



CROWN DEPENDENCIES ANNOUNCE AGREED APPROACH TO PILLAR TWO FRAMEWORK

INTRODUCTION

On 19 May 2023, the treasury ministers of Jersey, Guernsey and the Isle of Man made a joint statement regarding an intended approach to the implementation of the Organisation for Economic Co-operation and Development (OECD) Pillar Two global minimum tax framework for large multinational groups. Each Crown Dependency intends to implement an income inclusion rule (i.e. "top-up" tax) and domestic minimum effective tax rate of 15% for in-scope entities from 2025.

BACKGROUND

Since 2019, the OECD Inclusive Framework has been working to deal with the tax challenges arising from an ever-increasing digitalised economy. This resulted in a two-pillar initiative being announced in 2021 to which political commitment was made by 137 jurisdictions, including Jersey.

THE TWO PILLARS

Pillar One deals with multinational groups of companies with an annual turnover exceeding €20 billion. This pillar creates rules where tax is to be paid based on where the group's customers are situated. It is intended to be a minimum standard that jurisdictions will be required to implement within their domestic laws. This pillar is still being developed.

Pillar Two deals with multinational groups of companies with an annual global revenue exceeding €750 million. Pillar Two seeks to establish a global minimum corporate tax rate of 15% that in-scope multinational groups will be required to pay in every jurisdiction in which they operate. Essentially, under global anti-base erosion rules (GloBE rules), in jurisdictions where the effective rate of tax paid by an in-scope multinational is below the global minimum corporate tax rate of 15%, this second pillar will impose a "top-up" tax to bring the multinational's effective rate of tax up to 15%.

TAKE-AWAY

- the majority of companies in Jersey will be outside the scope of the OECD Pillar Two Initiative. Their corporate tax rate should therefore remain unchanged;

- there are various exemptions including exemptions for certain holding entities, investment funds and RE investment vehicles;
- Jersey will implement the minimum standards in the OECD pillars; and
- Jersey remains committed to maintaining a strong, stable and competitive international finance centre. An attractive business environment based on certainty and simplicity remains unchanged;

For additional information, please contact:



Group Partner

norman.day@lexstone.je

D: +44 7561 897 856

T: +44 1534 480 700

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LEXSTONE LAWYERS

Hawk House | 22 Esplanade | St Helier | Jersey JE2 3QA | Channel Islands
D: +44 1534 480 700 | E: enquiries@lexstone.je