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GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

April 2022

GFIA response to OECD public consultation on the Implementation Framework of the global minimum tax

Executive Summary

GFIA understands and supports the efforts of Inclusive Framework members to effectively formulate mechanisms that will ensure tax administrations and MNE-s can implement and apply the GloBE Rules in a consistent and coordinated manner. While the public consultation seeks input on administrative and compliance-related challenges, we believe there are still several areas in the Model Rules and Commentary that remain ambiguous or create undue complexity and should, therefore, be addressed in the forthcoming Administrative Guidance and Implementation Framework through clarifications and simplification measures.

In addition to answering the questions outlined in the consultation, we have identified five areas of particular concern to the insurance industry:

- Implementation timeline and complexity
- Deferred tax recasting at the minimum rate
- Additional Tier 1 Capital
- Safe Harbours
- Article 7.5/7.6 IE/IIE & Investment funds definition/treatments

Although the Commentary does provide some additional explanation in some of these areas, many areas of the Model Rules and Commentary still lack the appropriate clarity for GFIA members to be certain in their interpretation and therefore implementation of Pillar 2. This lack of certainty adversely affects businesses already subject to heavy administrative burdens and increases the risk of inadvertent non-compliance.

Implementation timeline and complexity

The GloBE rules are incredibly complex and bringing them into domestic law before the end of 2022 implies an incompressible timeframe for the actual legislative process in each jurisdiction. The Commentary to the OECD GloBE Model Rules was published on 14 March 2022 and to date, no jurisdiction has completed transposing the Model Rules into law and no comprehensive guidance is yet available.

Proposed implementation timelines do not appropriately account for the development, testing and rollout of the necessary IT systems that are required to collect, analyse, and compute what is needed for compliance with GloBE rules. General timelines for large IT system updates or changes require 18- 36 months for comprehensive implementation and this process can only begin when IT teams have sight of full and complete rules with adequate and appropriate guidance.

Furthermore, policymakers should be aware that Pillar 2 is not the only reform underway. The insurance industry will be implementing new accounting standards worldwide in 2023, including IFRS 17 and new GAAP accounting rules in the United States (Long-Duration Targeted Improvements, or LDTI). In addition to the compliance burden of trying to implement significant accounting policy changes in the same year as Pillar 2, there are other considerations. If these accounting changes are considered in the first year that GloBE is implemented and result in an adjustment that runs through GloBE income, there may be unintended consequences, including potentially significant tax due under GloBE rules – contrary to the intent of the Inclusive Framework. Accordingly, a delay in the effective date of the GloBE rules until after these accounting changes are implemented is necessary and appropriate.

As an entry into force as of 1 January 2023 is now effectively out of reach, including for tax administrations, the Income Inclusion Rule and Qualified Domestic Minimum Top-up Taxes should be postponed to at least 1 January 2024, with a 1 year further delay for the Undertaxed Profits Rule.

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Deferred tax recasting at the minimum rate

The mechanism to address temporary differences should not limit deferred tax assets and liabilities to the Minimum Rate. Limiting deferred tax amounts to the Minimum Rate while the reversals of those amounts are at the locally applicable current tax rate introduces complexity, volatility, and distortion into the computation of the GloBE ETR where none need exist. For example, GloBE income which gives rise to a deferred tax liability could result in a reduced GloBE ETR in the year the deferred tax liability arises, and an increased GloBE ETR when the deferred tax liability reverses. Similarly, a GloBE loss which gives rise to a deferred tax asset will result in an increased GloBE ETR in the year the deferred tax asset arises, and a decreased GloBE ETR when the deferred tax asset reverses as a current item[1]. Requiring a separate tax rate for calculation of deferred taxes for GloBE purposes essentially requires companies to maintain a separate set of records, adding significant compliance burdens to an already complex process. Allowing deferred tax amounts at the applicable tax rate will eliminate this distortion and provide a more accurate computation of the GloBE ETR. We believe administrative ease and cost burdens will reduce if the Model Rules do not limit the calculation of deferred tax assets and liabilities to the Minimum Rate. At a minimum, we recommend clarifying that the 15% recast only applies in respect of certain perceived risk areas, rather than applying it across the board or the OECD provides greater clarification on how it intends to resolve the mis-match issues identified.

Additional Tier 1 Capital

We are concerned with the exclusion of Insurance from Article 3.2.10, related to Additional Tier 1 Capital by way of the absence of RT1, or Insurance restricted instruments qualifying as Tier 1 Capital. Restricted Tier 1 (RT1) instruments are junior subordinated debt securities issued by insurance companies that can qualify as capital under current European Insurance Regulation (Solvency II). Depending on the terms of the RT1 instruments, the coupon is treated as tax deductible debt incurred by the issuer.

As drafted, the Model rules will reduce the ETR for insurers with RT1 capital where the capital and interest form part of equity, but the tax relief on the interest forms part of the tax charge in the Income Statement. Covered Taxes are therefore reduced by the tax relief, but the GloBE profit is not reduced by the interest.

In addition to the above, it is also important to ensure that if a regulatory trigger event results in the write-down of a regulatory debt instrument, the resultant accounting for that write-down does not inadvertently result in a GloBE tax hit. Such regulatory capital instruments are deliberately structured such that their write down does not trigger corporation tax (which would render them less effective from a capital perspective). Therefore, absent appropriate adjustments in the computation of ETR there is a possibility that a write down may trigger GloBE income with no associated covered taxes. This would distort the ETR and potentially result in a GloBE tax liability.

Safe harbours and other simplification measures

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Portoflio Investment--DTL yr 1, reversing yr 2				Portoflio Investment--DTA yr 1, reversing yr 2		
	Yr 1	Yr 2			Yr 1	Yr 2
Operating Income	80	80		Operating Income	80	80
Portoflio Investment Tax Income	0	100		Portoflio Investment Tax Income	0	-100
Portfolio Investment book only income	100	0		Portfolio Investment book only income	-100	0
Taxable Income	80	180		Taxable Income	80	-20
Tax @ 21%	16.8	37.8		Tax @ 21%	16.8	-4.2
GLOBE DTL	15	-15		GLOBE DTA	-15	15
GLOBE income	180	80		GLOBE income	-20	80
Globe tax	31.8	22.8		Globe tax	1.8	10.8
GLOBE ETR	17.67%	28.50%		GLOBE ETR	-9.00%	13.50%

GFIA advocates for simplification options that would clarify the intended outcome and limit incremental compliance processes and computations. The use of a global calculation based on CbCR data as a safe harbour, identifying jurisdictions where it is reasonably expected that the effective tax rates do not fall below the minimum tax rate, or analysing jurisdictional taxation systems and designating compliant systems as 'GloBE compliant', could provide a welcome simplification and remove much of the costly compliance complexity for groups operating predominantly in higher tax jurisdictions (see answer to question 3 below).

Insurance investment vehicles

GFIA members believe that holdings in investment vehicles for the purposes of backing policyholder liabilities should not, as a matter of principle (in line with the policy intent of the GloBE rules and tax regimes throughout the Inclusive Framework jurisdictions) result in GloBE top-up tax, as these vehicles themselves suffer little, or no tax. We recommend expanding the Excluded Entities provision in the Model Rules to achieve this. As written, the Model Rules and Commentary would create significant incremental compliance burdens and potential distortions. GFIA members have highlighted specific concerns with Paragraph (89) 7.5.1 of the Model Rules and Commentary, which specifically excludes, from the transparency election, insurance investment entities that are not subject to tax under a mark-to-market or similar regime at a rate that equals or exceeds the Minimum Rate.

As part of the ongoing management of insurance or annuity policies, an insurer may have to make arbitrage on its investments in controlled funds. In such cases, some Insurance Investments Funds may actually shift from a category of funds whose income is taxed on the historic value of the insurer's ownership interests to a mark-to-market tax regime within a short span of time. Such cases would unavoidably raise an additional tracking constraint for the owner that should be prevented.

It is paramount for the industry that the issue is given proper consideration that should result in allowing the election to the Investment Entities Tax Transparency for all investment entities wholly owned by one or more insurance companies within an insurance group. The election should be open to all such investment entities to the extent that the investment is related to the insurance activity.

In addition, with the current wording of the Model Rules and Commentary, an Insurance Investment Entity may only elect for the Tax Transparency Election but not for the Taxable Distribution Method Election in article 7.6 (see answer to question 4 below).

Responses to specific questions

Do you see a need for further administrative guidance as part of the Implementation Framework? If so, please specify the issues that require attention and include any suggestions for the type of administrative guidance needed.

It is critical that the OECD Secretariat work together with the International Accounting Standards Board to clarify the accounting treatment of Pillar 2 taxes under the Model Rules. For example, are Pillar 2 taxes "income taxes" for the purposes of the International Accounting Standards? If so, deferred tax accounting must be applied to Pillar 2 tax, such that deferred taxes are recorded for temporary differences between GloBE profit and financial reporting profit.

In addition, the outcome of the above will also be important for transitional deferred tax balances brought into the regime.

Do you have any comments relating to filing, information collection including reporting systems and record keeping? In particular do you have any views on how the design of the information collection, filing obligations and record keeping requirements under GloBE could be designed to maximise efficiency, accuracy and verifiability of information reporting while taking into account compliance costs?

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The introduction of the GloBE rules in a jurisdiction should be made through a co-ordinated process focused on the practical implementation of the minimum taxation rules. To maximise efficiency, accuracy and verifiability of information reporting while taking into account compliance costs, and also to ensure data protection and confidentiality of sensitive information, there should be a single filing process whereby MNE Groups would file a single minimum tax return with the tax administration of the jurisdiction of the Ultimate Parent Entity (UPE) or designated filing entity. This would be shared with the jurisdictions of the Constituent Entities through current exchange of information network, subject to confidentiality and data protection.

To keep an overview of the compliance requirements, it would be helpful to have a central information platform similar to the one provided by the OECD for Country-by Country Reporting. The platform could contain information on the implementation process in the various jurisdictions, local compliance requirements and links to further local information.

We would also suggest that a uniform global reporting standard to ensure centralized data format for data submission should be established. The XML standard used for the Country-by Country Reporting could serve as an example.

Additionally, the Qualified Domestic Minimum Top-up Tax should be able to be applied based on the accounting standards used in the Consolidated Financial Statements. The Model Rules permit for a Qualified Domestic Minimum Top-up Tax to be based on different applicable accounting standards than are generally applicable under the GloBE rules. For simplification purposes, an election should be allowed to use either local accounting standards or the accounting standards used in the Consolidated Financial Statements in calculating the Qualified Domestic Minimum Top-up Tax.

Additional rules clarifying the application of the Qualified Domestic Minimum Top-up Tax should also be provided, including rules that would prevent the application of an IIR or UTPR to income in a jurisdiction which has adopted a Qualified Domestic Minimum Top-up Tax (which application would result in double taxation under the GloBE rules).

Do you have any suggestions on measures to reduce compliance costs for MNEs including through simplifications and the use of safe harbours?

GFIA advocates for simplification options that would clarify the intended outcome and limit compliance and additional computations. The use of a global calculation as a safe harbour, identifying jurisdictions where it is reasonably expected that the effective tax rates do not fall below the minimum tax rate or analysing jurisdictional taxation systems and allocating compliant systems a 'GloBE compliant status', could provide a welcome simplification and remove the costly compliance complexity for groups operating predominantly in higher tax jurisdictions.

In jurisdictions where premium taxes are assessed on insurance companies they are generally imposed as a substitute for income taxes [Article 4.2.1, paragraph 32]. The fact that they are not imposed on net income should not disqualify them as covered taxes under [Article 4.2.1, paragraphs 31 & 32]. Frequently, the reason why some states or provinces impose such taxes on gross premiums of insurance companies is to assure a predictable source of annual revenue collections for their jurisdictions. There are some taxes so imposed which may not conclusively fall within the definition of taxes paid in lieu of an income tax, and some which are of a hybrid nature that may qualify as covered taxes under paragraph 34 of article 4.2.1. We also request that a premium tax that may be reduced, in whole or in part, by an income tax be treated as a covered tax levied "as a substitute for a generally applicable income tax" (article 4.1.2 Paragraph 32).

As per the Model Rules, the Group definition, includes in the adjusted consolidation scope, entities that are not usually included in the consolidated financial statements of the Ultimate Parent Entity, based on size, or because they are held for sale. Such a requirement increases the administrative burden related to the collection of data needed and such entities are unlikely to impact on the computation of the jurisdictional ETR. As such entities are not included in the consolidation scope for the purposes of issuing financial

statements, because their data is not connected to the reporting infrastructure and the accounts may be kept under a different accounting standard. There would therefore be a need for an intermediate step to convert the records of such entities to the financial standard of the Ultimate Parent Entity. Within insurance groups, such entities may often turn out to be Insurance Investment Entities or Investment Funds as defined in the Model rules. Moreover, as IFRS 9 rules come into force, the thresholds for assessing ownership and control criteria will increase the number of immaterial entities within the adjusted consolidation scope. In this respect, we suggest excluding immaterial entities from the scope of Pillar 2, thus reducing the compliance burden related to the implementation of the global minimum tax rules.

The formulaic carve-out set in the GloBE rules has the effect of allowing routine returns to be excluded for both labour-intensive and fixed/tangible asset-intensive businesses. Financial services companies – particularly insurance companies – operate around the globe under the careful oversight of regulators, which require specific and quantifiable amounts of capital be held in specific entities to ensure the protection of policyholders. The allocation of capital follows risk and, regulators require specific amounts of capital in specific entities to support that level of risk. In short, there are objective measures of how much capital is required to be in a jurisdiction. GFIA supports an economic substance exemption for financial services companies that reflects the realities of their business model – and therefore is based on regulatory capital.

As provided above, the carve-out in the GloBE Model rules is only appropriate for labour-intensive and tangible asset-intensive businesses, and therefore provides little benefit to capital intensive industries such as (re)insurance.

Do you have any views on mechanisms to maximise rule coordination, increase tax certainty and avoid the risk of double taxation?

The responsibility of verifying the IIR liability should lie with the tax administration of the jurisdiction of the UPE or designated filing entity. That jurisdiction will be the best placed to audit an MNE Group as it will have easier access to the data, it will generally have a good knowledge of the group structure and tax situation, and it may apply sanctions in case of non-compliance.It should be made clear that any requests from jurisdictions of Constituent Entities of the MNE Group should be sent directly to the tax administration of the jurisdiction of the UPE, and issues should be resolved at tax administrations' level.

GFIA members understand that in the OECD GloBE Model rules, the comments relating to the insurance industry apply equally to reinsurers. Reinsurers contract with primary insurers to reimburse any future claim arising against the payment of a premium today, so their business relationship is tied to the occurrence of an insured event. As reinsurers are supervised by the same regulatory bodies and bound by similar accounting principles as insurers, their reserves should benefit from the recapture exception accrual provided for under Article 4.4.5 of the Model Rules for insurance reserves. It is important that this clarification be formally noted.

As noted above, the rule as set out in Article 7.5 of the OECD GloBE Model Rules, is not consistent with tax regimes applicable in many Inclusive Framework jurisdictions. The taxable distribution method election in Article 7.6. does not serve as a workable alternative in many cases. This is partly due to its narrow scope which excludes insurance investment entities. Also, the requirements are very restrictive. Amongst others, the requirement whereby the funds (deemed) distributions must be subject to a minimum tax rate of 15 % leads to conflicts with domestic tax laws and renders the election largely unusable in many jurisdictions.

It is important for the industry that this issue is given proper consideration so that the elections have greater accessibility. To this end, we request that the Implementation Framework widens the scope of the Investment Entity Tax Transparency Election under Art. 7.5. and the Taxable Distribution Method Election under Art. 7.6. In addition, insurance investment entities should be included in the scope of the Taxable Distribution Method Election.

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Furthermore, clarification is needed with regard to the definitions of an Investment Entity and Insurance Investment Entity in Art. 10.1.1 of the model rules:

1. Investment Fund definition in Art. 10.1.1 (f) (+ Commentary in par. 44.): The requirement “entity or its management is subject to a regulatory regime in the jurisdiction in which it is established or managed (including appropriate anti-money laundering and investor protection regulation) “seems vague. It poses the question of what constitutes a ’regulatory regime’ beyond the expressly mentioned anti-money laundering and investor protection regulation. Therefore, further guidance is needed to clarify the ‘regulatory regime’ requirement including examples for regulation which does not count as a ‘regulatory regime’.

2. Investment Fund definition in Art. 10.1.1 (g) (+ Commentary in par. 45.a): According to the definition the fund must be “managed by investment fund management professionals”. The commentary mentions as an indicative factor for this requirement: “The fund managers operate independently of the investors and are not directly employed by the investors”. Sometimes, fund managers are employed by a related group company of the investor(s). It should be clarified if in this situation the fund manager can be viewed as independent in terms of the indicator.

3. Investment Fund definition in Art. 10.1.1 (g) (+ Commentary in par. 45.b): Another indicator for the fact that the investment fund is managed by investment management professionals is where “the fund managers are subject to national regulation regarding knowledge and competence”. The indicator poses the question as to what kind of “regulation” is required. Do the fund managers have to hold a particular professional certificate, or must they be overseen by an association or any other (professional) body?

4. Insurance Investment Entity definition in Art. 10.1.1 of the model rules: The requirement “established under an insurance / annuity contract” seems vague. Therefore, the meaning of “established in relation” should be clarified. Secondly, it should be clarified whether the definition encompasses all types of insurance (life/health, property/casualty and reinsurance). This would open the elections to all of investment entities to the extent that the investment is related to the insurance activity.

5. Insurance Investment Entity definition in Art. 10.1.1 (+ Commentary in par 90 for Art. 7.5.1): The definition requires that the direct owner of the fund is “regulated as an insurance entity”. However, sometimes a fund is held by one or more regulated insurance entities of one MNE group through an interposed company which itself is not regulated as an insurance company. There appears no conclusive reason why an indirect holding by one or more related insurance entities should be excluded from the definition

Clarification, in our view is also required for the following:

- Article 3.2.4 Model Rules - Qualified refundable tax credit: The provision of an (exemplary) list of the qualified refundable tax credits on a worldwide basis is essential.

- Article 4.2.1 Model Rules – Covered taxes: As it is impossible to assess the clear nature of a tax, it is necessary to provide a per country list of taxes in the meaning of Art. 4.2.1.

- Article 3.2.5/4.4.5 Model Rules: Computing deferred taxes or to make use of the realization principal election in case of fair value accounting requires historical data such as the purchase price. To alleviate from the burden of having to track data far into the past, a fix starting date for those data should be established.

- Article 4.4.4 Model Rules – Recapture Rule: The recapture rule states that a recalculation of the top-up tax for year 0 is required insofar as no reversal of the deferred tax liabilities takes place within five subsequent fiscal years after the amount was claimed. In order to keep the administrative effort manageable, certain simplification should be accepted such as estimates or appropriate assumptions, e.g., regarding the time after which the temporary difference for a balance sheet item typically reverses.

- Article 4.5.5 Model Rules – The GloBE Loss Election: The paragraph suggests that the GloBE Loss Election has to be made in the first year a jurisdiction is included in a GloBE return irrespective of GloBE loss. However, it seems more practical that the election is to be made in the first year a GloBE loss occurs. Also, the election is unavailable if a jurisdiction decreases its tax rate resulting in ETR´s below 15 % after the first year the jurisdiction was included in a GloBE return. We believe, in such case, the election should be available given the rationale expressed in par. 113 of chapter 4 of the commentary.

- Art. 4.6.1 Model Rules- post filing adjustments: Increases to Covered Taxes due to post filing adjustments are taken into account in the current fiscal year. On the contrary, material decreases are taken into account in the previous fiscal year to which the tax adjustment relates, triggering a recalculation of ETR and Top-up tax. In order to avoid high administrative effort resulting from having to monitor post filing adjustments and make the required recalculations simplification is needed.

- Art. 3.2.3 Model Rules – Arm's length principle: It is unclear how the paragraph is supposed to interact with the paragraph on post filing adjustments in 4.6.1. A transfer pricing adjustment as a result of a tax audit for a previous year could result in a higher income for GloBE and tax purposes as well as an increase of the tax liability. The increase in GloBE income according to the Model Rules is supposed to affect the previous year but the increase in tax would affect the amount covered taxes for the current year. The result would be a timing mismatch and possibly Top-up tax. More clarification is also needed for the following scenarios:

  1. Transfer pricing adjustments and resulting post filing adjustments for a year occur in a succession – first after a tax audit and later as a result of Mutual Agreement Procedures.

  2. Tax authority adjusts the transfer price unilaterally without a corresponding adjustment of the transfer price of the counterparty in a different jurisdiction.

- Par. 4.4.5. - Recapture Exception Accrual: Subject to the reservation stated above, the Model Rules provide for a recapture exception accrual that includes insurance reserves, in order to take into account the length of business cycles in the insurance industry.

The amount of insurance reserves required for future claims are defined by insurance regulatory bodies, under applicable prudential rules. The principle is rather consistent across various jurisdictions worldwide, but accounting and tax regulations may differ locally. Given the range of insurance classes available, some local accounting rules may provide for specific insurance reserves items, or specific splits of insurance reserves items depending on local markets' issues.

Thus, global insurance groups should not have to select locally among insurance reserves which items or related items may be eligible.

In this respect, the scope of insurance reserves that allow for a recapture exception accrual under minimum tax rules as regards deferred tax liabilities should be defined as broadly as possible. The scope should

therefore include all insurance reserves or related items allowed by accounting and consolidation rules, to the extent that they are linked to the insurance business, irrespective of what is eligible to a tax deduction. This should include amounts which are required by regulators to be set aside or accrued to satisfy future liabilities pursuant to the insurance policy which may not be reported on the reserve line for accounting or tax purposes, (for example, certain insurance products may be classified for local accounting purposes as investment products with liabilities to policy holders not reported as insurance reserves).

Further comments

The "election to use realisation method in lieu of fair value accounting" should be clarified to address common fact patterns where certain assets and corresponding liabilities are both marked-to-market. As drafted, the election is only available in respect of all constituent entities in a particular jurisdiction and applies to all assets and liabilities. An election this broad will not be workable in many instances, as entities have different classes of assets, some of which are taxed on a mark-to-market basis, and some that are taxed on a realisation. Accordingly, the election should be allowed for specified assets (rather than all assets), which would allow taxpayers to exclude from the realisation basis election those assets that are marked-to-market to match policyholder liabilities that have a corresponding mark-to-market. Without this adjustment to the election, the election will have distortive effects on the GloBE calculations of insurers with participating or unit-linked policies, resulting in additional administrative complexity and cost burdens to manage this distortion.

The rules applicable to align GloBE treatment of accrued pension expense to local tax treatment should be extended to pension income as well. As the Model Rules and Commentary recognise, one of the adjustments from Financial Accounting Net Income or Loss to GloBE Income is to adjust pension expense for the difference between (a) the amount of pension contributions during the year and (b) the amount accrued as an expense in the computation of Financial Accounting Net Income or Loss during the Fiscal Year. The principle behind this rule is that it better aligns the timing of the expense from a GloBE Rules perspective with the effect on local tax liability attributable to the contribution. Similarly, if there is Financial Accounting Net Income in respect of returns in a pension plan in excess of the additional pension accruals in a given year, that excess should likewise be excluded from GloBE income in order to align the local tax and GloBE treatment of the pension income.

The holding period for "Excluded Dividends" should be measured more equitably. The Model Rules require ownership for at least one year on the date of the dividend in order for the exclusion to apply. The policy reasons to differentiate between dividends paid on short-term shareholdings and non-short-term shareholdings apply equally to exclude a dividend paid shortly after buying a shareholding that is then held for at least year, and the filing deadlines for a GloBE return (15 months after the close of a tax year) make this expanded definition administratively practicable as well.

An exclusion for interest which is exempt from tax under local rules (such as government debt) should be included in the Model Rules. The Model Rules currently do not include an exclusion for tax-exempt interest, which, similar to dividends, are subject to exemption or tax relief in a significant number of Inclusive Framework jurisdictions. The lack of an exclusion means such tax-exempt interest may result in a GloBE tax liability, which undercuts the incentive to invest in government debt provided by Inclusive Framework jurisdictions and penalizes insurance and other companies that invest in such debt. Accordingly, an exclusion from GloBE income (at least to the extent such interest is not subject to tax locally) would be necessary and appropriate.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 43 member associations and 1 observer associations the interests of insurers and reinsurers in 66 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.