

Chapter 5.3: Top-Up Tax Computation

Learning Objective

After completing this chapter, you will be able to calculate the Top-Up Tax Percentage, compute Jurisdictional Top-Up Tax from Excess Profit, apply QDMTT offsets, and allocate Top-Up Tax to Low-Taxed Constituent Entities.

Key References

OECD GloBE Model Rules: - Article 5.2.1 — Top-Up Tax Percentage - Article 5.2.2 — Jurisdictional Top-Up Tax - Article 5.2.3 — Additional Current Top-Up Tax - Article 5.2.4 — Allocation to Low-Taxed Constituent Entities - Article 5.4.1 — ETR recalculation for prior periods

Administrative Guidance: - February 2023: QDMTT offset mechanics - December 2023: Additional Current Top-Up Tax timing

OECD Commentary: - Chapter 5, paragraphs 96-145 — Top-Up Tax computation methodology

1. The Complete Top-Up Tax Computation

The Top-Up Tax computation follows a four-step process:

Step 1: Calculate Top-Up Tax Percentage
($15\% - \text{ETR}$)

Step 2: Calculate Jurisdictional Top-Up Tax
(Top-Up Tax % \times Excess Profit)

Step 3: Apply QDMTT Offset

(Reduce by any Qualified Domestic Minimum Top-Up Tax paid)

Step 4: Allocate to Low-Taxed Constituent Entities

(In proportion to GloBE Income)

2. Step 1: Top-Up Tax Percentage (Article 5.2.1)

The Top-Up Tax Percentage is the difference between the 15% minimum rate and the jurisdictional ETR:

$$\text{Top-Up Tax Percentage} = 15\% - \text{ETR}$$

2.1 Key Rules

Scenario	Top-Up Tax %	Result
ETR = 10%	$15\% - 10\% = 5\%$	Top-Up Tax applies
ETR = 14.99%	$15\% - 14.99\% = 0.01\%$	Top-Up Tax applies (small amount)
ETR = 15%	$15\% - 15\% = 0\%$	No Top-Up Tax
ETR = 20%	N/A	Not calculated ($\text{ETR} \geq 15\%$)
ETR = negative	$15\% - (-5\%) = 20\%$	Top-Up Tax % = 20% (no cap)

2.2 Negative ETR Treatment

If the ETR is **negative** (Adjusted Covered Taxes are negative):

$$\text{Top-Up Tax Percentage} = 15\% - \text{ETR}$$

Example: ETR = -5% - Formula gives: $15\% - (-5\%) = 20\%$

Per OECD Commentary paragraph 102, there is no cap—the Top-Up Tax Percentage equals 15% plus the absolute value of the negative ETR. This ensures the jurisdiction reaches a 15% effective rate on Excess Profit.

3. Step 2: Jurisdictional Top-Up Tax (Article 5.2.2)

Apply the Top-Up Tax Percentage to Excess Profit:

$$\text{Jurisdictional Top-Up Tax} = \text{Top-Up Tax Percentage} \times \text{Excess Profit}$$

Where: - **Excess Profit** = Net GloBE Income – SBIE (from Chapter 5.2)

3.1 The Complete Formula Chain

Net GloBE Income	€15,000,000
Less: SBIE	(€1,675,200)
Excess Profit	€13,324,800
Top-Up Tax %	3.2%
Jurisdictional Top-Up Tax	€426,394

4. Step 3: QDMTT Offset

If the jurisdiction has a **Qualified Domestic Minimum Top-Up Tax (QDMTT)**, the QDMTT paid reduces the Jurisdictional Top-Up Tax:

$$\text{Net Top-Up Tax} = \text{Jurisdictional Top-Up Tax} - \text{QDMTT Paid}$$

4.1 QDMTT Priority Rule

QDMTT has **priority** over IIR and UTPR: 1. Jurisdiction collects its own QDMTT first
2. Any remaining Top-Up Tax is collected via IIR or UTPR 3. If QDMTT covers full
Top-Up Tax, no IIR/UTPR applies

4.2 Example: Ireland with QDMTT

Ireland has implemented a QDMTT. If Ireland collects the full Top-Up Tax
domestically:

Item	Amount
Jurisdictional Top-Up Tax	€426,394
QDMTT Paid (Ireland)	(€426,394)
Net Top-Up Tax (IIR/UTPR)	€0

Result: No Top-Up Tax flows to parent entity under IIR—Ireland retains the tax.

5. Step 4: Allocation to Low-Taxed Constituent Entities (Article 5.2.4)

The Jurisdictional Top-Up Tax is allocated to Constituent Entities **in proportion to their GloBE Income**:

$$\text{Entity's Top-Up Tax} = \frac{\text{CE's GloBE Income}}{\text{Total Jurisdictional GloBE Income}} \times \text{Jurisdictional Top-Up Tax}$$

5.1 Why Allocation Matters

Allocation determines: - Which entity triggers the IIR charge - Which parent in the ownership chain pays the Top-Up Tax - Reporting requirements on the GIR

5.2 Multi-Entity Jurisdiction Example

Jurisdiction: Singapore (two entities)

Entity	GloBE Income	Share
SG Singapore Pte Ltd	€3,200,000	80%
SG Singapore Services Pte Ltd	€800,000	20%
Total	€4,000,000	100%

Jurisdictional Top-Up Tax: €197,916 (calculated below)

Allocation:

Entity	Calculation	Allocated Top-Up Tax
SG Singapore Pte Ltd	€197,916 × 80%	€158,333
SG Singapore Services Pte Ltd	€197,916 × 20%	€39,583
Total		€197,916

5.3 Loss Entities

If a Constituent Entity has a **GloBE Loss**, it receives **no allocation**—losses are not included in the denominator for allocation purposes.

Entity	GloBE Income/(Loss)	Included in Allocation?
Entity A	€5,000,000	Yes
Entity B	(€1,000,000)	No
Entity C	€2,000,000	Yes

Allocation base: €5,000,000 + €2,000,000 = €7,000,000

6. Additional Current Top-Up Tax (Article 5.2.3)

Additional Current Top-Up Tax arises in specific situations:

6.1 When It Applies

Trigger	Article	Treatment
DTL Recapture	4.4.4	DTL not reversed within 5 years → recalculate prior year ETR
Post-filing decrease	4.6	Prior year Covered Taxes reduced → recalculate prior year
Transition adjustments	9.1	Certain transition period corrections

6.2 Calculation

When Additional Current Top-Up Tax is triggered:

- 1. Recalculate** the prior year's ETR without the DTL or with adjusted Covered Taxes
- 2. Determine** if the recalculated ETR is below 15%
- 3. Compute** the additional Top-Up Tax for that prior year
- 4. Include** as Additional Current Top-Up Tax in the **current** fiscal year

6.3 Example: DTL Recapture

FY 2024: SG Germany GmbH claimed €400,000 DTL (at 15% cap) in Covered Taxes.

FY 2029: DTL has not reversed within 5 years → Recapture triggered.

Original FY 2024 Calculation:

Item	Original	Recalculated
Covered Taxes	€12,000,000	€11,600,000
GloBE Income	€50,000,000	€50,000,000
ETR	24.0%	23.2%
Top-Up Tax	€0	€0

Result: ETR remains above 15% even after recapture → No Additional Current Top-Up Tax.

Alternative scenario: If recalculated ETR fell to 14.5%: - Top-Up Tax % = 0.5% - Excess Profit (assume SBIE applied) = €40,000,000 - Additional Current Top-Up Tax = €200,000 (payable in FY 2029)

7. Stratos Worked Example: Complete Top-Up Tax Computation

7.1 Jurisdiction 1: Singapore

Data from previous chapters:

Item	Reference	Amount
Net GloBE Income	Chapter 5.1	€4,000,000
Adjusted Covered Taxes	Chapter 5.1	€392,206
ETR	Chapter 5.1	9.81%
SBIE	Chapter 5.2	€194,645
Excess Profit	Chapter 5.2	€3,805,355

Step 1: Top-Up Tax Percentage

Top-Up Tax % = 15% - 9.81% = 5.19%

Step 2: Jurisdictional Top-Up Tax

Jurisdictional Top-Up Tax = 5.19% × €3,805,355 = €197,498

Step 3: QDMTT Offset

Singapore has **not** implemented a QDMTT (as of FY 2025).

QDMTT Paid:	€0
Net Top-Up Tax:	€197,498

Step 4: Allocation

Singapore has one entity (SG Singapore Pte Ltd):

Allocation: 100% to SG Singapore Pte Ltd = €197,498

7.2 Singapore Summary

Step	Description	Amount
1	Top-Up Tax %	5.19%
2	Jurisdictional Top-Up Tax	€197,498
3	QDMTT Offset	€0
4	Net Top-Up Tax	€197,498

7.3 Jurisdiction 2: Ireland

Data from previous chapters:

Item	Reference	Amount
Net GloBE Income	Chapter 5.1	€15,000,000
Adjusted Covered Taxes	Chapter 5.1	€1,770,000
ETR	Chapter 5.1	11.80%
SBIE	Chapter 5.2	€1,675,200
Excess Profit	Chapter 5.2	€13,324,800

Step 1: Top-Up Tax Percentage

$$\text{Top-Up Tax \%} = 15\% - 11.80\% = 3.20\%$$

Step 2: Jurisdictional Top-Up Tax

$$\text{Jurisdictional Top-Up Tax} = 3.20\% \times €13,324,800 = €426,394$$

Step 3: QDMTT Offset

Ireland **has** implemented a QDMTT. Assume Ireland collects the full Top-Up Tax domestically:

QDMTT Paid (Ireland):	€426,394
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Net Top-Up Tax (IIR/UTPR):	€0
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Step 4: Allocation

Since QDMTT covers the full liability, no allocation to parent entities is required for IIR purposes.

7.4 Ireland Summary

Step	Description	Amount
1	Top-Up Tax %	3.20%
2	Jurisdictional Top-Up Tax	€426,394
3	QDMTT Offset	(€426,394)
4	Net Top-Up Tax (IIR)	€0

Result: Ireland retains the Top-Up Tax through QDMTT. No IIR charge to Stratos Holdings plc.

8. Consolidated Top-Up Tax Summary

8.1 Stratos Group FY 2025

Jurisdiction	ETR	Top-Up Tax %	Excess Profit	Jur. Top-Up Tax	QDMTT	Net Top-Up Tax
Germany	23.00%	N/A	N/A	€0	N/A	€0
Singapore	9.81%	5.19%	€3,805,355	€197,498	€0	€197,498
Ireland	11.80%	3.20%	€13,324,800	€426,394	(€426,394)	€0
Total				€623,892	(€426,394)	€197,498

8.2 Where Does Stratos Pay?

Amount	Recipient	Mechanism
€197,498	UK (Stratos Holdings plc)	IIR
€426,394	Ireland	QDMTT (retained by Ireland)

Total Group Tax Liability: €623,892

Of which: - Paid to UK via IIR: €197,498 - Retained by Ireland via QDMTT: €426,394

9. IIR vs UTPR Application

Once the Net Top-Up Tax is determined, the charging mechanism applies:

9.1 IIR First (Article 2.1)

The **IIR** applies at the Ultimate Parent Entity level:

If UPE is in an IIR jurisdiction:
→ UPE pays Top-Up Tax on all low-taxed subsidiaries

Stratos example: UK has implemented IIR. Stratos Holdings plc pays €197,498 on Singapore.

9.2 UTPR as Backstop (Article 2.4)

The **UTPR** applies if: - No IIR covers the Top-Up Tax, OR - UPE is in a non-IIR jurisdiction

If UPE is NOT in an IIR jurisdiction:
→ UTPR jurisdictions collect Top-Up Tax via denied deductions

10. Computation Flowchart

START: Low-taxed jurisdiction identified (ETR < 15%)



Step 1: Top-Up Tax Percentage

$$= 15\% - \text{ETR}$$



Step 2: Jurisdictional Top-Up Tax

$$= \text{Top-Up Tax \%} \times \text{Excess Profit}$$

(where Excess Profit = GloBE Income - SBIE)



Does jurisdiction have QDMTT?



YES

NO



Step 3: QDMTT

Offset

Net = Jur. Top-up

$$- \text{QDMTT Paid}$$



| Step 4: Allocate to LTCEs
| (In proportion to GloBE Income)|



| Apply IIR or UTPR
| (Chapter 2.1 / 2.4)|



END: Top-Up Tax collected

11. Common Pitfalls

11.1 Pitfall 1: Applying Top-Up Tax % to Net GloBE Income

Error: Calculating Top-Up Tax as Top-Up Tax % \times Net GloBE Income.

Correct approach: Apply Top-Up Tax % to **Excess Profit** (Net GloBE Income – SBIE).

11.2 Pitfall 2: Forgetting QDMTT Offset

Error: Reporting full Jurisdictional Top-Up Tax without checking for QDMTT.

Correct approach: Always check if the jurisdiction has implemented QDMTT and reduce the IIR/UTPR liability accordingly.

11.3 Pitfall 3: Allocating to Loss Entities

Error: Including entities with GloBE Losses in the allocation calculation.

Correct approach: Only entities with **positive** GloBE Income receive an allocation of Top-Up Tax.

11.4 Pitfall 4: Ignoring Additional Current Top-Up Tax

Error: Failing to track DTL recapture and post-filing adjustments.

Correct approach: Monitor 5-year DTL reversal and 3-year current tax payment timelines; recalculate prior years when triggered.

11.5 Pitfall 5: Double-Counting QDMTT

Error: Reducing Jurisdictional Top-Up Tax by estimated QDMTT before it's actually paid.

Correct approach: Only offset QDMTT that is **actually paid** in the fiscal year.

12. Top-Up Tax Calculation Worksheet

Use this worksheet for each low-taxed jurisdiction:

TOP-UP TAX CALCULATION WORKSHEET

Jurisdiction: _____

Fiscal Year: _____

SECTION A: INPUTS

A1 Net GloBE Income (from Ch. 5.1)

€_____

A2 ETR (from Ch. 5.1)

_____ %

A3 SBIE (from Ch. 5.2)

€_____

A4 Excess Profit (A1 - A3)

€_____

SECTION B: TOP-UP TAX PERCENTAGE

B1 Minimum Rate

15%

B2 Jurisdictional ETR (A2)

_____ %

B3 TOP-UP TAX PERCENTAGE (B1 - B2)

_____ %

If B3 ≤ 0%: STOP. No Top-Up Tax.

SECTION C: JURISDICTIONAL TOP-UP TAX

C1 Excess Profit (A4)

€_____

C2 Top-Up Tax Percentage (B3) _____ %
C3 JURISDICTIONAL TOP-UP TAX (C1 × C2) €_____

SECTION D: QDMTT OFFSET

D1 Does jurisdiction have QDMTT? YES / NO

If NO: Skip to Section E

D2 QDMTT Paid €_____
D3 NET TOP-UP TAX (C3 – D2) €_____

If $D3 \leq 0$: No IIR/UTPR liability.

SECTION E: ALLOCATION TO LTCEs

List entities with positive GloBE Income:

Entity	GloBE Income	% Share	Allocated Top-Up Tax
	€_____	_____%	€_____
	€_____	_____%	€_____
	€_____	_____%	€_____
TOTAL	€_____	100%	€_____

SECTION F: ADDITIONAL CURRENT TOP-UP TAX

F1 Any DTL recapture triggered? YES / NO

F2 Any post-filing adjustments? YES / NO

If YES to either: Complete recalculation per Article 5.2.3

F3 Additional Current Top-Up Tax €_____
F4 TOTAL TOP-UP TAX (D3 or C3 + F3) €_____

SECTION G: CHARGING MECHANISM

G1 UPE in IIR jurisdiction? YES / NO

If YES: IIR applies → UPE pays Top-Up Tax

If NO: UTPR applies → Allocated to UTPR jurisdictions