

Case Study 3: Stratos's GloBE Income Calculation

Introduction

This case study brings together the concepts from Chapters 3.1 to 3.5. You will calculate GloBE Income for Stratos's German operating subsidiary, applying all mandatory adjustments and analysing the stock-based compensation election.

Important: Work through each adjustment systematically using the Adjustment Tracker. Do not skip steps.

Time estimate: 60-90 minutes

Background: SG Germany GmbH — FY 2025

Stratos's finance team has provided entity-level financial data for SG Germany GmbH, the group's primary European operating subsidiary. The tax team must calculate GloBE Income for this entity.

Entity Profile

Item	Detail
Entity	SG Germany GmbH
Jurisdiction	Germany
Parent	SG Holdings Ltd (UK) — 100% ownership

Item	Detail
Fiscal year	FY 2025 (calendar year)
Accounting standard	IFRS (per UPE consolidated accounts)
German statutory rate	30% (approx. including trade tax)

Ownership Structure

```

Stratos Group plc (UK)
|
└─ SG Holdings Ltd (UK) – 100%
    |
    └─ SG Germany GmbH (Germany) – 100%
        |
        └─ SG Germany Sales GmbH (Germany) – 100%
    
```

Task 1: Starting Point Identification

Data Provided

Extract from SG Germany GmbH Financial Statements (FY 2025)

Item	Reference	Amount (€)
Revenue	P&L	142,500,000
Cost of sales	P&L	(68,400,000)
Gross profit	P&L	74,100,000
Operating expenses	P&L	(22,300,000)
Intra-group dividend received	Note 5	3,100,000

Item	Reference	Amount (€)
Interest income	Note 6	850,000
Foreign currency gain	Note 7	900,000
Other income	Note 8	650,000
Profit before tax	P&L	57,300,000
Tax expense	Note 9	(12,100,000)
Financial Accounting Net Income	P&L	45,200,000

Your Task

Confirm the starting point for GloBE Income calculation using Chapter 3.1 principles.

Expected Deliverable

Question	Your Answer
What is the UPE's accounting standard?	
Does SG Germany GmbH use the same standard?	
Is Article 3.1.3 exception needed?	
What is the Financial Accounting Net Income?	€

Task 2: Adjustment Analysis

Data Provided

Additional Information from Finance Team

Item	Details	Amount (€)
Tax expense	Current tax €11,200,000 + Deferred tax €900,000	12,100,000
Intra-group dividend	From SG Germany Sales GmbH (100% subsidiary, held >12 months)	3,100,000
Stock-based compensation	Accounting expense (IFRS 2)	2,400,000
Stock-based compensation	Tax deduction allowed (German tax)	1,800,000
Foreign currency gain	On EUR/USD intercompany loan to SG US Holdings	900,000
Fines and penalties	Environmental regulatory fine	300,000
Prior year adjustment	Correction of FY 2024 revenue overstatement	(500,000)
Pension expense	IAS 19 expense: €1,800,000; Contributions paid: €1,500,000	Difference: 300,000

Note on Foreign Currency: - SG Germany GmbH functional currency: EUR (both accounting and tax) - The FX gain arose on an intercompany loan denominated in USD - The gain is included in taxable income in Germany

Your Task

For each item, determine: 1. Whether an adjustment is required 2. The Article reference 3. The direction (add/deduct) 4. The amount

Expected Deliverable: Adjustment Tracker

Complete the following tracker:

#	Item	Adjustment Required?	Article	Direction	Amount (€)
1	Tax expense	Yes / No		Add / Deduct	
2	Intra-group dividend	Yes / No		Add / Deduct	
3	Stock-based compensation	Yes / No		Add / Deduct	
4	Foreign currency gain	Yes / No		Add / Deduct	
5	Fines and penalties	Yes / No		Add / Deduct	
6	Prior year adjustment	Yes / No		Add / Deduct	
7	Pension expense	Yes / No		Add / Deduct	

Task 3: Stock-Based Compensation Election Analysis

Data Provided

SG Germany GmbH SBC Programme Details

Item	Value
Programme type	Stock options on Stratos Group plc shares

Item	Value
Vesting period	4 years
Current year (Year 3 of vesting)	FY 2025
Options outstanding	150,000
Current share price	£28.50
Grant date share price	£18.00
Share price trend	Rising (increased 58% since grant)

Expected Germany ETR (before any adjustment): Approximately 28-30%

Your Task

Analyse whether Stratos should make the stock-based compensation election for Germany.

Expected Deliverable

Election Analysis

Factor	Assessment
Is Germany a low-tax jurisdiction (ETR < 15%)?	
Is tax deduction > or < accounting expense?	
What is the impact of the election on GloBE Income?	
Is share price expected to continue rising?	
Is there significant forfeiture/expiry risk?	

Recommendation: Elect / Do Not Elect

Rationale:

Task 4: GloBE Income Calculation

Your Task

Using your answers from Tasks 1-3, calculate the GloBE Income for SG Germany GmbH.

Expected Deliverable

GloBE Income Calculation Worksheet

Line	Item	Reference	Amount (€)
A	Financial Accounting Net Income	Task 1	
	Mandatory Adjustments		
B	Add: Net taxes expense	Art. 3.2.1(a)	
C	Deduct: Excluded dividends	Art. 3.2.1(b)	
D	Adjust: Foreign currency	Art. 3.2.1(f)	
E	Add: Policy disallowed expenses	Art. 3.2.1(g)	
F	Adjust: Prior period errors	Art. 3.2.1(h)	
G	Adjust: Accrued pension expense	Art. 3.2.1(i)	
	Subtotal (before elections)		
	Elective Adjustments		
H	Stock-based compensation	Art. 3.2.2	

Line	Item	Reference	Amount (€)
	GloBE Income		

Task 5: Adjustment Summary Memo

Your Task

Prepare a summary memo documenting the GloBE Income calculation for SG Germany GmbH. This memo will support the GIR filing and provide an audit trail.

Expected Deliverable

Complete the template below:

STRATOS GROUP PLC GloBE Income Calculation — SG Germany GmbH Fiscal Year 2025

1. Starting Point

Item	Amount (€)
Financial Accounting Net Income	
Source	
Accounting standard	

2. Adjustment Summary

Adjustment	Article	Amount (€)	Notes
Net taxes expense			
Excluded dividends			

Adjustment	Article	Amount (€)	Notes
Foreign currency			
Fines and penalties			
Prior year adjustment			
Pension adjustment			
Stock-based compensation			
Total Adjustments			

3. GloBE Income

Item	Amount (€)
Financial Accounting Net Income	
Total Adjustments	
GloBE Income	

4. Elections Applied

Election	Applied?	Rationale
Stock-based compensation (Art. 3.2.2)		
Realization method (Art. 3.2.5)		

5. Key Observations

[Note any significant items, judgements, or areas requiring ongoing monitoring]

Prepared by: ___ Date: ___ Reviewed by: ___

Model Answers

Task 1: Starting Point Identification

Question	Answer
What is the UPE's accounting standard?	IFRS (Stratos Group plc is UK-listed)
Does SG Germany GmbH use the same standard?	Yes — IFRS used for consolidation
Is Article 3.1.3 exception needed?	No — Same standard as UPE
What is the Financial Accounting Net Income?	€45,200,000

Task 2: Adjustment Analysis

#	Item	Required?	Article	Direction	Amount (€)
1	Tax expense	Yes	3.2.1(a)	Add	12,100,000
2	Intra-group dividend	Yes	3.2.1(b)	Deduct	(3,100,000)
3	Stock-based compensation	Optional	3.2.2	See Task 3	—
4	Foreign currency gain	No	3.2.1(f)	—	—
5	Fines and penalties	Yes	3.2.1(g)	Add	300,000
6	Prior year adjustment	Yes	3.2.1(h)	Deduct	(500,000)

#	Item	Required?	Article	Direction	Amount (€)
7	Pension expense	Yes	3.2.1(i)	Deduct	(300,000)

Detailed Analysis:

1. Tax Expense (€12,100,000) — ADD - Article 3.2.1(a) requires adding back net taxes expense - Include both current tax (€11.2M) and deferred tax (€0.9M) - **Add €12,100,000**

2. Intra-Group Dividend (€3,100,000) — DEDUCT - From 100% subsidiary, held >12 months - Meets Excluded Dividend criteria under Article 3.2.1(b) - Ownership $\geq 10\%$ = Excluded - **Deduct €3,100,000**

3. Stock-Based Compensation — OPTIONAL - See Task 3 analysis - If elected: Substitute €1,800,000 tax deduction for €2,400,000 accounting expense - Effect: Increase GloBE Income by €600,000

4. Foreign Currency Gain (€900,000) — NO ADJUSTMENT - Article 3.2.1(f) only applies to **asymmetric** FX gains/losses - SG Germany's accounting and tax functional currencies are both EUR - No asymmetry exists - The FX gain on the USD loan is properly included in GloBE Income - **No adjustment required**

5. Fines and Penalties (€300,000) — ADD - Environmental regulatory fine = €300,000 - Threshold for policy disallowed: $\geq €50,000$ - $€300,000 > €50,000$, so adjustment required - **Add €300,000**

6. Prior Year Adjustment (€500,000) — DEDUCT - Correction of FY 2024 revenue overstatement - Opens FY 2025 with lower retained earnings - Article 3.2.1(h) requires adjustment - The overstatement was in FY 2024 GloBE Income; now correcting - Effect on FY 2025: **Deduct €500,000**

7. Pension Expense — DEDUCT - IAS 19 expense: €1,800,000 - Contributions paid: €1,500,000 - Accrued Pension Expense = €1,800,000 – €1,500,000 = €300,000 - Article 3.2.1(i): Deduct accrued amount exceeding contributions - **Deduct €300,000**

Task 3: Stock-Based Compensation Election Analysis

Factor	Assessment
Is Germany a low-tax jurisdiction (ETR < 15%)?	No — Expected ETR ~28-30%
Is tax deduction > or < accounting expense?	Less — €1.8M < €2.4M
What is the impact of the election on GloBE Income?	Increases GloBE Income by €600,000
Is share price expected to continue rising?	Yes — Up 58% since grant
Is there significant forfeiture/expiry risk?	Low — Year 3 of 4-year vest

Recommendation: Do NOT Elect

Rationale:

1. **Germany is high-tax:** With expected ETR of ~28-30%, Germany is well above the 15% minimum. Top-Up Tax will not arise regardless of the election.
2. **Tax deduction < Accounting expense:** The election would substitute €1.8M (tax) for €2.4M (accounting), increasing GloBE Income by €600,000. This has no benefit since Germany is already high-tax.
3. **No ETR improvement needed:** The election's purpose is to align GloBE Income with tax treatment to prevent artificial ETR reduction. Since Germany's ETR is already high, this alignment provides no benefit.
4. **Future consideration:** If share price continues rising, the tax deduction at exercise could exceed the accounting expense. However, this would only matter if Germany's ETR approached 15%, which is unlikely given the 30% statutory rate.
5. **Administrative simplicity:** Not electing avoids the need to track tax deductions separately and manage potential recapture if options expire.

Task 4: GloBE Income Calculation

GloBE Income Calculation Worksheet

Line	Item	Reference	Amount (€)
A	Financial Accounting Net Income	Task 1	45,200,000
Mandatory Adjustments			
B	Add: Net taxes expense	Art. 3.2.1(a)	+12,100,000
C	Deduct: Excluded dividends	Art. 3.2.1(b)	(3,100,000)
D	Adjust: Foreign currency	Art. 3.2.1(f)	—
E	Add: Policy disallowed expenses	Art. 3.2.1(g)	+300,000
F	Adjust: Prior period errors	Art. 3.2.1(h)	(500,000)
G	Adjust: Accrued pension expense	Art. 3.2.1(i)	(300,000)
Subtotal (before elections)			53,700,000
Elective Adjustments			
H	Stock-based compensation	Art. 3.2.2	— (not elected)
GloBE Income			53,700,000

Verification:

Starting point:	€45,200,000
+ Tax expense:	€12,100,000
- Excluded dividends:	(€3,100,000)
+ Fines:	€300,000
- Prior year adjustment:	(€500,000)

– Pension adjustment:	(€300,000)
= GloBE Income:	€53,700,000

Task 5: Adjustment Summary Memo

STRATOS GROUP PLC GloBE Income Calculation — SG Germany GmbH Fiscal Year 2025

1. Starting Point

Item	Amount (€)
Financial Accounting Net Income	45,200,000
Source	IFRS financial statements per UPE consolidation
Accounting standard	IFRS (no Article 3.1.3 exception required)

2. Adjustment Summary

Adjustment	Article	Amount (€)	Notes
Net taxes expense	3.2.1(a)	+12,100,000	Current €11.2M + Deferred €0.9M
Excluded dividends	3.2.1(b)	(3,100,000)	From 100% subsidiary; held >12 months
Foreign currency	3.2.1(f)	—	No asymmetry (EUR/EUR)
Fines and penalties	3.2.1(g)	+300,000	Environmental fine; exceeds €50K threshold
Prior year adjustment	3.2.1(h)	(500,000)	

Adjustment	Article	Amount (€)	Notes
			FY 2024 revenue overstatement correction
Pension adjustment	3.2.1(i)	(300,000)	Accrual €1.8M less contributions €1.5M
Stock-based compensation	3.2.2	—	Election not made (see below)
Total Adjustments		+8,500,000	

3. GloBE Income

Item	Amount (€)
Financial Accounting Net Income	45,200,000
Total Adjustments	+8,500,000
GloBE Income	53,700,000

4. Elections Applied

Election	Applied?	Rationale
Stock-based compensation (Art. 3.2.2)	No	Germany is high-tax (~28-30% ETR); election would increase GloBE Income without ETR benefit; tax deduction (€1.8M) < accounting expense (€2.4M)
Realization method (Art. 3.2.5)	No	No fair value assets requiring consideration

5. Key Observations

1. **High-tax jurisdiction:** Germany's expected ETR of ~28-30% is well above the 15% minimum. No Top-Up Tax is expected for this jurisdiction.
2. **Excluded dividend:** The €3.1M dividend from SG Germany Sales GmbH qualifies for exclusion due to 100% ownership and >12 month holding period. This reduces GloBE Income but has no impact on Top-Up Tax given Germany's high ETR.
3. **Prior year adjustment:** The €500,000 reduction relates to a FY 2024 revenue overstatement. FY 2024 GloBE calculations should be reviewed for potential Additional Current Top-Up Tax under Article 5.4.1, though given Germany's high ETR, no Top-Up Tax impact is expected.
4. **Pension timing difference:** The €300,000 adjustment aligns GloBE Income with contributions paid (€1.5M) rather than IAS 19 expense (€1.8M). This is a timing difference that will reverse over the life of the pension scheme.
5. **Foreign currency:** The €900,000 FX gain on the USD intercompany loan is correctly included in GloBE Income. No asymmetric adjustment is required because both accounting and tax use EUR as functional currency.

Prepared by: _____ Date: _____ Reviewed by: _____

Learning Points

1. **Start with the right accounts:** Financial Accounting Net Income per IFRS consolidated accounts is the correct starting point. No Article 3.1.3 exception was needed because Germany uses the same standard as the UPE.
2. **Tax expense is always added back:** This converts the "after-tax" accounting figure to a "pre-tax" GloBE Income figure. Include both current and deferred tax.
3. **Dividend exclusion requires analysis:** Not all dividends are excluded. Check ownership ($\geq 10\%$) OR holding period (≥ 12 months). The 100% subsidiary dividend clearly qualifies.

4. **Asymmetric FX only applies to currency mismatches:** If accounting and tax functional currencies are aligned, there is no asymmetric adjustment—even if the transaction is in a third currency.
 5. **€50,000 threshold for fines:** The environmental fine (€300,000) exceeds the threshold, so it is added back. A smaller fine would not require adjustment.
 6. **Pension adjustment can go either direction:** When contributions exceed accrual, add to GloBE Income. When accrual exceeds contributions (as here), deduct from GloBE Income.
 7. **SBC election requires strategic analysis:** Don't automatically elect. In high-tax jurisdictions like Germany, the election provides no benefit and may increase GloBE Income unnecessarily.
 8. **Document everything:** The adjustment memo creates an audit trail for regulators, advisors, and future years' calculations.
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Reconciliation to ETR

For context, here is how the GloBE Income feeds into the ETR calculation:

Item	Amount (€)
GloBE Income	53,700,000
Adjusted Covered Taxes (assumed)	15,100,000*
ETR	28.1%

*Assumes Covered Taxes of approximately €15.1M after Covered Tax adjustments.

Result: Germany ETR of 28.1% is well above 15%. No Top-Up Tax arises.

Alternative Scenario: What If Germany Were Low-Tax?

For additional practice, consider this alternative scenario:

Assume: SG Germany GmbH benefits from a special R&D tax incentive that reduces its effective tax rate to 12%.

Questions: 1. Would the stock-based compensation election be beneficial? 2. What would be the Top-Up Tax calculation?

Analysis:

With 12% ETR: - Top-Up Tax Percentage = $15\% - 12\% = 3\%$ - SBC election would **increase** GloBE Income by €600,000 - **Increased** GloBE Income = Higher Excess Profit = Higher Top-Up Tax

Recommendation in low-tax scenario: Still **do not elect** for Germany, because: - Tax deduction (€1.8M) < Accounting expense (€2.4M) - Keeping the higher accounting expense (€2.4M) means **lower** GloBE Income - Lower GloBE Income = Lower Top-Up Tax

Key insight: The election is only beneficial when tax deduction > accounting expense AND the jurisdiction is near the 15% threshold.

Integration with GIR Filing

The GloBE Income calculated in this case study feeds directly into the GIR:

GIR Section	Data From This Case Study
Section 2.1: Financial Accounting Net Income	€45,200,000
Section 2.2: Adjustments	+€8,500,000 total
Section 2.3: GloBE Income	€53,700,000

GIR Section	Data From This Case Study
Section 2.4: Elections	SBC election: Not applied

Use **GIR-001 GloBE Calculator** to input the final GloBE Income figure and proceed with ETR → SBIE → Top-Up Tax calculations.

Next Step

You have completed Part 3: Computing GloBE Income or Loss. You understand how to: - Identify the correct starting point - Apply all mandatory adjustments - Analyse elective adjustments strategically - Document the calculation for compliance purposes

Proceed to **Part 4: Adjusted Covered Taxes** to learn how to calculate the tax side of the ETR formula.