4 discusses the second component of the effective tax rate formula, namely the covered taxes. Having established the effective tax rate formula, Chapter 5 elucidates the computation rules for top-up taxes based on this formula, as well as the charging provisions of the income inclusion rule and the under-taxed profits rule. Finally, Chapter 6 scrutinises the information return requirements.

2 Definition of the groups in scope

2.1 Constituent Entities form large groups

The Minimum Tax Act applies to Constituent Entities that are part of a Large Multinational Enterprise Group or a Large-Scale Domestic Group, which exceeds a minimum of 750 million euros of annual revenue (Minimum Tax Act Chapter 1 Section 2). Additionally, the EUR 750 million threshold has to be met in two of the last four preceding fiscal years. The act applies to all groups, regardless of their industry if they don't fulfil the criteria of excluded entity.[24]

The construct of 'constituent entity' is essential, since the Minimum Tax Act is applied to them.[25] The definition for entity covers all types of legal persons and other arrangements that have separate bookkeeping (Chapter 1 Section 4 of the Act, Article 3 of the Minimum Tax Directive). The definition is broad meaning that some actors which are not considered as legal persons in certain jurisdictions may still be regarded as entities in accordance with the Act.[26] In accordance with Chapter 1 Section 5 of the Minimum Tax Act, an entity part of a multinational enterprise group is a constituent entity. The definition also covers permanent establishments of entities if their main entity is a constituent entity.

An Ultimate Parent Entity is an entity that controls directly or indirectly a controlling interest in any other entity and that is not controlled by any other entity (Chapter 1 Section 19 of the Minimum Tax Act). The collective of constituent entities, whose financial attributes such as assets, liabilities, income, expenses, and cash flows are consolidated within the financial statements of the Ultimate Parent Entity, is recognized as a 'group' under the provisions of Chapter 1 Section 6. In accordance with the Chapter 1 Section 7, a Multinational Enterprise (MNE) Group constitutes of an Ultimate Parent Entity in a jurisdiction and at least one other constituent entity in another jurisdiction. If all constituent entities are placed in a single EU country, the group is considered a large-scale domestic group. It is important to note that under Article 1.1.1 of the OECD Model Rules, only MNE groups are in scope, whereas in

[24] HE 77/2023 vp, p. 8.
[25] HE 77/2023 vp, p. 35.
[26] HE 77/2023 vp, p. 35.

accordance with the EU Minimum Tax Directive's Article 2 and Chapter 1, Section 2, Subsection 1 the Finnish rules apply to large-scale domestic groups as well.

Given the centralised position of the Ultimate Parent Entity within the MNE group, it is typically this entity that possesses the most comprehensive oversight of the group's operations and is, therefore, best positioned to ensure that all constituent entities of the MNE group comply with the agreed minimum tax rate. Thus, the Ultimate Parent Entity located in the EU should primarily incur the reporting obligation.[27]

2.2 Excluded entities

The Minimum Tax Act is not applied to excluded entities which are defined in the Chapter 1, Section 3 of the act. This means that the top-up taxes under the income inclusion rule or the under taxed profits rule don't apply to them. Excluded entities of a group are also excluded from the GloBE computation, meaning that their attributes don't affect the group's calculations. Finally, administrative obligations under the GloBE rules are not applicable to excluded entities.[28] An important exclusion to the aforementioned is that Excluded Entities are accounted for as constituent entities when calculating the 750 MEUR threshold for the MNE group.[29]

Excluded entities can be divided into two categories. Firstly, excluded entities based on their activities are the following entities: Governmental Entities, International Organisations, Non-profit Organisations, and Pension Funds. Investment Funds that are regarded as investment entities under IFRS 10, and Real Estate Investment Vehicles that is a widely-held entity holding immovable property in accordance with the OECD model tax convention, are also part of the first category of if they are the UPE of the group.[30] The entities in the first category are entities that aren't typically included in the consolidated financial statements of a group.[31]

The second category of excluded entities are entities that pass the so-called ownership and activities tests. The ownership test is passed, if the owners of the entity concerned constitute of one or more excluded entities by 95 %. The threshold is

[27] Minimum Tax Directive, recital 8.
[28] OECD 2024a, p. 25.
[29] Mikkola 2022. p. 4.
[30] OECD 2024a, p. 243 and 275-276 and HE 77/2023 vp, p. 38.
[31] OECD 2024a, p. 28.

set to 95 % to allow small minority interest holders, that may be required by some jurisdictions. The ownership in the entity is measured by value, meaning the percentage of the overall value of the right that entitle to the entity's profits, capital or reserves. In other words, the excluded entity must own over 95 % of the value of the other entity and *de facto* benefit from that ownership.[32]

Activities test on the other hand the entity operates to hold assets or invest funds for the benefit of the owner, or it carries out ancillary tasks for the owner. The OECD's GloBE commentary clarifies that the excluded entity can both carry out ancillary activities and hold assets for the owner.[33] Such an excluded entity isn't allowed to perform other activities and it should only offer its services to the excluded entity that owns it.[34] That is, the entity to be excluded under this rule cannot offer its services to non-excluded entities, even if they are part of the same group.

Another collection of excluded entities are entities where at least 85 % of the value is owned by an excluded entity other than pension fund and substantially all of its income is dividends or equity gains that qualify as excluded from the computation of qualifying income in accordance with Chapter 3, Section 3, Subparagraph 3 or 5.

An excluded entity can be elected as constituent entity, should the reporting constituent entity so decide (Chapter 1, Section 3, Subsection 3 of the Minimum Tax Act). In accordance with Chapter 8, Section 11 of the Minimum Tax Act, the election is in force for five fiscal years starting from the fiscal year of the election (a so-called five-year-election).[35]

2.3 Establishing Location for the Constituent Entity

The location of a constituent entity is determined under the rules set out in the Chapter 1, Section 50 of the Minimum Tax Act. The location of a Constituent Entity is primarily determined based on its tax residency that is based on place of management, place of creation or similar criteria. If it's not possible to determine the location of a Constituent Entity in accordance with the tax residency rules to any jurisdiction, the location is of the Constituent Entity is in the place of its creation. The

[32] OECD 2024a, pp. 29-30.
[33] OECD 2024a, p. 25.
[34] HE 77/2023 vp, p. 35
[35] HE 77/2023 vp, p. 109.

aforementioned means, that in practice, the location of a Constituent Entity is determined also in the situation where it does not have a tax residency in any jurisdiction.[36] The location of a Constituent Entity is examined in the beginning of each fiscal year (Chapter 1 Section 54 of the Minimum Tax Act). This means that if the location of a Constituent Entity was in Finland in the beginning of the fiscal year, the location remains in Finland for the whole period.

The rules for constituent entities residing in multiple jurisdictions are set out in Chapter 1, Section 53. If the constituent entity is located in two jurisdictions, and the two have a tax treaty in force, the location is determined by the residency rules of the tax treaty (Chapter 1 Section 53 subsection 1 of the Minimum Tax Act). The situation where there is no tax treaty in place or where a mutual agreement by the competent authorities required by the treaty is not reached, the location of the constituent entity is determined under the Chapter 1 Section 53 subsection 2. A constituent entity is deemed to be located in where it has paid more covered taxes during the fiscal year. In the event that the amount of tax paid in both jurisdictions equals, the constituent entity is located in in the jurisdiction where its substance-based income exclusion is greater.[37] Should the substance-based income exclusion also be the same amount, and if the constituent entity is the UPE of the group, the UPE is deemed to locate in the place of its creation.

The definition of a flow-through entity is set out in section 45. An entity is a flow-through entity if it is transparent in taxation. This means that instead of taxing the entity on its profits, the owners of the entity are directly held liable. This is the situation with a limited partnership ("kommandiittiyhtiö").[38] Flow-through entities do not have a location under the Chapter 1 Section 51 of the Minimum Tax Act if they are not the ultimate parent entity of the group. UPEs that are also flow-through entities are located in the jurisdiction they are established in. Another exception for flow-through entities is that if the income inclusion rule is applied to them, they are located in the jurisdiction of their creation.

[36] Helminen 2024a, 9. KANSAINVÄLISEN KONSERNIN ERITYISKYSYMYKSIÄ>Suurten konsernien vähimmäisvero>Tavoite ja soveltamisala>Konserniyksikön sijaintipaikka>Yksikkö
[37] Covered taxes and substance-based income exclusion are discussed in further detail in chapter 4.
[38] HE 77/2023 vp, p. 42.

2.4 Filing entity of the top-up tax information return

The Minimum Tax Act imposes three different filing and notification obligations. In accordance with chapter 8 section 3, a constituent entity located in Finland is obligated to give a top-up tax information return to the Finnish Tax Administration. The obligation to prepare the information return is intended to be separate from the requirement to declare and pay taxes under a top-up tax return that is set out in the section 4 of the same chapter. The contents of the top-up tax information return derive from the EU directive, whereas the information requirements of the top-up tax return are used to determine the amount of top-up tax payable.[39] Additionally, the section 5 sets out the requirement to notify the relevant tax administration of the filing of the information return.

It is possible for the constituent entities of the Group to appoint one constituent entity as the designated local entity in accordance with section 1 and subsection 2 of section 3 of chapter 8. A designated local entity can file the top-up tax information return and submit notifications on behalf of other constituent entities in this group. Article 44 and section 5 stipulate that the designated local entity must be located either in one of the member states or in a jurisdiction with which Finland has a qualifying competent authority agreement in effect. In accordance with Chapter 8 section 1 subparagraph 2, a qualifying competent authority agreement means a bi- or multilateral agreement between the authorities that provides for the automatic exchange of annual top-up tax information returns.

The information shall be given within 15 months from the end of the accounting period, excluding the first year in which the Group falls under reporting obligation. In accordance with chapter 9 section 3, the first information return shall be given within 18 months from the end of the accounting period. This means that as the provisions are applied for the first time for tax year 2024, the first information returns are due on June 30th, 2026.

[39] HE 77/2023 vp, p. 107.

3 Calculation of Qualifying income

3.1 Determining Qualifying income

Qualifying income or loss or in the OECD terms GloBE income (or loss) is the first step in determining the effective tax rate (ETR) in a jurisdiction. For the sake of simplicity, 'Qualifying income' or ‘Qualifying loss' shall hereinafter be collectively referred to as Qualifying income, given that the underlying principles governing their calculation are identical. The ETR calculation, on the other hand, is always done using the same rules before selecting the applicable charging provision.[40] Qualifying income is calculated in accordance with Chapter 3 of the Minimum Tax Act by deducting the items of Sections 2 and 4-22 of Chapter 3 from the financial accounting net income or loss of a constituent entity. The financial accounting standard is the standard used in preparing the consolidated financial statements of the UPE and is considered before any eliminations of intra-group transactions.[41] Acceptable financial accounting standards are listed in the section 32 of chapter 1 and include, *inter alia*, the IFRS, Generally Accepted Accounting Principles in EU member states, and in the United States.

As the members of a MNE group reside in different jurisdictions, they may have used different currencies in their financial accounting. To ensure consistency, the GloBE model rules state that when computing the qualifying income, the financial accounting net or loss should be converted to the same currency within the MNE Group, regardless of the requirements set out in the financial accounting standard. The MNE group can choose the method of conversion.[42]

The third subparagraph of Section 1 contains a de minimis exception for the situation in which the constituent entity uses a different accounting standard than the UPE and it is not reasonably practicable to accurately convert the financial accounting net income. In such cases, it is possible to determine the financial accounting net income using the constituent entity’s financial accounting standard. This requires that the financial accounts are maintained based on the same accounting standard that is

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[40] HE 77/2023 vp, p. 9.
[41] HE 77/2023 vp, p. 56.
[42] OECD 2024a. pp. 57-58.

being used, the information in the accounts is reliable, and finally, permanent differences with the consolidated financial statements of the UPE exceeding EUR 1,000,000 are adjusted to conform to the treatment of the UPE's consolidated financial statements' accounting standard. According to the GloBE commentary, however, this rule is expected to rarely apply as MNE Groups usually have the ability to perform the conversion.[43] The Governmental Proposal for the Minimum Tax Act is in line with OECD, stating that the application of this rule should be limited.[44]

3.2 Mandatory adjustments

3.2.1 Permanent differences between financial accounting and taxation

In accordance with Section 2, the qualifying income is adjusted with the following items: net tax expense, excluded dividends, excluded equity gains or losses, included revaluation gains or losses, gains or losses from the disposition of limited assets and liabilities in accordance with Chapter 6, Sections 8-11, asymmetric foreign currency gains or losses, disallowed expenses, and accrued pension expense. These items are further clarified in Section 3 of the Act. According to the OECD, these items are generally related to permanent differences between tax and financial accounting rules. They are typically items that either increase income or decrease expenditure, depending on the facts in the fiscal year concerned. Moreover, any tax associated with the adjustment items must be excluded from the adjusted covered taxes.[45]

In order to calculate the net tax expense, the term 'tax expense' must first be determined. It comprises five different items which are netted together. The first item is covered taxes, which includes covered taxes accrued as an expense, current and deferred covered taxes that are included in the income tax expense, including covered taxes on excluded income. The second item is deferred tax assets attributable to a loss for the fiscal year. Qualified domestic top-up taxes that are accrued as an expense are the third item to be included in the calculation. The fourth item is the taxes arising from the Minimum Tax Act, Minimum Tax Directive, or the OECD model rules.

[43] OECD 2024a, p. 60.
[44] HE 77/2023 vp, p. 57.
[45] OECD 2024a, p. 59.

The final item to be included in the net tax expense calculation is the disqualified refundable imputation taxes accrued as an expense. A disqualified refundable imputation tax is any tax, not meeting the criteria of a qualified imputation tax, paid by a constituent entity that can be refunded to either the dividend's beneficial owner or the distributing constituent entity. The qualified imputation tax is defined in the Minimum Tax Directive as a tax paid by an entity that can be refunded or credited to the dividend's beneficial owner. It applies if one of the following criteria is met: another jurisdiction provides the refund or credit; the owner is taxed at a rate meeting or exceeding the minimum on the dividend; the individual owner, tax resident in the taxing jurisdiction, faces a nominal rate at least equal to the standard rate on ordinary income. Qualified imputation tax can also be a refundable tax on dividends that is received in connection with the operation of a pension fund, attributed to certain entities such as government bodies, non-profits, or pension funds that receive the dividend in a tax-similar manner to a pension fund.[46]

Excluded dividends are dividends or other distributions received from an entity where the group holds an ownership stake of more than 10%, and where the duration of such ownership does not exceed 12 months. This means that dividends from portfolio shareholdings are included in the qualifying income, but other dividend income is not. This approach is adopted to prevent double taxation of income from controlled constituent entities.[47] Dividends are also excluded if they are received from investment entities subject to an election pursuant to Chapter 7, Section 14.

An excluded equity gain or loss refers to a gain or loss arising from fluctuations in the fair value of an ownership interest. These changes may occur if the constituent entity uses the fair value accounting method and revalues the ownership interests while preparing its financial statements. This revaluation would then lead to either income or loss in the profit and loss statement or in other comprehensive income in the statement of financial position.

Excluded equity gain or loss may also arise from the disposal of an ownership interest, which means a transaction where the group holds more than 10 % of the entity being sold. The exclusion is a result of a common tax solution where

[46] Chapter 1 Section 39 of the Minimum Tax Act; Article 3 (39) of the Minimum Tax Directive.
[47] OECD 2024a, p. 62.

jurisdictions exempt these gains from the tax base. The lack of exclusion would lead to a permanent difference between the qualifying income and covered taxes. As with the dividends, gains and losses from fluctuations in the fair value of an ownership interest and the disposal of an ownership interest that derive from portfolio shareholdings, however, are not regarded as excluded equity gains or losses. A third source of excluded equity gain or loss is ownership interest that is accounted for using the equity method of accounting. This method is usually required when a non-controlling interest of between 20-50% is held in an entity. The method includes a proportionate share of the controlled entity's after-tax income in the owner's financial accounting net income. The third source is not subject to the exemption for portfolio shareholdings.[48]

Certain accounting principles, such as the IFRS, allow for revaluation of all property, plant, and equipment where their carrying value is periodically adjusted to fair value. Increases in value are recoded in other comprehensive income, whereas decreased value might affect the profit or loss depending on the situation.[49] To avoid this method from impacting the computation of qualifying income, the qualifying income is adjusted with the amount of the income or loss from these revaluations. The amount of adjustment is increased or decreased with the amount of covered taxes associated with that income.[50]

If a constituent entity's financial accounting and functional tax currencies differ, the qualifying income shall be adjusted with asymmetric foreign currency gain or loss. The functional tax currency is determined based on the taxational location of the constituent entity, and the financial accounting currency is the functional currency on which the financial statements are provided. Asymmetric foreign currency gains or losses may arise in four situations:

- from the fluctuation between the financial accounting and taxational currencies, and the gain or loss is included in the taxable income or loss;

[48] OECD 2024a, pp. 65-67.
[49] IAS 16 paragraphs 31-42.
[50] OECD 2024a, p. 72.

- from the fluctuation between the financial accounting and taxational currencies, and the gain or loss is included in the financial accounting income or loss;
- from the fluctuation between financial accounting and third country currencies, and the gain or loss is included in the financial accounting income or loss; or
- from the fluctuation between taxational and third country currencies

Unlike the first three situations, the fluctuation between third country and taxational currencies forms the grounds for adjustment regardless of the effect in financial statements. As this adjustment is done on a constituent entity basis, the amount might be determined in another currency than that of the group. In this situation, the adjustment amount must be converted to the group's currency.[51]

Disallowed expenses mean illegal payments such as bribes and kickbacks, fines and penalties exceeding EUR 50 000. The EUR 50 000 is a *de minimis* threshold and its purpose is to allow deductions for smaller fines that may not be recorded as separate items. Another important notion is that interest charges for late payment of tax or other public liabilities are not considered as fines or penalties and are thus included in the financial accounting net income.[52] This is contrary to the Finnish tax law, where such interest is not deductible in the taxation of business income.[53]

A constituent entity may have to correct errors in a prior accounting period that affects its equity. A correction may also occur from changes in accounting principles. If such a correction is made, a corresponding adjustment to the qualifying income is also required. This adjustment is not applied if the correction of an error would result in a decrease of covered taxes exceeding one million euros, which would require an adjustment in accordance with chapter 4 section 20 of the Minimum Tax Act.[54]

[51] OECD 2024a, pp. 73-74.
[52] OECD 2024a, pp. 77.
[53] Kukkonen – Walden 2024, p. 126.
[54] OECD 2024a, pp. 75-76. The adjustment in chapter 4 is discussed in the chapter concerning covered taxes of this study.

Accrued pension expenses mean the difference between the amount of pension liability expense in financial accounting and the amount contributed to a pension fund for the fiscal year. If the amount contributed to pension fund exceeds the amount accrued in the financial accounting, the qualifying income is decreased by the corresponding amount and vice versa.[55]

Additionally, Section 2 subparagraph 1, point 5 requires the adjustment of gains or losses from the disposal of assets and liabilities excluded under Chapter 6. As these adjustments would necessitate a description of the rules regarding the transfer of assets and liabilities under the same chapter, which is beyond the scope of this study, they are omitted for further research.

To summarise the adjustments required under Section 2, they are items that result from the differences between financial and tax accounting. Certain items have *de minimis* thresholds which simplify the reporting requirements. From a *de lege ferenda* perspective, these thresholds could have been more widely employed to streamline the process. However, the use of thresholds would still necessitate the constituent entity to calculate the amount of difference between the two accounting systems.

3.2.2 Transfer pricing adjustments

As mentioned above, the financial accounting income is considered before any eliminations of intra-group transactions. Thus, in accordance with Section 5, transactions between constituent entities in the same group recorded in financial accounts are adjusted to match with the arm’s length principle. After these adjustments, the financial accounting value of the transaction should be equal in both counterparties’ financial accounts. If the transfer price is later adjusted based on an audit, for example, similar adjustments are required for the qualifying income as well.[56]

The Minimum Tax Directive defines the arm's length principle as the principle under which transactions between constituent entities are to be recorded by reference to the conditions that would have been obtained between independent enterprises in

[55] OECD 2024a, pp. 76-77.
[56] OECD 2024a, pp. 80-81.

comparable transactions and under comparable circumstances. Even though it is not explicitly mentioned in the Governmental Proposal or the directive, the OECD commentary references the transfer pricing definition of arm's length principle. In transfer pricing the arm's length principle means that the transactions in intra-group situations shall match similar transactions between unrelated parties.[57] The similarity of the definition in the directive and transfer pricing would thus suggest that the rules and guidance concerning traditional transfer pricing would also apply to the arm's length principle in minimum taxation.

The arm's length rule may cause many issues for taxpayers. First of all, the GloBE commentary leaves open questions on situations where adjustments are required to avoid double taxation, such as a situation where the arm's length price cannot be agreed upon between the two Tax Administrations involved. These questions are to be answered in later guidance by the GloBE Implementation Framework.[58] Another issue related to this rule is the fact that it requires adjustments to previous years based on changes in transfer pricing. As legal proceedings regarding transfer pricing are characteristically long-lasting, the outcomes may influence the taxation in a long retrospective.[59] These adjustments would further affect the minimum tax treatment of the group in the jurisdictions involved.

Before the Minimum Tax Act, transfer pricing has only been required for cross-border transactions. The Minimum Tax Act expands the transfer pricing adjustments to transactions in the same jurisdiction as well, with the rules in the second Subparagraph of Section 5. This adjustment applies to transactions concerning assets if the transaction results in a loss. If the loss affects the qualifying income, this transaction shall be adjusted to the arm's length price. This adjustment is required to prevent the group from manipulating the qualifying income of a jurisdiction with intra-group transactions. Similarly to the cross-border adjustment, this adjustment requires the same price to be used for both counterparties.[60]

[57] OECD 2022, p. 19.
[58] OECD 2024a, p. 82.
[59] Karhu 2019, p. 1.
[60] HE 77/2023 vp, pp. 8.

3.2.3 Refundable tax credits

Refundable tax credits are governmental incentives for certain activities. The refundability means that the government will pay even the amount of unused credit in situations where the entity does not have a tax liability. A refundable tax credit can be either qualified or non-qualified.[61] In accordance with Section 40 of Chapter 1 of the Minimum Tax Act, qualified refundable tax credits (QRTCs) are paid either in cash or cash equivalents within four years after the constituent entity became entitled to them. Alternatively, a refundable tax credit is a QRTC if the tax credit is only refundable in part; the amount refundable is considered qualified, excluding the parts that are related to qualified imputation tax or a disqualified refundable imputation tax. The Finnish tax system does not have QRTCs in place, but they might be used in other operating jurisdictions of the group.[62] Thus, the primary rule for refundable tax credits in Finland is that they are exempt from the calculation of qualifying income.

Under Section 6 of Chapter 3 of the Minimum Tax Act, when computing the qualifying income, QRTCs are accounted for as qualifying income, whereas disqualified tax credits are not. More precisely, the QRTCs are treated as qualifying income in the year in which the receiving constituent entity becomes entitled to them. This means that QRTCs are not regarded as reductions to accrued taxes but as income of the constituent entity.[63]

The Finnish government has given a proposal to amend the Minimum Tax Act in respect of certain types of refundable tax credits to align with the OECD administrative guidance from 2023. If a QRTC originates from the acquisition or construction of assets and in financial accounting, the credit is used to reduce the carrying value of the assets, or the credit is recognised as deferred income over the productive life of the asset, the entity may use the same treatment in determining qualifying income.[64]

The rules for Marketable Transferable Tax Credits (MTTCs) are included in the Governmental Proposal for the amendment of the Minimum Tax Act. MTTCs can be

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[61] OECD 2024a, p. 83.
[62] HE 77/2023 vp, p. 58.
[63] OECD 2024a, p. 83.
[64] HE 98/2024 vp, pp. 15 and 35.

transferred from the originating entity to another non-related entity within 15 months after the period in which the originator became entitled to them, for a consideration that must be at least 80% of the net present value of the credit. The originator includes the transfer price in its qualifying income in the year of the origination of the credit, not in the year of the transaction. The purchaser of an MTTC includes the net benefit of the credit in its qualifying income when it uses the credit. As with the QRTCs, the Finnish tax system does not currently have MTTCs in place.[65]

To conclude the treatment of refundable credits, the following principles can be identified: Unqualified tax credits are known to the Finnish system, and they are excluded from the computation of qualifying income. QRTCs and MTTCs are recognised as part of qualifying income, but their definitions leave room for interpretation. For example, PwC has observed that further guidance on QRTCs and MTTCs is still required to resolve certain issues.[66]

3.2.4 Intra-group financing arrangements

To prevent groups from manipulating their qualifying income through intra-group financing arrangements, Section 9 of Chapter 3 excludes expenses related to an arrangement where a low-taxed constituent entity's expenses increase without a corresponding rise in the income of the high-taxed constituent entity. This rule is intended to prevent tax evasion.[67]

Under the second Subparagraph of Section 9, a low-taxed constituent entity is defined as an entity located in a low-tax jurisdiction, and a high-taxed constituent entity, on the other hand, is one residing in a high-tax jurisdiction. When examining the taxation level, the intra-group financing arrangements are excluded from the computation of the effective tax rate. In other words, the effective tax rate of the entity is not considered in the determination, meaning that a constituent entity taxed at 20% but residing in a low-tax jurisdiction is still subject to this rule.

[65] HE 98/2024 vp, pp. 16 and 36.
[66] PwC 2023, pp. 2-3.
[67] HE 77/2023 vp, p. 59.

The Finnish Act on the Taxation of Business Income (Laki elinkeinotulon verottamisesta 360/1968) allows for the deduction of interest with certain limitations. Under these rules, interest, i.e., income, may be deducted from the taxable income of the receiving entity up to certain limits, and the non-deductible amount may be carried forward for future periods.[68] Under these rules, a situation may arise where a constituent entity residing in Finland, considered a high-tax constituent entity, has carryforward interest deductions that can cover all the interest of an intra-group financing arrangement. In this situation, the high-tax constituent entity's income would not be increased, even though the low-tax constituent entity would record an expense. Furthermore, under Section 9 of the Minimum Tax Act, the expenses related to this arrangement would be disregarded from the computation of qualifying income.

3.2.5 Sector specific rules

Chapter 3, Section 11 of the Minimum Tax Act contains the exclusion of certain insurance company income. This is income on which the insurance company has a tax liability, but it passes that liability through to policyholders by, for example, reducing its policy liabilities. Section 12 provides rules for the recognition of a decrease in Additional Tier 1 capital. This rule concerns only entities in the banking sector which are obligated to have this kind of capital under regulatory requirements. The Governmental Proposal for the amendment of the Minimum Tax Act also introduces a new section concerning insurance institutions' income adjustments.[69] As these rules are sector specific, they are not further discussed in this study.

Sections 14-19 of Chapter 3 set out specific rules for adjusting the qualifying income with the gains and losses of international shipping activities. The income from international shipping is usually taxed under separate rules compared to other sources of income. The purpose of the minimum tax rules is to remain neutral with respect to these specialised rules; consequently, they are excluded from the calculation of qualifying income.[70] . It is important to note that this exclusion is not

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[68] Helminen 2024b, 10. RETURN ON EQUITY AND DEBT>Interest deduction limitations>Thin Capitalization>Special Interest Deduction Limitation Provision>carry forward
[69] HE 98/2024 vp, p. 14.
[70] Helminen 2024a, 9. KANSAINVÄLISEN KONSERNIN ERITYISKYSYMYKSIÄ>Suurten konsernien vähimmäisvero>Määritellyn tuloksen tai tappion laskeminen>Kansainvälisen merenkulun tuloja koskeva poikkeus

meant to be an exclusion for the whole industry, but only for international shipping activities, which means that a constituent entity that engages in international shipping activities is not automatically regarded as an excluded entity.[71]

Other necessary adjustments may also arise from the application of the rules in Chapters 6 and 7. These rules include the election concerning the valuation of certain items in corporate restructurings and holding structures (Chapter 6, Section 11), the tax-transparent status election of an investment entity (Chapter 7, Section 13), and the election to apply a taxable distribution method (Chapter 7, Section 14). Under Section 13 of Chapter 3, the effect of these rules must be accounted for when determining the qualifying income. These adjustments fall outside the scope of this study and are not further analysed.

3.3 Optional adjustments

3.3.1 Five-year elections

Certain elections regarding the treatment of adjustment items to qualifying income are so-called five-year elections. The general rules for five-year elections are set out in Chapter 8, Section 11 of the Minimum Tax Act. A five-year election remains in force until further notice, but always for at least five fiscal years. If the election is cancelled, the decision not to apply the election remains in force for the next five fiscal years.[72] The cancellation of the elections will, in most situations, also lead to adjustments in the qualifying income reports. These elections related to adjustments to qualifying income, as set out in Chapter 3, are briefly described below.

In accordance with section 4, compensation expenditures from stock, stock options, stock warrants and other equivalent instruments that are computed differently for tax and financial accounting purposes may be reported at the amount accepted in taxation rather than separately calculating the amount that is acceptable in financial accounting. The benefit on which the stock-based compensation expense was paid must be traceable to the constituent entity that paid the compensation. However, the compensation itself may be paid in stock other than that of the beneficiary constituent entity. This election is allowed as the difference between financial

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[71] HE 77/2023 vp, p. 60.
[72] HE 77/2023 vp, p. 109.

accounting and taxation would often decrease the effective tax rate, and the election brings the effects of stock-based compensation closer to the effects of the local tax rules. The election is made on a jurisdictional basis.[73]

Section 7 allows for the election on gains and losses in respect of assets and liabilities that are subject to fair value or impairment accounting. This method allows the constituent entity to only take into account the gain or loss from an asset when it is disposed of when computing the qualifying income. Without this election, the constituent entity would have to use the more volatile method of reporting used in financial accounting, where the asset is valued at the market price each period.[74]

To simplify reporting in jurisdictions with a tax system where a group's income and losses are consolidated for taxation by eliminating intra-group transactions, Section 10 allows the application of the same method for the determination of qualifying income. The application of the rule is limited to transactions in the same jurisdiction. This rule cannot be applied to intra-group transactions in Finland, as there is no such system in place in Finland.[75] In jurisdictions with such a system in place, the rule is intended to prevent unintentional consequences with the minimum tax rules and local legislation.[76]

To simplify the treatment of dividends from minority-owned entities, the Governmental Proposal to amend the Minimum Tax Act introduces Section 2 c to Chapter 3, under which a group can elect to include all dividends from minority-owned entities, whether they are considered portfolio shareholdings or not. After making this five-year election the group wouldn’t have to spend time evaluating whether the portfolio shareholding requirements are met.[77]

In accordance with the proposed Section 2 b to Chapter 3, a constituent entity is able to make an election under which gains and losses from currency fluctuations that result from a securitization vehicle designed to protect an ownership interest from such fluctuations are considered. The gains and losses must be recorded in other comprehensive income in the consolidated financial statements, and the vehicle must

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[73] OECD 2024a, pp. 79-80.
[74] Ibid. p. 86.
[75] HE 77/2023 vp, pp. 59-60.
[76] OECD 2024a, pp. 89-90.
[77] HE 98/2024 vp, p. 15.

be considered effective under the relevant financial accounting principles. It is thus not necessary for the owner of the vehicle to be the owning constituent entity, meaning that the benefits may be contractually transferred from another entity in the group. The election and the reduction of qualifying income, along with the reduction of covered taxes, are made for the owning constituent entity. This election is also a five-year election.[78]

As Section 2 of Chapter 3 excludes equity gains and losses, and the corresponding taxes are excluded from the determination of covered taxes under Chapter 4, a situation might arise where the effective tax rate of the owner is artificially lower if the owner is still domestically taxed for those gains or losses. To fix this situation, the proposed 23 section to chapter 3 allows for an election to include the aforementioned gains and losses alongside with the corresponding taxes in the computation of qualifying income and covered taxes. This five-year election may not be retrospectively cancelled for the gains and losses on which the election has been applied on.[79]

3.3.2 Other elections

The electional adjustment regarding qualifying income arising from the disposal of local tangible assets allows MNE group to spread the income from the sale of local tangible assets over a period of up to five years, in accordance with Section 8. This allows the MNE to manipulate the calculation of ETR in a way that a single event does not disproportionately affect the yearly income. The election is made on a jurisdictional basis.[80] According to the Governmental Proposal for the Minimum Tax Act, there is no such a rule in force in Finland.[81] This election is an annual election in accordance with Chapter 8 Section 12 that is made on a jurisdictional basis.[82]

Upon the election by the filing constituent entity, debts released may be excluded from the calculation of qualifying income in accordance with Section 3 a of Chapter 3 of the proposed amendment to the Minimum Tax Act. The election is intended for

[78] HE 98/2024 vp, pp. 14 and 34.
[79] Ibid. pp. 15-16 and 36.
[80] OECD 2024a, p. 86.
[81] HE 77/2023 vp, p. 59.
[82] OECD 2024a, p. 87.

insolvency situations where imposing top-up tax wouldn't be practical. This treatment requires one of the following conditions to be met:

- the debt release is undertaken under statutory insolvency or bankruptcy proceedings, under the supervision of a court or other authority;
- the debt release arises pursuant to an arrangement where one of the parties is non-related and, without the release the constituent entity would face insolvency within 12 months; or
- the debt release occurs in a situation where the constituent entity's liabilities exceed its assets immediately before the release.[83]

In the first two instances, the debt release may be excluded for all the releases given, meaning that even intra-group releases may be excluded. In the third situation, which is intended to only apply if the first two cannot, the debt release is excluded from all non-related parties, but the intra-group releases are only excluded to the amount by which the liabilities exceed assets or the reduction in the debtor's tax liabilities resulting from the release. Of these two amounts, only the smaller is allowed.[84]

[83] HE 98/2024 vp, pp. 15 and 35.
[84] OECD 2024a, pp 77-78.

4 From covered taxes to top-up taxes

4.1 Identification of covered taxes

Covered taxes form the numerator of the calculation of ETR, which further affects the calculation of top-up tax. Generally, covered taxes are imposed on income or taxes on retained earnings and equity or taxes that behave similarly to income taxes. Taxes not related to income, such as indirect taxes, payroll or property taxes, are excluded from the covered taxes.[85] The determining factor is the nature of the tax, not its name or method of collection.[86] The rules for determining covered taxes are set out in the Chapter 4 of the Minimum Tax Act.

The starting point in the calculation is to determine the amount of covered taxes withing current tax. In accordance with Section 1 Subparagraph 1, covered taxes include:

- taxes recorded in the financial accounts of a constituent entity with respect to its income or profits or share of the profits of other owned constituent entities;
- taxes on distributed profits, deemed profit distribution and non-business expenses imposed under an eligible distribution tax system;
- taxes imposed in lieu of a generally applicable corporate income tax; and
- taxes levied by reference to retained earnings and corporate equity.

The amount of non-covered taxes which are defined in the second subparagraph of Section 1 are subtracted from the covered tax. Non-covered taxes are:

- top-up taxes imposed under qualified IIR or UTPR;
- qualified domestic minimum top-up taxes;
- disqualified refundable imputation tax; and
- taxes paid by an insurance company in respect of returns to policyholders.

[85] OECD 2024a, p. 108.
[86] HE 77/2023 vp, p. 63.

The covered taxes within current tax are also adjusted with the allocations between the entities in the group. In addition to the current taxes, taxes related to other comprehensive income are also included in covered taxes under Section 2 Subsection 1 Point 3 if they relate to qualifying income. The inclusion only applies if the qualifying income is taxed under the domestic tax legislation.[87]

After establishing the amount of covered taxes within current tax, reductions and additions are made to the amount in accordance with Sections 3 and 4. Section 3 covers the four types of additions to covered taxes which include:

- any amount of covered taxes accrued as an expense in the profit before taxation in the financial accounts;
- any amount of qualifying loss deferred tax asset (Section 15 Subsection 2) that has been used;
- amounts that relate to uncertain tax position excluded under Section 4 in previous periods;
- any amount of credits or refunds in respect of a qualified refundable tax credit that was accrued as a reduction to the current tax expense.

Section 4 covers the reductions to covered taxes. Reductions to the covered taxes include any tax expenses related to excluded items in determination of qualifying income, any amounts of credits or refunds related to non-qualified refundable tax credits that were not recoded as reductions to the current tax expense, any refunded or credited taxes that are not treated as an adjustment to current tax expense in the financial accounts, taxes related to uncertain tax positions, current tax expenses not expected to be paid with three years after the end of the fiscal year.

The additions and reductions are subject to the immaterial prior year adjustments election set out in Section 20. This allows the constituent entity to make a sub-one-million-euro adjustment in a single fiscal year without the need to make the adjustments to the individual fiscal years to which they actually relate. If the required adjustments exceed one million euros, the previous year's filings have to be

[87] HE 77/2023 vp, p. 88.

recalculated and refiled.[88] Additionally, the Finnish government has proposed a new section 23 that governs the treatment of qualified flow-through tax benefits. However, there is currently no such possibility in the Finnish system.[89]

4.2 Adjusting covered taxes for temporary differences and losses

4.2.1 Accounting treatment of temporary deferred taxes

In an ideal situation, the fiscal and taxable years of the constituent entities begin and end on the same days. However, it is common that the two periods end on different dates. In these cases, the constituent entity must apply the method used in the determination of qualifying income to determine its adjusted covered taxes for the fiscal year.[90]

To understand the rules for the adjustments to the timing of covered taxes, the accounting treatment of temporary deferred taxes must first be examined. Temporary differences arise from timing differences between financial accounting and taxation, revaluation of assets, and in certain situations in relation to subsidiaries or other affiliated parties. The rules for temporary differences are set in the IAS 12 that covers income taxes. IAS 12 also forms the basis for the Finnish Accounting Act as well as the EU-level legislation on accounting when it comes to addressing temporary differences in taxation. IAS 12 is predicated on the temporary differences between the assets or liabilities recognised in taxation and those recognised in financial accounting.[91] IAS 12 covers both the accounting treatment of deferred taxes and the disclosure requirements of the Pillar II rules. Paragraphs 88A–88D define the rules for these disclosure requirements.

An entity may recognise deferred tax liabilities, which are the amount of income taxes payable in future periods in respect of taxable temporary differences. Taxable temporary differences mean differences that will result in taxable amounts in determining taxable profit (or loss) of future periods when the carrying amount of the asset or liability is recovered or settled. A deferred tax asset, on the other hand, may

[88] HE 77/2023 vp, p. 76.
[89] HE 98/2024 vp, p. 16.
[90] OECD 2024a, p. 109.
[91] Haaramo et al. 2023, 9. TULOVEROT JA LASKENNALLISET VEROT>Kirjanpidon näkökulma tuloverojen esittämisessä

be recognised for the amount of income taxes recoverable in future periods in respect of deductible temporary differences, which are temporary differences resulting in amounts that are deductible in determining taxable profit (or loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Deferred tax assets also include the carryforward of unused tax losses or tax credits. The assets and liabilities are attributed a tax base.[92]

The tax base of an asset producing taxable income is the amount that is deductible for tax purposes. If the economic benefits related to the asset are not deductible, the tax base equals to the carrying amount. The tax base of a liability is its carrying amount subtracted by amounts that are deductible for tax purposes. If the liability relates to revenue received in advance, the tax base is its carrying amount less any amount of the revenue not taxable in future.[93]

The recognition criteria for deferred tax assets are rather strict.[94] Deferred tax assets may only be recognised to the extent that the entity expects a taxable profit against which the asset may be utilised. Deferred tax liabilities are recognised for all taxable temporary differences, excluding certain items relating to subsidiaries, branches, and associates.[95] The amount of the tax asset or liability is determined based on the tax rate at which the transaction will be taxed. Any changes in tax legislation must be taken into consideration when determining the amount.[96]

4.2.2 Defining the amount of adjusted covered taxes for minimum tax purposes

The Sections 6-15 of Chapter 4 of the Minimum Tax Act, which correspond to Article 22 of the Minimum Tax Directive as well as to Article 4.4 of the GloBE Model Rules, build on deferred tax accounting with key adjustments to protect the integrity of the minimum tax rules.[97] These adjustments create the total deferred adjustment amount.

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[92] IAS 12. Paragraph 5.
[93] Ibid. Paragraph 7-8.
[94] Haaramo et al. 2023, 9. TULOVEROT JA LASKENNALLISET VEROT>Laskennallisten verosaamisten ja -velkojen merkitseminen taseeseen>Laskennalliset verosaamiset
[95] IAS 12. Paragraphs 15 and 29.
[96] Haaramo et al. 2023, 9. TULOVEROT JA LASKENNALLISET VEROT>Laskennallisten verosaamisten ja -velkojen merkitseminen taseeseen>Verolainsäädännön muutosten huomioon ottaminen
[97] OECD 2024a, p. 128.

Firstly, to prevent the sheltering of unrelated GloBE income, Section 6 requires that the lower of the minimum tax rate or the domestic tax rate is used to calculate the deferred tax expense accrued in the financial accounts. In other words, the deferred tax expense, i.e., the movement in deferred tax assets and liabilities between the beginning and end of the fiscal year, is remeasured at the rate of 15% if the statutory rate is above it.[98] This requirement is illustrated in the examples below:

> Example A – Domestic tax rate of 20 %
>
> Constituent entity A operates in jurisdiction 1 where the domestic tax rate is 20 %. A has recognised a deferred tax expense of 20 in respect of income of 100. To adjust the covered taxes for temporary differences for minimum tax computations, A must record the deferred tax expense of 15, as the domestic tax rate is above 15 %.
>
> Example B – Domestic tax rate of 9 %
>
> Constituent entity B operates in jurisdiction 2 where the domestic tax rate is 9 %. B has recognised a deferred tax expense of 9 in respect of income of 100. As the domestic tax rate is below the minimum tax rate, no adjustment is required for minimum tax computations.

The remeasured amount of deferred tax expense is further adjusted with the items in Sections 7-14. The basic rule with the adjustments is that Section 9 provides for the list of items that are generally excluded from the amount of deferred tax expense. If certain conditions defined in Section 7 are met, however, these items are added to the deferred tax expense. Usually, the Section 7 conditions are met in a different year than the initial assessment done in accordance with Section 9. Sections 8 and 10-14 contain definitions of the items in Sections 7 and 9.

In accordance with Section 9, disallowed and unclaimed accruals are not included in the amount of deferred taxes. A disallowed accrual is a movement of deferred tax accrued in financial accounts resulting from either an uncertain tax position or distributions from another constituent entity. These are items on which the group has claimed, either explicitly or implicitly, to the relevant tax authority that the taxes are

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[98] OECD 2024a, p. 129.

not owed and there is high uncertainty of whether the amounts will be paid in the upcoming periods. Accounting standards usually require a reserve to be established for such positions, which may be released in future depending on the circumstances.[99] Once the disallowed or unclaimed accrual is actually paid in a period, its movement is added to the total deferred tax adjustment amount in accordance with Section 7.

If a deferred tax liability is not paid within the next five fiscal years, it must be recaptured to the extent it was taken into account in the total deferred tax adjustment amount in accordance with Section 13. The assessment of whether the deferred tax liability is expected to be paid is required for each financial year. If the constituent entity realises that the deferred tax liability is not reversed, it must recapture the liability and perform the top-up tax recalculation for the year in which the deferred tax liability was included in the adjusted covered taxes.[100] The amount of recaptured deferred tax liability determined in a preceding fiscal year that has been paid during the period is also added to the amount of total deferred tax adjustment in accordance with Section 7.

The recapture rule has been criticised to impose problems to the entities operating in the financial sector, especially with leasing. Leasing entities might have hundreds of thousands of leasing agreements, some of which can last longer than 5 years. The recapture rule under Section 13 requires that these agreements are tracked individually, which would create great challenges in practice. Finance Finland representing the financial sector has thus called for a simplified solution for the financial sector.[101]

Recapture is not required for certain items, such as cost recovery allowances on tangible assets and R&D expenses, defined in Section 14. The items in Section 14 are typically tied to substantive activities or are differences that are not prone to manipulation. To reduce the administrative burden on groups, the monitoring of these items is not required.[102]

[99] OECD 2024a, p. 130-138.
[100] Ibid. p. 134.
[101] Finance Finland 2023. pp. 4-5.
[102] OECD 2024a, pp. 134-135.

Another way to reduce the administrative burden is set out in Section 11, in accordance with which, upon the election of the filing constituent entity, any increase in a deferred tax liability recorded in the financial accounts that is not expected to be paid within five subsequent fiscal years may be excluded from the amount of adjusted deferred taxes. The election is an annual election in accordance with Chapter 8, Section 12 and it acts as a simplified alternative compared to the other alternative in Chapter 4, Section 13.[103]

As stated above, the recognition criteria for deferred tax assets are strict in financial accounting. Despite this, for the purposes of computation of deferred tax adjustment, a loss deferred tax asset that is not included in the financial statements because its recognition criteria are not met is still included in the calculation to reduce the amount of deferred tax adjustment in accordance with Chapter 4, Section 8. According to the OECD, while it may be acceptable in accounting to record a deferred tax asset with an offsetting tax liability due to financial forecasts, the functioning of the ETR rules requires that this kind of an asset is recorded in the same period as the corresponding economic loss giving rise to such an asset.[104]

This rule operates in conjunction with the rule in Section 9, which provides that the valuation adjustments or accounting recognition adjustments are excluded from the calculation of deferred tax assets. This rule is made to ensure that the items recognised under Section 8 are recognised together with the corresponding loss and not when the necessary income can be expected to allow the recognition in financial accounting.[105]

In addition to the accounting recognition adjustment, Section 9 also excludes other items from the calculation of deferred tax expense. The first of these items are deferred tax assets and liabilities related to income or loss that is not qualifying under the rules of Chapter 3 in the Minimum Tax Act. This is done to prevent taxes associated with items not included in qualifying income from being used to increase the amount of covered taxes and further overstating the ETR.[106] Another item is the amount of deferred tax expense arising from a re-measurement with respect to a

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[103] HE 77/2023 vp, p. 71.
[104] OECD 2024a, pp. 130-134.
[105] Ibid. p. 130.
[106] Ibid. p. 130.

change in the applicable domestic tax rate, since it does not relate to qualifying income.[107]

The amount of deferred tax expense with respect to the generation and use of tax credits is also excluded from the amount of adjusted deferred taxes. A tax credit is an amount that can be used to directly subtract from the taxes owed, unlike deductions that reduce the amount of taxable income. Tax credits are created, for example, in a situation where a government provides the taxpayer with a tax credit based on a percentage of a certain investment, and that credit may be used as a reduction to a future tax payable.[108]

With certain conditions defined in the second and third subparagraphs of Section 9, the deferred tax expense generated from substitute loss carry-forward DTAs, which are otherwise regarded as tax credits, may be included in the covered taxes. This is made to tackle the problem where a jurisdiction allows the use of foreign tax credits in a situation where foreign source income from the tax credit's jurisdiction is also taxed in the constituent entity's jurisdiction. This would, in turn, unintentionally lower the jurisdictional ETR.[109]

4.2.3 Qualifying loss adjustment

The qualifying loss election is an alternative method for determining the adjustment to covered taxes from the rules set out in Section 6. In accordance with Section 15, the filing constituent entity can elect to determine the qualifying loss deferred tax asset for each fiscal year in which there is a net qualifying loss, by multiplying the net qualifying loss by the minimum tax rate of 15%. This deferred tax asset is then used in the next profitable year in that jurisdiction against the tax liability calculated by multiplying the net qualifying income by the minimum tax rate.

The qualifying loss election is expected to simplify the calculations in jurisdictions that do not impose corporate income tax at all, or where the tax rate is low. The election can be made in any jurisdiction regardless of the tax rate, and it is made on a jurisdictional basis. This also leads to the limitation that it is not carried forward with

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[107] OECD 2024a, p. 131.
[108] Ibid. p. 131.
[109] Ibid. p. 132.

a constituent entity exiting the group; instead, it remains in that group even in a situation where there are no constituent entities in that jurisdiction.[110] Even though it is not explicitly stated in the GloBE commentary or the Finnish Act, the qualifying loss election seems to be an annual election. This is because subsection 4 of Section 15 stipulates that if the election is revoked, the amount of the deferred tax asset is also reduced to zero for the consecutive fiscal year.

4.3 Allocation of qualifying income and covered taxes

As described above, after determining the constituent entity’s qualifying income from its financial accounts, the income is adjusted with the items listed in Chapter 3 of this study. Because the constituent entity may be a permanent establishment without its own books or a flow-through entity, the allocation of qualifying income to or from those entities must be done before determining covered taxes, which generally follow the qualifying income.

Permanent establishments usually have separate books, but if a permanent establishment does not have separate bookkeeping, it must be created for the purposes of determining qualifying income in accordance with Section 20 of Chapter 3. Furthermore, Section 21 sets the rules for the adjustment of qualifying income of permanent establishments. The qualifying income of a permanent establishment would only include the income that can be allocated to it based on either an applicable tax treaty or the OECD Model Tax Convention. Income from items that are deductible in the main entity's local taxation, however, is not included in the qualifying income of the permanent establishment. Consequently, the income allocated to the permanent establishment shall not be taken into account when determining the qualifying income of the main entity. Similarly to the allocation of qualifying income, covered taxes related to the operations of a permanent establishment are allocated to that permanent establishment (Chapter 4, Section 16).

Section 22 sets out the rules for the allocation of income of flow-through entities. The income of flow-through entities, excluding a flow-through entity that is a UPE, is first reduced by the amount allocated to owners outside the Group. Subsequently, the income allocated to other constituent entities is deducted from the income. Similarly,

[110] HE 77/2023 vp, pp. 72-73.

income from activities of permanent establishments is allocated to those permanent establishments. After these deductions, the remaining income is distributed to the owners of the flow-through entity in proportion to their ownership shares in the entity.

Flow-through entities are not usually subject to tax in their local jurisdiction. The covered taxes of a flow-through entity are primarily allocated to its permanent establishments, should it have them in place.[111] The residual covered taxes are then allocated to owners of that flow-through entity in proportion to their ownership in that entity in accordance with Chapter 4, Section 17.

[111] HE 77/2023 vp, pp. 75.

5 Amount of top-up taxes and the Charging provisions

5.1 Amount of top-up taxes

5.1.1 Effective tax rate

The rules for calculating the effective tax rate are detailed in Chapter 5 of the Minimum Tax Act, with corresponding rules in Article 26 of the Minimum Tax Directive and Article 5.1 of the GloBE Model Rules. The effective tax rate is calculated by dividing the adjusted covered taxes by the amount of qualifying income. The calculation of the effective tax rate is performed separately for each jurisdiction. It begins with calculating the sum of all adjusted covered taxes determined for each constituent entity in that jurisdiction. Then, this sum is divided by the sum of the qualifying income of all constituent entities in the jurisdiction. The aforementioned process is illustrated in the formula below:

$$\text{effective tax rate} = \frac{\text{adjusted covered taxes}}{\text{qualifying income}}$$

If the net qualifying income for a jurisdiction is negative in a fiscal year, ETR will not be calculated for that jurisdiction. Furthermore, this calculation does not account for potential external ownership of the constituent entities.[112]

Certain investment and insurance investment entities generally calculate their ETR on a stand-alone basis in accordance with Chapter 7, Section 11.[113] ETR is also calculated separately for constituent entities in which the Group holds less than 30 percent of the shares. The rules for the computation of ETR for these entities are set out in Chapter 5, Section 10.

After the calculation of ETR, it is then compared to the minimum tax rate of 15 %. If the ETR is below minimum tax rate, a top up tax is calculated for the jurisdiction in accordance with Chapter 5, Section 3. Before calculating the jurisdictional excess profit that is used in the determination of the top-up tax, the substance-based income exclusion set out in Section 7 must be determined.

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[112] HE 77/2023 vp, pp. 77-78.
[113] Ibid.

5.1.2 Substance-based income exclusion

Substance-based income exclusion comprises a share of five percent of eligible payroll costs and a share of five percent of eligible tangible assets. The filing constituent entity can make an annual election, whether to apply the exclusion or not under Subparagraph 13 of Section 7 of Chapter 5. According to the OECD, the substance-based carve-out allows for substantive activities in a jurisdiction to be exempt from the application of the GloBE rules. Payroll and tangible assets are generally expected to be less mobile and less likely to be used for undesirable tax planning.[114]

The substance-based income exclusion is the sum of the substance-based income exclusions of all the constituent entities in the jurisdiction concerned. The exclusion is accounted for even in situations where the individual constituent entity has a net loss or no activities in the period.[115] If the amount of substance-based income exclusion exceeds the amount of net qualifying income in a jurisdiction, no qualifying income nor top-up tax is generated.[116]

The definition of eligible payroll costs is intended to be interpreted broadly; it should include all expenditures that provide a direct and separate benefit to the employee.[117] These include, for example, employee compensation expenditures such as salaries and wages, as well as other expenditures including health insurance, pension and social security contributions, payroll and employment taxes. Employees are full- or part-time employees of a constituent entity and independent contractors participating in the ordinary operating activities under the direction and control of the group.[118]

The definition of an employee is consistent with CbCR rules and only includes natural persons who perform more than 50% of their activities in the jurisdiction of the employer; the employer is entitled to a full payroll carve-out. On the other hand, if less than 50% of the work is performed in the employer's jurisdiction, the constituent

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[114] OECD 2024a, pp. 150-151.
[115] HE 77/2023 vp, p. 79.
[116] Ibid. p. 82.
[117] Ibid. p. 83.
[118] Minimum Tax Directive article 28(1) (a) and (b).

entity is entitled to the proportion attributable to work in its jurisdiction.[119] This consistency reduces the administrative burden on constituent entities as the same figures may be used for both purposes.

If part of payroll expenditures is capitalised into the eligible tangible assets, they are only accounted for as part of the eligible tangible assets but not as part of the eligible payroll expenditures. Activities in relation to international shipping income should be left outside the calculation.[120]

Eligible tangible assets include carrying value of property, plant and equipment, natural resources, and a lessee's right-of-use assets that are located in the jurisdiction concerned. The definition of eligible tangible assets is intended to be broad, with the exception of investment assets and those assets that are being sold, to prevent groups from artificially inflating the amount of the exclusion.[121] . The excluded investment assets include, for example, buildings held for rental or capital appreciation and non-current assets held for sale and discounting operations under IFRS 5.[122]

To be considered as eligible tangible assets, the assets must be located in the same jurisdiction as the constituent entity that owns or holds the right-of-use to them. If the tangible asset is mobile or located in multiple jurisdictions, it is treated similarly to employees working in multiple jurisdictions; the asset is regarded as eligible if it is located in the constituent entity's jurisdiction for more than 50% of the period. If the time is 50% or less, the constituent entity is entitled to the value of the asset in proportion to the time it has spent in the jurisdiction.[123]

Eligible tangible assets are valued at the average of the beginning and end of the period carrying values, meaning that assets acquired or disposed of during the period are valued at zero. If the asset is purchased from a related party, the purchase price is adjusted to reflect the arm's-length principle. Other assets are recorded first at their purchase price. For subsequent years, the assets are valued at their carrying value,

[119] OECD 2024a, pp. 151-152.
[120] Minimum Tax Directive article 28 (3) (a) and (b).
[121] HE 77/2023 vp, pp. 83.
[122] OECD 2024a, p. 157.
[123] Ibid. pp. 153-154.

i.e., less any depreciation. Should the asset be subject to an impairment loss, this revaluation is reflected at the end of the reporting period.[124]

5.1.3 Computing the amount of top-up tax

After determining the substance-based income exclusion, it is subtracted from the qualifying net income to arrive at the jurisdictional excessive profit in accordance with Chapter 5, Section 3, Subparagraph 3. In the case of negative excessive profit, no excessive profit is generated, and, furthermore, no top-up tax is imposed on that jurisdiction.[125] If the excessive profit is positive, a top-up tax percentage is calculated under the second subparagraph of Section 3. To calculate the top-up tax percentage, the ETR is subtracted from the minimum tax rate:

$$\text{top-up tax percentage} = \text{minimum tax rate} - \text{jurisdictional ETR}$$

The amount of jurisdictional top-up tax for the fiscal year is then computed by multiplying the top-up tax percentage with the amount of excess profit, adding any additional top-up tax, and deducting any qualified domestic top-up tax.

$$\begin{aligned}\text{top-up tax} = {} & \text{top-up tax percentage} \times \text{excess profit} + \text{additional top-up tax} \\ & - \text{QDMTT}\end{aligned}$$

The jurisdictional top-up tax is then allocated to the constituent entities located in that jurisdiction by multiplying the top-up tax with each constituent entity's share of the qualifying income in accordance with Chapter 5, Section 5, Subsection 2. If a constituent entity has negative qualifying income, it will not be allocated any top-up tax.[126]

Upon the election of the filing constituent entity, it may be elected that no top-up tax is paid in the jurisdiction in accordance with the *de minimis* rule of Section 9. The election at hand is an annual election under Chapter 8, Section 12. To apply the *de minimis* exclusion, the following conditions must be met for all constituent entities in the jurisdiction:

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[124] OECD 2024a. p. 158.
[125] HE 77/2023 vp, p. 79.
[126] HE 77/2023 vp, pp. 82.

- the average revenue of all constituent entities in the jurisdiction is less than ten million euros; and
- the average qualifying income or loss of all constituent entities in the jurisdiction is less than one million euros. [127]

The averages discussed in the conditions above refer to the average of the period at hand and the two preceding periods. If there were no activities in the previous periods, that is, there were no activities in the jurisdiction, the periods would simply be omitted from the calculation. [128]

5.2 Income Inclusion Rule (IIR)

5.2.1 Defining the tax subject

The Income Inclusion Rule (IIR) is set out in Sections 2 to 7 of Chapter 2 of the Minimum Tax Act and it is the primary rule of the two top-up tax rules in the act.[129] The IIR is based on the ownership relations of the group so that the UPE of the group is subject to the top-up tax if the ETR of a constituent entity in the group is below 15%. UPEs are required to include their proportionate share of income of any entity they own, residing in a low-tax jurisdiction, in their accounts and to pay the top-up tax on that income. The IIR is primarily applied in the jurisdiction of the UPE.[130] The duration of ownership of the constituent entity does not matter, meaning that top-up tax is payable even for the entities that are acquired during the fiscal year.[131]

The GLoBE rules only apply the IIR on foreign locations. However, the Minimum Tax Act – in line with the Minimum Tax Directive – requires the IIR to be applied to a domestic constituent entity as well to ensure compliance with TFEU (Chapter 2, Section 2 of the Minimum Tax Act). The UPE itself is also subject to IIR top-up tax in accordance with Chapter 2, Section 2, Subsection 2 of the Minimum Tax Act.

Article 2.1.3. of the GloBE model rules introduces the "top-down approach", which is implemented by Subsection 3 of Section 3.[132] Under the top-down approach, the

[127] OECD 2024a, p. 163.
[128] Ibid. p. 164.
[129] HE 77/2023 vp pp. 9-10.
[130] Lindgren 2022, p. 22.
[131] HE 77/2023 vp, p. 45.
[132] Ibid. p. 46,

priority to apply the IIR is given to the parent entities at the top of the ownership chain. The top-down approach is necessary as special rules for allocating the top-up tax under IIR for intermediate and partially owned parent entities in Finland are laid down in sections 3-5. The purpose of the approach is to avoid double-taxation.[133]

An intermediate parent entity is, in accordance with Chapter 1, Section 27, a constituent entity that directly or indirectly owns a portion of another constituent entity in the group but is not the ultimate parent entity. This could, for example, be an entity that owns subsidiaries in a jurisdiction to operate in that jurisdiction.

Under Section 3, should the UPE not be subject to qualified IIR, the intermediate parent entities located in Finland are held subject to IIR for the low-taxed constituent entities they own, and if applicable, subject to the top-up tax allocated to themselves. If, however, another intermediate parent entity is subject to a qualified IIR and it owns the first intermediate parent entity, the first intermediate parent entity is not subject to IIR.[134] This reflects the top-down approach. The intermediate parent entity is only exempt from the obligation to pay top-up tax, if the UPE is subject to a qualified IIR within its jurisdiction.[135]

In accordance with Section 4, an intermediate parent entity is also subject to top-up tax under IIR if the UPE of the group is an excluded ultimate parent entity. In this case, the intermediate parent entity is subject to top-up tax in respect of its low-taxed constituent entities, including the intermediate parent entity itself. This rule is not applied however, if the intermediate parent entity is owned by another intermediate parent entity that is subject to top-up tax.

A partially owned parent entity may also be subject to top-up tax under Section 5 for its low-taxed constituent entities. A parent entity is partially owned if over 20% of its shares are held by a third party. The partially owned parent entity is liable for its share of top-up tax on all directly or indirectly owned entities for the period. This liability is not waived even if the UPE of the group is subject to a qualified IIR.[136]

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[133] OECD 2024a, p. 39.
[134] Under the article 6 of the Minimum Tax Directive, similar requirement is set to all member states, meaning that all Intermediate parent entities will be subject to IIR even if the UPE is located in a non-compliant jurisdiction.
[135] HE 77/2023 vp, p. 46.
[136] Ibid. p. 48.

If two or more parent entities are subject to the IIR and the correct subject cannot be identified based on the rules above, the top-up tax allocated to the first parent entity is reduced by the amount allocated to other entities, in accordance with Section 7. This is to ensure that the top-up tax is only collected once, i.e., to avoid double taxation.[137]

5.2.2 Allocation of top-up tax

The top-up tax is allocated in accordance with Section 6 by first determining the parent entity's allocable share with respect to the low-taxed constituent entity. The parent entity's allocable share is the proportion of its ownership interest in the qualifying income of the low-taxed entity, reduced by the amount of qualifying income attributable to other owners, and divided by the qualifying income of the low-taxed constituent entity.

Qualifying income is attributable to others if it is allocated to them in accordance with the financial accounting standard of the UPE, and if the financial accounting net income of the low-taxed constituent entity is equal to its qualifying income.[138] The attribution is based on four assumptions set out in paragraphs 1-4 of the Subsection 3 of Section 6:

- Allocation is done using the financial accounting standard used in the preparation of the consolidated financial statements of the group.
- The UPE owns a controlling interest in the low-taxed constituent entity so that the income and expenses would be consolidated on a line-by-line basis in the consolidated financial statements.
- The low-taxed constituent entity's qualifying income is not from intra-group transactions, i.e., all income is attributable to transactions with third parties.
- Other owners of the low-taxed constituent entity are not part of the group.

The allocation formula for the top-up tax of a low-taxed constituent entity (LTCE) under IIR is thus following:

[137] HE 77/2023 vp, p. 51.
[138] OECD 2024a, p. 39.

$$top - up\ tax\ of\ LTCE \times \frac{\text{qualifying income} \ - \ \text{qualifying income attributable to others}}{qualifying\ income}$$

If the UPE itself is a low-taxed constituent entity, the top-up tax attributable to it, is added to the sum of its top-up tax under the IIR in accordance with Section 6, Subsection 4.

5.2.3 Qualified IIR

Qualified Income Inclusion Rule (QIIR) is defined in Section 23 of Chapter 1 of the Minimum Tax Act. A QIIR is qualified if it is equivalent to the IIR rules of the Minimum Tax Act and is administered consistently with the IIR rules. In accordance with the Minimum Tax Directive, this criterion is fulfilled by the EU Member States that have implemented the IIR rules. Jurisdictions outside the Union that have implemented the OECD's model rules and that have sufficient administrative bodies in place are deemed as QIIRs.

The national rules are not to be compared with each other but rather against the OECD model rules. That being said, it is still possible for jurisdictions with constitutional or other legal constraints from referring to the OECD model rules in their legislation to evaluate the rules against domestic legislation.[139] The Minimum Tax Directive states that the qualification is assessed with the criteria set by the OECD, which is to be followed strictly. In accordance with Article 52 of the Minimum Tax Directive, a framework implemented in a third country is equivalent to a qualified IIR if it fulfils the following conditions:

- it enforces a rules based on which an MNE group computes and pays its allocable share of top-up tax in respect of its low-taxed constituent entities;
- it establishes a minimum tax rate of at least 15%;
- for the purposes of calculating the minimum tax rate, it only allows blending of income of constituent entities located in the same jurisdiction; and
- it provides for relief for any top-up tax and IIR paid in accordance with the rules of a member state.

[139] OECD 2024a, p. 273.

The commission is empowered to adopt delegated acts that contain a list of jurisdictions with qualified IIRs in accordance with article 52 and 53.

According to the OECD, the equivalence requirement of a QIIR means a solution that produces the same outcomes as the ones described in the GloBE rules and their commentary, including the administrative procedures and timely collection of tax. Furthermore, the IIR shall not provide any benefits that are related to those rules. Benefits means any kind of advantage, including tax incentives, grants, and subsidies, regardless of the mechanism by which it is provided. Thus, even benefits from outside the national or central government are included in the evaluation. The connection to the IIR and the existence of a benefit is determined on a case-by-case basis, taking into account the circumstances and facts.[140]

The Finnish act refers to the upcoming OECD peer review process that is to be used to assess the qualification of an IIR. The peer review will provide a common assessment of the qualified rule status of the IIR, UTPR, and DMTT in order to achieve consistency and coordination in applying the Pillar II rules. It consists of a full legislative review and ongoing monitoring. As of November 2024, the OECD has not provided the procedure for the peer review. Instead, it has provided a transitional qualification mechanism that is a simplified procedure allowing the swift recognition of the qualified status of implementing jurisdictions on a temporary basis.[141]

The transitional qualification mechanism relies on a self-certification process. The implementing jurisdiction prepares information on the main features of its legislation for the OECD Secretariat to explain the basis of self-certification. This explanation is then provided to other nations in the inclusive framework, who verify the qualification. If any unresolved questions arise from the members of the inclusive framework, they must be resolved before acceptance is granted. In the self-certification, an implementing jurisdiction may overlook minor inconsistencies if it intends to address them within an agreed timeframe. Should the questions be left unresolved, the jurisdiction may still be recorded as qualified for the transitional period, which lasts for two years after acceptance. It is also possible to reject the

[140] OECD 2024a, p. 272.
[141] OECD 2024c, pp.2-3.

jurisdiction's application if other members of the inclusive framework reach a consensus.[142]

5.3 Under Taxed Profits Rule (UTPR)

5.3.1 UTPR as a back-up for IIR

If the UPE of an MNE group is located in a jurisdiction that does not apply a qualified IIR, or if the UPE is an excluded entity in that jurisdiction, the constituent entities located in Finland are subject to top-up tax under the UTPR in accordance with Chapter 2, Section 8 of the Minimum Tax Act. In accordance with article 12 of the Minimum Tax Directive, the UTPR is applied to all constituent entities within the Union, if the UPE resides in an unqualified IIR jurisdiction. This means that the minimum tax rules *de facto* apply to groups located in non-implementing jurisdictions if they have a subsidiary in the EU.

UTPR is the backup rule for IIR, meaning that under Subsection 2 of Section 9, no top-up tax will be imposed if the top-up tax can be fully attributed under the IIR. The UTPR is intended to ensure that top-up tax is paid even if the UPE wouldn't be subject to it in its own jurisdiction. UTPR is also applicable if the top-up tax is partially applied in the jurisdiction of the UPE and to the top-up tax allocable to the UPE. In accordance with Subsection 3 of Section 9 of Chapter 2, the top-up tax imposed under a QIIR is subtracted from the amount of top-up tax to be allocated under UTPR.[143]

The application of UTPR shall lead to the same level of top-up tax that would be imposed, if an IIR was applied. As with the IIR, in accordance with Section 9, the amount of top-up tax is calculated using the rules set out in Chapter 5 of the act. This is intended to improve the coordination between the GloBE rules across jurisdictions and to reduce implementation and compliance costs.[144] The UTPR top-up tax is equal to the sum of the top-up tax for each low-taxed constituent entity, adjusted with the parent entity's allocable share of the top-up tax that is brought into charge under the

[142] OECD 2024c, pp. 3-5.
[143] HE 77/2023 vp, p. 51.
[144] OECD 2024a, p. 47.

QIIR. This adjustment is made to ensure that the UTPR is secondary to the IIR and to avoid multiple taxation of the same low-taxed income.[145]

The UTPR is zero if the UPE's ownership interests in the constituent entity are held directly or indirectly by one or more parent entities that are subject to a QIIR in respect of that constituent entity. It is important to note that this determination is made separately for each constituent entity.[146]

5.3.2 Allocation of top-up tax under UTPR

Top-up tax under UTPR is allocated in accordance with Sections 10 and 11 of Chapter 2 of the Minimum Tax Act. Section 10 provides the formula to compute the UTPR percentage, and Section 11 extends the scope to Finnish constituent entities. To allocate the amount of UTPR, a UTPR percentage is computed using the following formula:

$$\frac{Number\ of\ employees}{2 \times Total\ employees\ in\ UTPR\ countries} + \frac{Value\ of\ tangible\ assets}{2 \times value\ of\ tangible\ assets\ in\ UTPR\ countries}$$

The factors of the formula reflect the relative substance of the Group in each jurisdiction. To avoid favouring one factor over another, both have a 50% weight in the formula. The factors are intended to provide a simple and transparent allocation basis and to allocate the UTPR adjustments to those jurisdictions where the MNE has more tax capacity. They are also components already reported under the CbC reports to minimise compliance costs.[147]

The number of employees for the numerator means the total number of employees in all the constituent entities located in the jurisdiction applying the UTPR. For the denominator, the number of employees means the total number of employees in all constituent entities located in qualified UTPR jurisdictions. The value of tangible assets for the numerator is the total financial accounting value of tangible assets of all constituent entities in the group. The value of tangible assets in the denominator is

[145] OECD 2024a, p. 48.
[146] Ibid. p. 48.
[147] Ibid. pp. 49-50.

the financial accounting value of tangible assets of constituent entities located in qualified UTPR jurisdictions.[148] . In other words, the UTPR top-up tax is allocated based on the share of employees and tangible assets. The number of employees is the number of employees in the relevant jurisdiction on a full-time equivalent basis. The employees also include independent contractors participating in the ordinary activities of the constituent entity. Tangible assets, on the other hand, exclude cash or cash equivalents, intangible or financial assets..[149]

The numbers for permanent establishments are accounted for in the jurisdiction of the PE, not with the owning constituent entity in accordance with Subsections 5 and 6 of Section 10. In accordance with Subsections 7 and 8, the numbers for flow-through entities and investment entities are excluded from the UTPR calculations. Numbers of a jurisdiction are also excluded from the calculation if, in that jurisdiction, the top-up taxes based on the UTPR are zero.

As an example, the UTPR of a Finnish UPE or intermediate parent entity is calculated by first computing the ratio of the number of the group's employees in Finland to the number of employees in all jurisdictions with qualified UTPR. Similarly, a ratio between the value of tangible assets in Finland and the value of tangible assets in all jurisdictions with qualified UTPR is calculated. These ratios are then multiplied by 50% and netted together to arrive at the UTPR percentage.

It is important to note that the UTPR percentage is only calculated for qualified UTPR jurisdictions to avoid allocating the UTPR top-up tax amount to jurisdictions without qualified UTPR, which could lead to a situation where the top-up tax wouldn't be collected in those jurisdictions. This would significantly reduce the effectiveness of the UTPR rule.[150]

In accordance with Chapter 1, Section 25 of the Minimum Tax Act, a UTPR is qualified if it is equivalent to the rules set for the Finnish UTPR. In practice, this means a UTPR of an EU member state or a jurisdiction that has adopted rules equivalent to Articles 2.4 to 2.6 of the GloBE rules and does not provide any benefits related to such rules.[151] The equivalence rules and the OECD's peer review process are

[148] HE 77/2023 vp, p. 52.
[149] Minimum Tax Directive article 14 (6) and HE 77/2023 vp, p. 52.
[150] OECD 2024a, p. 50.
[151] Minimum Tax Directive 3 (43) and GloBE rules article 10.1.1.

discussed in more depth in Chapter 5.1.3 as they are similar to the IIR requirements.[152]

After determining the UTPR percentage for each jurisdiction, the remaining top-up tax is multiplied by it. The jurisdictional UTPR is further allocated to Finnish constituent entities in accordance with Section 11. The basis for allocation is the same ratio used in the allocation of the jurisdictional UTPR, but only taking into account the proportions of Finnish entities.[153] This means that an allocation ratio described above is calculated by dividing the number of employees of the constituent entity by the total number of all employees of the group in Finland and multiplying the ratio by 50%. A similar ratio is then computed for the tangible assets, which is then added to the first ratio to arrive at the constituent entity's UTPR percentage.

[152] OECD 2024c, p. 2.
[153] HE 77/2023 vp, p. 53.

6 The Information return on top-up taxes

6.1 Overview of the GloBE infromation return schema and data needed

The information required in the top-up tax information return is listed in the Sections 7 and 8 of Chapter 8 of the Minimum Tax Act. The information return is filed using a standard template, which includes the following information:

- constituent entities, including their tax identification numbers, location and their statuses;
- information on the overall corporate structure of the group, including the controlling interests held by other constituent entities;
- record of the elections made in accordance with Chapter 8 Sections 11 and 12.

In addition to the items listed above, the information return shall include the information necessary to compute ETR for each jurisdiction and top-up tax of each constituent entity; the top-up tax of a member of a joint venture group; and the allocation of top-up tax under the IIR and the UTPR in each jurisdiction.

The standard template is based on the OECD publication GloBE Information Return, which is updated alongside new information on the filing.[154] The draft version of the GloBE Information Return is designed to facilitate domestic information filings and to be the technical standard for information exchange between Tax Administrations. The information schema is based on Extensible Markup Language (XML). [155]

The elements of the OECD draft schema are either validation or optional data fields. Validation data fields must be present in the information return, and the receiving Tax Administration may reject the file if elements are missing. However, not all information returns missing certain elements can be rejected. The OECD provides an example of shipping income-related elements that are only mandatory in situations where the group has international shipping activities. Optional data fields on the other hand may be provided, but they are not required for an acceptable file.[156]

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[154] Tax Administration 2024b.
[155] OECD 2024b, p. 5.
[156] Ibid. pp. 5-6.

The draft schema consists of two parts, first of which is a general section that is applicable to the whole Group. This part provides the general information on the group structure, the filing entities and a summary table with high-level summary of the application of GloBE rules in the operating jurisdictions. The second part consists of jurisdictional sections based on a single template for each jurisdiction in which the group operates. This part includes a short section that requires limited information on jurisdictions with safe harbours or exclusions. Following this, the jurisdictional part contains a report of ETR and top-up tax computations and the allocation of top-up tax. This part would also be used in reporting under the QDMTT safe harbour.[157]

6.2 DAC9 – the European implementation of the Globe information return

The OECD approach to GloBE information return rules allows implementing jurisdictions to require additional data points to be reported beyond the GloBE information return for the purposes of the preparation of the tax return. The rules provide for the conversion to local currency, identification of the taxpayer, liability timing, and method of payment as examples.[158]

This has been criticised in the public comments on the draft user guidance, with the argument that requirements to complete multiple returns in differing formats will impose an unnecessary burden on businesses and, therefore, national schemas should not permit local variations. Experiences from country-by-country reporting demonstrate that even minor differences in local schemas can prevent the use of centrally prepared filings, resulting in a situation where reports would have to be converted into different formats.[159] The public comments also highlight that jurisdictional differences and subsequent changes to the schema would cause unnecessary and costly system changes for reporters.[160]

As an example, a seemingly standardised schema has been prepared for the purposes of reporting by platform operators with respect to sellers in the sharing and gig economy, which has been implemented by the EU as DAC7 reporting. The OECD

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[157] OECD 2023b, p. 5.
[158] Ibid.
[159] Deloitte 2024, pp. 1-4.
[160] EY 2024 p. 1.

model rules require standardised reporting to ensure maximum standardisation and compatibility with the IT format.[161]

However, different member states require different types of reports, forcing multinational enterprises to prepare different reports for different jurisdictions. For instance, the Finnish Tax Administration requires the DAC7 report to be given in an XML format, whereas the Danish Tax Administration requires a CSV format for the report.[162] Avoiding a situation where, despite having a designated local entity in one jurisdiction to file the information return, a constituent entity would still be required to file additional data in another jurisdiction to avoid compliance risks, even though that constituent entity would not be liable for top-up tax, is thus crucial for the information return of minimum taxation.

To implement the GloBE information return described in Chapter 6.1 above, the EU Commission has adopted a proposal to amend the Directive on administrative cooperation in the field of taxation (DAC9 proposal). The DAC9 proposal aims to establish rules on the automatic exchange of information for the top-up tax information return. The proposal extends the reporting requirement to large-scale domestic groups as well, unlike the GloBE information return, which was designed only for MNE Groups. In accordance with Article 2 of the DAC9 proposal, it should be implemented into national legislation by 31 December 2025.

The DAC9 proposal rules should enable central filing of the top-up tax information return and the exchange of information between Tax Administrations. The information exchange will take place using a system developed by the Commission. Unfortunately, the directive allows for national deviations from the standardised information return, even though they should generally be avoided.[163] The Technology Industries in Finland has also stated that the use of the OECD's GloBE information return should be allowed to minimise the compliance risks related to outdated or ambiguous legislation.[164]

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[161] OECD 2020, p. 32.
[162] For the Finnish schema see Tax Administration 2024c and for the Danish schema Danish Tax Agency.
[163] DAC9 proposal, recitals 4, 8 and 15.
[164] Technology Industries of Finland 2023, p. 3.

Annex VII included in the DAC9 proposal introduces the data points that will be required for the top-up tax information return. The data points are divided into three sections. The first section is the MNE Group information, with details on the filing constituent entity, general group information, corporate structure, and a high-level summary of information. The second section contains information on jurisdictional safe harbours and exclusions. The third section covers the computations, including characteristics of the jurisdiction, ETR computation, and Top-up tax computation as well as top-up tax allocation and attribution. The ETR computation, in particular, involves various elements, the substance of which is discussed in Chapters 3–5 of this thesis.

7 Conclusion

7.1 Summary of Findings

To answer the question presented at the beginning of this study, of what the computation rules for the amount of top-up tax under the Finnish Minimum Tax Act are, one must first compute the qualifying income, which is the financial income based on an accepted accounting standard such as the IFRS, of a constituent entity subject to certain adjustments. The adjustments can be divided into mandatory and optional adjustments. The adjusted qualifying income constitutes the denominator of the ETR formula.

The numerator of the ETR formula is the amount of adjusted covered taxes. Covered taxes are generally imposed on income, retained earnings or equity. On the other hand, indirect taxes and property taxes are left outside the definition. Top-up taxes and certain other taxes are also left outside of the definition. After determining which taxes are included, the amount of covered taxes has to be adjusted for timing differences, as the GloBE computations are performed on the basis of financial accounting, not taxation. Qualifying income and covered taxes are allocated to constituent entities. This additional step is necessary as the items need to be allocated separately to permanent establishments and to the owners of possible flow-through entities to ensure that the items are accounted for in the right jurisdiction.

Having established the components of the ETR, it is then calculated separately for each jurisdiction by dividing the sum of all the covered taxes of constituent entities locating in that jurisdiction by the sum of the qualifying income of the same entities. If the ETR is below 15 % in a jurisdiction, additional steps are required. Qualifying income is subtracted with the substance-based income exclusion which comprises of a five percent share of eligible payroll costs and five percent share of tangible assets. The result of this calculation is the so-called excessive profit of each jurisdiction. If the excessive profit is positive, top-up percentage is then calculated for that jurisdiction.

The amount of top-up tax payable in the undertaxed jurisdiction is determined by multiplying the top-up tax percentage with the amount of excess profits and subtracting the amount of any QDMTT. The top-up tax is then allocated to constituent entities in proportion to their share of the qualifying income. If certain conditions in the jurisdiction are met, however, it is possible to elect to use the *de minimis* exclusion to avoid the payment of top-up tax.

After determining the amount of top-up tax payable, it is then allocated in accordance with the two rules set out in Chapter 2 of the Minimum Tax Act. The primary rule of allocation is the income inclusion rule, under which the top-up tax is attributed to the parent entities of the group using a top-down approach. The ownership interests outside the group are also accounted for by only allocating the top-up tax in proportion to the share owned in the low-taxed constituent entity. To evaluate whether a jurisdiction has implemented an IIR, the OECD's Inclusive Framework has set rules to determine the equivalence of rules. If the rules are compliant, they will receive the status of a qualified IIR. This system is, however, still being developed.

Should the IIR fail to impose the top-up tax, for example, because the parent entities of the group are located in jurisdictions where no qualified IIR is implemented, the Under-taxed Profits Rule will act as a backup rule by attributing the top-up tax with a bottom-up approach. Under the UTPR, the top-up tax is allocated among jurisdictions that have implemented UTPR rules by calculating an allocation ratio based on the number of employees and tangible assets in each jurisdiction. Based on this ratio, the UTPR top-up tax is then imposed on constituent entities based on a similar, jurisdictional ratio. Just as with the QIIR, the UTPR will also have a ratification system in place in the future to identify qualifying UTPRs.

To answer the second research question on the structural components, data requirements, and potential challenges associated with the top-up tax information return outlined by the OECD and the EU's proposal for the DAC9 directive, the role of consistent implementation of the information return cannot be understated. The OECD has designed an XML schema for the domestic information filings. The schema itself consists of a general section, including, for example, general group information and structure, and a jurisdictional part with the ETR and top-up tax computations as well as the allocation of top-up tax.

The OECD's information return has been adopted by the EU with the proposed DAC9 directive. Annex VII of the directive describes the information return, which follows the example of the OECD's schema. The issue with both the OECD and the EU directives is that they leave room for national implementation and allow for the request of additional data fields. This may cause a situation where MNE Groups will have to create systems that can generate multiple types of information returns instead of one system that only has to generate one type of file.

7.2 Concluding remarks

This thesis has provided a general overview of the rules set out in the Minimum Tax Act. The scope of the study has left many areas out for future research. The most significant of these could be the rules for the qualified status of domestic top-up tax, qualified IIR, and qualified UTPR. Another area of research could be that set out in Chapters 6 and 7 of the Minimum Tax Act on corporate restructurings and holding structures, and tax neutrality and distribution regimes. The transitional rules, and especially the safe harbour rules, also contain complex and ambiguous issues to be resolved. A completely different subject is the subject-to-tax rule that is a part of the Pillar II framework, but to be implemented in bilateral tax treaties will, at least in the future, offer a vast ground for research.

The geographical scope of this study is also limited to the Finnish perspective. With further research, a comparative analysis of the national ETR computation rules, for example, could be valuable. Another limitation of this study is the availability of literature and sources, as the subject matter is emergent and still developing. This has meant that the thesis relies mostly on the Governmental Proposal and the OECD’s GloBE commentary. On the other hand, this can be seen as valuable systematisation of a new subject, but the issue of objectivity presented by such heavy reliance on limited material must be acknowledged.

In conclusion, this thesis has illuminated the complex rules on the computation, attribution, and information rules and requirements under the Finnish Minimum Tax Act. These issues are already relevant for both international and large-scale domestic groups. As the global tax landscape continues to evolve, understanding the rules presented in this study is a prerequisite to unravelling the complexities of international tax reform and its implications for multinational enterprises and Tax Administrations alike.

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