

# Chapter 1.3: Ultimate Parent Entity Determination

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## Learning Objective

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After completing this chapter, you will be able to identify the Ultimate Parent Entity of an MNE group and understand the roles of intermediate parent entities in the GloBE framework.

## 1. Defining the Ultimate Parent Entity

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The **Ultimate Parent Entity (UPE)** is the entity at the top of the MNE group that:

1. Owns, directly or indirectly, a controlling interest in any other entity in the group, AND
2. Is not owned by another entity with a controlling interest in it (*Article 1.5.1*)

In simpler terms: the UPE is the entity that consolidates all other group entities and is not itself consolidated by another entity.

## 2. Step-by-Step UPE Identification

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### 2.1 Step 1: Start with the Consolidating Entity

Identify which entity prepares the consolidated financial statements used for the revenue threshold test (Chapter 1.1). This is typically the UPE.

### 2.2 Step 2: Verify No Higher-Level Consolidation

Confirm that this entity is not itself included in another entity's consolidated financial statements. Check:

- Is the entity a subsidiary of another company?
- Is there a parent company that consolidates this entity?

- Are there any trust, foundation, or fund structures above it?

## 2.3 Step 3: Confirm Controlling Interest

The UPE must hold a **controlling interest** in at least one other entity. Controlling interest means (*Article 10.1*):

- Ownership of more than 50% of voting rights, OR
- Control over the entity's board or management, OR
- Entitlement to more than 50% of profits

If the entity at the top holds less than a controlling interest in all subsidiaries, it may not qualify as a UPE—reassess the group structure.

## 3. Common UPE Structures

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### 3.1 Listed Company as UPE

Most common scenario. A publicly listed company sits at the top, prepares consolidated financial statements, and is the UPE.

**Example:** Stratos Group plc (listed on LSE) is the UPE of the Stratos group.

### 3.2 Private Holding Company as UPE

A privately held company owns the operating group. The holding company prepares consolidated accounts and is the UPE.

### 3.3 Trust or Foundation as UPE

Where a trust or foundation sits at the top of the structure and controls the group, it may be the UPE if it prepares consolidated financial statements (*Commentary, para. 18*).

### 3.4 Individual or Family Ownership

Where individuals or families own the group directly (without an interposed holding company), the highest entity that prepares consolidated financial statements is the UPE. The individuals themselves are not Constituent Entities.

## 4. Intermediate Parent Entities

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An **Intermediate Parent Entity (IPE)** is a Constituent Entity that owns a controlling interest in another Constituent Entity but is not the UPE (*Article 10.1*).

IPEs are important because:

1. **IIR application:** If the UPE jurisdiction does not apply the IIR, an IPE in a jurisdiction that does apply the IIR may be required to apply the rule instead (*Article 2.1.2*)
2. **Filing obligations:** Some jurisdictions require local filing by IPEs
3. **Allocation:** Top-Up Tax allocation may flow through IPEs in the ownership chain

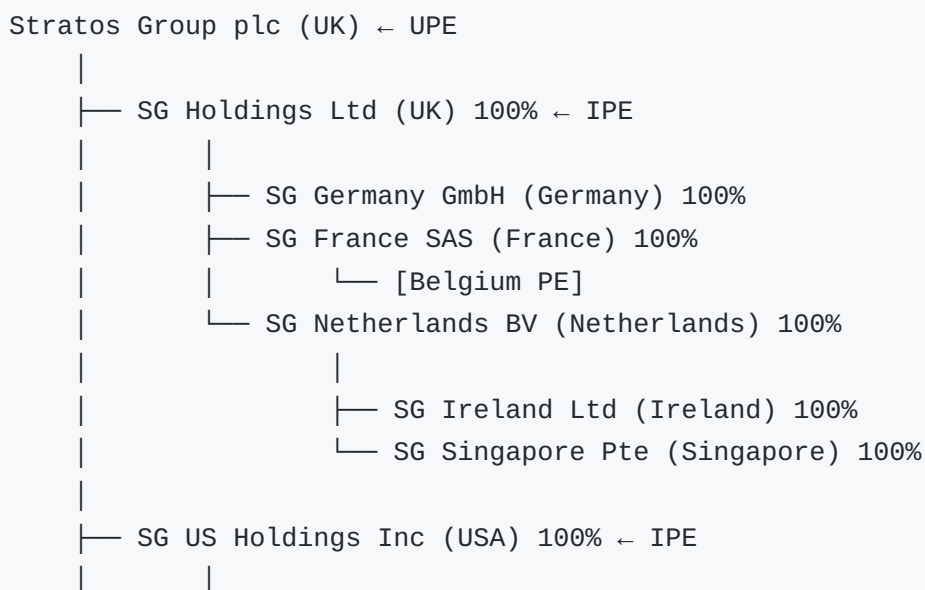
### 4.1 Identifying IPEs

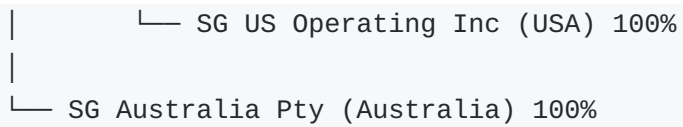
From your Constituent Entity register (Chapter 1.2), identify entities that: - Are owned by another Constituent Entity (i.e., not the UPE) - Own a controlling interest (>50%) in at least one other Constituent Entity

## 5. Worked Example: Stratos's UPE and IPE Analysis

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### 5.1 Group Structure





## 5.2 Analysis

### UPE Identification:

| Question                                                 | Answer                                                            |
|----------------------------------------------------------|-------------------------------------------------------------------|
| Which entity prepares consolidated financial statements? | Stratos Group plc                                                 |
| Is it consolidated by another entity?                    | No—listed company with no parent                                  |
| Does it hold controlling interest in other entities?     | Yes—100% of SG Holdings Ltd, SG US Holdings Inc, SG Australia Pty |

**Conclusion:** Stratos Group plc is the **UPE**.

### IPE Identification:

| Entity             | Owned by CE?      | Owns >50% of another CE?                    | IPE?       |
|--------------------|-------------------|---------------------------------------------|------------|
| SG Holdings Ltd    | Yes (UPE)         | Yes (SG Germany, SG France, SG Netherlands) | <b>Yes</b> |
| SG Netherlands BV  | Yes (SG Holdings) | Yes (SG Ireland, SG Singapore)              | <b>Yes</b> |
| SG US Holdings Inc | Yes (UPE)         | Yes (SG US Operating)                       | <b>Yes</b> |
| SG Germany GmbH    | Yes (SG Holdings) | No                                          | No         |
| SG France SAS      |                   | No (PE is not a separate legal entity)      | No         |

| Entity | Owned by CE?      | Owns >50% of another CE? | IPE? |
|--------|-------------------|--------------------------|------|
|        | Yes (SG Holdings) |                          |      |

**Result:** 3 Intermediate Parent Entities identified.

## 5.3 Documentation

The tax team records in the CE register: - UPE: Stratos Group plc - IPEs: SG Holdings Ltd, SG Netherlands BV, SG US Holdings Inc - Direct ownership chain for each CE

## 6. Multi-Parented MNE Groups

A **Multi-Parented MNE Group** exists where two or more entities that would otherwise be separate UPEs are stapled together or operate under a dual-listed company arrangement (*Article 6.5*).

### 6.1 Stapled Structures

Entities whose equity interests are: - Stapled together and cannot be transferred independently, OR - Listed and traded as a single unit

These are treated as a single MNE group, with one entity designated as the UPE for GloBE purposes.

### 6.2 Dual-Listed Companies (DLC)

Two listed companies that operate as a single economic enterprise through contractual arrangements, but maintain separate legal identities and listings.

For GloBE purposes: - Both companies and their subsidiaries form a single MNE group - One must be designated as the UPE - The combined group must meet the €750 million threshold

### 6.3 Identification Steps for Multi-Parented Groups

1. Identify whether a stapled or DLC arrangement exists

2. Determine combined group revenue for threshold test
3. Designate one entity as UPE (typically per existing group arrangements)
4. Map all subsidiaries of both "parents" as Constituent Entities

## 7. UPE Jurisdiction and Its Significance

The UPE's jurisdiction determines:

| Factor                    | Why It Matters                                                                                                  |
|---------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>IIR application</b>    | If the UPE jurisdiction has implemented a Qualified IIR, the UPE applies the IIR first ( <i>Article 2.1.1</i> ) |
| <b>Filing obligations</b> | GIR filing typically occurs in the UPE jurisdiction                                                             |
| <b>UTPR exposure</b>      | If UPE jurisdiction has no IIR, UTPR in other jurisdictions may apply                                           |

**Stratos example:** The UK has implemented a Qualified IIR effective from 2024. Stratos Group plc (UK UPE) will apply the IIR and be responsible for UK Multinational Top-Up Tax on low-taxed jurisdictions.

## 8. Changes in UPE Status

### 8.1 Acquisition of the UPE

If another entity acquires the UPE: - The acquiring entity's group becomes the new MNE group - The former UPE becomes a Constituent Entity (likely an IPE) in the new group - Reassess scope at the new group level

### 8.2 Demerger Creating New UPE

If the group demerges: - Each resulting group has its own UPE - Each group independently assesses the €750 million threshold - CE registers must be prepared for each new group

## 9. Documentation Requirements

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Add to your group structure documentation:

| Document                  | Content                                              |
|---------------------------|------------------------------------------------------|
| UPE confirmation memo     | Entity name, jurisdiction, basis for UPE status      |
| IPE schedule              | List of IPEs with ownership chain                    |
| Group structure chart     | Visual representation showing UPE, IPEs, and all CEs |
| IIR jurisdiction analysis | Whether UPE jurisdiction has Qualified IIR           |