

Chapter 5.6: Minority-Owned Constituent Entities

Learning Objective

After completing this chapter, you will be able to identify Minority-Owned Constituent Entities (MOCEs), apply the separate ETR calculation requirement, compute Top-Up Tax for MOCEs and Minority-Owned Sub-Groups, and allocate Top-Up Tax liability between the main MNE Group and minority interests.

Key References

OECD GloBE Model Rules: - Article 5.6.1 — Treatment of Minority-Owned Sub-Groups - Article 5.6.2 — Treatment of stand-alone MOCEs - Article 10.1 — Definition of Minority-Owned Constituent Entity - Article 10.1 — Definition of Minority-Owned Parent Entity (MOPE) - Article 10.1 — Definition of Minority-Owned Sub-Group

OECD Commentary: - Chapter 5, paragraphs 163-182 — Minority-Owned Entity rules - Chapter 10 — Definitions (MOCE, MOPE, Minority-Owned Sub-Group)

Administrative Guidance: - February 2023: MOCE indirect ownership calculation clarifications

1. Why Separate Treatment for MOCEs?

The standard jurisdictional blending rule combines all Constituent Entities in a jurisdiction for ETR calculation. This creates a problem for minority-owned entities:

| THE PROBLEM WITHOUT SEPARATE TREATMENT |

| If UPE owns only 25% of Entity X:
| → 75% of Entity X's income belongs to OTHER shareholders
| → But jurisdictional blending includes 100% of Entity X
| → This could trigger Top-Up Tax that minority shareholders
| shouldn't bear

| OR

| → Entity X's high ETR could shield OTHER entities from Top-Up Tax
| → The UPE benefits from taxes paid by minority shareholders

Solution: MOCEs are **excluded** from standard jurisdictional blending and have their own separate ETR calculation.

2. Definition: Minority-Owned Constituent Entity (Article 10.1)

A **Minority-Owned Constituent Entity (MOCE)** is a Constituent Entity where:

1. The UPE holds **directly or indirectly 30% or less** of the Ownership Interests,
AND
2. The entity is **consolidated** in the MNE Group's financial statements (i.e., UPE has control)

MOCE QUALIFICATION

Ownership Interest \leq 30% + Consolidation (Control) = MOCE

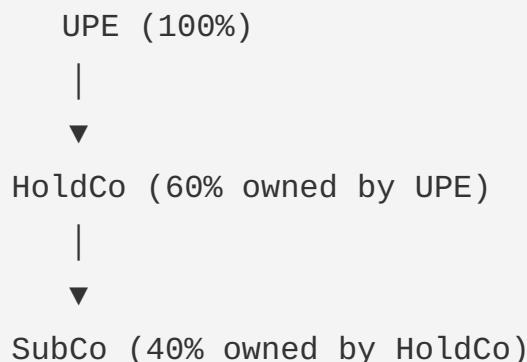
If ownership $>$ 30%: NOT a MOCE (standard blending applies)

If no control: NOT a Constituent Entity at all

2.1 Calculating Indirect Ownership

The 30% test considers **both direct and indirect ownership**:

Example: Indirect Ownership Calculation



UPE's indirect ownership in SubCo = $60\% \times 40\% = 24\%$

Since $24\% \leq 30\%$ and SubCo is consolidated → SubCo is a MOCE

2.2 Control Without Majority Ownership

MOCEs arise when accounting standards require consolidation despite $\leq 30\%$ ownership. Common scenarios:

Scenario	Ownership	Why Consolidated?
Voting control	25% equity	UPE controls board through voting agreements
Variable interest entity	20% equity	UPE is primary beneficiary under IFRS 10/ASC 810
De facto control	28% equity	Remaining ownership widely dispersed
Contractual arrangements	15% equity	Management contracts give effective control

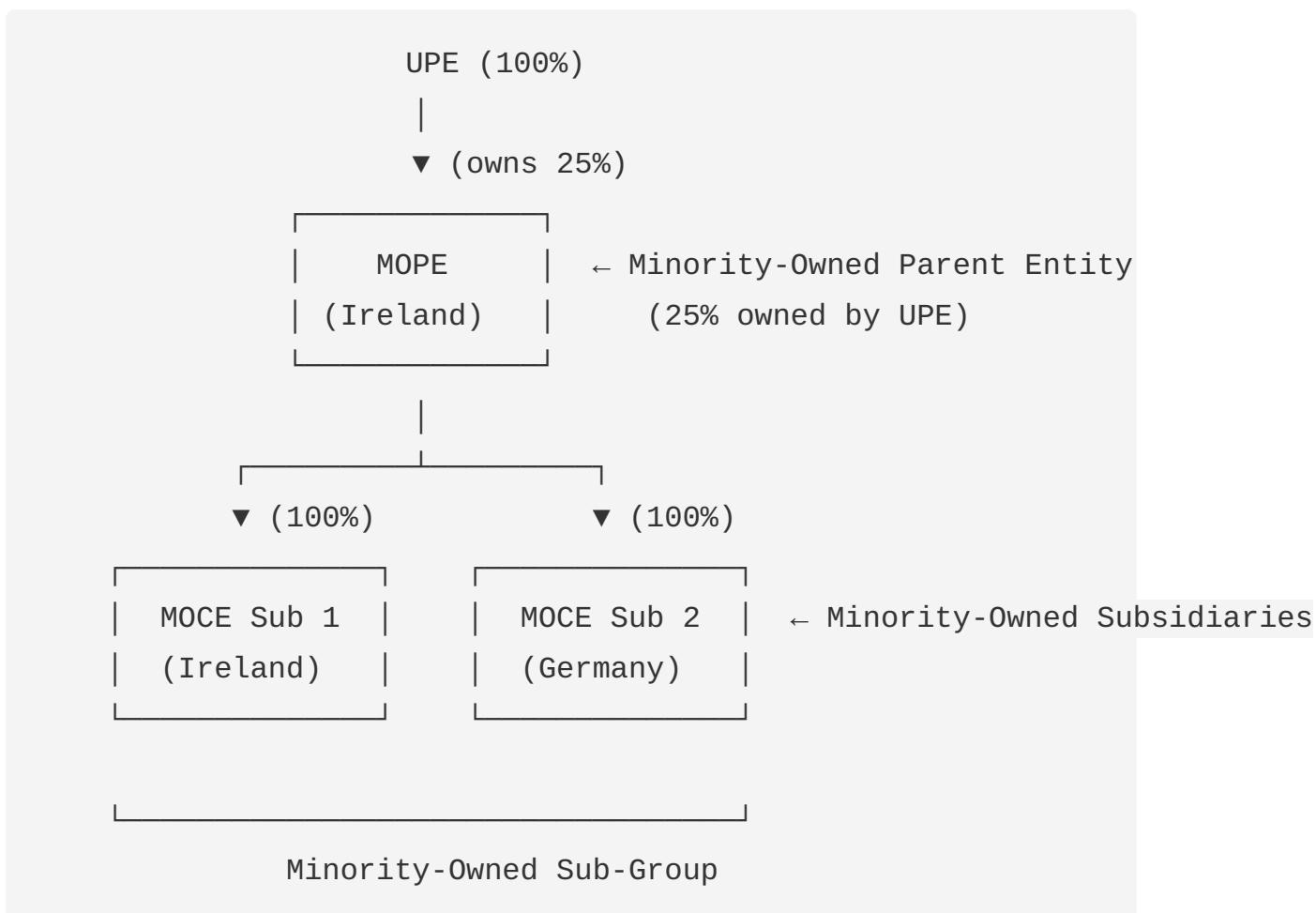
3. Related Definitions

3.1 Minority-Owned Parent Entity (MOPE)

A **Minority-Owned Parent Entity** is a MOCE that: - Holds **ownership interests** in other MOCEs, **AND** - Is **not** owned (directly or indirectly) by another MOCE

3.2 Minority-Owned Sub-Group

A **Minority-Owned Sub-Group** consists of: - A Minority-Owned Parent Entity (MOPE), **AND** - All MOCEs in which the MOPE holds (directly or indirectly) ownership interests



4. Separate ETR Calculation (Article 5.6)

4.1 Two Categories of MOCEs

Category	Treatment	Article
MOCE in a Minority-Owned Sub-Group	Sub-Group treated as separate MNE Group	5.6.1
Stand-alone MOCE (not in a Sub-Group)	Entity-level separate ETR	5.6.2

4.2 Article 5.6.1: Minority-Owned Sub-Groups

When a Minority-Owned Sub-Group exists:

MINORITY-OWNED SUB-GROUP TREATMENT

The Minority-Owned Sub-Group is treated as if it were a SEPARATE MNE GROUP for purposes of:

- Jurisdictional blending (within the sub-group only)
- ETR calculation
- SBIE calculation
- Top-Up Tax calculation

The Sub-Group's income and taxes are EXCLUDED from the main MNE Group's jurisdictional calculations.

4.3 Article 5.6.2: Stand-Alone MOCEs

If a MOCE is **not** part of a Minority-Owned Sub-Group:

STAND-ALONE MOCE TREATMENT

The MOCE's Adjusted Covered Taxes and GloBE Income or Loss are:

→ EXCLUDED from the main group's jurisdictional ETR

→ Calculated SEPARATELY on an entity-by-entity basis

Each stand-alone MOCE has its own individual ETR calculation.

5. Multiple ETR Calculations Per Jurisdiction

MOCE rules can result in **multiple ETR calculations** for the same jurisdiction:

Example: Ireland with Three ETR Calculations

Ireland Jurisdiction

- Main MNE Group entities (standard blending)
 - | — Ireland OpCo 1
 - | — Ireland OpCo 2
 - | — ETR Calculation #1: Main Group Ireland
- Minority-Owned Sub-Group
 - | — MOPE Ireland
 - | — MOCE Sub Ireland
 - | — ETR Calculation #2: MO Sub-Group Ireland
- Stand-alone MOCE
 - | — Ireland JV Co (25% owned, no subsidiaries)
 - | — ETR Calculation #3: Stand-alone MOCE

6. Worked Example: MOCE ETR Computation

6.1 Scenario

Stratos Group has a 28% ownership interest in **Atlas Ireland Ltd**, a consolidated entity providing shared services. Atlas Ireland Ltd is a stand-alone MOCE (no subsidiaries).

6.2 Step 1: Identify MOCE Status

Test	Assessment
UPE ownership interest	28% (direct)
Is $\leq 30\%$?	Yes
Is entity consolidated?	Yes (control through management contract)
Part of Minority-Owned Sub-Group?	No (no MOCE subsidiaries)
Classification	Stand-alone MOCE

6.3 Step 2: Calculate Separate ETR

Atlas Ireland Ltd Data:

Item	Amount
GloBE Income	€2,400,000
Adjusted Covered Taxes	€288,000

ETR Calculation:

$\text{ETR} = \text{Adjusted Covered Taxes} / \text{GloBE Income}$
 $\text{ETR} = €288,000 / €2,400,000$
 $\text{ETR} = 12.00\%$

6.4 Step 3: Apply SBIE (Separately)

Atlas Ireland Ltd Substance:

Item	Amount	Rate (2025)	Carve-out
Eligible Payroll	€1,200,000	9.8%	€117,600
Tangible Assets (NBV)	€800,000	7.8%	€62,400
Total SBIE			€180,000

Excess Profit:

$\text{Excess Profit} = \text{GloBE Income} - \text{SBIE}$
 $\text{Excess Profit} = €2,400,000 - €180,000$
 $\text{Excess Profit} = €2,220,000$

6.5 Step 4: Calculate Top-Up Tax

$\text{Top-Up Tax \%} = 15\% - 12\% = 3\%$

$\text{Top-Up Tax} = 3\% \times €2,220,000 = €66,600$

6.6 Step 5: Apply QDMTT Offset (If Applicable)

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

QDMTT Paid:	€66,600
Net Top-Up Tax:	€0

Result: Ireland retains the €66,600 through its QDMTT.

6.7 Comparison: Main Group vs MOCE

Calculation	Main Group Ireland	Stand-alone MOCE
Entities included	Ireland OpCo 1, OpCo 2	Atlas Ireland Ltd only
GloBE Income	€15,000,000	€2,400,000
ETR	11.80%	12.00%
Top-Up Tax %	3.20%	3.00%
Jurisdictional Top-Up Tax	€426,394	€66,600
QDMTT offset	(€426,394)	(€66,600)
Net Top-Up Tax	€0	€0

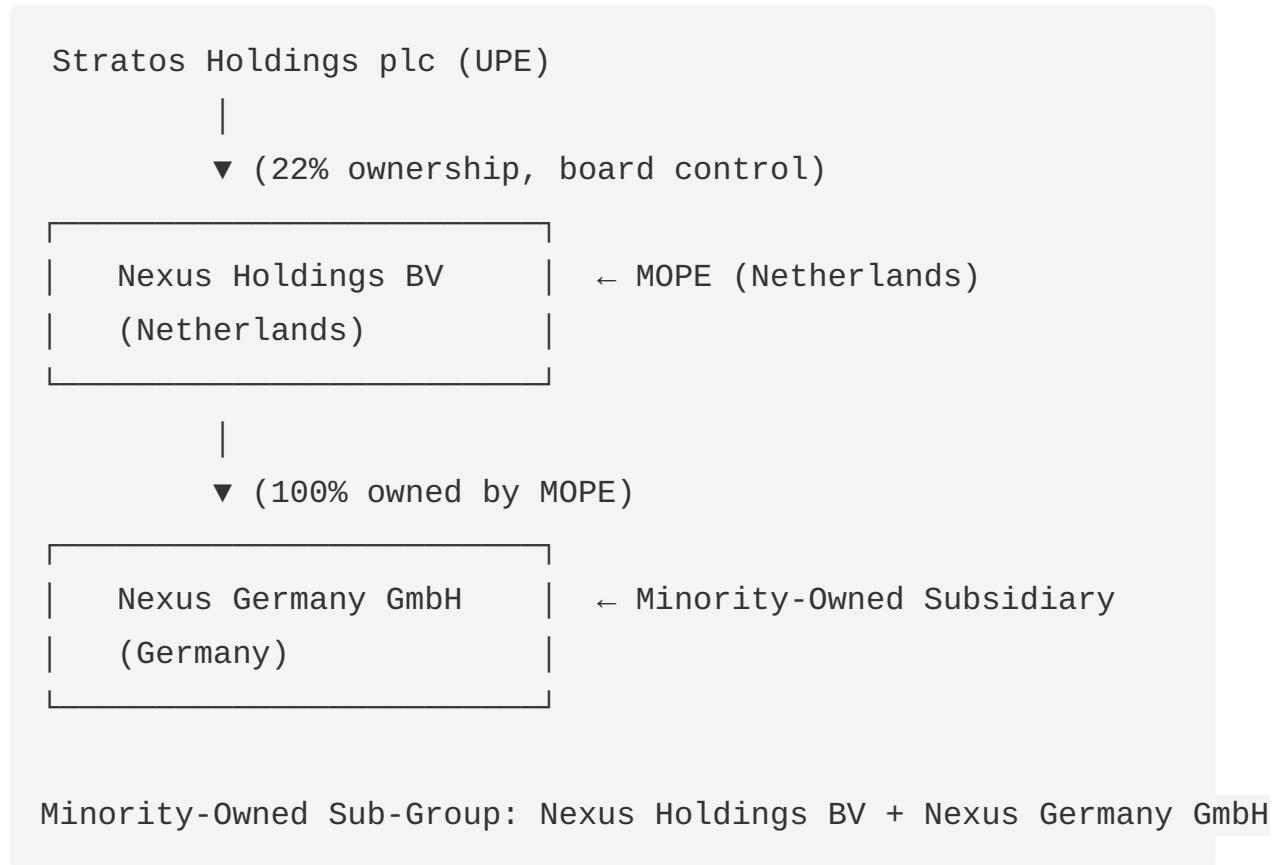
Key insight: Without MOCE separation, Atlas Ireland's 12% ETR would have been blended with the main group's 11.80%, potentially affecting both calculations unfairly.

7. Minority-Owned Sub-Group Example

6.1 Scenario

Stratos Group owns 22% of **Nexus Holdings BV** (Netherlands), which owns 100% of **Nexus Germany GmbH**. Nexus Holdings BV is consolidated due to Stratos's board control.

7.2 Structure



7.3 Calculation: Sub-Group as Separate MNE

Step 1: Netherlands ETR (MOPE)

Item	Amount
GloBE Income (MOPE)	€1,800,000
Adjusted Covered Taxes	€450,000
ETR	25.00%

Result: ETR ≥ 15% → No Top-Up Tax for Netherlands within Sub-Group.

Step 2: Germany ETR (Sub-Group Member)

Item	Amount
GloBE Income (Nexus Germany)	€3,500,000
Adjusted Covered Taxes	€980,000
ETR	28.00%

Result: ETR $\geq 15\% \rightarrow$ No Top-Up Tax for Germany within Sub-Group.

7.4 Main Group Germany (Separate Calculation)

Stratos's main group also has entities in Germany (SG Germany GmbH):

Calculation	Main Group Germany	Sub-Group Germany
Entities	SG Germany GmbH	Nexus Germany GmbH
GloBE Income	€50,000,000	€3,500,000
ETR	23.00%	28.00%
Top-Up Tax	€0	€0

Important: Nexus Germany GmbH is **excluded** from Main Group Germany's blending.

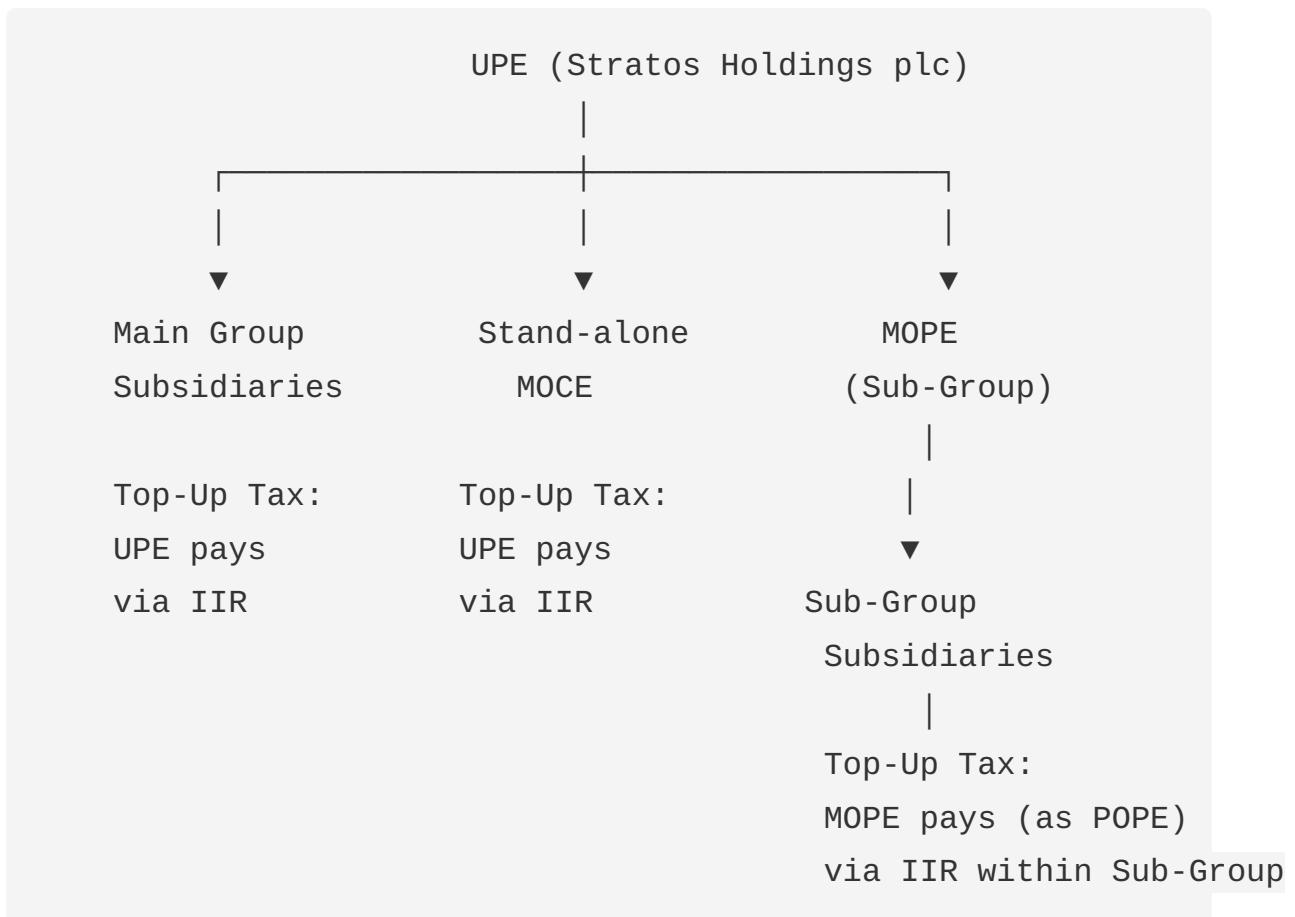
8. Top-Up Tax Allocation for MOCEs

8.1 Who Pays the Top-Up Tax?

Entity Type	Who Bears Top-Up Tax?	Mechanism
Stand-alone MOCE	UPE of main MNE Group	IIR

Entity Type	Who Bears Top-Up Tax?	Mechanism
MOPE (Sub-Group parent)	UPE of main MNE Group	IIR
Minority-Owned Subsidiary	MOPE (Sub-Group parent)	IIR within Sub-Group

8.2 Allocation Logic



8.3 Attribution Based on Ownership

Even though the UPE bears Top-Up Tax for a MOCE, the **amount** reflects only the UPE's ownership share in the GloBE Income:

$$\text{UPE's Top-Up Tax Attribution} = \text{Top-Up Tax} \times \text{UPE's Ownership \%}$$

Example: Atlas Ireland Ltd

- Total MOCE Top-Up Tax: €66,600
- UPE ownership: 28%
- UPE's attributed Top-Up Tax: $\text{€66,600} \times 28\% = \text{€18,648}$

Note: The full €66,600 is still computed and potentially collected via QDMTT, but the UPE's economic exposure is 28%.

9. MOCE Interaction with Other Rules

9.1 De Minimis Exclusion

MOCEs **are included** in the De Minimis calculation:

Rule	Treatment of MOCE
De Minimis thresholds	MOCE revenue and income included in jurisdiction totals
ETR calculation	MOCE excluded from standard blending

Practical effect: A jurisdiction might qualify for De Minimis including MOCE amounts, but MOCEs would still have separate calculations if De Minimis doesn't apply.

9.2 QDMTT

For a QDMTT to be **Qualified**, it must:

- Apply separate calculations for MOCEs
- Not blend MOCE income with main group

If a jurisdiction's domestic minimum tax doesn't follow MOCE separation, it **does not qualify** as a QDMTT.

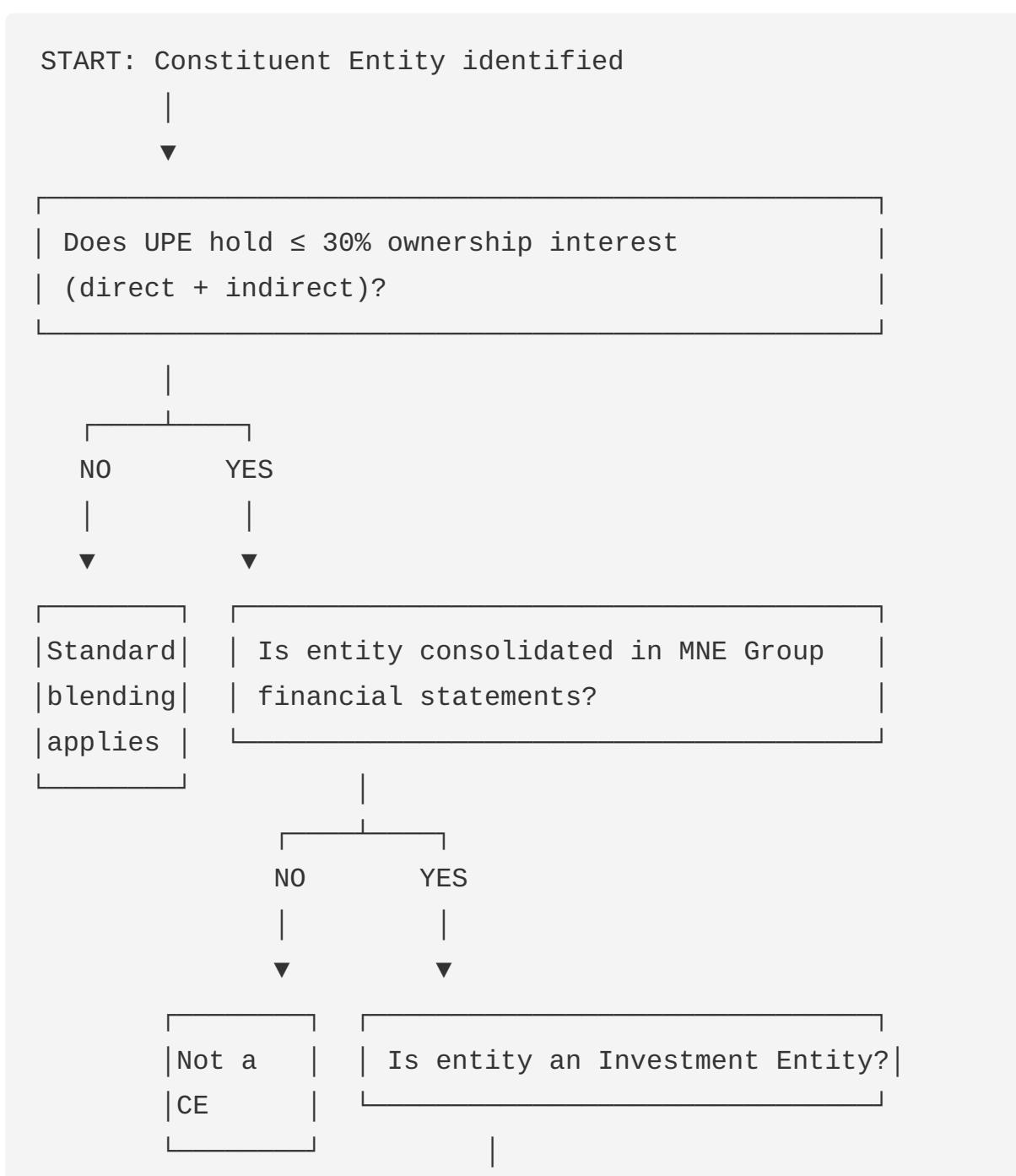
9.3 Investment Entities

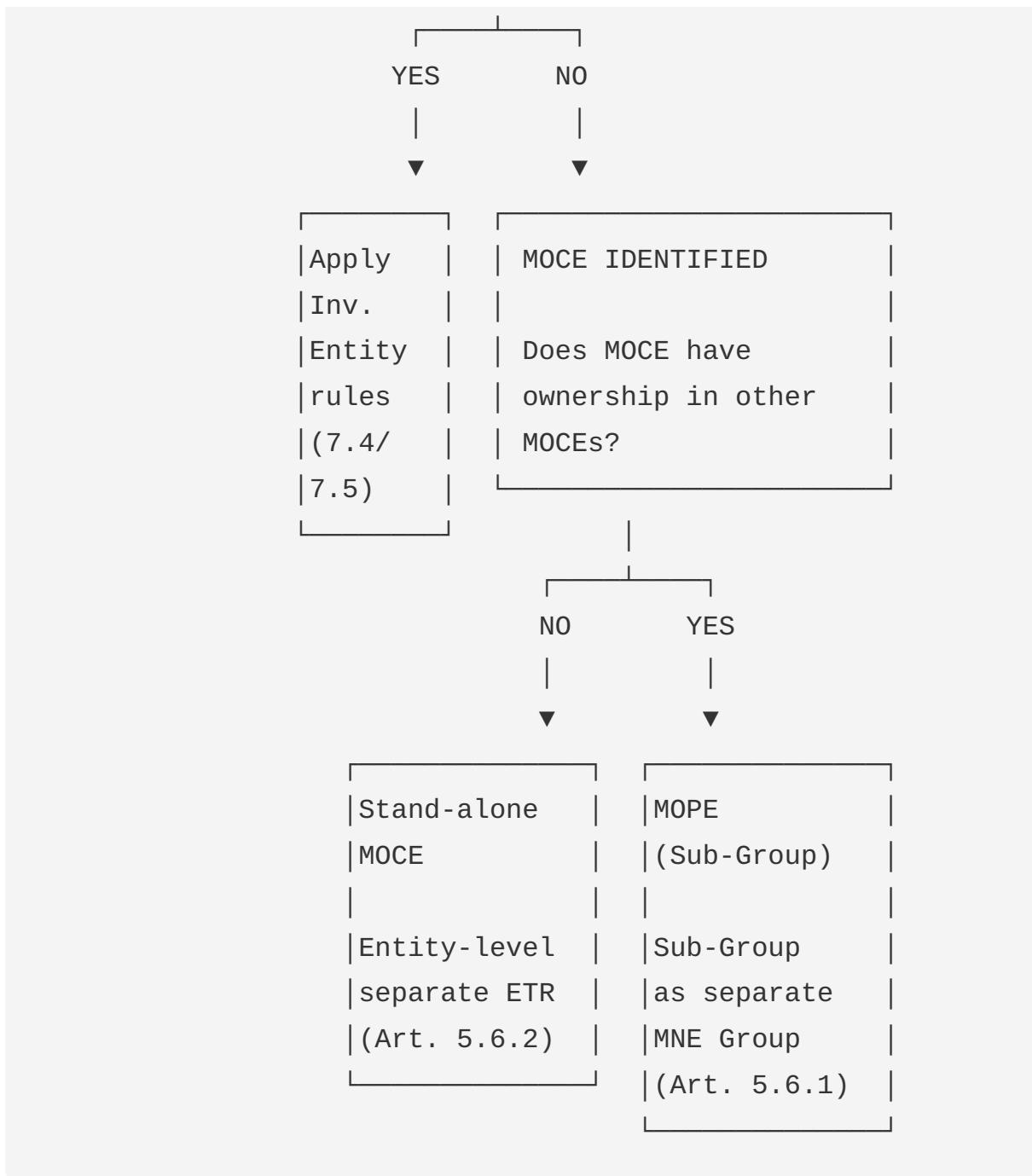
If a MOCE is an **Investment Entity**:

- MOCE rules do **not apply**
- Investment Entity rules (Articles 7.4/7.5) take **priority**

Entity Type	Applicable Rules
MOCE (not Investment Entity)	Article 5.6
MOCE that is Investment Entity	Articles 7.4/7.5 (priority)

10. Decision Flowchart: MOCE Identification and Treatment





11. Common Pitfalls

11.1 Pitfall 1: Including MOCEs in Standard Blending

Error: Including MOCE's Covered Taxes and GloBE Income in the main group's jurisdictional ETR.

Correct approach: Always exclude MOCEs from standard blending; calculate separately.

11.2 Pitfall 2: Forgetting Indirect Ownership

Error: Only considering direct ownership when applying the 30% test.

Correct approach: Calculate ownership through all tiers:

Indirect ownership = Product of ownership at each tier

Example: $60\% \times 40\% = 24\%$ indirect ownership

11.3 Pitfall 3: Treating Investment Entity MOCEs Under Article 5.6

Error: Applying MOCE separate calculation to an entity that is both a MOCE and an Investment Entity.

Correct approach: Investment Entity rules (Articles 7.4/7.5) take priority over MOCE rules.

11.4 Pitfall 4: Excluding MOCEs from De Minimis Calculation

Error: Not including MOCE revenue and income when calculating De Minimis thresholds.

Correct approach: Include MOCEs in De Minimis calculation (different from ETR blending treatment).

11.5 Pitfall 5: Allocating Wrong Top-Up Tax Amount

Error: Allocating 100% of MOCE Top-Up Tax to the UPE without considering ownership percentage.

Correct approach: While the UPE bears the tax obligation, attribution for economic purposes is based on ownership share.

12. MOCE Assessment Checklist

Use this checklist to identify and process MOCEs:

MOCE IDENTIFICATION AND CALCULATION CHECKLIST

Entity: _____

Jurisdiction: _____

Fiscal Year: _____

PART A: MOCE IDENTIFICATION

Step 1: Calculate UPE Ownership

Direct ownership: _____%

Indirect ownership calculation:

Tier 1: _____% × Tier 2: _____% × Tier 3: _____% = _____%

Total (direct + indirect): _____%

Is total \leq 30%? YES / NO

If NO → Standard blending applies. STOP.

Step 2: Confirm Consolidation

Is entity consolidated in MNE Group financials? YES / NO

Basis for consolidation: _____

If NO → Not a Constituent Entity. STOP.

Step 3: Check Investment Entity Status

Is entity an Investment Entity? YES / NO

If YES → Apply Investment Entity rules (Articles 7.4/7.5). STOP.

Step 4: Determine MOCE Type

Does entity own interests in other MOCEs? YES / NO

If YES → Entity is a MOPE; apply Sub-Group treatment (Article 5.6.1)

If NO → Entity is a Stand-alone MOCE (Article 5.6.2)

PART B: SEPARATE CALCULATION (Stand-alone MOCE)

- GloBE Income: € _____
- Adjusted Covered Taxes: € _____
- ETR (Taxes ÷ Income): _____ %

If ETR \geq 15%: No Top-Up Tax. STOP.

- SBIE Calculation (separate):
- Eligible Payroll: € _____
 - Payroll Carve-out (@9.8%): € _____
 - Tangible Assets (NBV): € _____
 - Asset Carve-out (@7.8%): € _____
 - Total SBIE: € _____
- Excess Profit (Income - SBIE): € _____
- Top-Up Tax % (15% - ETR): _____ %
- MOCE Top-Up Tax: € _____
- QDMTT Offset (if applicable): (€ _____)
- Net Top-Up Tax: € _____

PART C: SUB-GROUP CALCULATION (If MOPE)

- List all entities in Minority-Owned Sub-Group:
1. MOPE: _____
 2. Subsidiary: _____
 3. Subsidiary: _____

- Apply full GloBE calculations as if Sub-Group were separate MNE:
- Jurisdictional blending within Sub-Group
 - Separate SBIE for Sub-Group
 - Separate Top-Up Tax for Sub-Group

PART D: TOP-UP TAX ATTRIBUTION

- Total MOCE/Sub-Group Top-Up Tax: € _____
- UPE Ownership %: _____ %

- UPE Attributed Share: €_____
- Mechanism: IIR / QDMTT offset