

Chapter 1.2: Identifying Constituent Entities

Learning Objective

After completing this chapter, you will be able to identify which entities within an MNE group qualify as Constituent Entities for GloBE purposes and document the classification for each entity.

1. The Starting Point: Consolidation Perimeter

A **Constituent Entity** is any entity that is included in the consolidated financial statements of the MNE group, plus any entity that is excluded solely due to size or materiality grounds **(Article 1.3.1)**.

Begin your identification process with the group's consolidation schedule—this is typically found in the notes to the consolidated financial statements or maintained separately by group finance.

2. Step-by-Step Identification Process

2.1 Step 1: Obtain the Consolidation Schedule

Request from group finance:

- List of all entities included in consolidated financial statements
- List of entities excluded on materiality/size grounds
- Ownership percentage for each entity
- Consolidation method used (full, proportionate, equity)

2.2 Step 2: Classify Each Entity

For each entity on the list, determine its classification:

Classification	Criteria	GloBE Treatment
Fully consolidated subsidiary	>50% ownership, full consolidation	Constituent Entity
Proportionately consolidated	Joint arrangement, proportionate consolidation	Constituent Entity
Equity method investee	Significant influence (typically 20-50%)	Generally NOT a Constituent Entity
Excluded on materiality	Below consolidation threshold (if would otherwise consolidate)	Constituent Entity

**Equity method investees may be Constituent Entities if they are Joint Ventures meeting specific criteria—see Joint Arrangements section below.*

2.3 Step 3: Identify Permanent Establishments

Permanent establishments (PEs) are treated as **separate Constituent Entities** from their main entity **(Article 1.3.2)**.

For each entity, determine:

- Does it have PEs in other jurisdictions?
- Are these PEs reflected in the financial statements?

A PE exists for GloBE purposes if it is treated as a PE under an applicable tax treaty, or if the jurisdiction taxes the entity on a net basis due to business presence **(Commentary, para. 28)**.

2.4 Step 4: Identify Flow-Through Entities

A flow-through entity is tax transparent—its income is taxed in the hands of its owners rather than at entity level *(Article 10.1)*.

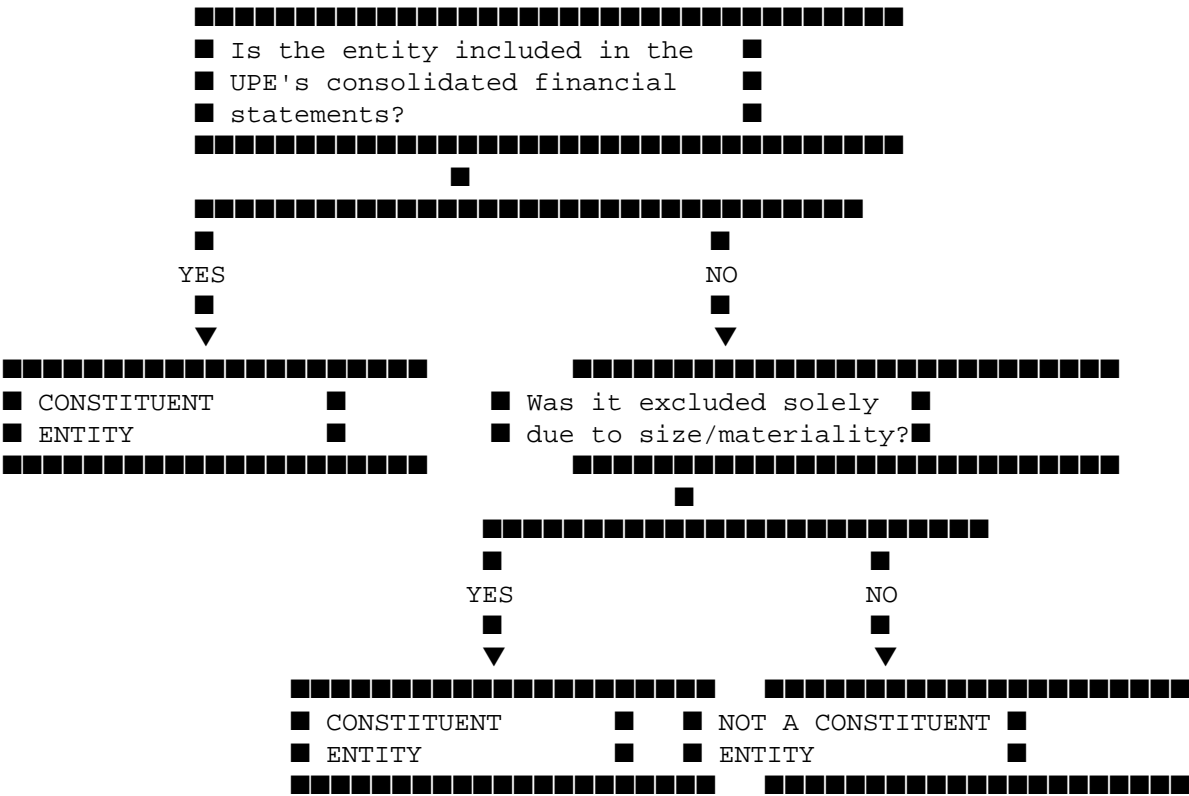
Common examples:

- Partnerships (in most jurisdictions)
- LLCs (if elected flow-through treatment)
- Certain trusts

Flow-through entities are Constituent Entities, but their income may be allocated to their owners for ETR calculation purposes—this is addressed in Part 3.

3. Decision Flowchart: Is This Entity a Constituent Entity?

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4. Ownership Thresholds and Consolidation Methods

4.1 Controlling Interest (>50%)

Entities over which the UPE has control are fully consolidated and are Constituent Entities. Control is determined by:

- Majority voting rights, OR
- Power to govern financial and operating policies through other means

4.2 Joint Arrangements (IFRS 11)

****Joint operations:**** Assets and liabilities recognised directly—underlying entity is a Constituent Entity.

****Joint ventures:**** Equity method applies by default, but may be a Constituent Entity if meeting the JV definition under Article 10.1 (where the UPE holds directly or indirectly 50% or more ownership interest in an equity method entity)—see Part 6.

4.3 Significant Influence (20-50%)

Associates accounted for under the equity method are generally ****not**** Constituent Entities. Their profits are not included in GloBE Income; instead, dividends received from them may be excluded under Article 3.2.1(b).

5. Worked Example: Stratos's Constituent Entity Mapping

5.1 Background

Following the scope assessment in Chapter 1.1, Stratos's tax team must now identify all Constituent Entities. Stratos's group structure includes 52 legal entities across 12 jurisdictions.

5.2 Data Extraction

The team obtains the consolidation schedule from the FY 2024 annual report:

Entity	Jurisdiction	Ownership	Consolidation Method	PE?
Stratos Group plc	UK	—	UPE	No
SG Holdings Ltd	UK	100%	Full	No
SG Germany GmbH	Germany	100%	Full	No
SG France SAS	France	100%	Full	Yes (Belgium)
SG Singapore Pte	Singapore	100%	Full	No
SG Ireland Ltd	Ireland	100%	Full	No
SG Netherlands BV	Netherlands	100%	Full	No
SG US Inc	USA	100%	Full	No
SG Australia Pty	Australia	100%	Full	No
TechStart Ltd	Ireland	100%	Full (from Jul 2024)	No
Asian JV Ltd	Hong Kong	40%	Equity	No
SG Pension Trustees	UK	100%	Excluded (materiality)	No
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(52 entities total; extract shown for illustration)

5.3 Classification Analysis

Entity	Classification	Reasoning
Stratos Group plc	**CE** (UPE)	Ultimate Parent Entity
SG Holdings Ltd	**CE**	100% owned, fully consolidated
SG Germany GmbH	**CE**	100% owned, fully consolidated
SG France SAS	**CE**	100% owned, fully consolidated
SG France SAS - Belgium PE	**CE** (separate)	PE treated as separate CE
SG Singapore Pte	**CE**	100% owned, fully consolidated
Asian JV Ltd	**Not CE**	40% equity method—not controlled
SG Pension Trustees	**CE**	Excluded on materiality, but would otherwise consolidate

5.4 Result

Stratos identifies ****47 Constituent Entities****:
- 45 fully consolidated subsidiaries

- 1 PE (Belgium PE of SG France SAS)
- 1 entity excluded on materiality grounds

5 entities are ****not**** Constituent Entities (equity method associates).

5.5 Documentation

The tax team prepares a CE register recording:

- Entity name and jurisdiction
- Ownership percentage
- Consolidation method
- CE classification (Yes/No)
- Reasoning for classification
- Date of assessment

6. Special Cases

6.1 Entities Joining Mid-Year

When an entity is acquired during the fiscal year:

- It becomes a Constituent Entity from the ****acquisition date****
- GloBE calculations for that entity cover the post-acquisition period only ***(Article 6.2.1)***

****Stratos example:**** TechStart Ltd was acquired on 1 July 2024. It is a Constituent Entity for FY 2024, but GloBE Income and Covered Taxes are calculated for the period 1 July to 31 December 2024 only.

6.2 Entities Leaving Mid-Year

When an entity is disposed of during the fiscal year:

- It ceases to be a Constituent Entity from the ****disposal date****
- GloBE calculations cover the pre-disposal period only

6.3 Dormant Entities

Dormant entities that remain in the consolidation schedule are Constituent Entities, even if they have no activity. They will typically qualify for the de minimis exclusion (Part 5) but must still be identified and tracked.

6.4 Stapled Structures

In stapled structures where two or more entities are contractually bound and traded as a single unit, the structure may constitute a single MNE group. Each stapled entity is a Constituent Entity ***(Article 6.5)***.

7. Documentation Requirements

Maintain a ****Constituent Entity Register**** containing:

Field	Description
Entity name	Legal name
Jurisdiction	Country of tax residence
Entity identifier	Local registration number, LEI if available
Ownership %	Direct and indirect ownership by UPE
Consolidation method	Full, proportionate, equity, or excluded
CE classification	Yes / No

	Classification rationale		Brief explanation	
	Effective date		Date entity entered/exited CE status	
	PE indicator		Yes / No; if Yes, list PE jurisdictions	

****Update frequency:**** Review and update the register at each fiscal year-end and upon any acquisition, disposal, or restructuring.