

# Case Study 4: Stratos's Covered Tax Computation

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## Introduction

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This case study brings together the concepts from Chapters 4.1 to 4.6. You will compute Adjusted Covered Taxes for Stratos's key jurisdictions, applying tax classification, current and deferred tax adjustments, and tax allocation rules to determine jurisdictional ETRs.

**Important:** Work through each task systematically using the Covered Tax Workpaper. Complete each jurisdiction fully before moving to the next. Do not skip steps.

**Time estimate:** 90-120 minutes

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## Background: Stratos Group — FY 2025 Covered Tax Computation

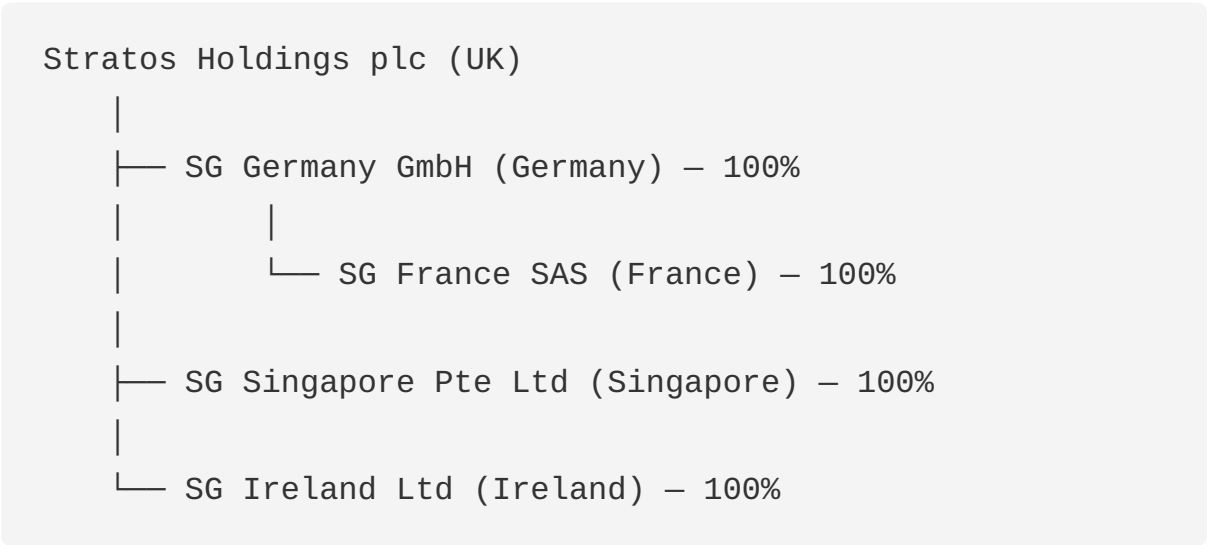
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Following the GloBE Income calculations in Case Study 3, Stratos Group's tax team must now compute Adjusted Covered Taxes for each jurisdiction to determine jurisdictional ETRs. The CFO has requested a comprehensive analysis for three key jurisdictions: Germany, Singapore, and Ireland.

## Entity Overview

Entity	Jurisdiction	Statutory Rate	Role
Stratos Holdings plc	UK	25%	Ultimate Parent Entity
SG Germany GmbH	Germany	30%	Operating subsidiary
SG Singapore Pte Ltd	Singapore	17%	IP holding company
SG Ireland Ltd	Ireland	12.5%	European HQ

## Ownership Structure



## Data Package

### Tax Data: SG Germany GmbH

Current Tax Expense (from P&L)

Line Item	Amount (€)	Notes
Corporate income tax (Körperschaftsteuer)	8,200,000	15% federal CIT
Solidarity surcharge	451,000	5.5% of CIT
Trade tax (Gewerbesteuer)	3,100,000	~14% effective
<b>Subtotal Current Tax (P&amp;L)</b>	<b>11,751,000</b>	

#### Taxes Outside P&L

Line Item	Amount (€)	Location
Tax on pension actuarial adjustment	45,000	OCI
Tax on hedging reserve movement	22,000	OCI

#### Tax Credits

Credit Type	Amount (€)	Refundable?	Within 4 Years?
R&D tax credit (Forschungszulage)	180,000	Yes	Yes

#### Non-Income Taxes (for classification)

Tax Type	Amount (€)	Classification
VAT (net payable)	2,400,000	?
Wage tax (employer)	890,000	?
Real property tax	125,000	?

## Deferred Tax Expense

Item	Movement (€)	Rate	Nature
DTL on intangibles (IP amortisation)	+900,000	30%	Non-REA
DTL on PP&E (accelerated depreciation)	+400,000	30%	REA
DTA on provisions (accrued expenses)	-250,000	30%	
Valuation allowance release	-150,000	—	On Irish sub DTA
Rate change impact	+80,000	—	Country X rate reduction
<b>Net Deferred Tax Expense</b>	<b>+980,000</b>		

## Uncertain Tax Positions

UTP Item	Amount (€)	Status
Transfer pricing reserve (current year)	280,000	Not yet resolved
Prior year UTP (settled and paid in FY 2025)	150,000	Paid

## Excluded Income

Item	Amount (€)	Tax Impact
Dividend from SG France SAS (100% sub)	3,100,000	WHT: €0 (EU exemption)

**GloBE Income (from Case Study 3): €53,700,000**

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## **Tax Data: SG Singapore Pte Ltd**

### **Current Tax Expense**

Line Item	Amount (€)	Notes
Singapore corporate tax	680,000	17% rate
Foreign tax credits utilised	(530,000)	On royalty income
<b>Net Current Tax</b>	<b>150,000</b>	

### **CFC Tax Exposure (in UK parent accounts)**

Item	Amount (€)	Income Type
UK CFC charge on Singapore passive income	320,000	IP royalties
Singapore passive income under UK CFC	1,800,000	

### **Deferred Tax**

Item	Movement (€)	Rate
DTL on IP capitalisation	+85,000	17%
DTA on tax losses	-40,000	17%
<b>Net Deferred Tax</b>	<b>+45,000</b>	

**GloBE Income (from Case Study 3): €4,000,000**

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## Tax Data: SG Ireland Ltd

### Current Tax Expense

Line Item	Amount (€)	Notes
Irish corporation tax	1,875,000	12.5% rate
R&D tax credit	(225,000)	Knowledge Development Box

### Dividend to UK Parent

Item	Amount (€)
Dividend paid to Stratos Holdings plc	500,000
Irish dividend WHT	0
UK WHT on receipt	0

### Deferred Tax

Item	Movement (€)	Rate
DTL on R&D assets	+120,000	12.5%
<b>Net Deferred Tax</b>	<b>+120,000</b>	

**GloBE Income (from Case Study 3): €15,000,000**

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# Task 1: Covered Tax Classification—Germany

## Your Task

Classify each tax line item as Covered Tax or Non-Covered Tax using the Article 4.2.1 framework. For the R&D credit, apply the QRTC test from Article 10.1.

## Expected Deliverable

### Classification Workpaper

#	Tax Item	Amount (€)	Category Test	Result
1	Corporate income tax	8,200,000		
2	Solidarity surcharge	451,000		
3	Trade tax (Gewerbesteuer)	3,100,000		
4	VAT	2,400,000		
5	Wage tax (employer)	890,000		
6	Real property tax	125,000		
7	R&D credit	(180,000)		

### QRTC Verification (R&D Credit)

Question	Answer	Reference
Is the credit refundable as cash?		
Is refund available within 4 years?		
Can it settle non-tax liabilities?		

Question	Answer	Reference
Is refund limited to tax liability?		

Conclusion: \_\_\_\_\_

### Classification Summary

Category	Items	Total (€)
Covered Taxes (P&L)		
Non-Covered Taxes		
QRTC (reclassify to income)		

## Task 2: Current Tax Adjustments—Germany

### Your Task

Apply Article 4.1.2 additions and Article 4.1.3 subtractions to the current tax starting point. Remember to consider the QRTC treatment and UTP adjustments.

### Expected Deliverable

#### Starting Point

Current tax expense (P&L): € \_\_\_\_\_

#### Additions (Article 4.1.2)

#	Item	Article	Amount (€)	Calculation
1	Tax in OCI (pension)	4.1.2(a)		



#	Item	Article	Amount (€)	Calculation
2	Tax in OCI (hedging)	4.1.2(a)		
3	Prior year UTP paid	4.1.2(c)		
4	QRTC reversal	4.1.2(d)		
	<b>Total Additions</b>			

### Subtractions (Article 4.1.3)

#	Item	Article	Amount (€)	Calculation
1	Tax on excluded dividend	4.1.3(a)		
2	Current year UTP	4.1.3(d)		
	<b>Total Subtractions</b>			

### Adjusted Current Tax

Current tax expense (P&L): € \_\_\_\_\_

Additions: € \_\_\_\_\_

Subtractions: € \_\_\_\_\_

Adjusted Current Tax: € \_\_\_\_\_

### Corresponding GloBE Income Adjustment (if QRTC applies)

GloBE Income (from Case Study 3): € \_\_\_\_\_

Add: QRTC (Article 3.2.4): € \_\_\_\_\_

Adjusted GloBE Income: € \_\_\_\_\_

## Task 3: Deferred Tax Adjustments—Germany

### Your Task

Calculate the Total Deferred Tax Adjustment Amount (DTAA) by: 1. Applying the 15% rate cap (Germany's rate exceeds 15%) 2. Excluding valuation allowance movements (Article 4.4.1(c)) 3. Excluding rate change impacts (Article 4.4.1(d)) 4. Identifying REA vs non-REA items for tracking

### Expected Deliverable

#### Starting Point

Deferred tax expense (P&L): € \_\_\_\_\_

#### Step 1: Apply 15% Rate Cap

Item	Original (30%)	Recast (15%)	Adjustment
DTL intangibles			
DTL PP&E			
DTA provisions			
Rate cap adjustment			

#### Step 2: Items to Exclude (Article 4.4.1)

Item	Amount	Article	Treatment
Valuation allowance release		4.4.1(c)	
Rate change impact		4.4.1(d)	

#### Step 3: DTAA Calculation

Item	Amount (€)
Items included at 15% cap	
Less: Items excluded	
<b>Total DTAA</b>	

#### Step 4: REA Classification for DTL Tracking

DTL	Amount (at 15%)	REA?	5-Year Tracking Required?

## Task 4: Tax Allocation—Germany

### Your Task

Determine whether any tax allocation adjustments are required for Germany under Article 4.3. Consider: - CFC tax push-down from UK parent - WHT allocation on dividends received

### Expected Deliverable

#### CFC Tax Push-Down Analysis

Question	Answer
Does UK have CFC charge on German income?	
Is Germany a low-tax jurisdiction?	
CFC tax push-down to Germany	€__

#### WHT Allocation Analysis

Question	Answer
Was WHT paid on dividend from SG France?	
WHT reallocation amount	€__

### Allocation Summary—Germany

Total tax allocation adjustments: €\_\_\_\_\_

## Task 5: Total Adjusted Covered Taxes—Germany

### Your Task

Combine your results from Tasks 2-4 to calculate Total Adjusted Covered Taxes and the ETR for Germany.

### Expected Deliverable

#### Final Calculation

Component	Reference	Amount (€)
Adjusted Current Tax	Task 2	
Deferred Tax Adjustment (DTAA)	Task 3	
Tax Allocations	Task 4	
<b>Total Adjusted Covered Taxes</b>		

#### ETR Calculation

GloBE Income (adjusted): €\_\_\_\_\_

Adjusted Covered Taxes: €\_\_\_\_\_

ETR = \_\_\_\_\_ ÷ \_\_\_\_\_ = \_\_\_\_\_%

Top-Up Tax assessment: \_\_\_\_\_

## Task 6: Covered Tax Computation—Singapore

### Your Task

Complete the full Covered Tax computation for Singapore, including: 1. Current tax adjustments 2. CFC tax push-down from UK (with passive income limitation) 3. Deferred tax adjustments (15% cap) 4. ETR calculation

### Expected Deliverable

#### Current Tax Starting Point

Current tax expense (P&L): €\_\_\_\_\_

#### CFC Tax Push-Down (Article 4.3.2(c))

Step	Calculation	Result
Step 1: Singapore pre-push ETR	Local tax ÷ GloBE Income	
Step 2: Top-Up Tax %	15% – Pre-push ETR	
Step 3: Passive income cap	Passive income × Top-Up Tax %	
Step 4: Push-down amount	MIN(CFC tax, Cap)	

#### Adjusted Current Tax

Current tax expense: €\_\_\_\_\_

CFC tax push-down: €\_\_\_\_\_

Adjusted Current Tax:

€ \_\_\_\_\_

### Deferred Tax Adjustments (15% cap applies)

Item	At 17%	At 15%	DTAA
DTL on IP			
DTA on losses			
<b>Total DTAA</b>			

### Total Adjusted Covered Taxes—Singapore

Component	Amount (€)
Adjusted Current Tax	
DTAA	
<b>Total Adjusted Covered Taxes</b>	

### ETR Calculation—Singapore

GloBE Income: € \_\_\_\_\_

Adjusted Covered Taxes: € \_\_\_\_\_

ETR = \_\_\_\_\_ ÷ \_\_\_\_\_ = \_\_\_\_\_ %

Top-Up Tax % = 15% - \_\_\_\_\_ % = \_\_\_\_\_ %

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## Task 7: Covered Tax Computation—Ireland

### Your Task

Complete the full Covered Tax computation for Ireland, including: 1. Current tax adjustments (analyse whether the R&D credit is a QRTC) 2. WHT allocation analysis 3. Deferred tax adjustments (note: Irish rate 12.5% is below 15%) 4. ETR calculation

### Expected Deliverable

#### Current Tax Starting Point

Irish corporation tax:	€_____
Less: R&D credit:	€_____
Net per accounts:	€_____

#### QRTC Analysis—Irish R&D Credit

Question	Answer
Is the Knowledge Development Box a refundable credit?	
<b>Conclusion: Is this a QRTC?</b>	

#### Adjusted Current Tax

Adjusted Current Tax:	€_____
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#### WHT Allocation (Article 4.3.2(e))

Question	Answer
Was WHT paid on dividend to UK parent?	
WHT allocation from UK to Ireland	€____

## Deferred Tax Adjustments

Item	At 12.5%	At 15%	Treatment
DTL on R&D assets			Rate < 15%, no change

DTAA:

€ \_\_\_\_\_

## Total Adjusted Covered Taxes—Ireland

Component	Amount (€)
Adjusted Current Tax	
DTAA	
<b>Total Adjusted Covered Taxes</b>	

## ETR Calculation—Ireland

GloBE Income: € \_\_\_\_\_

Adjusted Covered Taxes: € \_\_\_\_\_

ETR = \_\_\_\_\_ ÷ \_\_\_\_\_ = \_\_\_\_\_ %

Top-Up Tax % = 15% - \_\_\_\_\_ % = \_\_\_\_\_ %

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## Task 8: Consolidated Summary and UK Parent Position

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### Your Task

Prepare a consolidated summary of all jurisdictions and show the UK parent position after tax allocations.

### Expected Deliverable

#### Jurisdiction Summary Table

Jurisdiction	GloBE Income (€)	Adj. Covered Taxes (€)	ETR	Top-Up Tax Exposure
Germany				
Singapore				
Ireland				

#### UK Parent Position (Post-Allocations)

Item	Original (€)	Allocated Out (€)	Remaining (€)
UK corporate tax	5,000,000	—	
CFC tax (Singapore)	320,000		
WHT on Irish dividend	0	—	
<b>UK Covered Taxes</b>			

Notes: \_\_\_\_\_

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# Model Answers

## Answer 1: Germany Covered Tax Classification

### Classification Workpaper

#	Tax Item	Amount (€)	Category Test	Result
1	Corporate income tax	8,200,000	Tax on own income? YES	<b>COVERED</b>
2	Solidarity surcharge	451,000	Component of CIT? YES	<b>COVERED</b>
3	Trade tax (Gewerbesteuer)	3,100,000	Tax on trading profits? YES	<b>COVERED</b>
4	VAT	2,400,000	Indirect tax? YES	<b>NOT COVERED</b>
5	Wage tax (employer)	890,000	Payroll tax? YES	<b>NOT COVERED</b>
6	Real property tax	125,000	Property tax? YES	<b>NOT COVERED</b>
7	R&D credit	(180,000)	QRTC test—see below	<b>Special treatment</b>

### QRTC Verification (R&D Credit)

Question	Answer	Reference
Is the credit refundable as cash?	<b>Yes</b>	German Forschungszulage is refundable

Question	Answer	Reference
Is refund available within 4 years?	<b>Yes</b>	Paid with annual assessment
Can it settle non-tax liabilities?	<b>Yes</b>	Cash payment
Is refund limited to tax liability?	<b>No</b>	Paid regardless of tax position

**Conclusion:** R&D credit qualifies as QRTC → Treat as **income**, not reduction of Covered Taxes

### Classification Summary

Category	Items	Total (€)
<b>Covered Taxes (P&amp;L)</b>	CIT + Solidarity + Trade Tax	11,751,000
<b>Non-Covered Taxes</b>	VAT, Wage tax, Property tax	3,415,000
<b>QRTC (reclassify to income)</b>	R&D credit	180,000

## Answer 2: Germany Current Tax Adjustments

### Starting Point

Current tax expense (P&L): €11,751,000

### Additions (Article 4.1.2)

#	Item	Article	Amount (€)	Calculation
1	Tax in OCI (pension)	4.1.2(a)	+45,000	Direct from data

#	Item	Article	Amount (€)	Calculation
2	Tax in OCI (hedging)	4.1.2(a)	+22,000	Direct from data
3	Prior year UTP paid	4.1.2(c)	+150,000	Settled in FY 2025
4	QRTC reversal	4.1.2(d)	+180,000	R&D credit add-back
	<b>Total Additions</b>		<b>+397,000</b>	

### Subtractions (Article 4.1.3)

#	Item	Article	Amount (€)	Calculation
1	Tax on excluded dividend	4.1.3(a)	-0	No German tax on EU dividend
2	Current year UTP	4.1.3(d)	-280,000	TP reserve not resolved
	<b>Total Subtractions</b>		<b>-280,000</b>	

### Adjusted Current Tax

Current tax expense (P&L):	€11,751,000
Additions:	+€397,000
Subtractions:	-€280,000
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Adjusted Current Tax:	€11,868,000

### Corresponding GloBE Income Adjustment

GloBE Income (from Case Study 3):	€53,700,000
Add: QRTC (Article 3.2.4):	+€180,000

Adjusted GloBE Income:

€53,880,000

## Answer 3: Germany Deferred Tax Adjustments

### Starting Point

Deferred tax expense (P&L):

€980,000

### Step 1: Apply 15% Rate Cap

German combined rate (30%) exceeds 15%. All deferred tax movements must be recast.

Item	Original (30%)	Recast (15%)	Adjustment
DTL intangibles	€900,000	€450,000	-€450,000
DTL PP&E	€400,000	€200,000	-€200,000
DTA provisions	(€250,000)	(€125,000)	+€125,000
<b>Rate cap adjustment</b>			<b>-€525,000</b>

### Step 2: Items to Exclude

Item	Amount	Article	Treatment
Valuation allowance release	€150,000	4.4.1(c)	Exclude from DTAA
Rate change impact	€80,000	4.4.1(d)	Exclude from DTAA

### Step 3: DTAA Calculation

Items to include at 15% cap: DTL intangibles (€450,000) + DTL PP&E (€200,000) – DTA provisions (€125,000) = **€525,000**

Excluded items (VA release and rate change) were not included above.

Total DTAA:

€525,000

#### Step 4: REA Classification

DTL	Amount (at 15%)	REA?	5-Year Tracking Required?
Intangibles	€450,000	No	Yes—monitor 5 years
PP&E	€200,000	Yes (tangible assets)	No

#### Answer 4: Germany Tax Allocation

##### CFC Tax Push-Down Analysis

Question	Answer
Does UK have CFC charge on German income?	<b>No</b> — Germany is high-tax
Is Germany a low-tax jurisdiction?	<b>No</b> — ~30% rate
CFC tax push-down to Germany	<b>€0</b>

##### WHT Allocation Analysis

Question	Answer
Was WHT paid on dividend from SG France?	<b>No</b> — EU exemption
WHT reallocation amount	<b>€0</b>

##### Allocation Summary—Germany

Total tax allocation adjustments: €0

## Answer 5: Germany Total Adjusted Covered Taxes

### Final Calculation

Component	Reference	Amount (€)
Adjusted Current Tax	Task 2	11,868,000
Deferred Tax Adjustment (DTAA)	Task 3	525,000
Tax Allocations	Task 4	0
<b>Total Adjusted Covered Taxes</b>		<b>12,393,000</b>

### ETR Calculation

GloBE Income (adjusted): €53,880,000

Adjusted Covered Taxes: €12,393,000

$$\text{ETR} = €12,393,000 \div €53,880,000 = 23.0\%$$

Since 23.0% > 15%: NO TOP-UP TAX for Germany

## Answer 6: Singapore Covered Tax Computation

### Current Tax Starting Point

Current tax expense (P&L): €150,000

### CFC Tax Push-Down (Article 4.3.2(c))

UK parent has CFC charge of €320,000 on Singapore passive income (€1,800,000).

### Apply Passive Income Limitation (Article 4.3.3):

Step	Calculation	Result
Step 1: Singapore pre-push ETR	$\text{€}150,000 \div \text{€}4,000,000$	<b>3.75%</b>
Step 2: Top-Up Tax %	$15\% - 3.75\%$	<b>11.25%</b>
Step 3: Passive income cap	$\text{€}1,800,000 \times 11.25\%$	<b>€202,500</b>
Step 4: Push-down amount	$\text{MIN}(\text{€}320,000, \text{€}202,500)$	<b>€202,500</b>

### Adjusted Current Tax

Current tax expense:	€150,000
CFC tax push-down:	+€202,500
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Adjusted Current Tax:	€352,500

### Deferred Tax Adjustments

Singapore rate (17%) > 15%, so cap applies:

Item	At 17%	At 15%	DTAA
DTL on IP	€85,000	€75,000	€75,000
DTA on losses	(€40,000)	(€35,294)	(€35,294)
<b>Total DTAA</b>	<b>€45,000</b>		<b>€39,706</b>

*Calculation: Underlying timing differences recast at 15%*

### Total Adjusted Covered Taxes—Singapore



Component	Amount (€)
Adjusted Current Tax	352,500
DTAA	39,706
<b>Total Adjusted Covered Taxes</b>	<b>392,206</b>

### ETR Calculation—Singapore

GloBE Income: €4,000,000

Adjusted Covered Taxes: €392,206

$ETR = €392,206 \div €4,000,000 = 9.8\%$

$Top-Up\ Tax\ \% = 15\% - 9.8\% = 5.2\%$

## Answer 7: Ireland Covered Tax Computation

### Current Tax Starting Point

Irish corporation tax: €1,875,000

Less: R&D credit: (€225,000)

Net per accounts: €1,650,000

### QRTC Analysis—Irish R&D Credit

Question	Answer
Is the Knowledge Development Box a refundable credit?	<b>No</b> — KDB is a reduced tax rate (6.25%), not a refundable credit
<b>Conclusion: Is this a QRTC?</b>	<b>No</b> — remains as reduction to Covered Taxes

## Adjusted Current Tax

Adjusted Current Tax:

€1,650,000

## WHT Allocation (Article 4.3.2(e))

Question	Answer
Was WHT paid on dividend to UK parent?	<b>No</b> — EU Parent-Sub exemption + Treaty
WHT allocation from UK to Ireland	<b>€0</b>

## Deferred Tax Adjustments

Item	At 12.5%	At 15%	Treatment
DTL on R&D assets	€120,000	€120,000	No change (12.5% < 15%)

DTAA:

€120,000

*Note: Irish rate (12.5%) is below 15%, so DTLs remain at accounting rate.*

## Total Adjusted Covered Taxes—Ireland

Component	Amount (€)
Adjusted Current Tax	1,650,000
DTAA	120,000
<b>Total Adjusted Covered Taxes</b>	<b>1,770,000</b>

## ETR Calculation—Ireland

GloBE Income: €15,000,000  
Adjusted Covered Taxes: €1,770,000

$ETR = €1,770,000 \div €15,000,000 = 11.8\%$

$Top-Up\ Tax\ \% = 15\% - 11.8\% = 3.2\%$

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## Answer 8: Consolidated Summary

### Jurisdiction Summary Table

Jurisdiction	GloBE Income (€)	Adj. Covered Taxes (€)	ETR	Top-Up Tax Exposure
Germany	53,880,000	12,393,000	23.0%	None
Singapore	4,000,000	392,206	9.8%	Yes (5.2%)
Ireland	15,000,000	1,770,000	11.8%	Yes (3.2%)

### UK Parent Position (Post-Allocations)

Item	Original (€)	Allocated Out (€)	Remaining (€)
UK corporate tax	5,000,000	—	5,000,000
CFC tax (Singapore)	320,000	(202,500)	117,500
WHT on Irish dividend	0	—	0
<b>UK Covered Taxes</b>	<b>5,320,000</b>	<b>(202,500)</b>	<b>5,117,500</b>

**Note:** €117,500 of CFC tax remains in UK (passive income limitation applied)

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# Covered Tax Workpaper Template

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Use this template for each jurisdiction:

## COVERED TAX COMPUTATION WORKPAPER

Entity: \_\_\_\_\_

Jurisdiction: \_\_\_\_\_

Fiscal Year: \_\_\_\_\_

### SECTION A: CURRENT TAX

A1 Current tax expense (P&L) \_\_\_\_\_

A2 Add: Tax in OCI/Equity (Art. 4.1.2(a)) \_\_\_\_\_

A3 Add: Prior year UTP paid (Art. 4.1.2(c)) \_\_\_\_\_

A4 Add: QRTC reversal (Art. 4.1.2(d)) \_\_\_\_\_

A5 Less: Tax on excluded income (Art. 4.1.3(a)) \_\_\_\_\_

A6 Less: Current year UTP (Art. 4.1.3(d)) \_\_\_\_\_

A7 ADJUSTED CURRENT TAX =====

### SECTION B: DEFERRED TAX (DTAA)

B1 DT expense per P&L \_\_\_\_\_

B2 Rate cap adjustment (if rate > 15%) \_\_\_\_\_

B3 Exclude: Valuation allowance (Art. 4.4.1(c)) \_\_\_\_\_

B4 Exclude: Rate change (Art. 4.4.1(d)) \_\_\_\_\_

B5 Exclude: Tax credits (Art. 4.4.1(e)) \_\_\_\_\_

B6 TOTAL DTAA =====

### SECTION C: TAX ALLOCATIONS

C1 CFC tax push-down received \_\_\_\_\_

C2 WHT allocated to this entity \_\_\_\_\_

C3 PE tax allocated \_\_\_\_\_

C4 TOTAL ALLOCATIONS =====

### SECTION D: TOTAL ADJUSTED COVERED TAXES

D1 Adjusted Current Tax (A7) \_\_\_\_\_

D2 DTAA (B6) \_\_\_\_\_

D3	Tax Allocations (C4)	_____
D4	TOTAL ADJUSTED COVERED TAXES	=====
SECTION E: ETR CALCULATION		
E1	GloBE Income	_____
E2	Adjusted Covered Taxes (D4)	_____
E3	ETR (E2 ÷ E1)	_____
E4	Top-Up Tax % (15% - E3, if positive)	_____

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## Learning Points

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### Point 1: QRTC Dual Adjustment

The German R&D credit is a QRTC and requires adjustments to BOTH: - **Covered Taxes:** Add back €180,000 (reverse accounting treatment) - **GloBE Income:** Add €180,000 (treat as income)

Forgetting either adjustment distorts the ETR calculation.

### Point 2: Passive Income Limitation Prevents Full Push-Down

The UK CFC charge of €320,000 on Singapore could only be pushed down to the extent of €202,500 due to the passive income limitation. The remaining €117,500 stays in UK Covered Taxes.

Without this limitation, Singapore's ETR would be: -  $(€150,000 + €320,000) \div €4,000,000 = 11.75\%$

With limitation: -  $(€150,000 + €202,500) \div €4,000,000 = 8.8\%$

The limitation ensures the CFC push-down doesn't artificially eliminate Singapore's Top-Up Tax exposure.

### Point 3: Rate Cap Creates Significant Adjustment

Germany's 30% rate means all deferred tax movements are recast at 15%—halving their GloBE impact. The €525,000 rate cap adjustment represents a material reduction from the €1,050,000 that would have been included at accounting rates.

### Point 4: Irish KDB Is Not a QRTC

Unlike Germany's R&D credit, Ireland's Knowledge Development Box is a reduced tax rate (6.25% on qualifying IP income), not a refundable credit. It therefore reduces Covered Taxes directly rather than being treated as income.

### Point 5: Document Classification Decisions

Each tax item requires explicit classification with reference to Article 4.2.1. The classification workpaper provides audit defence and ensures consistency across fiscal years.

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## Alternative Scenario: What If CFC Push-Down Were Unlimited?

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For additional practice, consider this alternative scenario:

**Assume:** The passive income limitation under Article 4.3.3 did not exist.

**Questions:** 1. What would be Singapore's Adjusted Covered Taxes? 2. What would be Singapore's ETR? 3. What would be the impact on UK parent's Covered Taxes?

**Analysis:**

Without passive income limitation:

Singapore Adjusted Current Tax:

Local tax:	€150,000
Full CFC push-down:	+€320,000
Total:	€470,000

Singapore DTAA: €39,706

Singapore Total Covered Taxes: €509,706

Singapore ETR:

$$€509,706 \div €4,000,000 = 12.7\%$$

$$\text{Top-Up Tax \%} = 15\% - 12.7\% = 2.3\%$$

### Impact comparison:

Scenario	Singapore ETR	Singapore Top-Up Tax %	UK CFC Tax Remaining
With limitation	9.8%	5.2%	€117,500
Without limitation	12.7%	2.3%	€0

**Key insight:** The passive income limitation preserves approximately 2.9% additional Top-Up Tax exposure in Singapore, preventing a high-tax parent from sheltering a low-tax subsidiary's income through CFC taxes.

## Integration with GIR Filing

The Adjusted Covered Taxes calculated in this case study feed directly into **GIR-001 GloBE Calculator**:

GIR-001 Input	Data From This Case Study
Jurisdiction	Germany / Singapore / Ireland
GloBE Income	From Case Study 3 (adjusted for QRTC)

GIR-001 Input	Data From This Case Study
Adjusted Covered Taxes	€12,393,000 / €392,206 / €1,770,000

#### Tool Workflow:

1. Enter GloBE Income and Adjusted Covered Taxes into **GIR-001 GloBE Calculator**
2. GIR-001 Step 1 calculates the ETR automatically
3. GIR-001 Step 2 calculates SBIE (Substance-Based Income Exclusion)
4. GIR-001 Step 3 calculates Top-Up Tax

Use **GIR-001 GloBE Calculator** at [tools.mojitax.com](https://tools.mojitax.com) to verify your calculations and practice the complete ETR → SBIE → Top-Up Tax workflow.

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## Key References

**OECD GloBE Model Rules:** - Article 4.1.1 — Current tax starting point - Article 4.1.2 — Additions to Covered Taxes - Article 4.1.3 — Subtractions from Covered Taxes - Article 4.2.1 — Covered Tax definition (four categories) - Article 4.3.2(c) — CFC tax push-down - Article 4.3.3 — Passive income limitation - Article 4.4.1 — DTAA and 15% rate cap - Article 4.4.1(c) — Valuation allowance exclusion - Article 4.4.1(d) — Rate change exclusion - Article 3.2.4 — QRTC treatment as income - Article 10.1 — QRTC definition

**Administrative Guidance:** - February 2023: CFC push-down allocation rules - July 2023: Passive income limitation clarification - December 2023: QRTC verification guidance

**OECD Commentary:** - Chapter 4, paragraphs 1-68 — Covered Tax computation guidance

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## Next Step

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You have completed Part 4: Adjusted Covered Taxes. With GloBE Income (Part 3) and Adjusted Covered Taxes (Part 4) calculated, you now have both components needed for the ETR calculation. Proceed to **Part 5: Top-Up Tax Calculation** to learn how to compute SBIE, the Top-Up Tax Percentage, and allocate Top-Up Tax under the IIR and UTPR charging mechanisms.