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Interpreting the SBIE: From Blueprint Ambiguity to Structural Design and Tax Competition

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Abstract

This study examines the interpretative development of the Substance-Based Income Exclusion (SBIE) mechanism within the OECD/G20 Pillar Two Global Anti-Base Erosion (GloBE) system. While the 2020 Pillar Two Blueprint introduced the SBIE as a conceptual element of the Global Minimum Tax, its role within the Jurisdictional Top-up Tax calculation was formulated in a manner that allowed several plausible interpretations. The GloBE Model Rules, published in December 2021 and subsequently clarified by the OECD/G20 Commentaries (2022-2025), resolved this ambiguity by codifying a single structural design.

Using a legal-doctrinal method, this study identifies the alternative interpretations implied by the Blueprint, analyses how the GloBE Model Rules and the subsequent Commentaries eliminate these alternatives, and assesses the consequences of the final structure for the calculation of the Jurisdictional Top-up Tax.

The choice of structure for computing the Jurisdictional Top-up Tax in turn shapes the balance between limiting harmful tax competition and preserving competition based on real economic activity. By restricting the SBIE to Excess Profit, the GloBE Model Rules curbs competition for low-substance profits while allowing jurisdictions to attract substantive investment. At the same time, this design entails a trade-off, as it may incentivise jurisdictions to lower domestic tax rates and rely on the mechanism of Qualified Domestic Minimum Top-up Tax to retain minimum tax revenues that would otherwise be collected by other jurisdictions. The SBIE emerges for this reason as a function through which Pillar Two reconciles anti-profit-shifting objectives with continued protection of substance-based incentives.

The findings of this study provide insight into how the SBIE evolved, and how it can be leveraged to guide future policy decisions, thereby helping, inter alia, policymakers and practitioners to understand the implications and trade-offs involved for the international tax regime. This research contributes to the ongoing discourse on the practical functioning of the GloBE Model Rules, and helps lay the bedrock upon which future studies on, for instance, the long-term effects of the SBIE on international tax competition, can be made.

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Abbreviations

BEPS	Base Erosion and Profit Shifting
ETR	Effective Tax Rate
EU	European Union
G20	Group of Twenty
GMT	GMT
GloBE	Global Anti-Base Erosion (Pillar Two)
IIR	Income Inclusion Rule
IF	Inclusive Framework on BEPS
MNE	Multinational Enterprise
OECD	Organisation for Economic Co-operation and Development
QDMTT	Qualified Domestic Minimum Top-up Tax
SBIE	Substance-Based Income Exclusion
UTPR	Undertaxed Profits Rule

Chapter One – Introduction

1.1 Introduction

1.1.1 Background and Problem

1.1.1.1 Introduction

Globalisation has accelerated in the 21st century and digital business models have emerged.[1] This development has created structural challenges in matching the international taxation regulatory framework with contemporary economic structures – one being the ability for Multinational Enterprises (MNEs) to locate their intangible assets in low- or zero-tax jurisdictions while generating substantial revenues elsewhere.[2]

In response to the challenges posed by profit shifting and tax base erosion, the OECD/G20 Inclusive Framework launched a coordinated effort through the Base Erosion and Profit Shifting (BEPS) Project, and more recently introduced the Pillar Two Global Anti-Base Erosion (GloBE) Rules (hereafter only referred to as the "GloBE Model Rules").[3] These measures aim to establish a more coherent and standardised international tax system that reduces harmful tax competition.[4] A key feature of the GloBE Model Rules is the introduction of a Global Minimum Tax (GMT) along with rules for its calculation.[5] One such rule is the Substance-Based Income Exclusion

[1] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, p. 3 (Foreword). https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/12/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two_eed81a23/782bac33-en.pdf

[2] OECD (2018), Tax Challenges Arising from Digitalisation – Interim Report 2018: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, pp. 51 (point 132) & 167 (point 375). https://www.oecd.org/content/dam/oecd/en/publications/reports/2018/03/tax-challenges-arising-from-digitalisation-interim-report-2018_g1g8b487/9789264293083-en.pdf

[3] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, p. 3 (Foreword). https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/12/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two_eed81a23/782bac33-en.pdf

[4] OECD (2022), Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules, OECD Publishing, Paris, p. 6. https://doi.org/10.1787/25d30b96-en.

[5] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, p. 7 (Foreword). https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/12/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two_eed81a23/782bac33-en.pdf

(SBIE) mechanism, which under certain conditions allows part of the profits to be excluded from the calculation if linked to real economic activity (Payroll and Tangible Assets).[6]

1.1.1.2 The OECD

The OECD is a selective organisation composed mainly of developed countries, with membership available only by invitation, and thus excludes most developing economies.[7] The BEPS Project and the Pillar Two reforms were developed under the political mandate of the G20, a non-universal forum whose membership is limited to a small group of major economies (including the BRICS and several non-OECD countries such as Argentina, India, South Korea and Saudi Arabia).[8] To broaden participation in the BEPS Project, the Inclusive Framework (IF) was created in 2016, but jurisdictions can only join by committing to implement minimum standards already agreed to by OECD and G20 members.[9] Since the core standards were negotiated within the OECD and G20 before others were invited to join, developing countries had little opportunity to influence the substance of the rules, making them norm-takers rather than co-designers.[10]

In October 2020, the Inclusive Framework approved the Pillar Two Blueprint for release.[11] Then, in July 2021, 130 jurisdictions agreed on a compromise that reshaped the underlying concepts of Pillar Two.[12] Lastly, in October 2021, 136 jurisdictions agreed on the core parameters of Pillar Two in a published Statement, and thus accepted that the GloBE Model Rules would operate as a "common approach".[13] This means that members are not required to implement the rules, but those choosing to do so must apply them consistently with the agreed design, and all members

[6] Ibid. Article 5.3
[7] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 1012
[8] Ibid. p. 1012
[9] Ibid. p. 128
[10] Ibid. p. 128 along pp. 1017-1018
[11] Ibid. p. 825
[12] Ibid. p. 970
[13] Ibid. p. 970-971. See also OECD (2021), Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, October 2021, p. 3. https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf

(regardless of implementation) must accept their application by other jurisdictions.[14] However, neither the Statement, nor the Blueprint on which the subsequent GloBE Model Rules were based, clarified how the SBIE (then referred to as the "substance carve-out") was intended to operate within the formulaic calculation of the tax an MNE is obliged to pay (the Jurisdictional Top-up Tax).[15]

Two months after the political commitment, the OECD published the final GloBE Model Rules (December 2021).[16] While the GloBE Model Rules built on the Pillar Two Blueprint, they did not resolve all interpretive uncertainties. It did, however, codify *one* of the possible interpretations of the SBIE into the framework.[17] Lastly, after the framework was published, the OECD released Commentaries that provided further guidelines and clarifications of the GloBE Model Rules as their implementation process had started.[18]

1.1.1.3 Tax Incentives and Competition

International tax competition does not operate in one way, and its effects vary depending on the form used.[19] A case can be made for tax competition having beneficial effects, indicating that it is not inherently harmful.[20] Harmful tax competition occurs when jurisdictions use preferential regimes to attract highly mobile, low-substance income, which encourages profit shifting and the eroding other states' tax bases.[21] The OECD explicitly identifies this as a core problem that Pillar

[14] Ibid. p. 3. See also Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford pp. 19-20 & 970-971.
[15] Ibid. p. 971. See also OECD (2021), Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, October 2021, p. 4. https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf
[16] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 971
[17] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.2. https://doi.org/10.1787/782bac33-en
[18] OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/a551b351-en
[19] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 244-246
[20] Ibid. Chapter 14.5
[21] OECD (2022), Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules, OECD Publishing, Paris, p. 6. https://doi.org/10.1787/25d30b96-en.

Two seeks to address, expressing that the GMT responds to "profit shifting, harmful tax competition, and a damaging 'race-to-the-bottom'".[22]

In contrast, legitimate or "good" tax competition concerns measures designed to attract real economic substance – such as employment, tangible investment, and physical operations.[23] Many jurisdictions, particularly developing and capital-importing economies, rely on tax incentives to stimulate investment and growth.[24] Such investments linked to Payroll or Tangible Assets are claimed to be less affected by the GloBE Model Rules because the SBIE excludes a share of the profit associated with real economic activity.[25] This demonstrates that the international minimum tax framework is not designed to eliminate all forms of tax competition, but rather to curb harmful competition while preserving room for substance-based incentives.[26]

The SBIE functions as the mechanism through which this balance is defined. By excluding a fixed return on Payroll and Tangible Assets from Jurisdictional Top-up Tax, its idea is to preserve jurisdictions' ability to compete for real investment while limiting low-tax outcomes unconnected to substantive activity.[27] The Blueprint's ambiguity regarding the SBIE's formulaic placement reflected different possible balances between these objectives. The decision to locate it solely in the calculation of Excess Profit is an expression of the choice of balance made, as it simultaneously restricts the Top-up Tax base and determines the scope for jurisdictions to retain taxing rights through a Qualified Domestic Minimum Top-up Tax (QDMTT).[28] This will later be discussed in further detail.

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[22] Ibid. p. 6
[23] Ibid. pp. 6 & 51 & Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 973. See also OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.3. https://doi.org/10.1787/782bac33-en. See also OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, Article 5.3. https://doi.org/10.1787/a551b351-en
[24] OECD (2022), Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules, OECD Publishing, Paris, pp. 11-12. https://doi.org/10.1787/25d30b96-en.
[25] Ibid. Chapter 5.2
[26] Ibid. p. 6 along p. 43-46
[27] Ibid. Chapter 5.2
[28] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.2. https://doi.org/10.1787/782bac33-en

1.2 Objective

The first objective of this study is to examine how the interpretation and structural role of the SBIE evolved from its initial formulations in the 2020 Pillar Two Blueprint, to its codification in the GloBE Model Rules published in December 2021, to the subsequent OECD Commentaries.[29] This objective corresponds to identifying whether the SBIE's function changed during the transition from the Pillar Two Blueprint to the final design.

The second objective is to analyse the implications of the different interpretations of the SBIE on the calculation of the Jurisdictional Top-up Tax. By comparing the alternative interpretations in the Pillar Two Blueprint with the final structure adopted in the GloBE Model Rules and its subsequent Commentaries, the study aims to determine how the placement of the SBIE affects the computation of the Effective Tax Rate, Excess Profit, and ultimately the amount of tax paid by an MNE (the Jurisdictional Top-up Tax).

The third objective is to assess how the different interpretations of the SBIE – that is, again, from the alternatives in the Pillar Two Blueprint to the final design in the GloBE Model Rules with the following Commentaries – reflect the balance between tackling harmful tax competition and preserving legitimate competition based on real economic substance.[30] This objective focuses on the trade-offs that are embedded in the structural design of the SBIE and how these choices shape the effective functioning of the GMT system.

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[29] OECD (2020), Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/abb4c3d1-en. See also OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, https://doi.org/10.1787/782bac33-en. See also OECD (2022), Tax Challenges Arising from the Digitalisation of the Economy – Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two), First Edition: Inclusive Framework on BEPS, OECD Publishing, Paris, https://doi.org/10.1787/1e0e9cd8-en. See also OECD (2024), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2023): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/b849f926-en. See also OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/a551b351-en

[30] OECD (2022), Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules, OECD Publishing, Paris, pp. 6 along 43-46. https://doi.org/10.1787/25d30b96-en. See also Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 974-976

Importance of the Study

Understanding the interpretive development and its implications on the mentioned balance is important because it directly determines how the GMT operates in practice and how it could affect national tax policy choices. The results of this analysis can be used by, for example, policymakers, tax administrations, and practitioners to evaluate the remaining scope for substance-based tax incentives and to interpret and apply the GloBE Model Rules consistently with their underlying policy objectives.

1.3 Research Questions

The study will be focused through three research questions, designed to guide the process and to offer answers to the issues at hand:

1. How did the role of the SBIE evolve from the politically endorsed Pillar Two Blueprint in October 2020 to its codification in the GloBE Model Rules and subsequent OECD Commentaries?

2. What are the implications of the different possible interpretations of the SBIE formula for the calculation of the Jurisdictional Top-up Tax?

3. How do the different plausible interpretations of the SBIE – from the Blueprint alternatives to the final GloBE Model Rules and their Commentaries – reflect the balance between limiting harmful tax competition and preserving legitimate competition for real economic substance?

1.4 Scope and Delimitation

This thesis is limited to analysing the interpretative development of the SBIE, its structural role within the Pillar Two minimum tax system, and the policy trade-offs it entails. The emphasis is therefore placed on the internal design of the calculation system, the interaction between its components, and the consequences of positioning the SBIE at different stages of the

computation. Accordingly, the interaction between the SBIE and the QDMTT is analysed to the extent necessary to understand how the structural design of the Jurisdictional Top-up Tax influences both revenue allocation and tax competition.

The study does not aim to discuss all aspects of the GloBE framework. Multiple elements of Pillar Two, such as scoping rules,[31] timing differences, and administrative coordination,[32] all fall outside the scope. Similarly, the thesis does not provide an exhaustive examination of the meaning of every defined term in the GloBE Model Rules. GloBE Income,[33] Covered Taxes,[34] or adjustments to these variables are all definitions considered only to the extent necessary to understand how they structurally interact with the SBIE. The interest lies in the placement, function, and implications of these variables within the computational sequence, rather than in their detailed substantive content.

The study also excludes jurisdiction-specific implementation, and is only discussed indirectly to illustrate the normative authority of the OECD instruments, not as an independent subject of analysis.

Accordingly, the thesis is confined to, as initially mentioned, understanding the interpretative evolution of the SBIE from the Pillar Two Blueprint to the GloBE Model Rules, assessing how its final structural formulation shapes the legal calculation of the Jurisdictional Top-up Tax, and analysing what the results imply for the balance between reducing damaging tax competition and protecting tax incentives connected to substance.

1.5 The use of AI

Generative AI was used only to a limited extent during the study and writing process. Its role was supportive and confined to tasks that improve clarity and precision without influencing the

[31] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Chapter 1. https://doi.org/10.1787/782bac33-en
[32] Ibid. Chapter 8
[33] Ibid Chapter 3
[34] Ibid. Chapter 4

substantive legal analysis or the conclusions of the study. First, it was used for rephrasing passages that I had already drafted, with the objective of improving readability while retaining the original meaning. Second, it was used to find specific terms, ideas, or sections within lengthy source materials, functioning as a search aid to navigate extensive documents more efficiently. It should be underscored that the use of AI did not involve generating new content, but rather assisted in identifying relevant portions for my own interpretations and doctrinal analysis. Third, it was used as a tool for grammar and language checks in order to correct errors identified in the text. The use of AI was thus restricted to linguistic refinement, targeted search assistance, and proofreading.

1.6 Structure

The thesis is organised to move from the broader conceptual and historical foundations of the Pillar Two framework toward a focused doctrinal analysis of the SBIE and its development from the Pillar Two Blueprint to the GloBE Model Rules and its subsequent Commentaries.

Chapter One explains the background of international tax competition and the OECD/G20 response through the Pillar Two initiative. It follows the development from the Pillar Two Blueprint, to the GloBE Model Rules, to the Commentaries. It presents the initial ambiguity surrounding the SBIE, and places the SBIE in the context of the balance between harmful tax competition and substance-based incentives. The Chapter concludes by presenting the thesis' objectives, research questions, scope, the use of AI, and the overall structure.

Chapter Two establishes the background for the legal-doctrinal approach. It situates Pillar Two and its associated documents in the historical development of international corporate taxation and explains how its instruments – such as the Blueprint, the GloBE Model Rules, and the Commentaries – function in practice in the international tax law regime.

Chapter Three identifies and explains the sources used in the study. It examines the legal status and normative role of the Pillar Two Blueprint, the GloBE Model Rules, and the OECD Commentaries, and clarifies how these are read in relation to one another.

Chapter Four applies a legal-doctrinal method to present the internal structure and operation of the GloBE Model Rules in their final and authoritative form. It explains the calculation of the Jurisdictional ETR, the Jurisdictional Top-up Tax, and situates the SBIE in this computational framework. Through illustrations and numerical examples, the Chapter establishes the technical bedrock upon which the subsequent comparison with the Pillar Two Blueprint is made.

Chapter Five examines the SBIE's role through the eyes of the Pillar Two Blueprint. Again, by using a legal-doctrinal approach, I map out the definitional ambiguities that arise from the Pillar Two Blueprint text – particularly concerning the interaction between the SBIE, the ETR denominator, and the Adjusted Covered Taxes – and reconstruct three plausible interpretations that follow from the terminology used. Numerical examples are presented to illustrate the implications of each interpretation.

Chapter Six presents the results of the thesis and answers each research question in turn. First, it traces how the SBIE's role and placement developed from conceptual ambiguity in the Pillar Two Blueprint to the fixed design in the GloBE Model Rules. Second, it shows how the alternative interpretations produce different Jurisdictional Top-up Tax outcomes. Third, it assesses how the final SBIE structure balances the restriction of harmful tax competition with the preservation of substance-based incentives, including the trade-offs inherent in maintaining competitive space for real activity.

The thesis ends with a summary of the main findings, followed by an explanation of their broader significance and a brief outline of avenues for future research. The summary presents the results in relation to the research objectives, while the following parts highlight the broader implications of the SBIE's design and indicate how the analysis can support future academic and policy work.

Chapter Two – Theory and Method

2.1 Introduction

Although the Pillar Two Blueprint, the GloBE Model Rules, and their associated Commentaries are not formally binding under international law, but rather constitute a "common approach",[35] they nevertheless function as legal sources, or in any case as authoritative normative sources, within the Pillar Two regime because of the way international tax cooperation operates in practice.[36] Their normative effect stems not from the creation of binding treaty obligations but from coordinated state behaviour and political endorsement across jurisdictions.[37] The conceptual basis for this will be examined in depth in Chapter Three.

In order to examine why the GloBE Model Rules have come to have this position, understanding the broader context of the historical development of international tax law is useful.[38] The authority that these instruments exercise today is not by accident, but rather a product of a long-standing evolution in which non-binding models and commentaries have progressively come to be of "major importance".[39]

The following sections therefore trace this historical trajectory in order to demonstrate how the structural features of today's OECD/G20 regime – and, ultimately, of Pillar Two – emerged from earlier attempts to manage international double taxation and allocate taxing rights.[40] This historical context provides the foundation for understanding the contemporary normative status of the Blueprint, the GloBE Model Rules, and the Commentaries, and explains how these soft-law instruments operate in the international tax law regime.[41]

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[35] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 970
[36] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 971
[37] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, pp. 970-971 & 988
[38] Ibid. Chapter 2 & p. 43
[39] Ibid. pp. 45-46
[40] Ibid. p. 43
[41] Ibid. pp. 45-46 & 99-100

2.2 Historical Context and Recent Developments

2.2.1 Early Framework of International Corporate Taxation

In March 1923 – in the aftermath of World War I – the issue of international double taxation was increasing as global economic activity had started to grow. In response, the League of Nations convened experts in Geneva to address these concerns.[42] Central to the negotiations was whether income earned abroad should be taxed by the source country, the residence country, or both. The 1923 Report that emerged proposed general jurisdictional principles – and practical applications.[43] It proposed the concept of "economic allegiance," replacing "political allegiance," to guide the allocation of taxing rights based on the strength of a country's economic ties to the income.[44]

Following the work initiated in the early 1920s, the League of Nations' General Meeting of Government Experts adopted in 1928 a set of model bilateral conventions aimed at preventing double taxation.[45] The 1928 conventions, in principle, recognised taxing rights for both residence and source countries – that is, the state where the taxpayer is domiciled or has its economic centre of life, and the state where the income arises respectively.[46] However, in practice, their impact was limited. At the time, most cross-border income consisted of portfolio investment, for which the models allocated taxing rights almost exclusively to the country of residence.[47] Only where a taxpayer carried on business through a permanent establishment abroad – such as a branch or factory – did the models allow the source state to tax the associated profits.[48]

[42] Mehrotra, A. (2025), The Intellectual Origins of the Modern International Tax (University of California eScholarship), pp. 2 (Intro). https://escholarship.org/content/qt3qn3f1c6/qt3qn3f1c6.pdf
[43] Mehrotra, A. (2025), The Intellectual Origins of the Modern International Tax (University of California eScholarship), pp. 2-3 (Intro). https://escholarship.org/content/qt3qn3f1c6/qt3qn3f1c6.pdf
[44] Ibid. pp. 3, 18
[45] UN (2014), Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries, United Nations Department of Economic and Social Affairs (DESA), New York, p. 26. https://www.un.org/esa/ffd/wp-content/uploads/2014/09/UNPAN008579.pdf
[46] Ibid. p. 26
[47] Ibid. p. 26
[48] Ibid. p. 26

2.2.2 The OECD and the UN Model Conventions

In 1961, the OECD was established,[49] and developed the work on double taxation that the League of Nations had laid the foundation for.[50] Their efforts resulted in the Draft Double Taxation Convention on Income and Capital, prepared in 1963 to provide a common reference point for OECD member countries when negotiating bilateral tax treaties.[51] The draft did not determine how states may tax under their own domestic laws. It instead set out how states choosing to enter into a treaty agree to allocate and limit their respective taxing rights. For example, many treaties based on the OECD Model assign primary taxing rights over passive income (dividends, interest, royalties) to the residence state,[52] while source countries could only tax business profits if a permanent establishment existed.[53] These treaty rules have influenced modern treaty practice, but do not replace the taxing powers that states may assert under their domestic legislation when no treaty applies.

In 1977, the OECD Model was revised, consolidating earlier drafts into one coherent text.[54] This document reinforced the favourable stance of the residence state, entailing a bias towards multinationals from developed, capital-exporting economies who sought relief from double taxation when investing abroad.[55]

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[49] OECD (n.d.), Our history, OECD Publishing, Paris. https://www.oecd.org/en/about/history.html

[50] United Nations (2017), Mobilizing Domestic Resources for Sustainable Development: A Study on International Support to Domestic Resource Mobilisation (MDT 2017), United Nations Department of Economic and Social Affairs, New York, point 1. https://www.un.org/esa/ffd/wp-content/uploads/2018/05/MDT_2017.pdf

[51] OECD (1963), Draft Double Taxation Convention on Income and Capital, OECD Publishing, Paris, Chapter I (point 9). https://www.oecd.org/content/dam/oecd/en/publications/reports/1963/10/draft-double-taxation-convention-on-income-and-capital-1963_g1g96efe/9789264073241-en.pdf

[52] Ibid. Articles 10 (1), 11 (1) & 12 (1), pp. 47-49

[53] Ibid. Article 7 (point 1), p. 45

[54] OECD (1977), Model Double Taxation Convention on Income and on Capital, OECD Publishing, Paris, p. 5. https://www.oecd.org/content/dam/oecd/en/publications/reports/1977/09/model-double-taxation-convention-on-income-and-capital-1977_g1g96efb/9789264055919-en.pdf. See also IMF (2021), "Are Tax Treaties Worth It for Developing Economies?", in Rethinking International Tax Law for Developing Countries, International Monetary Fund, Washington D.C., p. 125. https://www.elibrary.imf.org/downloadpdf/display/book/9781513511771/ch008.pdf

[55] OECD (1977), Model Double Taxation Convention on Income and Capital, OECD Publishing, Paris, p. 39 (Article 23). https://www.oecd.org/content/dam/oecd/en/publications/reports/1977/09/model-double-taxation-convention-on-income-and-capital-1977_g1g96efb/9789264055919-en.pdf

At the same time, the United Nations (UN) had crafted a Treaty Model of its own, releasing the first version in 1980.[56] Because the OECD Model reflects the interests of its predominantly capital-exporting member states, many developing, capital-importing countries viewed it as offering an imbalanced allocation of taxing rights that negatively affected them.[57] This first version of the UN Model, while similar in structure with the OECD version, shifted the scale of taxation allocation by granting source countries more rights. This began the dual-track treaty framework: OECD for developed economies and UN for developing ones – a divide that today continues to shape international tax policy debates.[58]

2.2.3 The BEPS Initiative leading to The GloBE Model Rules

The international tax rules built on the principles developed in the 1920s had become increasingly outdated in a globalised economy.[59] MNEs exploited loopholes in national tax systems to shift profits to low-tax jurisdictions, eroding tax bases.[60] After the 2009 financial crisis, the G20 – a forum made up of the world's 19 largest national economies (in addition to the European Union) – mandated the OECD to lead a joint project to address these issues. This became the Base Erosion and Profit Shifting (BEPS) Project.[61]

The BEPS Action Plan, built around 15 measures, aimed to modernize the regulatory landscape of international taxation and close structural gaps that are present in the aforementioned tax avoidance tactics. When the OECD released its final BEPS reports in 2015, they established minimum standards, best practices, and optional approaches for domestic adoption.[62]

To broaden the global reach of the Action Plan and the final reports, non-OECD and non-G20 countries were invited to join the initiative through the Inclusive Framework on BEPS (IF),

[56] IMF (2021), "Are Tax Treaties Worth It for Developing Economies?", in Rethinking International Tax Law for Developing Countries, International Monetary Fund, Washington D.C., pp. 125. https://www.elibrary.imf.org/downloadpdf/display/book/9781513511771/ch008.pdf
[57] Ibid. p. 125
[58] Ibid. pp. 125-126
[59] IDOS (2023), The BEPS Project – Achievements and Remaining Challenges, IDOS Policy Brief 22/2023, Bonn, p. 2. https://www.idos-research.de/fileadmin/migratedNewsAssets/Files/PB__22.2023.pdf
[60] Ibid. p. 2
[61] Ibid. p. 1
[62] Ibid. p. 1

which was established to enable a wider group of countries to implement the BEPS measures and to ensure that the underlying principles were applied in a coordinated manner.[63] Membership eventually expanded to more than 140 jurisdictions.[64]

The BEPS Project did not result in the implementation of Action 1 on the tax challenges arising from digitalisation.[65] In response, members of the OECD/G20 Inclusive Framework agreed in 2021 on Pillar Two as a solution to address these remaining issues.[66] Pillar Two, apart from setting out the GMT, also laid out the calculations and mechanisms for Carve-Outs for Payroll and Tangible Assets. Countries have begun the implementation process, which took effect in 2024.[67]

Chapter Three – Sources of Law

3.1 Legal Standing of the Sources

The preceding historical account demonstrates that international corporate taxation has been shaped by regimes grounded in coordination rather than binding treaty law, and can therefore be understood as a gradual hardening of soft law.[68]

Under the generally accepted framework for identifying customary international law, a rule requires both a general and consistent state practice and opinio juris – a belief that such practice is legally required.[69] It has been argued that it is difficult to establish a customary rule in this area, particularly as widespread treaty commitments mean that practice outside the treaty context must still be shown.[70] While it has also been suggested that domestic legislation aligned with

[63] Ibid. p. 1 & 3
[64] Ibid. pp. 1-2
[65] Ibid. p. 5
[66] Ibid. p. 5
[67] Ibid p. 5
[68] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, pp. 99-100
[69] Ibid. pp. 76-78
[70] Ibid. pp. 93-94

international tax norms might, in some cases, indicate opinio juris, this remains the minority view.[71] Thus, although international tax practice frequently shows similar patterns, there is insufficient evidence of opinio juris in this field.[72] Instead, states tend to follow OECD instruments because they provide pragmatic and administratively efficient solutions.[73]

The explained situation creates a reliance that has produced a political expectation of coordinated and reciprocal application, such that each jurisdiction's effective participation in the regime depends on the participation of the others.[74] For instance, the successful functioning of the GloBE Model Rules depend on a shared understanding of a set of definitions and their consistent application. This applies, for example, to the Income Inclusion Rule (IIR) in which a parent entity is required to impose a Top-up Tax on the low-taxed income of its subsidiaries,[75] and the Undertaxed Payments Rule (UTPR) that acts as a backstop by reallocating Top-up Tax not collected under a qualified IIR.[76]

This systemic interdependence gives the GloBE Model Rules a normative force – they operate as model legislation characterised by voluntary coordinated incorporation,[77] whose effect depend on domestic enactment.[78] Countries opting not to implement the rules must at a minimum accept their application by other jurisdictions,[79] as doing otherwise would undermine the regime for all participating jurisdictions.

The combined effect of this reliance, interdependence, and coordinated incorporation is that the

[71] Ibid. pp. 93-94
[72] Ibid. pp. 93-94
[73] Ibid. pp. 76-80 & 93-94
[74] OECD (2021), Frequently Asked Questions – Global Anti-Base Erosion (GloBE) Rules (Pillar Two), OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, p. 1. https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/faqs-on-model-globe-rules.pdf
[75] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 2.1. https://doi.org/10.1787/782bac33-en
[76] Ibid. Article 2.4
[77] OECD (2025), Annual Update on OECD Standard-Setting: Monitoring, Compliance and Mutual Review Report 2025, OECD Publishing, Paris, p. 8. https://www.oecd.org/content/dam/oecd/en/events/2025/06/mcm/MCM-2025-Annual-Update-on-OECD-Standard-Setting.pdf
[78] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 971.
[79] Ibid. p. 971

GloBE framework exerts practical influence on domestic tax policy even in the absence of binding international obligations.[80] Once jurisdictions accept the logic of the regime and recognise that its effectiveness depends on collective adherence,[81] they are faced with incentives to align their domestic laws with the agreed standard. In practice, this dynamic has meant that states treat the GloBE Model Rules as authoritative guidance to be internalised.[82] The extent of this internalisation becomes clear when examining how jurisdictions have responded to the release of the GloBE Model Rules.

This authority of the OECD's GloBE publications is evident in the rapid transposition of the GloBE Model Rules into domestic law – most notably through EU Directive 2022/2523,[83] which was introduced only two days after the framework was released by the European Commission.[84] The Directive closely mirrors the GloBE Model Rules and was adopted with the aim of ensuring their uniform application across the EU.[85]

3.2 Sources

3.2.1 Introduction

The preceding discussion of the historical development and normative context of the Pillar Two framework provides the foundation for the methodological approach applied in this study. With that background established, the next step is to identify the specific documents used in the doctrinal analysis and to clarify how they are read in relation to one another. The focus here is to

[80] Ibid. 970-971
[81] Ibid. 970-971
[82] Ibid. 970
[83] Ibid. pp. 971-972. European Union (2022), Directive (EU) 2022/2523 of the European Parliament and of the Council, Official Journal of the European Union, L 267, 16th November 2022. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2523
[84] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 971-972
[85] Ibid. p. 972. Cf. European Union (2022), Directive (EU) 2022/2523 of the European Parliament and of the Council, Official Journal of the European Union, L 267, 16th November 2022. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2523 with OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, https://doi.org/10.1787/782bac33-en

present the material and how they function as interpretative sources for tracing the evolution of the function of the SBIE within the GloBE system.

To conduct the legal-doctrinal method, the following sources have been consulted: First, the Pillar Two Blueprint, which provides the pre-final and conceptually open formulations that reveal the possible interpretations of the SBIE in the Jurisdictional Top-up Tax calculation.[86] Second, the GloBE Model Rules, which establish the final and fixed structure.[87] Third, the subsequent Commentaries, which were examined to determine if, and in what manner, the official interpretation developed following the adoption of the GloBE Model Rules.[88]

These primary sources share the characteristic of forming part of the international tax law regime. They serve as the foundation for the study and function, for the reasons outlined above, as instruments that structure, constrain, and legitimise the operation of the global tax order in relation to domestic tax systems. Each document produced by this initiative serves a purpose, and together they map the logic that underpins the analysis.

These sources in combination also reflect the balance between limiting harmful tax competition and preserving competition grounded in real economic substance. The Pillar Two Blueprint presents this balance in a comparatively open and conceptual manner, leaving room for alternative structural formulations of the SBIE that correspond to different policy choices. The GloBE Model Rules, by contrast, codify a single design and thereby fix a particular balance between these competing objectives. The later Commentaries further clarify this chosen structure, confirming which one ultimately prevails.

In the following, a general overview of the primary sources used in this thesis will be given in chronological order.

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[86] OECD (2020), Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, pp. 95 & 102-103. https://doi.org/10.1787/abb4c3d1-en

[87] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Chapter 5. https://doi.org/10.1787/782bac33-en

[88] OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris. https://doi.org/10.1787/a551b351-en

3.2.2 The Pillar Two Blueprint

The October 2020 Pillar Two Blueprint provided a detailed and politically secured articulation of the emerging design of the GloBE Model Rules.[89] It was prepared jointly by the G20 and the Inclusive Framework,[90] and reflects the shared objectives and structural expectations of the 136 jurisdictions that agreed to it.[91]

The document's structure begins with an executive summary that explains the policy aims.[92] It then moves into a sequence of Chapters that each address different elements in order. First, definitions of the scope of the regime are established,[93] then the rules discuss the principles for determining the tax base and ETR.[94] It outlines the main adjustments and simplification options, sets out the structure and functioning of the core charging provisions, and addresses special situations that require tailored treatment.[95] The last sections discuss matters that regard implementation and coordination.[96] Together, this structure provides the progression from concepts to the rules of operation and practical administration.

However, the Pillar Two Blueprint is not drafted in the form of final legislation. Its descriptions of the named mechanisms are often conceptual, and several parts are formulated in ways that leave room for differing interpretations. These ambiguities arise in multiple areas of the system. The relevant example for this thesis concerns the role of the SBIE in the Jurisdictional Top-up Tax calculation. The Pillar Two Blueprint outlines the SBIE and the Jurisdictional ETR computation,[97] but does not specify with precision how these components are meant to interact. As a result, the SBIE's position in the calculation can be read in more than one coherent way.

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[89] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 970
[90] Ibid. p. 969
[91] Ibid. p. 971
[92] OECD (2020), Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, pp. 13-14 https://doi.org/10.1787/abb4c3d1-en
[93] Ibid. Chapter 2
[94] Ibid. Chapter 3
[95] Ibid. Chapters 4-9
[96] Ibid. Chapter 10
[97] Ibid. Chapters 3-4

The Blueprint is later in the thesis used to reconstruct the plausible interpretations of the structure of the formula. In this context, the analysis by Devereux, Simmler, Vella and Wardell-Burrus has provided a useful point of reference.[98] Their examination of alternative SBIE designs demonstrates the consequences of placing the Carve-Out in different parts of the formulaic sequence.[99] One possible design creates a firm threshold below which countries no longer benefit from cutting taxes, while alternative designs maintain some scope for governments to attract investment through lower tax burdens.[100]

In this thesis, their analysis has served as a methodological reference point. The models and examples developed in the following Chapters draw on the underlying interpretative possibilities identified therein in order to illustrate how those readings may operate within the Blueprint's calculation system. Thus, it should be underscored that the construction of the models, the numerical examples, and the analytical approach on which the subsequent doctrinal analysis is based have been developed independently, but that the interpretations embedded in them reflect and operationalise interpretative alternatives already identified by Devereux et al.

3.2.3 The GloBE Model Rules

The GloBE Model Rules convert the Pillar Two Blueprint's conceptual framework into a fixed structure.[101] It represents the formal legal design and is intended for implementation in domestic law. It is therefore the second primary source examined.

These rules constitute the minimum tax system in its final, codified form. The framework presents the specific Articles that function as the legal clauses of the GloBE framework, and have a similar general structure as the Pillar Two Blueprint. It first, inter alia, defines the

[98] Devereux, M. P., Simmler, M., Vella, J. & Wardell-Burrus, H. (2021), What Is the Substance-Based Carve-Out under Pillar 2? And How Will It Affect Tax Competition?, EconPol Policy Brief, Vol. 5, No. 39, ifo Institute, Munich. https://www.econstor.eu/bitstream/10419/273435/1/1852577843.pdf
[99] Ibid. pp. 4-10
[100] Ibid 2-3 & 9-10
[101] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, pp. 4-5. https://doi.org/10.1787/782bac33-en

scope,[102] calculation methods,[103] and procedural hierarchy of its rules.[104] It then provides the definitions of, for instance, "GloBE Income",[105] "Covered Taxes",[106] and "Effective Tax Rate".[107]

The central part for this thesis is examining how the GloBE Model Rules position the SBIE in the Jurisdictional Top-up Tax calculation.[108] Whereas the Pillar Two Blueprint presents the relevant components openly, the GloBE Model Rules articulate a definitive formula and thereby decide the SBIE's function.[109] This in turn allows for a comparison between the Pillar Two Blueprint and the GloBE Model Rules, making clear the development from political consensus to final design.

3.2.4 The Commentaries

Following the publication of the GloBE Model Rules, the Inclusive Framework released an accompanying set of Commentaries to support the interpretation and administration of the new framework. As noted in the introduction of the 2025 Commentary, its purpose is to "provide tax administrations and taxpayers with guidance on the interpretation and application of [the GloBE Model] rules"[110].

The Commentaries therefore represent the next step. After the policy-level Pillar Two Blueprint and the structured GloBE Model Rules, the Commentaries function as the source for clarifications of each respective Article that can be used as a reference to more accurately guide and interpret the provisions and their intended implementation.[111] In other words, the

[102] Ibid. Chapters 1-2
[103] Ibid. Chapters 3-4
[104] Ibid. Chapters 8-9
[105] Ibid. Articles 3.1-3.2
[106] Ibid. Article 4.2
[107] Ibid. Article 5.1
[108] Ibid. Article 5.2
[109] Ibid. Article 5.3
[110] OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, p. 9. https://doi.org/10.1787/a551b351-en
[111] Ibid. pp. 3-4 & 9

Commentaries mainly refine the determination of what falls within each variable, such as what qualifies as GloBE Income,[112] Adjusted Covered Taxes,[113] or components of the SBIE.[114]

In this respect, elements such as the QDMTT, which appear in the GloBE Model Rules primarily as part of the computational structure, are elaborated upon in the Commentaries in terms of their function and interaction with other components of the system.[115] However, despite its detail, the Commentaries do not reconsider or expand on the choice of variables themselves, nor do they reopen questions regarding the structure or positioning of the SBIE within the Jurisdictional Top-up Tax calculation.[116] Instead, it assumes the fixed architecture of the GloBE Model Rules and focuses on detailing the content of each element within that existing structure. This assumption is therefore understood as a reaffirmation of the existing calculation formula.

Chapter Four – The GloBE Model Rules

4.1 Introduction

The doctrinal analysis in this Chapter examines the GloBE system as it operates in its final and authoritative form, with the purpose of providing the analysis of the SBIE with context. For the analysis to address the research questions coherently, an initial understanding of the structure of the system as it exists today, including the role and operation of the SBIE within the GloBE Model Rules' framework, is most appropriate. Beginning with the GloBE Model Rules is therefore methodologically reasonable – they constitute the authoritative design, provide the fixed formulas and definitions on which the calculation rests, and serve as the reference point against which any earlier interpretive uncertainty in the Pillar Two Blueprint can be meaningfully assessed.

[112] Ibid. Chapter 3
[113] Ibid. Chapter 4
[114] Ibid. Article 5.3
[115] Ibid. Article 5.2.3
[116] Ibid. Articles 5.1-5.3

The turning point for Pillar Two occurred in 2020-2021, when negotiations within the OECD/G20 Inclusive Framework accelerated and moved from the conceptual framework in the October 2020 Pillar Two Blueprint, to a politically endorsed global standard.[117] International consensus had already been achieved in the Pillar Two Blueprint,[118] but important issues – among them the treatment of the SBIE – remained unsettled.[119] At the same time, there was growing recognition that the BEPS package, while curbing certain forms of aggressive tax planning, had not prevented the accumulation of large amounts of low-taxed income in favourable jurisdictions, nor fully addressed the pressures created by intensifying tax competition.[120]

In this context, 2021 marked the first moment at which a mass of jurisdictions gathered with the explicit intention of establishing a global minimum level of corporate taxation. As briefly previously discussed, on 1 July 2021, 130 Inclusive Framework members endorsed a high-level political outline of a Pillar Two solution.[121] This statement entailed an intention to reform international tax rules by ensuring that MNEs "pay a fair share of tax wherever they operate".[122] It furthermore confirmed that the Pillar Two would take the form of a "common approach" – members implementing a minimum tax would be politically committed to do so consistently with the agreed design, while other members of the Inclusive Framework would accept its application by implementing jurisdictions.[123]

A polished agreement followed on 8 October 2021, when 136 jurisdictions endorsed the Statement on a Two-Pillar Solution.[124] This statement updated and finalised the parameters of Pillar Two, including fixing the GMT Rate at 15% (the July statement had referred to a rate of "at least" 15%) and agreeing a more generous, but time-limited, SBIE to be phased down over a ten-year transition period.[125] It thus consolidated political convergence across diverse tax systems and confirmed the common-approach nature of Pillar Two.

[117] Ibid. p. 970-971
[118] Ibid. pp. 970-971
[119] Ibid. p. 986
[120] Ibid. pp. 969-970
[121] Ibid. pp. 35 & 970-971
[122] Ibid. p. 35
[123] Ibid. p. 37
[124] Ibid. p. 970
[125] Ibid. p. 970

The objectives of the 2021 agreement were multiple, one of which was to establish a floor for international tax competition in addition to addressing remaining BEPS concerns, reflecting the view that unrestrained rate competition threatened the long-term sustainability of corporate tax bases.[126]

After the political agreement was reached, the Inclusive Framework formalised the outcome by issuing the GloBE Model Rules in December 2021. These rules take the form of model legislation and therefore serve as a template for domestic implementation. While they build on the idea developed in the 2020 Pillar Two Blueprint, they also address a number of the technical issues that had previously remained unsettled, and introduce several structural refinements.[127] In particular, they clarify the role of the SBIE in the computation of the Jurisdictional Top-up Tax.[128]

4.1.1 International Tax Law and its Economic Effects

Since the analysis in the following sections rely extensively on numerical examples and computational outcomes, it is necessary to clarify why such calculations are methodologically relevant in a legal study.[129] A feature of international tax law is that the legal structure and design of tax rules and their economic outcomes are inherently connected.[130] Because tax rules operate through quantitative calculations, the meaning and practical effect of a provision cannot be separated. Thus, the interpretation of tax norms cannot be divorced from their economic consequences, since the structure and sequencing of a rule directly determines how it functions in practice.[131]

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[126] Ibid. p. 970
[127] Ibid. 986 & 971
[128] Ibid. 986
[129] Martini, R. (2013), Numerical Methodology in Comparative Tax Law: The Mathematical Model of Elasticity as a Thinking Model for Legal Comparisons, Cambridge Journal of International and Comparative Law, Vol. 2, No. 2, Abstract & p. 515. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2351743
[130] Ibid, Abstract & p. 508. See also Waerzeggers, C., Hillier, C. and Aw, I. (2018), The Evolution of Tax Law Design within an Increasingly Destabilized International Tax Law Framework, in Corporate Income Taxes under Pressure: Why Reform Is Needed and How It Could Be Designed, International Monetary Fund, Washington, DC, p. 341. https://www.elibrary.imf.org/display/book/9781513511771/ch016.xml
[131] Ibid, p. 348. See also Martini, R. (2013), Numerical Methodology in Comparative Tax Law: The Mathematical Model of Elasticity as a Thinking Model for Legal Comparisons, Cambridge Journal of International and Comparative Law, Vol. 2, No. 2, Abstract & p. 515. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2351743

Economic analysis has played a central role in shaping the development of international tax rules by illustrating how different legal designs influence incentives and behavioural responses.[132] The connection also reflects an analytical approach in which legal analysis is developed alongside economic analysis in order to assess the pressures and functioning of the international corporate tax system.[133]

For the present thesis, this means that questions of interpretation relating to the GloBE Model Rules, including the placement and function of the SBIE, must be assessed not only on doctrinal grounds but also in light of their computational consequences. Different designs produce different ETRs and Top-up Taxes, which in turn affect investment behaviour and the competitive position of jurisdictions. Understanding these effects allows for an evaluation of whether a particular interpretation aligns with the stated aims of Pillar Two, the relevant one for this study being the balance between curbing harmful tax competition and preserving substance-based incentives.[134]

Accordingly, the methodological approach adopted here combines a legal-doctrinal analysis of the GloBE Model Rules with a calculation-based examination of their practical outcomes. This reflects the methodological reality of international tax law – doctrinal interpretation and economic effect are not separate inquiries but form parts of a single analytical process.

[132] See also Waerzeggers, C., Hillier, C. and Aw, I. (2018), The Evolution of Tax Law Design within an Increasingly Destabilized International Tax Law Framework, in Corporate Income Taxes under Pressure: Why Reform Is Needed and How It Could Be Designed, International Monetary Fund, Washington, DC, pp. 341-346 https://www.elibrary.imf.org/display/book/9781513511771/ch016.xml
[133] Ibid. p. 341-346
[134] OECD (2022), Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules, OECD Publishing, Paris, pp. 6 along 43-46. https://doi.org/10.1787/25d30b96-en. See also Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 974-976

4.2 GloBE Model Rules' Structure

4.2.1 Introduction

The following section first outlines the internal structure of the GloBE Model Rules in order to clarify the logic that connects its components. It then explains how the rules operate in practice through an illustration that I created based on my interpretation of how the internal computation system of the Jurisdictional Top-up Tax works. This, in turn, makes it possible to determine when income is considered undertaxed and when an MNE becomes liable to Top-up Tax.[135] This presentation therefore establishes the baseline against which the subsequent return to the Pillar Two Blueprint's interpretive ambiguities can be understood.

The GloBE Model Rules consist of ten Chapters that together determine when and how a jurisdiction must impose a minimum level of taxation on MNE groups. The framework progresses structurally – where it starts by defining the entities that fall within the scope,[136] limiting its application to large MNE groups that exceed the revenue threshold of €750 million in at least two of the four preceding fiscal years.[137] The rules then provide the order in which these entities may be charged with any resulting Top-up Tax, giving primary responsibility to parent entities and assigning the residual amount to other groups with secondary liability.[138]

After clarifying the charging system, the GloBE Model Rules define the two main variables for the calculation of the minimum tax. The first is GloBE Income which is a harmonised way of computing the profit after a series of adjustments.[139] The second is the Adjusted Covered Taxes which represents the tax burden recognised for GloBE purposes – also after adjustments have been accounted for.[140] These definitions ensure that both profit and tax figures are determined on a consistent basis across all jurisdictions.

[135] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, p. 67. https://doi.org/10.1787/782bac33-en
[136] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Chapter 1. https://doi.org/10.1787/782bac33-en
[137] Ibid. Article 1.1
[138] Ibid. Articles 2.2 & 2.4
[139] Ibid. Chapter 3
[140] Ibid. Chapter 4

The rules then shift from the entity level to the jurisdictional level. Income and taxes of all constituent entities located in the same jurisdiction are combined to calculate that jurisdiction's ETR. This jurisdiction-by-jurisdiction approach allows the framework to test whether each location where the group operates meets the minimum tax threshold. When the calculated ETR falls short of the agreed rate (15%), the shortfall becomes the Top-up Tax Percentage computed on the jurisdiction's aggregated GloBE Income.[141]

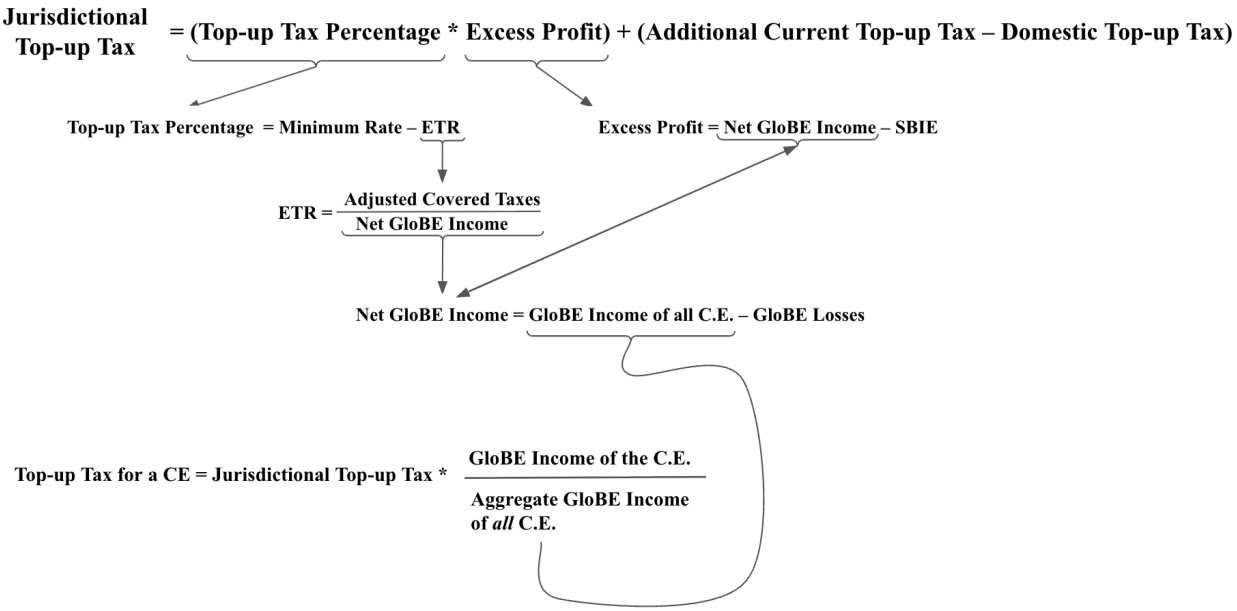
Before the Jurisdictional Top-up Tax can be allocated for collection, the GloBE Model Rules require certain adjustments. After computing the Top-up Tax Percentage and the Excess Profit, the result is increased by adding any Additional Current Top-up Tax arising from prior-year recomputations,[142] and is reduced by the Domestic Top-up Tax payable under a Qualified Domestic Minimum Top-up Tax (QDMTT).[143] This is a tax collected domestically that in effect means that the jurisdiction's QDMTT is credited against the GloBE Top-up Tax, ensuring that any domestic collection reduces the amount available for taxation by other jurisdictions.[144]

Any residual Top-up Tax not collected through a QDMTT is then allocated through the following mechanisms. Under the Income Inclusion Rule (IIR), the Jurisdictional Top-up Tax is charged to parent entities in proportion to their ownership interests in the low-taxed subsidiaries.[145] If, after the application of the IIR, part of the Jurisdictional Top-up Tax remains uncollected – for example because the parent jurisdiction does not apply a qualifying IIR – the Undertaxed Payments Rule (UTPR) allocates the outstanding amount among other jurisdictions in which the group operates.[146]

[141] Ibid. Chapter 5
[142] Ibid. Article 5.4
[143] Ibid. Article 5.2.3
[144] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 973
[145] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Articles 2.1-2.2. https://doi.org/10.1787/782bac33-en
[146] Ibid. Article 2.4

4.2.2 Conceptual Illustration

As a reference point to understand the upcoming presentation, I created the following illustration:



Considerations:

The following clarifying assumptions should be borne in mind:

First, all calculations refer to a single fiscal year, reflecting the temporal unit used throughout the GloBE Model Rules. It is for reasons of clarity that I opted to exclude specifying the temporal unit, for instance "Net GloBE Income for a fiscal year" in the illustration – this shall be assumed to be the case.

Second, the MNE used for the example qualifies for the application of the GloBE Model Rules, meaning it satisfies all the scope requirements set out in Chapter One.[147] Entities such as governmental bodies, pension funds, and non-profit organisations remain excluded irrespective of their revenue levels.[148]

[147] Ibid. Chapter 1
[148] Ibid. Articles 1.1.3 & 1.5

Third, several components that play no material role in the subsequent SBIE-focused interpretation – such as the breakdown of the Additional Current Top-up Tax – are not elaborated upon. These omissions aim to preserve analytical clarity and are an attempt to not dilute the focus of this study.

Finally, as noted in the section on Scope and Delimitation, the GloBE framework contains additional technical elements that are not addressed here in order to maintain the focus of the study's objectives.

Stage One: Determination of the Jurisdictional Top-up Tax:

I deem it most appropriate to start with the final formula, as this provides an overview of the variables included, thereby clarifying the ultimate aim of the calculation process. The Jurisdictional Top-up Tax is the amount that an MNE is owed to a given jurisdiction because of previous undertaxation in that same jurisdiction. To calculate this number, the following formula is used by the OECD (also shown at the top of the illustration above):

Jurisdictional Top-up Tax = (Top-up Tax Percentage * Excess Profit) + (Additional Current Top-up Tax – Domestic Top-up Tax).[149]

To identify the inputs for each variable, the GloBE Model Rules specify and define the relevant components in detail – which is what the following stages aim to clarify.

Stage Two: Determining the Top-up Tax Percentage:

The Top-up Tax Percentage is the difference between the Minimum Rate and the Jurisdictional ETR. It is defined as:

Top-up Tax Percentage = Minimum Rate – ETR[150]

- Minimum Rate = 15%[151]

[149] Ibid. Article 5.2.3
[150] Ibid. Article 5.2.1
[151] Ibid. p. 60

- Effective Tax Rate (ETR) = Adjusted Covered Taxes / Net GloBE Income.[152]

The determination of the Adjusted Covered Taxes for each jurisdiction requires the computation of Covered Taxes. This includes current taxes, as well as certain deferred taxes that satisfy specified criteria.[153] Then, adjustments are made to, for example, treat and exclude uncertain tax positions.[154] The resulting amount is the Adjusted Covered Taxes that is used in the ETR calculation.[155]

Net GloBE Income is calculated according to the following formula:

Net GloBE Income = GloBE Income of all Constituent Entities – GloBE Losses[156]

The GloBE Income of all Constituent Entities is derived from the Consolidated Financial Accounting Income of each Constituent Entity,[157] adjusted for inclusions and exclusions specific for the GloBE Model Rules. These adjustments are, for example, dividends and certain fines.[158] They are further modified to exclude certain income, such as international shipping,[159] and to allocate income from Permanent Establishments and Transparent Entities to their appropriate and thus correct jurisdictions.[160] Where the result of these adjustments produces a negative amount for a Constituent Entity, that amount constitutes its GloBE Loss.

Once the Net GloBE Income has been established, assuming it is positive, it will serve as the denominator in the ETR calculation.[161] The ETR can then be known by dividing the Adjusted Covered Taxes by the Net GloBE Income.[162] For instance, if the Adjusted Covered Taxes are 150, and the Net GloBE Income is 1,000, the ETR would be 15% – which is the Minimum Rate

[152] Ibid. Article 5.1.1
[153] Ibid. Articles 4.1.1-4.1.2.
[154] Ibid. Article 4.1
[155] Ibid. Article 5.1.1
[156] Ibid. Article 5.1.2
[157] Ibid. Articles 3.1.1-3.1.2
[158] Ibid. Article 3.2
[159] Ibid. Article 3.3
[160] Ibid. Articles 3.4-3.5
[161] Ibid. Chapter 3
[162] Ibid. Articles 5.1.1 & 5.2.1

required. Had the ETR fallen below 15%, a Top-up Tax Percentage would be calculated to make up for the difference.[163] For example, if the ETR is 10%, the Top-up Tax Percentage would be 5%. The Top-up Tax Percentage is therefore the additional amount needed to reach the Minimum Rate.

Stage Four: Determining Excess Profit

Once the ETR and Top-up Tax Percentage have been established, the GloBE Model Rules require the determination of the Excess Profit, which is defined as:

Excess Profit = Net GloBE Income – SBIE.[164]

The SBIE functions as the variable that reduces Net GloBE Income, which in turn lowers Excess Profit. A lower Excess Profit reduces the base to which the Top-up Tax Percentage is applied, and therefore decreases the amount of income that may ultimately be subject to Top-up Tax under the formula shown below:

Jurisdictional Top-up Tax = (Top-up Tax Percentage * Excess Profit) + (Additional Current Top-up Tax – Domestic Top-up Tax).[165]

4.3 The SBIE Calculation

By breaking down the calculation of the SBIE, it becomes possible to understand what is included in the amount that must be deducted from Net GloBE Income to determine Excess Profit – one of the central variables in computing the Jurisdictional Top-up Tax for a given MNE.[166] This clarity helps in assessing the implications for the MNE when evaluating its position within the overall calculation. This subpart of the formula is what the following section will examine.

[163] Ibid. Article 5.2
[164] Ibid. Article 5.2.2
[165] Ibid. Article 5.2.3
[166] Ibid. Article 5.2.3

The SBIE, presented in the GloBE Model Rules, aims to address the challenges posed by highly mobile profits and assets, which lie at the bottom of global tax base erosion. These rules were developed in response to the ease with which MNEs can shift income to low-tax jurisdictions that lack substantial economic activity. The idea behind this design is to balance two competing objectives: limiting profit-shifting incentives while preserving a connection between taxation and real economic substance.[167] Payroll and Tangible Assets – or in other words, people and physical capital – are the most undisputed examples of real economic activity as they firstly are the physical and human presence that generate value in a given jurisdiction, and secondly, are difficult to relocate purely for tax purposes. By contrast, income that is not connected to Payroll or Tangible Assets is more likely to be mobile and thus remains subject to Top-up Tax to ensure it reaches the GMT of 15%. Therefore, the idea was that without the exclusion provided by the SBIE, the minimum tax could have disproportionately affected jurisdictions that attract investment primarily through real economic activity.[168] In doing so, it preserves countries' ability to tax income derived from real, on-the-ground, business activities.[169]

The exclusion through SBIE in the GloBE Model Rules is jurisdictionally calculated on the basis of two fixed percentages: the company's Tangible Assets (such as buildings, machines, and equipment) and its Payroll costs (the wages, benefits paid to employees and other employment-related costs directly borne by the employer).[170] When this rule is triggered, MNEs

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[167] OECD (2025), FAQs on Model GloBE Rules, OECD Publishing, Paris, p. 3 (point 7). https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/faqs-on-model-globe-rules.pdf. Allen & Overy Shearman (2025), "20 Questions on Pillar Two and the GloBE Rules," under What is the Substance-Based Income Exclusion Rule?, Allen & Overy Shearman LLP. https://www.aoshearman.com/en/insights/20-questions-on-pillar-two-and-the-globe-rules. OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025), OECD Publishing, Paris, pp. 175–176 (para 25). https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/05/tax-challenges-arising-from-the-digitalisation-of-the-economy-consolidated-commentary-to-the-global-anti-base-erosion-model-rules-2025_be9651c2/a551b351-en.pdf

[168] OECD (2022), Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules, OECD Publishing, Paris, p. 6. https://doi.org/10.1787/25d30b96-en

[169] Norton Rose Fulbright (2025), Pillar Two: Understanding the Substance-Based Carve-Out in Global Taxation, Norton Rose Fulbright LLP, London, p. 2. https://www.nortonrosefulbright.com/-/media/files/nrf/nrfweb/knowledge-pdfs/pillar-2-understanding-the-substance-based-carve-out-in-global-taxation.pdf?revision=60ebd9bc-3470-4247-b932-18a1baa8c3b2&revision=525052726718738790 4

[170] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.3. https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/12/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two_eed81a23/782bac33-en.pdf

can exclude 5% of their Payroll and 5% of their Tangible Assets,[171] with higher percentage rates during the transitional phase that start at 10% in 2023 for Payroll and 8% for Tangible Assets.[172] The purpose of this gradual reduction with declining percentage rates as years pass is to give room for companies to adapt to the new system, while still encouraging investments in local jobs and physical operations.[173]

Mathematically, SBIE is calculated by adding a set percentage of a company's Payroll and Tangible Assets. This is then subtracted from the total Net GloBE Income in a country. The remaining amount – called Excess Profit – is what the Top-up Tax applies to.[174]

Example:

- Consider a company (X) resident in Country A that earns 100 units in the relevant fiscal year. The jurisdictional SBIE is determined by reference to X's Tangible Assets and Payroll, for which the amount is 200 and 50 units respectively. Applying the 5% rates provides an exclusion of 10 units for Tangible Assets and 2.5 units for Payroll, resulting in a total SBIE amount of 7.5 units. The Top-up Tax is therefore calculated only on the remaining 92.5 units, that is, the 100 of GloBE Income reduced by the 7.5 SBIE.

4.3.1 Numerical Example of the SBIE System

The following is a presentation of a worked example of a GloBE calculation in two parts – one without the application of SBIE, and the other with. Note that this calculation does not account for all variations covered in the framework. It is instead focuses on the fundamental structure and typical steps.

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[171] Ibid. Articles 5.3.3-5.3.4
[172] Ibid. Article 9.2
[173] OECD (2024), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2023), OECD Publishing, Paris, p. 329 (para 24). https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/05/tax-challenges-arising-from-the-digitalisation-of-the-economy-consolidated-commentary-to-the-global-anti-base-erosion-model-rules-2025_be9651c2/a551b351-en.pdf
[174] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Articles 5.2.2 & 5.3. https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/12/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two_eed81a23/782bac33-en.pdf

Consider a company that qualifies for the application of the GloBE Model Rules.[175] This company is therefore an MNE under the definition of the framework. The following simplifying assumptions are made:

1. First, each jurisdiction is assumed to contain a single Constituent Entity. All such entities are assumed to have positive income, no GloBE Losses arise, and no GloBE-specific inclusions or exclusions apply.[176] Accordingly, the financial accounting income of each entity equals its GloBE Income, and the jurisdictional Net GloBE Income equals 200 in each case.

2. Second, Adjusted Covered Taxes are assumed to equal the current tax expense, which in this simplified example corresponds to the statutory corporate income tax. No deferred tax items, uncertain tax positions, tax credits, or other adjustments under Article 4.1 are taken into account.

3. Third, the example applies the permanent SBIE Carve-Out percentages of 5% of Payroll and 5% of Tangible Assets. For simplicity, it is assumed that all Payroll and Tangible Assets are fully eligible for SBIE purposes, and the exclusions set out in Articles 5.3.3–5.3.5 are not considered.

4. Fourth, no jurisdiction is assumed to apply a Qualified Domestic Minimum Top-up Tax (QDMTT)[177] here, and the Additional Current Top-up Tax is also excluded, as noted earlier.[178]

4.3.1.1 Without the SBIE

This company has subsidiaries in the following three jurisdictions – all earning 200 units of Net GloBE Income, meaning that their total GloBE Income of all Constituent Entities – GloBE

[175] Ibid. Article 1.1
[176] Ibid. Chapter 3
[177] Ibid. Article 5.2.3
[178] Ibid. Chapter 4

Losses of all Constituent Entities = 200:[179]

1. J1, which is a low-tax jurisdiction, is assumed to have 10 units of Adjusted Covered Taxes under the simplifying assumptions of this example.
2. J2, which is a medium-tax jurisdiction, is assumed to have 20 units of Adjusted Covered Taxes under the simplifying assumptions of this example.
3. J3, which is a high-tax jurisdiction, is assumed to have 50 units of Adjusted Covered Taxes under the simplifying assumptions of this example.

The baseline inputs for each of the jurisdictions are thus as follows:

Jurisdiction	Net GloBE Income	Adjusted Covered Taxes
J1	200	10
J2	200	20
J3	200	50

Computing the ETR gives the following equation:

ETR = Adjusted Covered Taxes / Net GloBE Income.[180]

1. J1: 10 / 200 = 5%
2. J2: 20 / 200 = 10%
3. J3: 50 / 200 = 25%

Note: J1 and J2 fall below the Minimum Rate of 15% and are for this reason undertaxed under the GloBE Model Rules.[181] J3 exceeds the Minimum Rate and requires no adjustment.[182]

The Top-up Tax Percentage in case would be:

1. J1: 15% − 5% = 10%
2. J2: 15% − 10% = 5%

[179] Ibid. Chapter 3 & Article 5.1.2
[180] Ibid. Article 5.1.1
[181] Ibid. p. 60 along Article 5.2.1
[182] Ibid. p. 60 along Article 5.2.1

3. J3: No Top-up Tax Percentage, since the ETR (25%) exceeds 15%.[183]

The Excess Profit is the Net GloBE Income – SBIE, and since the SBIE in this case is 0, the Excess Profit of each Jurisdiction equals its Net GloBE Income,[184] meaning:

1. J1: 200
2. J2: 200
3. J3: 200

Computing the Jurisdictional Top-up Tax for each Jurisdiction will therefore give the following formulas:

J1: 10% * 200 = 20 units

J2: 5% * 200 = 10 units

J3: No Jurisdictional Top-up Tax

The Jurisdictional Top-up Tax owed by Jurisdiction 1 is 20 units, and by Jurisdiction 2 is 10 units.[185]

4.3.1.2 With the SBIE

The following builds on the same scenario as the previous example, but now introducing and accounting for the SBIE. Assume that the jurisdictions differ in Payroll and Tangible Assets:

1. J1 has smaller operations (Payroll 40, Tangible Assets 100).
2. J2 is more asset- and labor-intensive (Payroll 80, Tangible Assets 400).
3. J3 has minimal substance (Payroll 20, Tangible Assets 40).

The parameters that will be used in this case are 5% of Payroll and 5% of Tangible Assets. The equation for the Carve-Out that is to be excluded from the Jurisdictional Top-up Tax calculation is the following: (5% * Payroll) + (5% * Tangible Assets) = SBIE.[186] Applying this to the numbers in the used example gives the following:

[183] Ibid. Article 5.2
[184] Ibid. Article 5.2.2
[185] Ibid. Article 5.2.3
[186] Ibid. Articles 5.3.1-5.3.4

1. (5% * 40) + (5% * 100) = (2 + 5) = 7
2. (5% * 80) + (5% * 400) = (4 + 20) = 24
3. (5% * 20) + (5% * 40) = (1 + 2) = 3

Note: J2 has much higher substance, meaning a larger portion of its profit is not subject to Top-up Tax. J1, being a low-substance company, has less protection.

Overview of the calculations so far:

Jurisdiction	Net GloBE Income	Adjusted Covered Taxes	ETR	Top-up Tax Percentage	Payroll	Tangible Assets	SBIE
J1	200	10	5%	10%	40	100	7
J2	200	20	10%	5%	80	400	24
J3	200	50	25%	0%	20	40	3

This SBIE calculations affect the Excess Profit for each Jurisdiction:[187]

1. J1: 200 – 7 = 193
2. J2: 200 – 24 = 176
3. J3: 200 – 3 = 197

Note: J2's higher SBIE reduces its taxable base more for GloBE purposes compared to J1 and J3, This shows that more of its profits stem from real activities.

The inputs are at this stage:

Jurisdiction	Top-up Tax Percentage	Excess Profit
J1	10%	193

[187] Ibid. Article 5.2.2

Jurisdiction	Top-up Tax Percentage	Excess Profit
J2	5%	176
J3	0%	197

Applying the formula for the new Jurisdictional Top-up Tax (this time accounting for the SBIE), gives the following equations:[188]

1. J1: (15% – 5%) * 193 = 19.3 in Jurisdictional Top-up Tax.
2. J2: (15% – 10%) * 176 = 8.8 in Jurisdictional Top-up Tax.
3. J3: (15% – 25%) * 197 = 0 Top-up Tax. Since the ETR is > 15% (25%), there is no gap and therefore the Jurisdictional Top-up Tax becomes 0.[189]

For illustrative purposes, the Jurisdictional Top-up Tax units, converted to percentages, are:

1. J1: (19.3 / 200) * 100 = 9.65%
2. J2: (8.8 / 200) * 100 = 4.4%
3. J3: (0 / 200) * 100 = 0%

Hence, these are the Effective Jurisdictional Top-up Tax Rates, instead of the initial 10% for J1 and 5% for J2 without the SBIE mechanism. The effective tax percentage paid by each jurisdiction is:

1. J1: 5% + 9.65% = 14.65%
2. J2: 10% + 4.4% = 14.4%
3. J3: 25% + 0% = 25%

[188] Ibid. Article 5.2.1
[189] Ibid. Article 5.2.1

4.4 The Qualified Domestic Minimum Top-up Tax (QDMTT)

The QDMTT is a component of the GloBE Model Rules and functions as the domestic mechanism through which a jurisdiction may collect Top-up Tax on low-taxed income arising within its own territory.[190] In my model, it is the last variable in the formula:

Jurisdictional Top-up Tax = **(Top-up Tax Percentage * Excess Profit) + (Additional Current Top-up Tax – Domestic Top-up Tax)**

Note that the formal name for the variable is "Domestic Top-up Tax." It is defined as "the amount payable under a Qualified Domestic Minimum Top-Up Tax" and thus simply represents the amount that fulfills the function of the QDMTT.[191]

Its role is to ensure that the relevant jurisdiction has the first opportunity to impose the additional tax required to bring the Jurisdictional Tax Rate up to the Global Minimum Rate.[192] By allowing jurisdictions to "retain" the Top-up Tax base generated by their own MNE operations, the QDMTT also mitigates concerns that the GloBE system reallocates taxing rights to other countries before allowing the jurisdiction in question to collect it first.[193]

Where a jurisdiction has implemented a QDMTT, any Top-up Tax paid under that QDMTT is to the full able to be credited against Jurisdictional Top-up Tax that would otherwise arise under a

[190] OECD (2025), Qualified Status under the Global Minimum Tax – Questions and Answers, OECD Publishing, Paris, p. 2. https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/qualified-status-under-the-global-minimum-tax-questions-and-answers.pdf

[191] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.2.3 (d). https://doi.org/10.1787/782bac33-en.

[192] OECD (2025), Qualified Status under the Global Minimum Tax – Questions and Answers, OECD Publishing, Paris, p. 2.https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/qualified-status-under-the-global-minimum-tax-questions-and-answers.pdf along OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, p. 296. https://doi.org/10.1787/a551b351-en.

[193] Ibid. p. 296

Qualified Income Inclusion Rule (IIR) or a Qualified Undertaxed Payments Rule (UTPR).[194] As a result, the IIR and UTPR apply only after the QDMTT, reinforcing the priority of taxation rights. As previously mentioned, the IIR requires the parent entity to bring into account low-taxed income of its subsidiaries, while the UTPR functions as a backstop.[195]

4.4.1 Continuation of numerical example

The role of the QDMTT can be clarified by extending the numerical example introduced in section in 4.3, where the SBIE was applied to three jurisdictions. As shown above, after accounting for SBIE, the Excess Profit and the resulting Jurisdictional Top-up Tax for the undertaxed jurisdictions were as follows:

Jurisdiction	Top-up Tax Percentage	Excess Profit	Jurisdictional Top-up Tax
J1	10%	193	19.3
J2	5%	176	8.8
J3	0%	197	0

Assume now that J1 has implemented a qualifying QDMTT, while J2 has not.

- ***Application of the QDMTT in J1***

Because J1 has a QDMTT under the GloBE standards, J1 is entitled to levy the Top-up Tax on its own undertaxed income. The Domestic Top-up Tax payable under the QDMTT is therefore equal to the Jurisdictional Top-up Tax previously calculated for J1, that is, 19.3 units.

[194] OECD (2025), Qualified Status under the Global Minimum Tax – Questions and Answers, OECD Publishing, Paris, pp. 2-3. https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/qualified-status-under-the-global-minimum-tax-questions-and-answers.pdf
[195] Ibid. pp. 2-3

Under Article 5.2.3, this Domestic Top-up Tax is deducted in full from the Jurisdictional Top-up Tax amount. As a result, no residual Jurisdictional Top-up Tax remains to be collected under either the Income Inclusion Rule (IIR) or the Undertaxed Payments Rule (UTPR) in respect of J1. The minimum level of taxation is achieved entirely at the domestic level.[196]

- ***Absence of a QDMTT in J2***

By contrast, J2 has not implemented a QDMTT. Consequently, the Jurisdictional Top-up Tax of 8.8 units calculated for J2 is not absorbed domestically. This amount therefore remains available for collection by other jurisdictions under the secondary charging mechanisms of the GloBE system. In practice, this means that the Top-up Tax in respect of J2 would be collected through the IIR at the level of the parent entity, or, if applicable, through the UTPR as a backstop.[197]

Chapter Five – The Blueprint

5.1 Introduction

It has previously been mentioned that the Pillar Two Blueprint contains definitional ambiguities. Specifically, it is the plausible interpretations of how the SBIE interacts with the ETR denominator and the Covered Taxes. The Pillar Two Blueprint distinguishes between "Adjusted GloBE Income" and "Adjusted GloBE Income of the Constituent Entity," (see photo below taken from the Pillar Two Blueprint) and it explicitly provides that the latter is calculated net of the SBIE.[198] However, the text does not state whether the ETR denominator – referred to as "Adjusted GloBE Income" in the ETR formula – should likewise be understood as being net of the SBIE (also see photo below).[199] Because the Pillar Two Blueprint uses two similar, but not identical, terms and only one of them is defined as net of the Carve-Out, it is unclear whether the

[196] OECD (2025), Qualified Status under the Global Minimum Tax – Questions and Answers, OECD Publishing, Paris, pp. 2-3. https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/qualified-status-under-the-global-minimum-tax-questions-and-answers.pdf
[197] Ibid. p. 2-3
[198] OECD (2020), Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, pp. 102-103 https://doi.org/10.1787/abb4c3d1-en.
[199] Ibid. pp. 102-103

SBIE is intended to reduce the ETR denominator or whether it applies exclusively to the calculation of the Top-up base. As previously noted, the essence of these interpretative possibilities are addressed by Devereux et al, and are here developed, illustrated, and analysed through independent models created and presented in this Chapter.[200]

This ambiguity leads to two competing interpretations. Under the first interpretation, the ETR denominator is treated as equivalent to the "Adjusted GloBE Income of the Constituent Entity," and is therefore understood to be reduced by the SBIE. This interpretation implies that the ETR is computed on a "what-is-left" basis. Since the denominator is smaller, the resulting ETR is higher, which in turn reduces the Top-up Tax.

Under the second interpretation, the ETR denominator is taken to refer to "Adjusted GloBE Income" as full GloBE Income without deducting the SBIE, because the Pillar Two Blueprint never explicitly states that this amount must be net of the Carve-Out. Under this view, the SBIE affects only the amount of income to which the Top-up Tax Percentage is applied, but it does not affect the ETR denominator. As a result, the ETR is calculated on a gross-SBIE basis, which lowers the ETR and increases the Top-up Tax.

A further interpretive possibility arises from paragraph 335 of the Pillar Two Blueprint, which suggests that, where an MNE claims the SBIE, jurisdictions may require a "corresponding and proportional adjustment to covered taxes."[201] The Pillar Two Blueprint does not specify whether such an adjustment is mandatory, optional, or merely illustrative. If proportional tax adjustments are required, the numerator and denominator of the ETR calculation must be reduced proportionately. This creates a third interpretation in which the SBIE reduces not only the denominator but also the Adjusted Covered Taxes in proportion to the income that has been excluded. In effect, this interpretation aligns the amount of Covered Taxes with the portion of GloBE Income that remains after the Carve-Out.[202]

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[200] Devereux, M. P., Simmler, M., Vella, J. & Wardell-Burrus, H. (2021), What Is the Substance-Based Carve-Out under Pillar 2? And How Will It Affect Tax Competition?, EconPol Policy Brief, Vol. 5, No. 39, ifo Institute, Munich. https://www.econstor.eu/bitstream/10419/273435/1/1852577843.pdf

[201] OECD (2020), Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, pp. 95 https://doi.org/10.1787/abb4c3d1-en.

[202] Ibid. 95

Computation of the ETR for the Jurisdiction

The ETR[19] for a jurisdiction is equal to:

$$Adjusted\ Covered\ Taxes\ /\ Adjusted\ GloBE\ Income$$

Where,

(a) Adjusted Covered Taxes means the covered taxes assigned to the jurisdiction, except taxes attributable to income excluded from the GloBE tax base, increased by the lesser of the total local tax carry-forward or the amount of the local tax carry-forward necessary to achieve an ETR that is equal to the minimum rate; and

(b) Adjusted GloBE Income means the combined income and loss of all Constituent Entities located in the jurisdiction for the year decreased by the loss carry-forward for the jurisdiction.

Computation of the top-up tax for each Constituent Entity

The amount of top-up tax for each Constituent Entity in a jurisdiction is equal to:

$$Adjusted\ GloBE\ Income\ of\ the\ Constituent\ Entity\ x\ Top\ up\ Tax\ Percentage$$

Where,

(a) Adjusted GloBE Income of the Constituent Entity means, in respect of the income of a Constituent Entity in the relevant period, the income of that entity as calculated for the purposes of the GloBE rules reduced by its share of any loss carry forward and of any loss suffered by other Constituent Entities in the same jurisdiction in the same period and the proportionate share of any carve-out for the jurisdiction.

(b) Top-up Tax Percentage means the excess of the minimum ETR over the ETR as calculated for that jurisdiction in the relevant period.

Figure 1. Extract from OECD (2020), Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint, pp. 102–103 (screenshot). I have highlighted the relevant parts.

The result is a set of three internally coherent but different models for computing the ETR and the Top-up Tax: one in which the SBIE reduces both the Top-up base and the ETR denominator, one in which the SBIE reduces only the Top-up base, and one in which both the numerator and the denominator of the ETR calculation are adjusted proportionally alongside a reduction of the Top-up base. The Pillar Two Blueprint does not resolve these differences, and the absence of explicit formulations – combined with the coexistence of two closely related income definitions and an open question regarding proportional tax adjustments – creates interpretive uncertainty regarding the mechanics of the Jurisdictional Top-up Tax calculation.

To better understand the three mentioned forms of interpretations, I have created illustrations for each followed by numerical examples that demonstrate how the choice of interpretation influences both the ETR calculation and the resulting Jurisdictional Top-up Tax.

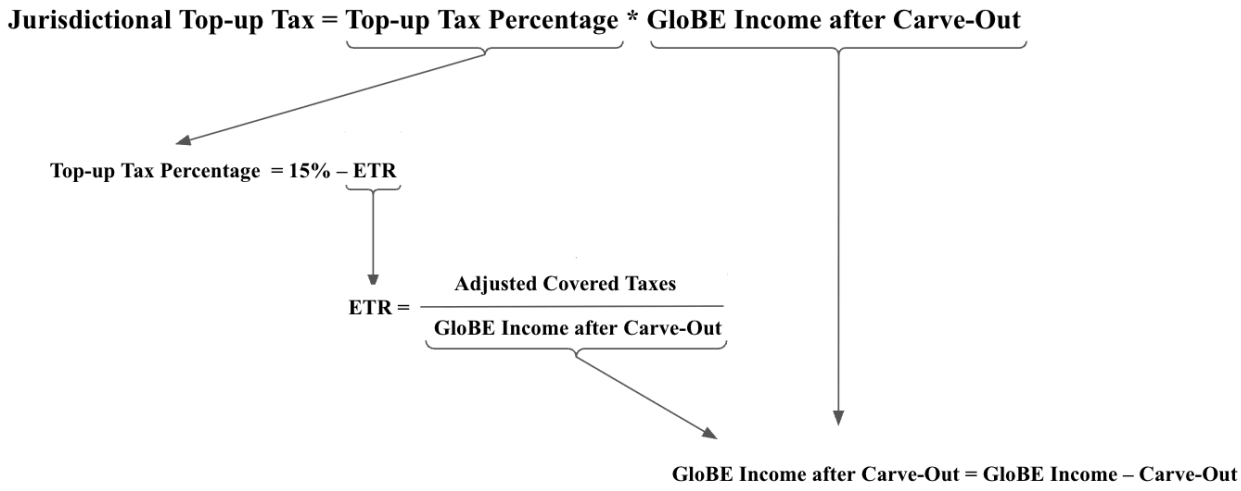
It should be noted that the Pillar Two Blueprint had not yet settled the terminology that later became standard in the GloBE Model Rules, including regarding the elements used in the computation of Jurisdictional Top-up Tax. These concepts were described narratively rather than defined, and certain steps – such as the jurisdictional aggregation of outcomes – did not yet appear as formalised terms. To avoid creating illustrations with long descriptions that match the wording of the Pillar Two Blueprint, I chose to express the same computational structure using my own terminology and a consistent set of terms. This approach nevertheless reflect the underlying logic of the Pillar Two Blueprint without relying on its incomplete or transitional terminology.

Note that the following Models exclude certain parts of the full Jurisdictional Top-up Calculation in order to keep the focus on the different placements of the SBIE in the computational sequence.

5.2.1 Model 1: SBIE reduced in the ETR Denominator

In this first form of interpretation, Model 1, the ETR is calculated on GloBE Income after Carve-Out, meaning that the Carve-Out is embedded directly into the denominator of the ETR. This results in a tax rate that is closer to the minimum standard since it is measured against a smaller income figure – on GloBE Income after Carve-Out, rather on just the GloBE Income (before Carve-Out). This reading produces a higher ETR.

A higher ETR means that the difference between the Minimum Rate and the jurisdiction's calculated rate narrows, thus resulting in a lower Top-up Tax Percentage. Lastly, this is multiplied with the GloBE Income after Carve-Out to get the Jurisdictional Top-up Tax.



5.2.1.1 Numerical example of Model 1

Assume the following values:

- GloBE Income = 1000
- Carve-Out = 200
- Adjusted Covered Taxes = 80

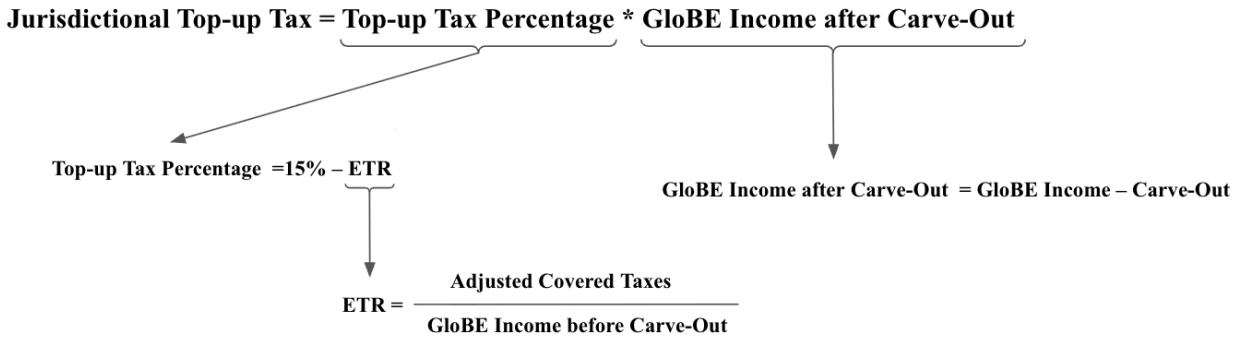
1. GloBE Income after Carve-Out = 1000 − 200 = 800
2. ETR = 80 / 800 = 0.10 = 10%
3. 10% < 15%
4. Top-up Tax Percentage = 15% − 10% = 5%

Jurisdictional Top-up Tax = 5% * 800 = 40

5.2.2 Model 2: SBIE excluded from the ETR test

Under the second interpretation of the Pillar Two Blueprint, the denominator of the ETR is calculated on the GloBE Income *before* Carve-Out, meaning that the Carve-Out is not taken into account when determining whether the jurisdiction meets the Minimum Rate. The Carve-Out under this interpretation is excluded from the ETR denominator and appears only at the final stage as a deduction where the Jurisdictional Top-up Tax is being determined.

This reading produces a lower ETR relative to Model 1, because the tax rate is measured against the larger number – the GloBE Income before Carve-Out. A lower ETR increases the gap between the jurisdiction's ETR and the Minimum Rate, thereby resulting in a higher Top-up Tax Percentage. Only after this percentage is determined is the Carve-Out applied, reducing the income to which that percentage is multiplied. In the final step, the Top-up Tax Percentage is applied to the GloBE Income after Carve-Out, resulting in the Jurisdictional Top-up Tax.



5.2.2.1 Numerical example of Model 2

Assume the following same values:

- GloBE Income = 1 000
- Carve-Out = 200
- Adjusted Covered Taxes = 80

1. ETR = 80 / 1000 = 8%
2. 8% < 15%
3. Top-up Tax Percentage = 15% – 8% = 7%.

4. GloBE Income after Carve-Out = 1000 − 200 = 800

5. Jurisdictional Top-up Tax = 7% * 800 = 56.

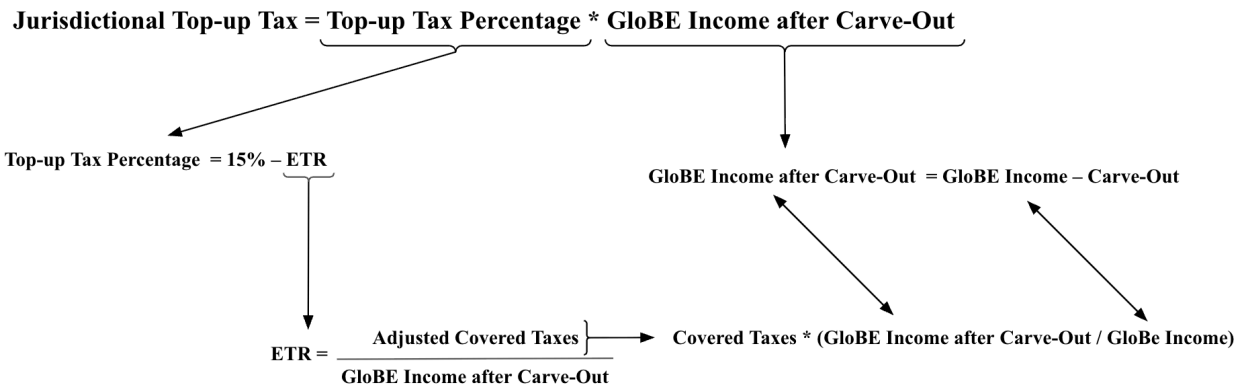
5.2.3 Model 3: Proportional Adjustment to both Numerator and Denominator

Under the third interpretation, the Carve-Out reduces the tax base in the same way as in the previous model, so that the income available for Top-up Tax is GloBE Income after Carve-Out.

However, the distinguishing feature of Model 3 is that the Carve-Out not only reduces the denominator used in the ETR calculation, but also requires a proportional reduction in Covered Taxes. This interpretation comes from a line in the Pillar Two Blueprint suggesting that when the Carve-Out is applied, the tax figure used in the ETR should be reduced in the same ratio, so Covered Taxes are scaled by GloBE Income after Carve-Out / GloBE Income to mirror the reduced income base. This produces a version of Adjusted Covered Taxes that decreases by exactly the same percentage as the income denominator, ensuring that both parts of the ETR calculation are reduced in parallel.[203]

Once the taxes and the income have been reduced by the same proportion, the ETR is calculated by dividing the Adjusted Covered Taxes by the GloBE Income after Carve-Out. Because both the numerator and denominator in the ETR calculation are subtracted by the same percentage, the proportional difference cancels out, and the resulting ETR is identical to the one gotten in Model 2. For this reason, even though Model 3 states that an explicit adjustment should be done to the Covered Taxes, it does not generate a different outcome since the overarching logic and the numerical implications of the formula remain the same as with those done under Model 2.

[203] Ibid. 95



5.2.3.1 Numerical example of Model 3

Assume the following values:

- GloBE Income = 1 000
- Carve-Out = 200
- Covered Taxes = 80

1. GloBE Income after Carve-Out = 1000 − 200 = 800
2. Adjusted Covered Taxes = 80 * (800 / 1000) = 80 * 0.8 = 64
3. ETR = 64 / 800 = 8%
4. Top-up Tax Percentage = (15% – 8%) = 7%.

5. Jurisdictional Top-up Tax = 7% * 800 = 56

Chapter Six – Results and Presenting the Findings

6.1. Answering Research Question 1

How did the role of the SBIE evolve from the politically endorsed Pillar Two Blueprint in October 2020 to its codification in the GloBE Model Rules and subsequent OECD Commentaries?

The interpretation of the evolution of the SBIE can be described as a progressive tightening of its structural function across three stages. First, the open formulations in the October 2020 Pillar Two Blueprint.[204] Second, the fixed formula introduced in the December 2021 GloBE Model Rules following the July 2021 political agreement within the Inclusive Framework.[205] Third, the confirmatory clarifications in the 2022-2025 OECD Commentaries.[206] Each stage removes interpretive flexibility that previously existed, thereby narrowing the permissible understanding of the SBIE's role in the Jurisdictional Top-up Tax calculation.

6.1.1 First Stage: The Blueprint

While the Pillar Two Blueprint specifies that "Adjusted GloBE Income of the Constituent Entity" is calculated net of the SBIE, it does not clarify whether the ETR denominator – referred to separately as "Adjusted GloBE Income" – is likewise intended to be reduced by the

[204] OECD (2020), Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, pp. 102-103 & 95. https://doi.org/10.1787/abb4c3d1-en.

[205] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 970-971 along OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.2. https://doi.org/10.1787/782bac33-en.

[206] OECD (2022), Tax Challenges Arising from the Digitalisation of the Economy – Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two), First Edition: Inclusive Framework on BEPS, OECD Publishing, Paris, p. https://doi.org/10.1787/1e0e9cd8-en. See also OECD (2024), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2023): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/b849f926-en . See also OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/a551b351-en.

Carve-Out, nor whether the SBIE instead operates exclusively at the ETR denominator or requires a proportional adjustment to Covered Taxes.[207] This drafting choice meant that, already at this early stage, three materially different interpretations of the SBIE were produced:

1. A reduction of the ETR denominator, meaning that the SBIE increases a jurisdiction's ETR and reduces or eliminates Top-up Tax.

2. No reduction of the ETR denominator, meaning that the ETR remains unchanged but the income exposed to Top-up Tax decreases.

3. A proportional adjustment mechanism, meaning that both income and Covered Taxes are adjusted so that the ETR remains stable but the Top-up Tax base changes.

The existence of these mutually inconsistent interpretations illustrates the type of design issues still unresolved at the time of the political negotiations in July 2021, at which point the Inclusive Framework agreed on a uniform mechanism.[208] This agreement shaped the December 2021 GloBE Model Rules, which replaced the Blueprint's open formulations with a single form of computation for the SBIE.[209]

6.1.2 Second Stage: The GloBE Model Rules

The GloBE Model Rules resolved the interpretive divergence created by the Blueprint by introducing a fixed and binding computational structure.[210] The GloBE Model Rules accomplished this in two decisive steps. First, Chapters 3 and 4 define Net GloBE Income and

[207] OECD (2020), Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, pp. 102-103 & 95. https://doi.org/10.1787/abb4c3d1-en
[208] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 970-971 along OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.2. https://doi.org/10.1787/782bac33-en.
[209] OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.2. https://doi.org/10.1787/782bac33-en.
[210] Ibid. Article 5.2

Adjusted Covered Taxes without any reference to SBIE adjustments, which removed the possibility that the SBIE could influence the ETR numerator or denominator.[211] Second, Article 5.2.2 established a single placement for the SBIE by defining Excess Profit = Net GloBE Income – SBIE amount,[212] while Article 5.2.1 applied the Top-up Tax Percentage only after this deduction.[213] This meant that the SBIE could only affect the Top-up Tax base and not the ETR. Through this structural ordering, the GloBE Model Rules excluded all interpretations generated by the Blueprint except the one in which the SBIE functions solely as a mechanism for the reduction of the Excess Profit (Model 2).

6.1.3 Third Stage: The Commentaries

The interpretive stability achieved in the GloBE Model Rules was reinforced with the release of the OECD Commentaries in 2022,[214] 2023,[215] and their updates in 2025.[216] These Commentaries provided detailed explanations regarding Eligible Payroll, Tangible Assets, and the operation of the SBIE,[217] but they did not alter the computational design fixed in December 2021. Instead, they presupposed the formula in Articles 5.2 and supplied technical elaboration around it. As a result, the Commentaries confirmed that the agreed version from July 2021 – implemented in the Model Rules of December 2021 – constituted the final and authoritative interpretation of the SBIE.[218]

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[211] Ibid. Chapters 3-4 along Articles 5.1-5.2
[212] Ibid. Article 5.2.2
[213] Ibid. Article 5.2.1
[214] OECD (2022), Tax Challenges Arising from the Digitalisation of the Economy – Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two), First Edition: Inclusive Framework on BEPS, OECD Publishing, Paris, p. https://doi.org/10.1787/1e0e9cd8-en.
[215] OECD (2024), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2023): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/b849f926-en.
[216] OECD (2025), Tax Challenges Arising from the Digitalisation of the Economy – Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2025): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/a551b351-en
[217] Ibid. Article 5.3
[218] Haase, F. & Kofler, G. (eds.) (2023), The Oxford Handbook of International Tax Law, Oxford University Press, Oxford, p. 970-971 along OECD (2021), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD Publishing, Paris, Article 5.2. https://doi.org/10.1787/782bac33-en.

6.2 Answering Research Question 2

What are the implications of the different possible interpretations of the SBIE formula for the calculation of the Jurisdictional Top-up Tax?

6.2.1 Under the Blueprint:

This section compares the implication of the three possible SBIE models on the Jurisdictional Top-up Tax calculation arising from the Blueprint's formulations. As previously mentioned, I have drawn on the interpretations made by Devereux, M. P., Simmler, M., Vella, J. & Wardell-Burrus, H. when constructing my models. The illustration of its implications on the Jurisdictional Top-up Tax should be seen as a further development on the basis that the authors helped set.

Under Model 1, the ETR is calculated using GloBE Income after Carve-Out in the denominator. Because the Top-up Tax then ensures that the total tax burden reaches 15% of this reduced income figure, Model 1 creates a strict minimum tax floor. Once a jurisdiction's domestic tax payments reach an amount equal to 15% of the GloBE Income after Carve-Out, any further reduction in domestic taxation is offset one-for-one by a corresponding increase in the Top-up Tax. The MNE's global tax burden therefore remains unchanged.[219]

A numerical illustration makes this clear. Suppose the GloBE Income is 800, the Carve-Out is 300, and thus the GloBE Income after Carve-Out equals 500. Under Model 1, the minimum total tax required is: 15% * 500 = 75. The Carve-Out is already accounted for when determining the Top-up Tax Percentage.

Lets assume the following three situations, each with different domestic statutory tax rates that correspond to the amount of Covered Taxes paid:

[219] Devereux, M. P., Simmler, M., Vella, J. & Wardell-Burrus, H. (2021), What Is the Substance-Based Carve-Out under Pillar 2? And How Will It Affect Tax Competition?, EconPol Policy Brief, Vol. 5, No. 39, ifo Institute, Munich. Cf. Model A. https://www.econstor.eu/bitstream/10419/273435/1/1852577843.pdf

1. If the Adjusted Covered Taxes in a given jurisdiction is 75, the ETR under Model 1 is 75 / 500 = 15%, which matches the Minimum Rate of 15%. This in turn means that the Top-up Tax is 15% * 500 − 75 = 75 − 75 = 0. The total tax in units is therefore 75 + 0 = 75.

2. If the Adjusted Covered Taxes are reduced to 60 units, the ETR becomes 60 / 500 = 12%, which in this case is below the Minimum Rate of 15%. The required total tax is 15% * 500 = 75, so the Top-up Tax must equal 75 − 60 = 15, keeping the total tax at 60 + 15 = 75.

3. In the last case, if the Adjusted Covered Taxes are lowered all the way to 0, the ETR falls to 0 / 500 = 0%, and the Top-up must again bring total tax to 15% * 500 = 75, so the Top-up is 75 − 0 = 75, resulting in a total tax of 0 + 75 = 75.

In all three cases – domestic tax of 75, 60, or 0 – the MNE is burdened with the same total tax (75), therefore meaning that any domestic tax cut is fully offset by a one-for-one increase in the Top-up Tax calculation. Because lowering the domestic tax does not reduce the MNE's overall burden, jurisdictions gain no competitive advantage by cutting their rate below the Pillar Two minimum, eliminating incentives for a "race to the bottom" and instead enforcing a "race to the Pillar Two floor."

In Models 2 and 3, the incentive structure is different. In these models, the ETR denominator is the full GloBE Income, whereas the Top-up Tax base is the GloBE Income after Carve-Out. This creates a mismatch: a reduction in domestic tax lowers the ETR relative to the full GloBE Income, but the resulting increase in the Top-up applies only to the smaller income base after the Carve-Out. As a result, the Top-up increases by less than one-for-one with the domestic tax reduction.[220]

[220] Devereux, M. P., Simmler, M., Vella, J. & Wardell-Burrus, H. (2021), What Is the Substance-Based Carve-Out under Pillar 2? And How Will It Affect Tax Competition?, EconPol Policy Brief, Vol. 5, No. 39, ifo Institute, Munich. Cf. Models B & C. https://www.econstor.eu/bitstream/10419/273435/1/1852577843.pdf

Using the same numerical values as above (GloBE Income = 800, Carve-Out = 300, GloBE Income after Carve-Out = 500), assume the following:

1. The Adjusted Covered Taxes are 60. The ETR under Model 2 is therefore: 60 / 800 = 7.5%. The Top-up Tax is then: (15% − 7.5%) * 500 = 7.5% * 500 = 37.5. The total tax in units is in this case 60 (Adjusted Covered Taxes) + 37.5 (the Top-up Tax) = 97.5.

2. If the Adjusted Covered Taxes is reduced to 0, the Top-up becomes: 15% * 500 = 75, which is the total tax in units that an MNE has to pay.

The example above shows that under this model, lowering the statutory domestic tax rate to 0% from 15% gives the MNE a tax saving of 22.5 units (97.5 – 75). More generally, each unit reduction in the Adjusted Covered Taxes saves the MNE a fraction equal to: Carve-Out / GloBE Income. This means that because tax reductions continue to lower the MNE's overall tax burden, jurisdictions retain a positive incentive to reduce domestic taxes – even down to zero.

Model 3 behaves identically in this respect. Although Model 3 applies a proportional reduction to Covered Taxes (scaling them by GloBE Income after Carve-Out / GloBE Income), the numerator and denominator of the ETR are reduced by the same ratio, leaving the ETR unchanged relative to Model 2. Consequently, the Top-up Tax and resulting global tax burden are identical under Models 2 and 3. Thus, while Model 3 introduces an additional computational step, its economic implications are the same as those of Model 2.

To illustrate the results using the same inputs (GloBE Income = 800, Carve-Out = 300, GloBE Income after Carve-Out = 500), the following stylised comparison can be consulted:

Domestic Tax	Model 1: Total Tax	Models 2/3: Total Tax
0	75	75
20	75	82.5

40	75	90
75	75	103.125
200	200	200

6.2.2 Under the GloBE Model Rules:

The GloBE Model Rules correspond directly to Model 2 in the Blueprint-derived framework. Because the ETR is calculated on full GloBE Income, and the SBIE affects only the Excess Profit computation, the GloBE Model Rules do not implement the strict-floor mechanism represented by Model 1. Once the minimum rate test is performed, the Carve-Out has no influence on whether a Top-up Tax arises – it affects only the amount to which the Top-up Tax Percentage is applied. The resulting incentive pattern is the same as in Models 2 and 3 – a reduction in domestic tax lowers the ETR in full, while the compensating Top-up applies only to the reduced income base after the SBIE. Consequently, domestic tax cuts continue to lower the MNE's global tax burden, and the system does not impose a hard minimum tax floor.

In economic terms, the design adopted in the GloBE Model Rules means that the Top-up never rises one-for-one with domestic tax reductions. The Top-up responds proportionally only to the portion of income that remains after the SBIE, which is necessarily smaller than the income used for the ETR calculation. This structural asymmetry is what preserves residual tax-cutting incentives under the final Pillar Two design.

6.2.3 Under the OECD Commentaries:

The subsequent OECD Commentaries (2022-2025) reinforce the outcome of the GloBE Model Rules. They elaborate on how the SBIE components (Payroll, Tangible Assets, and allocation rules) are to be measured, but they provide no alternative reading of the SBIE's interaction with the ETR. All examples and technical clarifications proceed from the assumptions embedded in

the GloBE Model Rules, those are that the ETR calculation uses full GloBE Income, and that the SBIE operates only in the Excess Profit computation.

Since the Commentaries never suggest modifying the denominator of the ETR or adjusting Covered Taxes through the SBIE, they implicitly confirm that the effects associated with Model 1 (strict tax floor) or Model 3 (proportional adjustments) have no role under the agreed international standard.

The authoritative framework that emerges from the GloBE Model Rules and Commentaries therefore corresponds exclusively to the incentive pattern of Model 2: a system that constrains but does not eliminate tax competition.

6.3 Answering Research Question 3

How do the different plausible interpretations of the SBIE – from the Blueprint alternatives to the final GloBE Model Rules and their Commentaries – reflect the balance between limiting harmful tax competition and preserving legitimate competition for real economic substance?

6.3.1 First Implication

The Model 2 Structure Allows Jurisdictions to Use QDMTTs to Sustain Effective Tax Competition – Especially Vis-a-Vis Already Established Companies

Differential Tax Outcomes Under Model 2

Assume an MNE earns 1 000 units of GloBE Income in a jurisdiction and generates 400 units of SBIE, leaving 600 units of Excess Profit. The Minimum Rate is 15%.

Begin with Jurisdiction A, which applies a statutory tax rate of 15%. Its domestic tax is therefore 15% * 1 000 = 150, giving an ETR of 150 / 1 000 = 15%. Because this equals the Minimum Rate, the Top-up Tax Percentage is 15% − 15% = 0, and the Top-up Tax is 0% * 600 = 0. The total tax in Jurisdiction A is therefore 150.

Now consider Jurisdiction B, which sets its statutory tax rate at 0% but applies a full QDMTT. Under Model 2 – the one mirrored in the GloBE Model Rules – the domestic tax is 0% * 1 000 = 0, producing an ETR of 0 / 1 000 = 0%. The Top-up Tax Percentage is therefore 15% − 0% = 15%. This percentage applies only to the Excess Profit, not to the SBIE-protected 400 units. The QDMTT is thus 15% * 600 = 90, and because Jurisdiction B has implemented a QDMTT, it collects the full 90 itself. The MNE's total tax burden in Jurisdiction B is therefore 90.

The MNE bears 90 in Jurisdiction B compared with 150 in Jurisdiction A. The 60-unit difference arises because Model 2 allows the SBIE to shield 400 units of income from the Top-up Tax, leaving only 600 units exposed.

Behavioural Response – The Effects on New Investment

This difference in tax liability may be a factor that influences location decisions for new investments. A firm assessing where to establish real economic activity faces two otherwise identical jurisdictions producing materially different global tax outcomes. Under Model 2, the same investment, generating the same substance and income, results in a 60-unit lower tax burden in Jurisdiction B.

As a result, a new investor with substantial Payroll and Tangible Assets will likely prefer the 0%-plus-QDMTT jurisdiction as there is a competitive advantage in the structural interaction between the SBIE and the Model 2 ordering of calculations. Under this design, statutory rate reductions continue to function as an instrument for attracting high-substance investments.

Distributional Asymmetry and The Disadvantages for Existing Investors

The incentive, however, applies primarily to new investors – the effect of Model 2 is asymmetric. New investors can choose to enter Jurisdiction B and immediately benefit from the lower tax burden produced by the SBIE-QDMTT interaction. Existing firms in Jurisdiction A cannot replicate this advantage without physically relocating Payroll and Tangible Assets – an option that is especially costly, disruptive, or infeasible for firms whose business model depends heavily on those assets.

This asymmetry means that the competitive pressure introduced by Model 2 operates almost entirely at the margin of new investments. Jurisdictions seeking to attract high-substance MNEs can engage in meaningful tax competition by lowering their statutory tax rate and relying on a QDMTT, because doing so reduces the investor's global tax burden. At the same time, MNEs that have already invested in jurisdictions that do not lower their statutory rates – because they for instance prioritise other policy objectives such as revenue stability – find themselves structurally disadvantaged. They continue to face the higher statutory rate, while competing firms in low-rate/QDMTT jurisdictions bear a significantly lighter global tax load.

In practical terms, Model 2 preserves competitive space for jurisdictions seeking to engage in "good" tax competition – an advantage for new entrants too. However, existing investors in non-competitive tax environments cannot adjust and are thus disadvantaged. This generates an imbalance between new and established investments that follows directly from the OECD's choice of SBIE placement in the final rules.

How Model 1 Would Have Eliminated the Incentive – A Counterfactual approach

The significance of the OECD's design choice becomes clear when considering how Jurisdiction B would be treated under Model 1, the Blueprint interpretation in which the SBIE reduces the ETR denominator. Under that model, both the Excess Profit and denominator for the ETR are adjusted for the SBIE. Jurisdiction B's ETR would be 0 / (1 000 − 400) = 0 / 600 = 0%, and the minimum total tax required would again be 15% * 600 = 90.

The difference is that under Model 1, reducing the statutory rate in Jurisdiction B would not reduce the MNE's global tax burden at all. Any domestic tax reduction would be offset on a one-for-one basis by an increased Top-up Tax. Whether Jurisdiction B applied a 15% statutory rate or a 0% rate, the total tax would always equal 90.

This means that new investors cannot obtain a lower global tax burden by choosing a low-rate jurisdiction, and existing investors are not placed at a disadvantage simply because their jurisdiction maintains a higher statutory rate (but beneath the Pillar Two floor). Since statutory rate reductions have no effect on the total tax paid, Model 1 eliminates the mechanism through

which jurisdictions could use rate cuts to attract real investment. By removing the incentive to compete on statutory tax rates, Model 1 ensures that incumbent investors remain protected from competitive pressure that would otherwise arise under a low-rate/QDMTT strategy.

The Policy Implications in which Model 2 Preserves Moderated Tax Competition

The contrast between the two models is therefore that under Model 2, Jurisdiction B offers a global tax burden of 90, whereas Jurisdiction A imposes a burden of 150, making the 0%-plus-QDMTT strategy attractive for new high-substance investment. Under Model 1, Jurisdiction B would always yield a total tax of 90, regardless of whether its statutory rate was 0%, 5%, or 15%, meaning the jurisdiction could not use statutory rate reductions to improve its competitive position.

Thus, while Model 2 preserves a channel for moderated tax competition centred on real economic substance, Model 1 would have eliminated it entirely. The OECD's final design choice therefore maintains an incentive structure that advantages jurisdictions seeking to attract new high-substance investment while simultaneously creating competitive asymmetries for existing investors.

6.3.2 Second Implication

The SBIE's Placement as a Determinant of the Balance Between Harmful and Substance-Based Tax Competition

A comparison of Model 1 and Model 2 reveals two different regulatory choices about how to balance the suppression of harmful tax competition with the preservation of competition grounded in real economic substance. The distinction is found in the placement of the SBIE within the computational sequence. In Model 1, the exclusion narrows the income base for the minimum tax application, making the minimum tax a binding constraint on all forms of tax competition. Any rate reduction below 15% is offset by a Top-up Tax which limits jurisdictions ability to differentiate themselves and compete through lower tax rates. In effect, the structure produces a de facto alignment at the minimum rate – while statutory rates may fall below 15%,

such reductions entail no competitive advantage because the Top-up Tax restores the investor's post-tax burden to the minimum level. As a consequence, Model 1 eliminates the fiscal margin through which low-tax offers can influence investment decisions, irrespective of whether the targeted activities involve mobile income or real economic substance.

Although Model 1 formally preserves an exclusion for substance-based returns (and thus protects it), this protection does not translate into an functioning field of tax competition. Because the effective tax outcome is fixed by the minimum rate regardless of substantive activity, jurisdictions have no meaningful incentive to design tax instruments aimed at attracting labour- or asset-intensive investment (those that qualify as Payroll or Tangible Assets under the GloBE Model Rules). The exclusion thus operates only as a computational adjustment rather than a mechanism that enables jurisdictional competition. This reflects a regulatory choice in which the priority lies in precluding the re-emergence of harmful tax competition, even where doing so suppresses forms of competition that would otherwise relate to genuine economic activity. Model 1 therefore embodies a policy preference for a uniform global tax floor over the preservation of domestic fiscal autonomy to promote substantive investment.

Model 2, by contrast, amends this balance by placing the SBIE later in the equation, affecting only the income potentially subject to Top-up Tax and not the ETR itself. This placement preserves a structural distinction between income associated with real activity and income that is not. Jurisdictions cannot compete for mobile, low-substance income through preferential tax regimes, as these outcomes remain fully exposed to the Top-up Tax. However, they retain the ability to influence the overall tax burden borne by an investment to the extent that the activity generates SBIE-eligible returns. In this model, the exclusion does not just protect substance from taxation – it creates a genuine competitive margin through which jurisdictions can shape incentives for attracting and promoting real economic activity. Model 2 therefore embeds a deliberate policy choice that limits harmful competition while preserving space for legitimate, substance-based competition.

The divergence between Model 1 and Model 2 thus embodies two distinct normative positions. Model 1 prioritises a uniform global tax outcome and sharply constrains all competitive

behaviour, even where linked to substantive investment. Model 2 instead distinguishes between harmful and legitimate forms of tax competition by structurally limiting the former and maintaining a targeted space for the latter. This contrast demonstrates that the placement of the SBIE within the formula is a mechanism through which the balance between these competing policy aims is achieved.

A following consequence of this structural divergence is that the two models generate different constraints on how jurisdictions may design their tax systems in relation to substantive economic activity. Under Model 1, the minimum tax becomes the dominant parameter shaping fiscal policy, leaving little scope for jurisdictions to tailor their incentives to the characteristics of their domestic economies. This standardises the competitive environment and weakens the connection between economic structure and tax-policy design.

Model 2, in contrast, enables jurisdictions to align their tax instruments with the composition of their real economy. Because the SBIE operates as a quantitative allowance tied to labour and tangible investment, it creates a channel through which tax policy can interact with underlying economic conditions. Jurisdictions whose economies vary in their reliance on labour or tangible capital can therefore pursue their fiscal strategies without undermining the integrity of the minimum tax. Model 2 therefore creates a direct connection between a jurisdiction's real economic characteristics and the scope of fiscal autonomy it may exercise, allowing jurisdictions to shape investment conditions in ways that reflect their developmental priorities and comparative advantages.

This difference illustrates that the SBIE's placement determines how far domestic economic conditions can shape the operation of the GMT. Model 1 compresses these differences by treating all jurisdictions identically, whereas Model 2 embeds a formula in which economic diversity becomes relevant to the formation of domestic tax policy. The choice between the models therefore show the implications for tax competition and the degree to which the GloBE Model Rules accommodate domestic economic structures while still restricting the erosion of tax bases through low-tax strategies.

6.3.3 Connecting the First and Second Implications

The two discussed implications show that the OECD's choice to adopt the Model 2's ordering of calculations reflect a balancing act within the design of the GMT. On the one hand, the GloBE Model Rules constrain harmful tax competition by ensuring that low-substance, highly mobile income remains fully exposed to the minimum tax. On the other hand, by allowing statutory rate reductions to interact with the SBIE and QDMTTs, Model 2 preserves a channel through which jurisdictions may still compete for new, high-substance investments. This competitive space enables countries to influence the effective tax burden on real activity and thereby maintain investment incentives that would have been eliminated under Model 1.

However, this preservation of competitive space also introduces a cost. Because Model 2 permits jurisdictions to reduce the global tax burden on SBIE-eligible income, countries seeking to attract investment may be incentivised to lower their statutory tax rates – even potentially to zero – to maximise the benefit investors can obtain from the SBIE-QDMTT interaction. This outcome creates a negative situation for the already established MNEs in jurisdictions choosing not to make use of this incentive. This is a direct and unavoidable consequence of choosing Model 2. Under Model 1, this dynamic would not arise. Any rate cut would be neutralised by a corresponding increase in the Top-up Tax, removing the incentive to reduce statutory rates and preventing jurisdictions from using low rates to influence investment decisions.

Thus, the trade-off embedded in the OECD's final design is the following: Model 2 restricts harmful tax competition and preserves jurisdictions' ability to shape their investment environment through tax policy, but it does so at the cost of negative effects for established MNEs and by accepting renewed downward pressure on statutory tax rates, potentially even to zero, for substance-rich investments. This competitive tension is a by-product of the decision to preserve fiscal autonomy for real-activity-based incentives. Model 1 would have ensured uniformity at the minimum tax level but only by eliminating all rate-based competition, including competition grounded in genuine economic substance, thereby imposing a more far-reaching constraint on jurisdictions' taxation autonomy.

Summary and Ending

Summary

This thesis has examined the interpretative development of the Substance-Based Income Exclusion (SBIE) from its conceptually open formulation in the 2020 Pillar Two Blueprint to its fixed and authoritative structure in the 2021 GloBE Model Rules, as later clarified by the OECD Commentaries (2022–2025). The analysis has shown that the most important evolution occurred in the transition from the Blueprint to the GloBe Model Rules, where the placement and function of the SBIE were conclusively settled.

The objective of the study has been has been threefold:

1. to examine how the role of the SBIE in the computation formula developed from its conceptually open formulation in the 2020 Pillar Two Blueprint to its final codification in the GloBE Model Rules and later by the OECD Commentaries,
2. to analyse the consequences of the different plausible interpretations on the Jurisdictional Top-up Tax, and
3. to assess how these alternative interpretations and the final design adopted in the GloBE Model Rules with its associated Commentaries reflect differing balances between limiting harmful tax competition and preserving competition grounded in real economic substance.

The study demonstrates that the Blueprint's drafting permitted three coherent interpretations of how the SBIE might operate:

1. a reduction to the ETR denominator and the Top-up Tax base,
2. an exclusion applied solely to the Top-up Tax base, and
3. a proportional adjustment to both the income and Covered Taxes – as well as to the Top-up Tax base.

These alternatives each reflected different policy trade-offs concerning the scope of the minimum tax and the degree of fiscal autonomy that jurisdictions would retain.

The GloBE Model Rules, by contrast, codify a single structure that confines the SBIE entirely to the calculation of Excess Profit. By leaving the ETR denominator and Adjusted Covered Taxes the same without adjustments, the GloBE Model Rules erase all flexibility in interpreting the Pillar Two Blueprint. The subsequent OECD Commentaries confirm this reading by consistently applying the SBIE only in the Excess Profit calculation and never suggesting an interaction with the ETR. The final international standard therefore corresponds exclusively to the Model 2 structure reconstructed in the thesis.

The results of the analysis illustrate the consequences of selecting this design. By comparing the three alternatives in the placement of the SBIE, it can be shown how this would produce different Jurisdictional ETRs and thus different amounts of Jurisdictional Top-up Tax, demonstrating the effects of the SBIE's role on the minimum tax formula.

By adopting the structure of Model 2, the OECD managed to preserve space for substance-based tax competition, thereby allowing jurisdictions to use tax incentives to attract high-substance investments. This outcome, however, required accepting trade-offs: providing room for real-activity-based incentives inevitably reintroduces some negative consequences for MNEs and a competitive pressure on statutory tax rates. At the same time, the framework constrains tax competition linked to low-substance outcomes, thereby advancing Pillar Two's objective of reducing damaging profit shifting and tax base erosion. The final structure thus reflects the balance decided upon between protecting genuine economic substance and limiting harmful forms of tax competition within the GMT regime.

Importance of the Findings

The findings are important because they clarify how the internal architecture of the GloBE system functions, and how a single design decision choice – the placement of the SBIE – shapes both the computation of the Jurisdictional Top-up Tax and the broader operation of the GMT. The analysis shows that the SBIE is not an isolated Carve-Out but an element that determines how the interaction between the ETR calculation, Excess Profit, and the resulting Top-up Tax

functions. By demonstrating how the three plausible interpretations based on the Pillar Two Blueprint produces materially different computational outcomes, the thesis sheds light on how the SBIE's placement directly influences the effective reach and strictness of the minimum tax. This clarifies why the OECD's final decision to adopt the Model 2 structure has system-wide consequences for the functioning of Pillar Two.

The structural insights produced here contribute to understanding how Pillar Two reconciles the objective of curbing harmful tax competition with the preservation of legitimate substance-based incentives relied upon by many jurisdictions. The analysis shows that the SBIE operates as the mechanism through which this balance is struck: placing the SBIE in the Excess Profit calculation, rather than in the ETR denominator, ensures that low-substance profits remain fully exposed to the minimum tax, while high-substance activities retain a degree of competitiveness. The thesis therefore advances the broader conceptual understanding of Pillar Two by showing how its policy aims are embedded directly in the computational structure of the GloBE rules and by explaining how the SBIE functions as the instrument through which the system manages its inherent trade-offs.

Contribution to Future Research

The analysis provided in this thesis creates a foundation for further inquiry into the functioning of the SBIE within the Pillar Two framework. Future research can build on these findings in several directions. One avenue concerns the behavioural effects of the SBIE. The insights presented here can assist policymakers and legislators in understanding how the SBIE influences investment patterns, organisational structures, and tax planning decisions, thereby informing the design of domestic tax regulations that are effective in achieving their policy objectives while preserving international investment competitiveness.

As the SBIE and the broader GloBE Model Rules begin to operate in practice, the analytical framework offered in this study can serve as a comparative benchmark against which real-world outcomes may be assessed. Observing how the SBIE functions in practice will make it possible to evaluate whether the design choices embedded in the GloBE Model Rules generate the effects

anticipated here, or whether they lead to unintended consequences that require policy or technical adjustment. Such developments may be reflected in future OECD Commentaries, administrative guidances, and related publications.

Future research may also investigate whether these subsequent materials reinforce, refine, or modify the balance identified in this thesis between limiting harmful tax competition and preserving tax competition linked to genuine economic substance. In this way, the findings presented can contribute to the ongoing process of shaping an international tax regime that fulfils the objectives politically agreed upon.

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