

Chapter 6.3: Joint Ventures

Learning Objective

After completing this chapter, you will be able to identify when an entity qualifies as a Joint Venture for GloBE purposes, apply the separate ETR calculation requirement, allocate Top-Up Tax to the UPE based on ownership share, and distinguish JV treatment from MOCE and regular Constituent Entity treatment.

1. Why Special Rules for Joint Ventures?

Joint Ventures present a unique challenge for Pillar Two:

| THE JV PROBLEM

| Standard GloBE scope:

- | → Only entities consolidated on a line-by-line basis are CEs
- | → JVs are typically equity-accounted, not consolidated
- | → Without special rules, JVs would escape Pillar Two entirely

| THE SOLUTION (Article 6.4):

- | → Bring JVs into scope through special rules
- | → Treat JV + subsidiaries as a SEPARATE MNE Group
- | → Calculate ETR and Top-Up Tax separately
- | → Allocate Top-Up Tax to UPE based on ownership share

2. Definition: Joint Venture (*Article 10.1*)

A **Joint Venture** for GloBE purposes is an entity that meets ALL of the following criteria:

Criterion	Requirement
Accounting treatment	Financial results reported under the equity method in UPE's Consolidated Financial Statements
Ownership threshold	UPE holds directly or indirectly at least 50% of Ownership Interests
Not already in scope	Entity is not itself the UPE of an MNE Group subject to GloBE

2.1 What the Equity Method Means

Under equity accounting (IAS 28 / ASC 323): - The investor records its share of the JV's profit/loss - The JV's assets, liabilities, income, and expenses are **not** consolidated line-by-line - The investment is shown as a single line item in the investor's balance sheet

2.2 The 50% Threshold

JV Ownership Test:

UPE Ownership $\geq 50\%$ → Qualifies as JV for GloBE
(if equity-accounted)

UPE Ownership $< 50\%$ → Does NOT qualify as JV
(treated as simple equity investment)

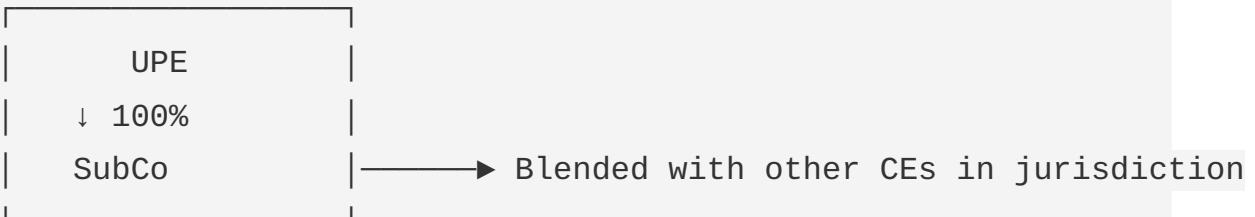
Important: The $\geq 50\%$ threshold brings **non-consolidated** entities into GloBE scope. Without this rule, an MNE could shelter income in 50/50 JVs that escape Pillar Two.

3. Comparison: JV vs MOCE vs Regular CE

Feature	Joint Venture	MOCE	Regular CE
Ownership	$\geq 50\%$	$\leq 30\%$	Any
Accounting	Equity method	Consolidated	Consolidated
GloBE treatment	Separate MNE Group	Separate ETR (entity level)	Jurisdictional blending
Blending	Within JV group only	None (entity-level)	With other CEs
Top-Up Tax	Allocated to UPE	UPE bears directly	Via IIR/UTPR

3.1 Visual Comparison

REGULAR CE (100% owned, consolidated):

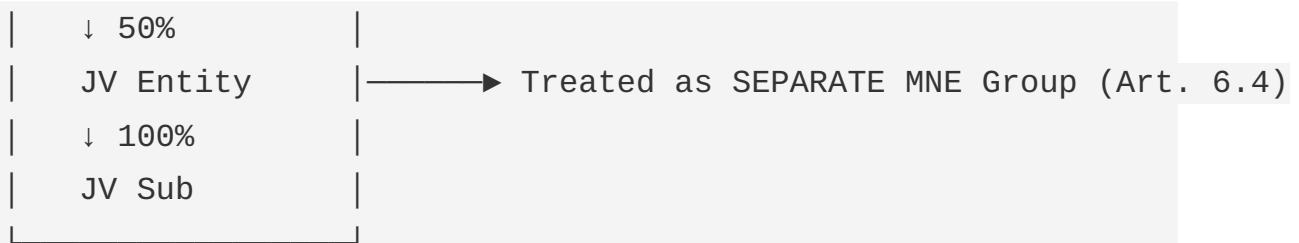


MOCE (28% owned, consolidated):



JOINT VENTURE (50% owned, equity-accounted):





4. The JV as a Separate MNE Group (*Article 6.4.1(a)*)

When an entity qualifies as a JV:

- | JV TREATMENT (Article 6.4.1)
- |
- | The JV and its subsidiaries are treated AS IF they were:
- |
- | → A SEPARATE MNE Group
- | → With the JV as the Ultimate Parent Entity
- | → Subject to their own ETR calculation
- | → With their own jurisdictional blending (within JV group only)
- |
- | The main MNE Group's calculations EXCLUDE the JV's results.

4.1 JV Subsidiaries

JV Subsidiaries are entities in which the JV holds a controlling interest. They are: -
Included in the JV's separate MNE Group - Subject to jurisdictional blending within
the JV group - NOT blended with the main MNE Group

5. Separate ETR Calculation

5.1 No Blending with Main Group

The JV Group's GloBE Income and Covered Taxes are **never blended** with the main MNE Group:

Example:

Jurisdiction	Main Group	JV Group	Combined?
Germany			
GloBE Income	€50,000,000	€8,000,000	NO
Covered Taxes	€11,500,000	€1,600,000	NO
ETR	23.00%	20.00%	Calculated separately

Even though both are in Germany, they have separate ETR calculations.

5.2 Blending Within JV Group

If the JV has subsidiaries in multiple jurisdictions, **jurisdictional blending applies within the JV group**:

Example: JV with subsidiaries in two jurisdictions

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JV Entity (Germany) — 100% → JV Sub 1 (Germany)
                                — 100% → JV Sub 2 (Ireland)
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JV Group Germany calculation:

- Blend JV Entity + JV Sub 1 (both in Germany)
- JV Sub 2 (Ireland) calculated separately within JV Group

6. Top-Up Tax Allocation (Article 6.4.1(c))

6.1 Who Pays the Top-Up Tax?

The **UPE of the main MNE Group** (or intermediate parent with IIR) pays Top-Up Tax on its **allocable share** of the JV's Top-Up Tax.

$$\text{Top-Up Tax Allocation} = \text{JV Group Top-Up Tax} \times \text{UPE's Ownership \%}$$

6.2 Example: 50/50 JV

Scenario: Alpha Group and Beta Group each own 50% of JV Co.

JV Co (Germany)

- |— GloBE Income: €10,000,000
- |— Covered Taxes: €1,200,000
- |— ETR: 12.00%
- |— Top-Up Tax %: 3.00%
- |— SBIE: €500,000
- |— Excess Profit: €9,500,000
- |— JV Top-Up Tax: €285,000

Allocation:

- |— Alpha Group (50%): €142,500
- |— Beta Group (50%): €142,500

Each UPE pays its 50% share via IIR (if in an IIR jurisdiction).

6.3 Direct and Indirect Holdings

The allocable share includes **both direct and indirect** holdings:

UPE owns 60% of HoldCo

HoldCo owns 80% of JV

UPE's ownership in JV = $60\% \times 80\% = 48\%$

Wait – $48\% < 50\%$, so is this a JV?

Answer: Check total ownership through ALL paths.

If UPE also holds 5% directly in JV:

Total = $48\% + 5\% = 53\%$ → Qualifies as JV

Top-Up Tax allocation = 53% of JV Top-Up Tax

7. JV as Partially-Owned Parent Entity (POPE)

If the JV itself qualifies as a **POPE** (owned less than 80% by the main UPE), the charging mechanism shifts:

7.1 Standard JV ($\geq 80\%$ owned by main UPE):

- Main UPE pays all Top-Up Tax on JV group via IIR

7.2 JV as POPE ($< 80\%$ owned by main UPE):

- Main UPE pays Top-Up Tax on **JV entity itself** (based on ownership %)
- **JV (as POPE) pays** Top-Up Tax on its **subsidiaries**

JV AS POPE EXAMPLE

Main UPE owns 60% of JV Entity

JV Entity owns 100% of JV Sub (low-taxed)

Top-Up Tax on JV Entity:

→ Allocated to Main UPE (60%)

→ Allocated to other JV investors (40%)

Top-Up Tax on JV Sub:

- | → Paid by JV Entity (as POPE) – 100%
- | → NOT allocated to Main UPE

8. QDMTT Interaction

8.1 QDMTT Priority

If the JV's jurisdiction has a QDMTT: 1. The jurisdiction collects QDMTT first 2. QDMTT reduces the IIR liability 3. Credit given to the main UPE for QDMTT paid

8.2 Example: JV in Ireland (with QDMTT)

Item	Amount
JV Ireland GloBE Income	€6,000,000
JV Ireland Covered Taxes	€600,000
JV Ireland ETR	10.00%
Top-Up Tax %	5.00%
SBIE	€300,000
Excess Profit	€5,700,000
JV Top-Up Tax	€285,000

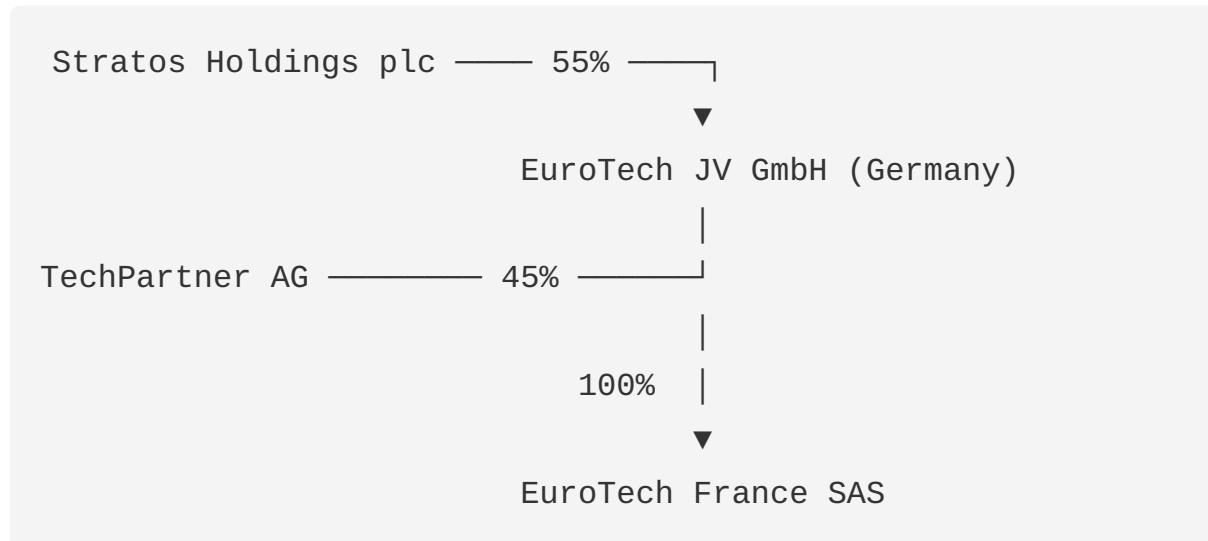
QDMTT Treatment: - Ireland collects €285,000 via QDMTT - Main UPE's IIR liability: €0 (offset by QDMTT) - JV investors indirectly bear QDMTT through reduced JV distributions

9. Stratos Worked Example: JV with TechPartner

9.1 Background

Stratos Holdings plc has a 55% interest in **EuroTech JV GmbH**, a joint venture with TechPartner AG (45%). EuroTech JV is equity-accounted in Stratos's consolidated financial statements.

9.2 JV Structure



9.3 Step 1: Confirm JV Status

Criterion	Assessment
Equity method?	Yes — not consolidated in Stratos accounts
UPE ownership ≥50%?	Yes — 55%
Not UPE of another in-scope MNE?	Confirmed
Classification	Joint Venture for GloBE

9.4 Step 2: Identify JV Group

The JV Group consists of: - EuroTech JV GmbH (Germany) — the JV entity - EuroTech France SAS (France) — JV Subsidiary

9.5 Step 3: Calculate ETR for JV Group

EuroTech JV GmbH (Germany):

Item	Amount
GloBE Income	€8,000,000
Adjusted Covered Taxes	€1,840,000
ETR	23.00%

Result: Germany ETR \geq 15% \rightarrow No Top-Up Tax for Germany.

EuroTech France SAS (France):

Item	Amount
GloBE Income	€3,500,000
Adjusted Covered Taxes	€385,000
ETR	11.00%

Result: France ETR $<$ 15% \rightarrow Top-Up Tax applies.

9.6 Step 4: Calculate SBIE and Top-Up Tax for France

France SBIE (FY 2025 rates):

Component	Amount	Rate	Carve-out
Payroll	€1,800,000	9.8%	€176,400

Component	Amount	Rate	Carve-out
Tangible Assets	€2,200,000	7.8%	€171,600
Total SBIE			€348,000

France Top-Up Tax:

Excess Profit = €3,500,000 - €348,000 = €3,152,000

Top-Up Tax % = 15% - 11% = 4%

Top-Up Tax = €3,152,000 × 4% = €126,080

Step 5: Allocate Top-Up Tax

JV Group Top-Up Tax: €126,080 (France only)

Allocation:

Investor	Ownership	Allocated Top-Up Tax
Stratos Holdings plc	55%	€69,344
TechPartner AG	45%	€56,736
Total	100%	€126,080

9.8 Step 6: Determine Collection Mechanism

France QDMTT Status: France has implemented QDMTT.

Item	Amount
JV France Top-Up Tax	€126,080
QDMTT paid by EuroTech France	(€126,080)

Item	Amount
Net IIR liability	€0

Result: France retains the €126,080 via QDMTT. Stratos's IIR liability is €0 (QDMTT offset).

9.9 Summary: Stratos JV Position

JV Jurisdiction	ETR	Top-Up Tax	Stratos Share	QDMTT?	Net IIR
Germany	23.00%	€0	€0	N/A	€0
France	11.00%	€126,080	€69,344	Yes	€0

10. Common Pitfalls

10.1 Pitfall 1: Treating <50% Equity Investments as JVs

Error: Applying JV rules to an associate with only 30% ownership.

Correct approach: The $\geq 50\%$ threshold must be met. Associates with <50% ownership are **not** JVs for GloBE purposes and are outside Pillar Two scope (unless they are consolidated for some other reason).

10.2 Pitfall 2: Blending JV with Main Group

Error: Including JV's GloBE Income and Covered Taxes in the main MNE Group's jurisdictional ETR calculation.

Correct approach: JV and its subsidiaries are a **separate MNE Group**. Never blend with main group CEs.

10.3 Pitfall 3: Ignoring JV Subsidiaries

Error: Calculating ETR only for the JV entity and forgetting JV subsidiaries.

Correct approach: JV Subsidiaries are part of the JV Group. Include all subsidiaries in the separate ETR calculation with appropriate jurisdictional blending.

10.4 Pitfall 4: Incorrect POPE Treatment

Error: Allocating all JV Group Top-Up Tax to the main UPE when the JV is a POPE.

Correct approach: If the JV is a POPE (<80% owned by main UPE), the JV itself pays Top-Up Tax on its subsidiaries. Only Top-Up Tax on the JV entity is allocated to the main UPE.

10.5 Pitfall 5: Double-Counting with QDMTT

Error: Reporting IIR liability without offsetting QDMTT paid by JV entities.

Correct approach: QDMTT has priority. Credit QDMTT paid against IIR liability.

11. Joint Venture Assessment Checklist

Use this checklist when an entity may be a JV:

JOINT VENTURE ASSESSMENT CHECKLIST

Entity: _____

Jurisdiction: _____

Fiscal Year: _____

SECTION A: JV QUALIFICATION

Is entity reported under equity method in UPE's accounts? YES / NO

If NO: Not a JV. Check if consolidated (CE) or below threshold.

Does UPE hold ≥50% ownership (direct + indirect)? YES / NO

Direct ownership: _____ %

Indirect ownership (calculate): _____ %

Total ownership: _____ %

If <50%: Not a JV. Entity is outside GloBE scope (unless consolidated)

Is entity itself UPE of an in-scope MNE Group? YES / NO

If YES: Not a JV. Subject to GloBE in its own right.

CONCLUSION: Is entity a Joint Venture? YES / NO

SECTION B: JV GROUP IDENTIFICATION

List JV Subsidiaries (entities controlled by JV):

1. _____ (Jurisdiction: _____)

2. _____ (Jurisdiction: _____)

3. _____ (Jurisdiction: _____)

JV Group jurisdictions requiring ETR calculation:

1. _____

2. _____

3. _____

SECTION C: ETR CALCULATION (By Jurisdiction within JV Group)

Jurisdiction: _____

JV entities in this jurisdiction: _____

Blended GloBE Income: €_____

Blended Adjusted Covered Taxes: €_____

ETR: _____ %

If ETR ≥ 15%: No Top-Up Tax. Move to next jurisdiction.

SBIE Calculation:

- Payroll carve-out (9.8%):
- Asset carve-out (7.8%):
- Total SBIE:

€ _____
€ _____
€ _____

Excess Profit:

Top-Up Tax %:

JV Jurisdictional Top-Up Tax:

€ _____
_____ %
€ _____

(Repeat for each JV Group jurisdiction)

SECTION D: TOP-UP TAX ALLOCATION

Total JV Group Top-Up Tax:

€ _____

Is JV a POPE (<80% owned by main UPE)?

YES / NO

If NO: All Top-Up Tax allocated to investors

Allocation to main UPE:

UPE ownership %:

UPE's allocated share:

_____ %
€ _____

Allocation to other JV investors:

€ _____

SECTION E: QDMTT OFFSET

Does JV jurisdiction have QDMTT?

YES / NO

If NO: Full IIR liability applies.

QDMTT paid by JV entities: € _____

Net IIR liability (after QDMTT offset): € _____

SECTION F: SUMMARY

JV Group Total Top-Up Tax: € _____

UPE's Allocated Share: € _____

QDMTT Offset: (€ _____)

Net IIR Liability for UPE: € _____

Documentation complete? YES / NO