

Chapter 8.2: STTR Implementation

Learning Objective

After completing this chapter, you will be able to distinguish between the Multilateral Convention and bilateral treaty approaches to STTR implementation, understand the ratification and entry into force process, identify which jurisdictions have committed to implement the STTR, and determine when the STTR will apply to specific bilateral treaty relationships.

Overview: Two Implementation Paths

The STTR is a **treaty-based rule**. Unlike the GloBE Rules (implemented through domestic legislation), the STTR must be incorporated into bilateral tax treaties. There are two implementation paths:

STTR IMPLEMENTATION PATHS	
PATH 1: STTR MLI (Multilateral Convention)	PATH 2: BILATERAL TREATY AMENDMENT
<ul style="list-style-type: none">• Sign STTR MLI• Notify Covered Tax Agreements• Ratify/deposit instrument• Automatic modification	<ul style="list-style-type: none">• Negotiate individually• Amend each treaty• Ratify amendments
Advantages: <ul style="list-style-type: none">• Swift implementation	Advantages: <ul style="list-style-type: none">• Full customisation

• Multiple treaties at once	• Country-specific terms
• Standardised provisions	
Disadvantages:	Disadvantages:
• Limited flexibility	• Time-consuming
• No reservations allowed	• Resource-intensive
	• Inconsistent terms
MOST JURISDICTIONS EXPECTED TO USE PATH 1 (STTR MLI)	

The STTR Multilateral Convention (STTR MLI)

Purpose

The STTR MLI enables jurisdictions to **swiftly implement** the STTR into multiple bilateral tax treaties without individual renegotiation. It operates similarly to the BEPS MLI but is specifically designed for the STTR provision.

Key Features

Feature	Description
Scope	Modifies bilateral tax treaties to include STTR
No reservations	Uniform application required (no opt-outs)
Covered Tax Agreements	Only applies to treaties notified by both parties
Depository	OECD Secretary-General
Languages	English and French (equally authentic)

How the STTR MLI Works

STTR MLI MECHANISM

Step 1: SIGNATURE

- Jurisdiction signs the STTR MLI
- Submits initial notifications to OECD

Step 2: NOTIFICATION OF COVERED TAX AGREEMENTS

- Jurisdiction lists bilateral treaties to be covered
- Must notify at signature or ratification

Step 3: RATIFICATION

- Complete domestic approval processes
- Deposit instrument of ratification with OECD

Step 4: ENTRY INTO FORCE (for the jurisdiction)

- First day of month following 3 months after deposit

Step 5: MATCHING

- Both parties to a bilateral treaty must have:
 - (a) Signed and ratified STTR MLI
 - (b) Notified that treaty as a Covered Tax Agreement
- Treaty becomes a "Covered Tax Agreement" (CTA)

Step 6: ENTRY INTO EFFECT (for the CTA)

- STTR provisions apply from specified date
- Generally: 6 months after latest entry into force

Covered Tax Agreements (CTAs)

A bilateral tax treaty becomes a **Covered Tax Agreement** when:

1. **Both** contracting jurisdictions have signed the STTR MLI
2. **Both** have notified that treaty as covered

3. **Both** have deposited instruments of ratification

COVERED TAX AGREEMENT EXAMPLE

Treaty: Germany - Indonesia

Germany:

- ☐ Signed STTR MLI? → Pending (intent expressed)
- ☐ Notified Germany-Indonesia treaty? → TBD
- ☐ Ratified? → TBD

Indonesia:

- ☐ Signed STTR MLI? → Yes (19 Sept 2024)
- ☐ Notified Germany-Indonesia treaty? → Yes (included in 29 treaties)
- ☐ Ratified? → Pending

Result: NOT YET a Covered Tax Agreement
(requires Germany to also sign, notify, and ratify)

Signing and Ratification Status

September 2024 Signing Ceremony

On **19 September 2024**, the OECD held the first formal signing ceremony for the STTR MLI.

Jurisdictions That Signed (9)

Jurisdiction	Region	Treaties Notified
Barbados	Caribbean	6
Belize	Central America	2
Benin	West Africa	2

Jurisdiction	Region	Treaties Notified
Cabo Verde	West Africa	8
Democratic Republic of the Congo	Central Africa	5
Indonesia	Southeast Asia	29
Romania	Europe	23
San Marino	Europe	6
Türkiye	Europe/Asia	33

Jurisdictions Expressing Intent to Sign (10)

Jurisdiction	Region
Belgium	Europe
Bulgaria	Europe
Costa Rica	Central America
Mongolia	Asia
Portugal	Europe
Senegal	West Africa
Seychelles	Africa
Thailand	Southeast Asia
Ukraine	Europe
Uzbekistan	Central Asia

Statement of Support (24 jurisdictions)

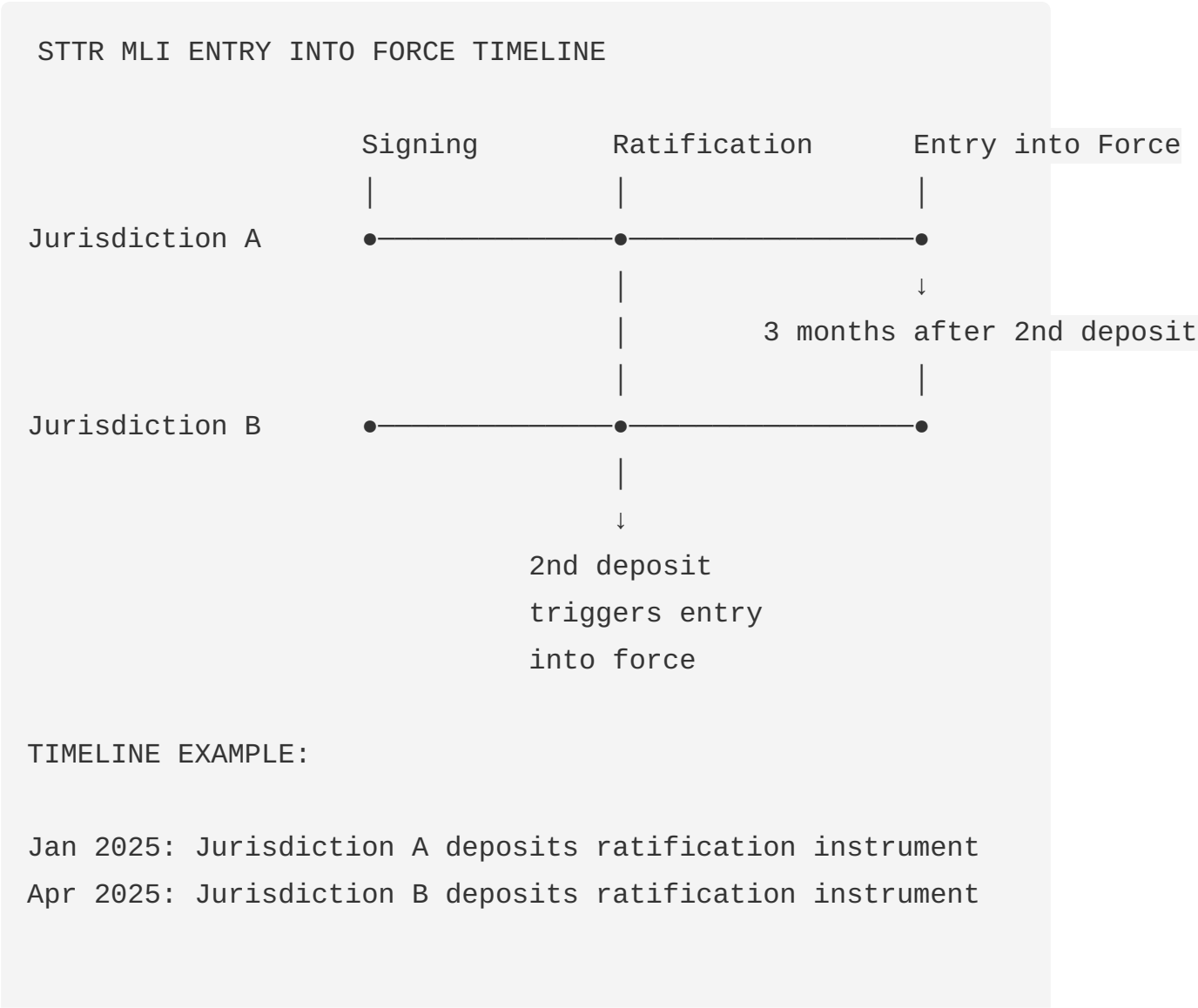
Twenty-four jurisdictions not in scope of the STTR commitment signed a **statement of support**, signalling political endorsement without becoming parties.

Ratification Progress

As of early 2025: - **Signed:** 9 jurisdictions - **Ratified:** Pending (no deposits yet) - **Entry into force:** Not yet achieved (requires 2 ratifications)

Entry into Force and Effect

Entry into Force Timeline



→ Entry into force: 1 August 2025 (first day of month following 3 months after 2nd deposit)

Entry into Effect for Treaties

Once the STTR MLI enters into force, the STTR provisions take effect for specific treaties according to the following rules:

ENTRY INTO EFFECT FORMULA

For taxes imposed on or after:

First day of fiscal year beginning \geq 6 months after the LATEST date on which STTR MLI enters into force for BOTH parties to the treaty

EXAMPLE:

Treaty: Indonesia - Türkiye

Assume:

- STTR MLI enters into force for Indonesia: 1 August 2025
- STTR MLI enters into force for Türkiye: 1 November 2025
- Latest date: 1 November 2025
- 6 months later: 1 May 2026

First fiscal year beginning on or after 1 May 2026:

- Calendar year taxpayers: FY starting 1 January 2027
- Non-calendar year (e.g., 1 July): FY starting 1 July 2026

Earliest Possible Effect

Scenario	Earliest STTR Effect
Both ratify Q1 2025	FY beginning 1 January 2026

Scenario	Earliest STTR Effect
Both ratify Q3 2025	FY beginning 1 January 2027
Both ratify Q1 2026	FY beginning 1 January 2027

The STTR Commitment

Who Is Required to Implement STTR?

Members of the Inclusive Framework that apply **nominal corporate income tax rates below 9%** to STTR-covered income have committed to implement the STTR when requested by developing country members.

STTR COMMITMENT

LOW-TAX JURISDICTIONS (Rate < 9% on covered income):

- Committed to implement STTR in treaties with developing countries
- Must respond to requests within reasonable timeframe
- Implementation via STTR MLI or bilateral negotiation

Examples of jurisdictions with < 9% rates on certain income:

- └ Luxembourg (IP box: ~5%)
- └ Netherlands (Innovation box: 9%)
- └ Switzerland (Patent box: varies)
- └ Singapore (Pioneer status: 0%)
- └ Ireland (IP regime: 6.25% historical)
- └ Various offshore centres

DEVELOPING COUNTRIES (GNI ≤ \$12,535):

- Can REQUEST STTR inclusion in treaties
- Over 70 IF members eligible
- Based on World Bank GNI per capita (2019-2022)

Developing Country Eligibility

A jurisdiction qualifies as a **developing country** for STTR purposes if its Gross National Income (GNI) per capita (World Bank Atlas method) was **USD 12,535 or less** in any of the years 2019-2022.

Category	GNI per Capita	STTR Eligibility
Low income	≤ \$1,135	Eligible
Lower-middle income	\$1,136 - \$4,465	Eligible
Upper-middle income	\$4,466 - \$12,535	Eligible
High income	> \$12,535	Not eligible

Note: Over **70 Inclusive Framework members** qualify as developing countries for this purpose.

Bilateral Treaty Modification

When Bilateral Approach Is Used

Some jurisdictions may choose bilateral treaty amendments instead of (or in addition to) the STTR MLI:

Reason	Explanation
Non-IF member	Treaty partner not in Inclusive Framework
Customisation	Desire for country-specific terms
Timing	Faster than waiting for both MLI ratifications
Policy choice	Preference for traditional treaty process

Bilateral Amendment Process

BILATERAL STTR AMENDMENT PROCESS

Step 1: INITIATION

- Developing country requests STTR inclusion
- Low-tax jurisdiction obligated to engage

Step 2: NEGOTIATION

- Agree on STTR article text
- Generally follows OECD model provision
- May include country-specific variations

Step 3: SIGNATURE

- Protocol or amending agreement signed
- Exchange of diplomatic notes

Step 4: DOMESTIC APPROVAL

- Each jurisdiction completes ratification
- May require parliamentary approval

Step 5: ENTRY INTO FORCE

- Exchange of ratification instruments
- Treaty amendment takes effect

TIMELINE: Typically 2-5 years for bilateral amendments

Comparison: MLI vs Bilateral

Aspect	STTR MLI	Bilateral Amendment
Speed	Faster (multiple treaties at once)	Slower (one treaty at a time)
Flexibility	Limited (no reservations)	High (customisable)

Aspect	STTR MLI	Bilateral Amendment
Resources	Lower (standardised process)	Higher (individual negotiations)
Consistency	Uniform terms	May vary between treaties
Certainty	Clear rules	Negotiated outcomes

Practical Implications for MNEs

Monitoring Requirements

MNEs with cross-border payments must monitor STTR implementation:

STTR MONITORING CHECKLIST

- ☐ Identify all intercompany payments potentially subject to STTR
 - Interest, royalties, service fees, rental, distribution rights
- ☐ Map treaty relationships
 - Source jurisdiction → Recipient jurisdiction
 - Identify applicable bilateral tax treaty
- ☐ Track STTR MLI status for relevant jurisdictions
 - Signed?
 - Ratified?
 - Entry into force date?
- ☐ Track bilateral amendments
 - Any treaty-specific STTR amendments?
- ☐ Determine Covered Tax Agreement status
 - Both parties signed/ratified MLI?
 - Both parties notified the treaty?

- ❑ Calculate entry into effect date
 - 6 months after latest entry into force
 - First fiscal year affected

Stratos STTR Monitoring Example

Stratos's Treaty Relationships for STTR Purposes:

Payer	Recipient	Treaty	STTR MLI Status	CTA Status
Germany	Singapore	DE-SG	Germany: Not signed; Singapore: Not signed	Not CTA
Ireland	Luxembourg	IE-LU	Ireland: Not signed; Luxembourg: Not signed	Not CTA
UK	Singapore	UK-SG	UK: Not signed; Singapore: Not signed	Not CTA

Current Position (2025): None of Stratos's relevant treaties are currently covered by the STTR MLI, as the major European jurisdictions (Germany, Ireland, UK, Luxembourg) have not signed.

Monitoring Action: Track if these jurisdictions sign the STTR MLI or negotiate bilateral amendments with developing country treaty partners.

STTR Implementation Timeline

Expected Progression

STTR IMPLEMENTATION TIMELINE (PROJECTED)

2023

|— October: STTR MLI opens for signature

2024

- └ September: First signing ceremony (9 signatories)
- └ Q4: Additional signatures expected

2025

- └ Q1-Q2: First ratifications expected
- └ Q2-Q3: Entry into force (if 2 ratifications)
- └ Q4: First CTAs take effect

2026

- └ FY 2026: First fiscal years potentially affected
- └ Ongoing: More jurisdictions sign/ratify

2027+

- └ Broader implementation
- └ Bilateral amendments continue
- └ Full STTR network develops

Current Status Summary

Milestone	Status (Early 2025)
STTR MLI opened	✓ (October 2023)
First signatures	✓ (September 2024)
Entry into force	Pending (requires 2 ratifications)
First CTAs effective	Expected 2026 earliest

Jurisdiction Tracker

5.1 OECD Resources

The OECD maintains official tracking of STTR MLI status:

Primary Resource: - OECD STTR MLI Page: www.oecd.org/tax/beps/subject-to-tax-rule.htm

Information Available: - List of signatories - Notifications submitted - Covered Tax Agreements notified - Ratification status - Entry into force dates

Tracking Template

STTR JURISDICTION TRACKER

For MNE monitoring purposes, maintain a tracker:

JURISDICTION STATUS TRACKER
Jurisdiction: _____
STTR MLI Status:
<input type="checkbox"/> Not signed
<input type="checkbox"/> Signed (Date: _____)
<input type="checkbox"/> Ratified (Date: _____)
<input type="checkbox"/> Entry into force (Date: _____)
Treaties notified as CTAs: _____ (list attached)
Relevant for MNE?
<input type="checkbox"/> Source of payments to low-tax jurisdictions
<input type="checkbox"/> Recipient of payments from source jurisdictions
Action required:

- | ☐ Monitor for signing
- | ☐ Monitor for ratification
- | ☐ Calculate entry into effect date
- | ☐ Assess STTR exposure

6. Stratos Worked Example: STTR Implementation Monitoring

6.1 Background

Stratos Holdings plc monitors STTR implementation for its intercompany payment flows.

Step 1: Identify Relevant Treaty Relationships

Payment Flow	Treaty Required	Developing Country?
Germany → Singapore	DE-SG	Singapore: No (high income)
Ireland → Luxembourg	IE-LU	Luxembourg: No (high income)
UK → Singapore	UK-SG	Singapore: No (high income)
Germany → Indonesia (JV)	DE-ID	Indonesia: Yes

Key Finding: Indonesia qualifies as a developing country and has signed the STTR MLI. Germany has not yet signed.

Step 2: Track MLI Status

Jurisdiction	Signed	Ratified	EIF Date	Treaties Notified
Indonesia	✓ (Sept 2024)	Pending	TBD	29 (including DE-ID)

Jurisdiction	Signed	Ratified	EIF Date	Treaties Notified
Germany	Pending	—	—	—
Singapore	Not signed	—	—	—
Ireland	Not signed	—	—	—
Luxembourg	Not signed	—	—	—
UK	Not signed	—	—	—

Step 3: Assess STTR Exposure

Current Exposure: Limited

Treaty	CTA Status	STTR Applies?
DE-SG	Not CTA	No (Singapore not developing country)
IE-LU	Not CTA	No (Luxembourg not developing country)
UK-SG	Not CTA	No (Singapore not developing country)
DE-ID	Partial (ID signed, DE not)	Not yet (requires DE to sign)

Future Exposure: If Germany signs and ratifies, payments to Indonesia JV entities could be subject to STTR.

Step 4: Monitoring Actions

STRATOS STTR MONITORING ACTIONS

Immediate (2025):

- ☐ Track Germany STTR MLI signing status
- ☐ Monitor Indonesia ratification
- ☐ Assess TechStart JV payment flows to Indonesia

If Germany signs:

- ☐ Confirm DE-ID treaty notified as CTA
- ☐ Calculate entry into effect date
- ☐ Quantify potential STTR exposure on JV payments

Ongoing:

- ☐ Monitor Singapore/Luxembourg for STTR regime changes
- ☐ Track bilateral STTR negotiations
- ☐ Review payment structures for STTR optimisation

7. Common Pitfalls

Pitfall 1: Assuming STTR Applies Immediately

Error: Assuming STTR applies as soon as jurisdictions sign the MLI.

Correct approach: STTR only applies after: 1. Both parties ratify 2. MLI enters into force for both 3. 6-month waiting period passes 4. Fiscal year begins after that date

Pitfall 2: Ignoring Developing Country Requirement

Error: Expecting STTR to apply to all low-tax recipient jurisdictions.

Correct approach: The STTR commitment only requires implementation in treaties with **developing country** IF members (GNI \leq \$12,535). High-income jurisdictions like Singapore or Luxembourg are not eligible to request STTR.

7.3 Pitfall 3: Overlooking Bilateral Amendments

Error: Only monitoring the STTR MLI and missing bilateral treaty amendments.

Correct approach: Some jurisdictions may implement STTR through bilateral protocols. Monitor both MLI status and individual treaty amendments.

Pitfall 4: Misidentifying Covered Tax Agreements

Error: Assuming a treaty is covered if one party has signed the MLI.

Correct approach: A treaty is only a CTA if both parties have signed, ratified, and notified that specific treaty. Check both sides.

Pitfall 5: Not Updating Monitoring

Error: Conducting STTR assessment once and not updating.

Correct approach: STTR implementation is evolving. Establish regular monitoring (quarterly) of OECD depositary updates.

8. Implementation Monitoring Checklist

STTR IMPLEMENTATION MONITORING CHECKLIST

MNE Group: _____

Review Date: _____

SECTION A: PAYMENT FLOW MAPPING

List all intercompany payments potentially subject to STTR:

#	Payer Jurisdiction	Recipient Jurisdiction	Payment Type	Amount
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1				
2				
3				

SECTION B: RECIPIENT JURISDICTION ANALYSIS

For each recipient jurisdiction:

Jurisdiction	Nominal Rate	< 9%?	Developing Country?	STTR Risk
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SECTION C: STTR MLI STATUS TRACKING

Jurisdiction	Signed?	Date	Ratified?	Date	EIF Date
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SECTION D: COVERED TAX AGREEMENT STATUS

Treaty	Party A Status	Party B Status	CTA?	Effect Date
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SECTION E: ACTION ITEMS

- ☐ Check OECD depositary for updates (Date: _____)
- ☐ Review bilateral treaty negotiations
- ☐ Update STTR exposure calculations
- ☐ Brief stakeholders on changes

Next review date: _____