Chapter 6.2: Acquisitions and Disposals

Learning Objective

After completing this chapter, you will be able to apply GloBE rules to entity-level acquisitions and disposals, determine when share deals are treated as asset deals, apply the basis step-up election, calculate partial-year adjustments for SBIE, and handle deferred tax attribute transfers correctly.

1. The Steady-State Assumption

The GloBE Rules are generally drafted assuming the MNE Group has the **same Constituent Entities throughout the entire Fiscal Year**. Special rules address what happens when entities **join** or **leave** during the year.

```
┌──────────────────────────────────────────────────────────────────────┐
│ THE KEY PRINCIPLE: Follow the Consolidated Financial Statements      │
│                                                                      │
│ An entity is treated as part of the MNE Group for GloBE purposes    │
│ if ANY portion of its assets, liabilities, income, expenses, or     │
│ cash flows are consolidated on a line-by-line basis in the UPE's    │
│ Consolidated Financial Statements.                                   │
│                                                                      │
│ → Only include amounts actually consolidated                         │
│ → Partial year = partial inclusion                                   │
└──────────────────────────────────────────────────────────────────────┘
```

2. General Rules: Entity Joining an MNE Group *(Article 6.2.1)*

When an entity becomes a Constituent Entity through an acquisition:

2.1 Article 6.2.1(a): GloBE Income Follows Accounts

The target's GloBE Income or Loss is **limited to the amount consolidated** in the UPE's financial statements.

Scenario	Treatment
Acquisition on 1 July	Include 6 months of target's results
Acquisition on 1 October	Include 3 months of target's results
Acquisition on 31 December	Include minimal/nil (depends on cut-off)

2.2 Article 6.2.1(c): Historical Carrying Values

The acquiring MNE Group must determine the target's GloBE Income using the **historical carrying values** of its assets and liabilities—not fair value step-ups from purchase accounting.

```
 Purchase Accounting vs GloBE Treatment:

ACCOUNTING:
→ Assets revalued to fair value
→ Goodwill recognized
→ New depreciation/amortisation base

GloBE:
→ Assets remain at HISTORICAL carrying value
→ Goodwill excluded from GloBE calculations
→ Depreciation continues on pre-acquisition basis
```

Why this matters: Purchase accounting creates higher depreciation that reduces accounting profit. GloBE uses historical values, so GloBE Income may be **higher** than accounting income for acquired entities.

2.3 Article 6.2.1(d)-(e): SBIE Adjustments

For the Substance-Based Income Exclusion:

Component	Treatment	Proration Method
Payroll	Prorated	Include only costs in consolidated period
Tangible Assets	**Special rule**	Value at joining/leaving date, then prorate

Tangible Asset Calculation:

```
SBIE Asset Amount = (Asset Value at Transaction Date) × (Months in Grou
```

Example:

Entity joins on 1 September (4 months in group): - Tangible assets at joining date: €10,000,000 - SBIE asset amount: €10,000,000 × (4/12) = €3,333,333 - Asset carve-out (7.8% for 2025): €3,333,333 × 7.8% = €260,000

3. Deferred Tax Attribute Transfer *(Article 6.2.1(f))*

General Rule: Attributes Carry Over

Deferred tax assets and liabilities of the target are treated as if the acquiring MNE Group had **controlled the target when they arose**.

```
┌──────────────────────────────────────────────────
│ DEFERRED TAX ATTRIBUTE TRANSFER                                        │
│                                                                        │
│ ✓ Accounting DTAs → Carry over to acquiring group                    │
│ ✓ Accounting DTLs → Carry over to acquiring group                    │
```

```
│ ✓ Tax loss carryforwards → Subject to local law limitations      │
│ ✗ GloBE Loss Election DTA → Does NOT transfer (jurisdictional)    │
│                                                                   │
│ DTLs subject to 5-year recapture:                                 │
│ → Clock RESETS on acquisition                                     │
│ → New 5-year period starts in acquiring group                     │
└───────────────────────────────────────────────────────────────────┘
```

DTL Five-Year Clock Reset

When a target with existing DTLs joins an MNE Group:

1. The DTLs are treated as **arising** in the acquiring MNE Group
2. A **new 5-year period** begins for recapture purposes
3. The acquiring group does not inherit the selling group's clock

Example:

Timeline	Selling Group	Acquiring Group
Year 1	DTL arises: €500,000	—
Year 2	DTL outstanding	—
Year 3	**Acquisition occurs**	DTL transferred; new Year 1
Year 4	—	DTL Year 2 in acquirer
Year 5	—	DTL Year 3 in acquirer
Year 6	—	DTL Year 4 in acquirer
Year 7	—	DTL Year 5 in acquirer
Year 8	—	**Recapture if not reversed**

The acquiring group has a full 5 years from acquisition to reverse the DTL.

4. Share Deals vs Asset Deals

Standard Treatment: Share Deal

In a typical share acquisition:

```
 SHARE DEAL

Buyer purchases shares of Target from Seller

                    Seller Jurisdiction
                    ┌─────────────────┐
                    │     SELLER      │
                    │   Recognizes    │
                    │   gain on       │◄─── Gain taxed HERE
                    │   share sale    │
                    └────────┬────────┘
                             │ Shares
                             ▼
                    ┌─────────────────┐
                    │     TARGET      │
                    │   No gain       │
                    │   recognized    │◄─── No tax event
                    │   (assets      │
                    │   unchanged)    │
                    └─────────────────┘
                    Target Jurisdiction
```

- Gain is in **seller's jurisdiction** (where shares are held)
- Target's asset basis **unchanged**
- Target continues with historical carrying values

Article 6.2.2: Share Deal Treated as Asset Deal

Some jurisdictions treat certain share acquisitions as **deemed asset disposals** for tax purposes. Article 6.2.2 aligns GloBE treatment with this local tax treatment.

```
 SHARE DEAL TREATED AS ASSET DEAL (Article 6.2.2)

Where local tax law treats share deal as asset deal:

                Seller Jurisdiction
                ┌──────────────────┐
                │      SELLER      │
                │    No gain       │
                │    (shares)      │
                └────────┬─────────┘
                         │ Shares
                         ▼
                ┌──────────────────┐
                │      TARGET      │
                │    DEEMED gain   │
                │    on assets     │◄─── Gain taxed HERE
                │    for tax       │      (local law)
                │    purposes      │
                └──────────────────┘
                Target Jurisdiction
```

When Article 6.2.2 applies:

Condition	Required
Controlling interest acquired/disposed	Yes
Local tax law treats as asset deal	Yes
Covered Tax levied on deemed disposal	Yes

Impact on GloBE: - Target recognizes gain/loss in its GloBE Income - Covered Taxes include the tax on deemed disposal - Acquiring group uses fair value basis for future GloBE calculations

5. Basis Step-Up Election *(Article 6.3.4)*

When the Election Applies

If local tax law **requires or permits** an entity to adjust the basis of its assets to fair value, the MNE Group can elect for GloBE treatment to follow this domestic tax treatment.

Common triggers: - Tax residence migration - Exit from tax consolidation - Deemed disposal rules - Voluntary re-basing elections

Election Mechanics

```
┌─────────────────────────────────────────────────────────────────────┐
│ BASIS STEP-UP ELECTION (Article 6.3.4)                              │
│                                                                     │
│ Step 1: Calculate net gain/loss on deemed disposal                  │
│         (Fair Value − Tax Basis for all assets/liabilities)        │
│                                                                     │
│ Step 2: Choose recognition timing:                                  │
│                                                                     │
│         OPTION A: Recognize 100% in triggering year                 │
│                                                                     │
│         OPTION B: Spread over 5 years (20% per year)               │
│                   Year 1: 20%                                       │
│                   Year 2: 20%                                       │
│                   Year 3: 20%                                       │
│                   Year 4: 20%                                       │
│                   Year 5: 20%                                       │
│                                                                     │
```

```
│ Step 3: Adjust carrying values for future GloBE calculations        │
└──────────────────────────────────────────────────────────────────────┘
```

Example: Basis Step-Up Election

Scenario: TechStart Ireland has assets with: - Tax basis: €20,000,000 - Fair market value: €35,000,000 - Net step-up: €15,000,000 (gain)

Upon acquisition by Stratos, Irish tax law permits a basis step-up with immediate tax charge.

Option A: Immediate Recognition

Year	GloBE Income Impact
Year 1 (acquisition year)	+€15,000,000
Years 2-5	€0

Option B: 5-Year Spread

Year	GloBE Income Impact
Year 1	+€3,000,000
Year 2	+€3,000,000
Year 3	+€3,000,000
Year 4	+€3,000,000
Year 5	+€3,000,000

Early Exit Acceleration

If the entity leaves the MNE Group before the 5-year period ends, the **remaining amount is accelerated** into the leaving year.

Example: Entity leaves in Year 3: - Year 1: €3,000,000 recognized - Year 2: €3,000,000 recognized - Year 3: €9,000,000 recognized (remaining €9M accelerated)

6. Comparison: Asset Deal vs Share Deal vs Step-Up Election

Aspect	Asset Deal	Share Deal (Standard)	Share Deal (Art. 6.2.2)	Step-Up Election
Gain location	Target jurisdiction	Seller jurisdiction	Target jurisdiction	Target jurisdiction
Target basis	Fair value	Historical	Fair value	Fair value
GloBE Income	Target includes gain	No gain in target	Target includes gain	Target includes gain (can spread)
Future depreciation	On fair value	On historical value	On fair value	On fair value
Covered Taxes	Tax on asset sale	No tax in target	Tax on deemed disposal	Tax on step-up

7. Disposal by an MNE Group

When a Constituent Entity **leaves** an MNE Group:

Income Recognition

Include in GloBE Income only the target's results **up to the disposal date**:

Item	Treatment
GloBE Income	Include to disposal date
Covered Taxes	Include to disposal date
Gain on disposal	Recognized in seller's jurisdiction

SBIE for Leaving Entities

Component	Treatment
Payroll	Include costs to disposal date
Tangible Assets	Value at disposal date × (months in group / 12)

Deferred Tax Treatment

DTLs that were previously taken into account in the disposing MNE Group are: - Treated as **reversed** in the disposing group - Treated as **arising** in the acquiring group

This prevents double-counting or gaps in the 5-year tracking.

8. Decision Flowchart: Acquisition/Disposal Treatment

```
START: Acquisition or disposal of entity
           │
           ▼
┌──────────────────────────────────────────────────────┐
│ Is this a share deal or asset deal?                  │
└──────────────────────────────────────────────────────┘
           │
    ┌──────┴──────────────────────┐
```

```
SHARE                  ASSET
DEAL                   DEAL
  │                      │
  ▼                      ▼
┌───────────────────┐ ┌──────────────────────────────┐
│ Does local tax    │ │ Follow standard asset        │
│ law treat share   │ │ treatment:                   │
│ deal as asset     │ │ → Gain in target jurisdiction│
│ deal?             │ │ → Target takes FMV basis     │
└───────────────────┘ └──────────────────────────────┘
         │
   ┌─────┴────┐
  NO         YES
   │          │
   ▼          ▼
┌─────────────────┐ ┌────────────────────────────────┐
│ Standard share  │ │ Apply Article 6.2.2:           │
│ deal:           │ │ → Gain in target jurisdiction  │
│ → Gain in       │ │ → Target takes FMV basis       │
│   seller's      │ │ → Include deemed disposal      │
│   jurisdiction  │ │   gain in target's GloBE      │
│ → Target keeps  │ │   Income                       │
│   historical    │ └────────────────────────────────┘
│   basis         │
└─────────────────┘
         │
         ▼
┌───────────────────────────────────────────────────┐
│ Does local tax law permit/require basis step-up?  │
└───────────────────────────────────────────────────┘
         │
   ┌─────┴────┐
  NO         YES
   │          │
   ▼          ▼
┌────────┐ ┌────────────────────────────────────────┐
```

```
 │No        │   │ Consider Article 6.3.4 election:        │
 │election│   │ → Recognize gain/loss in GloBE Income   │
 │needed    │   │ → Choose immediate or 5-year spread     │
 └─────────┘   │ → Adjust carrying values going forward │
                └─────────────────────────────────────────┘
```

9. Stratos Worked Example: TechStart Acquisition

9.1 Background

Stratos Holdings plc acquires 100% of TechStart Ireland Ltd on 1 July 2025.

TechStart Data:

Item	Pre-Acquisition Value
Tax basis of assets	€8,000,000
Fair market value of assets	€12,000,000
Full-year GloBE Income	€8,500,000
Full-year Covered Taxes	€1,062,500
Eligible payroll (full year)	€2,400,000
Tangible assets (at 1 July)	€5,000,000
DTL on accelerated depreciation	€300,000

Step 1: Determine Deal Structure

Irish tax law treats the acquisition as a **share deal**. The shares are sold by TechStart's former parent (a US company).

Result: Standard share deal treatment under Article 6.2.1. - Gain recognized in seller's jurisdiction (US) - TechStart retains historical carrying values

Step 2: Calculate Partial-Year GloBE Amounts

Item	Full Year	Consolidated (6 months)
GloBE Income	€8,500,000	€4,250,000
Covered Taxes	€1,062,500	€531,250
Payroll	€2,400,000	€1,200,000

Step 3: Calculate SBIE for Partial Year

Tangible Assets:

```
Asset value at joining date: €5,000,000
Months in group: 6 out of 12
Prorated amount: €5,000,000 × (6/12) = €2,500,000
Asset carve-out (7.8%): €2,500,000 × 7.8% = €195,000
```

Payroll:

```
Payroll in consolidated period: €1,200,000
Payroll carve-out (9.8%): €1,200,000 × 9.8% = €117,600
```

Total SBIE for TechStart (partial year): €195,000 + €117,600 = **€312,600**

Step 4: Handle Deferred Tax Attributes

TechStart has a DTL of €300,000 from accelerated depreciation.

Treatment	Action
DTL transfers to Stratos Group	Yes
5-year clock resets	Yes — new Year 1 starts 1 July 2025

Treatment	Action
Subject to 15% cap	Yes — recast at MIN(12.5%, 15%) = 12.5%

The DTL will be tracked for 5 years from 1 July 2025. If not reversed by 30 June 2030, recapture will be triggered.

Step 5: Consider Basis Step-Up Election

Question: Should Stratos make a basis step-up election for TechStart?

Analysis:

Factor	Consideration
Step-up amount	€12M − €8M = €4M gain
Irish tax on step-up	€4M × 12.5% = €500,000
Impact on GloBE Income	+€4M (or +€800K per year if spread)
Ireland ETR before	11.80%
Ireland ETR with step-up (Year 1)	Higher (increased income + tax)

Decision framework: - If Ireland's ETR is below 15%, adding €4M income and €500K tax may **increase** ETR - Future depreciation on stepped-up basis reduces future GloBE Income - Election is **irrevocable**—analyse carefully

Calculation if election made:

Without step-up election:

```
 Ireland GloBE Income: €15,000,000 + €4,250,000 = €19,250,000
Ireland Covered Taxes: €1,770,000 + €531,250 = €2,301,250
Ireland ETR: 11.95%
```

With step-up election (immediate):

```
 Ireland GloBE Income: €19,250,000 + €4,000,000 = €23,250,000
Ireland Covered Taxes: €2,301,250 + €500,000 = €2,801,250
Ireland ETR: €2,801,250 ÷ €23,250,000 = 12.05%
```

Result: Step-up election marginally improves ETR (12.05% vs 11.95%). However, the Top-Up Tax base increases. Analysis of multi-year impact needed before deciding.

10. Common Pitfalls

Pitfall 1: Using Fair Value for Acquired Entity

Error: Using purchase accounting fair values for the target's GloBE Income calculation.

Correct approach: Use the target's **historical carrying values** per Article 6.2.1(c). Only use fair value if Article 6.2.2 applies or a step-up election is made.

Pitfall 2: Not Prorating Tangible Assets

Error: Including full-year tangible asset value in SBIE for a mid-year acquisition.

Correct approach: Take asset value at joining date, then prorate: Asset × (months in group / 12).

Pitfall 3: Forgetting DTL Clock Reset

Error: Continuing the selling group's 5-year DTL tracking in the acquiring group.

Correct approach: Reset the clock. A new 5-year period begins when the DTL transfers to the acquiring MNE Group.

Pitfall 4: Assuming GloBE Loss Election Transfers

Error: Continuing the selling group's GloBE Loss Election for a jurisdiction.

Correct approach: GloBE Loss Election does NOT transfer. The acquiring group must make its own election decision.

Pitfall 5: Ignoring Article 6.2.2 Applicability

Error: Applying standard share deal treatment when local law treats the transaction as an asset deal.

Correct approach: Check local tax treatment. If the jurisdiction taxes a deemed asset disposal, apply Article 6.2.2.

Acquisition/Disposal Checklist

Use this checklist when an entity joins or leaves the MNE Group:

```
 ACQUISITION/DISPOSAL CHECKLIST
Entity: _________________________
Transaction Type: ACQUISITION / DISPOSAL
Transaction Date: _________________________
Months in MNE Group this FY: _____ / 12

═══════════════════════════════════════════════════════════════════════
SECTION A: DEAL STRUCTURE
═══════════════════════════════════════════════════════════════════════

□ Deal type: SHARE DEAL / ASSET DEAL

□ If SHARE DEAL:
   □ Does local tax law treat as asset deal?          YES / NO
   □ If YES: Apply Article 6.2.2
     □ Include deemed disposal gain in target's GloBE Income
     □ Target takes fair value basis going forward
   □ If NO: Apply standard Article 6.2.1
     □ Gain recognized in seller's jurisdiction
     □ Target keeps historical carrying values
```

SECTION B: PARTIAL YEAR CALCULATIONS

☐ GloBE Income (consolidated period): €____________________

☐ Covered Taxes (consolidated period): €____________________

☐ SBIE Components:

- ☐ Payroll (consolidated period): €____________________
- ☐ Payroll carve-out (×9.8%): €____________________

- ☐ Tangible assets at transaction date: €____________________
- ☐ Prorated amount (× months/12): €____________________
- ☐ Asset carve-out (×7.8%): €____________________

- ☐ Total SBIE: €____________________

SECTION C: DEFERRED TAX ATTRIBUTES

☐ Does target have DTAs? YES / NO

- ☐ Amount: €____________________
- ☐ Nature: ____________________________
- ☐ Transfer to acquiring group? YES (standard) / NO (GloBE Loss Elect

☐ Does target have DTLs? YES / NO

- ☐ Amount: €____________________
- ☐ Nature: ____________________________
- ☐ 5-year clock reset date: ____________________________
- ☐ Recapture deadline: ____________________________

☐ Did target have GloBE Loss Election? YES / NO

- ☐ If YES: Does NOT transfer
- ☐ Acquiring group election decision: MAKE NEW ELECTION / USE DTA APP

```
═══════════════════════════════════════════════════════════════════════
SECTION D: BASIS STEP-UP ELECTION (Article 6.3.4)
═══════════════════════════════════════════════════════════════════════

☐ Does local tax permit/require basis step-up?   YES / NO

   If NO: Skip to Section E

☐ Step-up analysis:
   ☐ Tax basis of assets:                         €__________________
   ☐ Fair market value:                           €__________________
   ☐ Net step-up gain/(loss):                     €__________________
   ☐ Tax on step-up:                              €__________________

☐ Election decision:
   ☐ Make step-up election?                       YES / NO
   ☐ If YES, recognition timing:
     ☐ Option A: 100% in Year 1                   €__________________
     ☐ Option B: 20% per year × 5 years           €__________ per year

☐ Impact analysis:
   ☐ ETR without election: ___________%
   ☐ ETR with election (Year 1): ___________%
   ☐ Multi-year NPV impact considered?            YES / NO

═══════════════════════════════════════════════════════════════════════
SECTION E: SUMMARY
═══════════════════════════════════════════════════════════════════════

☐ Article applied: 6.2.1 / 6.2.2 / 6.3.4
☐ GloBE Income impact (this FY):                  €__________________
☐ Covered Taxes impact (this FY):                 €__________________
☐ SBIE impact (this FY):                          €__________________
☐ DTL tracking required?                          YES / NO
☐ Elections made: _________________________
☐ Documentation complete?                         YES / NO
```