Regulatory Impact Statement: OECD's Pillar Two GloBE Tax Rules

Coversheet

Purpose of Document	
Decision sought:	*Agreement to introduce the OECD's Pillar Two GloBE tax rules into New Zealand, if a critical mass of other countries do*
Advising agencies:	*Inland Revenue*
Proposing Ministers:	*Minister of Finance* *Minister of Revenue*
Date finalised:	*2 March 2023*

Problem Definition

Under the current international tax system, a large multinational enterprise (MNE) can significantly reduce its tax liabilities through relocating mobile assets (e.g. debt in other group companies, intellectual property and financial assets) to countries where that income is subject to no or a low tax burden. This makes it difficult to tax the income of such groups, and gives them a competitive advantage over purely domestic businesses.

The Organisation for Economic Co-Operation and Development's (OECD's) Pillar Two initiative targets this problem with the global anti base-erosion (GloBE) rules, which apply a minimum 15% tax rate on a large MNEs (MNEs with revenue over EUR 750 million) mobile profits in every country it operates in. The GloBE rules will reduce pressure on high tax countries to lower their corporate tax rates.

The GloBE rules will apply to New Zealand resident in-scope MNEs whether New Zealand introduces the rules or not, provided a critical mass of countries introduces the GloBE rules. The policy decision is therefore, if a critical mass of countries adopts the GloBE rules, should New Zealand?

Executive Summary

The G20 mandated the OECD to look into the perceived under-taxation of MNEs which has resulted from globalisation and digitalisation. In 2021, over 130 countries (including New Zealand) endorsed a 2-pillar multilateral solution to address structural changes needed to bring the global tax system into the 21st century (this endorsement was not binding).

This Regulatory Impact Statement considers the introduction of the GloBE rules into New Zealand, if a critical mass of other countries adopt the rules:

- The GloBE rules are designed to ensure that in-scope MNEs, i.e. those with consolidated revenues above EUR 750 million, pay at least a 15% effective tax rate (ETR) on their mobile income in each country where that income is reported for financial reporting purposes.
- They do this by applying a top-up tax in respect of every country where the MNEs ETR on mobile profits, calculated under the GloBE rules, is below 15%.

The country where this top-up tax is payable is determined according to allocation rules:

  - The Income Inclusion Rule (IIR): gives the ultimate parent entity (UPE), or an intermediate holding company, country the right to collect top-up tax for the MNE's group entities.
  - The Under-Taxed Profits Rule (UTPR): applies as a back-up to the IIR. If no IIR applies to an MNE, the UTPR will allocate top-up tax in proportion to the group's payroll costs and tangible asset values in each participating country.
  - The Domestic Minimum Tax (DMT): a participating country can opt to introduce a DMT. The DMT gives the country priority over the IIR and UTPR in the collection of the top-up tax for that country.

- In-scope MNEs will work out if they are subject to any GloBE top-up tax which they will need to disclose in an annual GloBE information return which is intended to be available to every country in which they operate.

Due to the operation of the UTPR, whether New Zealand introduces GloBE rules or not, in-scope New Zealand MNEs will need to comply with and pay GloBE tax if the rules are adopted by a critical mass of other countries. Through consultation undertaken by Inland Revenue officials' submitters generally agreed that New Zealand should introduce the GloBE rules to reduce the compliance obligations and associated costs they would incur from complying with multiple country UTPRs.

Inland Revenue estimates that if the rules are made effective in 2024, the government will collect approximately $25 million in GloBE tax and $16 million in taxes that would have otherwise been shifted to low tax countries from the 20-25 New Zealand resident MNEs in scope. Note the $16 million will be collected whether New Zealand implements GloBE or not. The costs to build the necessary systems and administer the tax are estimated to be $11.1 million upfront and $3.1 million ongoing.

The modest amount collected under the GloBE rules is a result of New Zealand's comparatively high corporate tax rate, robust international tax system and low number of taxpayers in scope. As a small country that relies on imported capital, New Zealand generally supports strong international rules-based frameworks, where the frameworks aim is to protect and enhance New Zealand interests and strengthen international cooperation. GloBE achieves this by reducing pressure on New Zealand's corporate tax rate with no impact on New Zealand's investment attractiveness.

Certain elements of the GloBE rules are still to be finalised, including safeharbours which could further reduce the compliance costs for New Zealand in-scope MNEs. Officials at Inland Revenue expect, due to the general positive reception to the GloBE rules amongst New Zealand's main investment partner countries, that a critical mass of countries will implement GloBE. It is likely that the GloBE rules will be effective in a critical mass of countries by 2024, but this timing is still subject to some uncertainty.

Limitations and Constraints on Analysis

1. Whether and when a critical mass of countries adopts the GloBE rules

Inland Revenue does not know for certain if a critical mass of countries will adopt the GloBE rules[1]. At this stage it seems likely this will be achieved as the general consensus amongst New Zealand's main investment partners is positive with regards to the design of the GloBE rules.

It is uncertain however, when countries' GloBE rules will become effective such that they would apply to tax New Zealand MNEs. Whilst the OECD's original intention was for the rules to be effective in 2023, given that the rules are still not finalised it seems that an effective date in 2024 or possibly 2025 is more likely.

This Regulatory Impact Statement is limited to the Pillar Two GloBE rules, it does not cover other international tax initiatives such as Pillar One s 9(2)(f)(iv)

- Pillar One – this aims to ensure a fairer distribution of profits and taxing rights among countries with respect to the largest and most profitable MNEs around the world. It is intended that Pillar One will replace unilateral digital services taxes (DSTs).

- Pillar Two – as set out in this paper, this seeks to put a floor on tax competition on corporate income tax through the introduction of a global minimum corporate tax (i.e. the GloBE rules) that countries can use to protect their tax bases.

2. Forecasting expected tax revenue

There are limitations on Inland Revenue's ability to forecast the potential revenue that will be raised by introducing the GloBE rules including:

- Elements of the design are yet to be finalised, including safe harbours (where the rules will not apply).
- GloBE will have a deterrent effect (i.e. MNEs will be less likely to engage in profit shifting, thus leaving their income in New Zealand) this behavioural change is difficult to quantify.
- GloBE tax raised will depend on the reaction by other governments (i.e. whether and how they introduce the GloBE rules) and by MNEs (i.e. whether they restructure to move assets out of low tax countries).

The OECD has provided models that aid participating countries in preparing estimates of the expected tax revenue based on a number of assumptions, which have been used to prepare forecasts.

3. Estimating the administrative cost

The administrative requirements of the GloBE rules are still being designed. Inland Revenue have prepared the estimated build cost on the basis of:

- similar regimes that have been implemented, and
- a conservative estimate of the additional requirements unique to the GloBE rules.

[1] For these purposes a "critical mass" means enough countries adopt the GloBE rules that it is not possible for New Zealand MNEs to escape the tax by earning income only in countries which do not adopt the rules.

Responsible Manager(s) (completed by relevant manager)
Casey Plunket Special Policy Advisor Policy and Regulatory Stewardship Inland Revenue 2 March 2023

Quality Assurance (completed by QA panel)	
Reviewing Agency:	Inland Revenue
Panel Assessment & Comment:	The Quality Assurance reviewer at Inland Revenue has reviewed the OECD's Pillar Two GloBE Tax Rules Impact Summary and considers that the information and analysis summarised in it meets the quality criteria of the Regulatory Impact Analysis framework. This issue has been subjected to wide consultation, including through a public issues paper. As identified in the Key Limitations or Constraints on Analysis section, a difficulty with assessing the revenue implications of the various options has been establishing the administrative costs of adopting the GloBE rules without knowing aspects of the detailed design, and the extent to which behavioural changes occur if a critical mass of other countries adopt the GloBE rules.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

Background

The GloBE rules are the main component of Pillar Two of the G20/OECD 2 Pillar solution to reforming the current international tax framework in response to challenges posed by the increasing globalisation and digitisation of the economy.

The current rules allow large MNEs to earn significant profits in a jurisdiction without paying corporate income tax on that income. New business models that rely heavily on intellectual property and vertically integrated cross-border supply chains have made it easier for MNEs to shift profits to places where it bears no tax, or a low effective tax rate.

The OECD has estimated that Pillars One and Two will have a positive impact on the global economy over the long term. This is largely based on the assumption that implementation of the pillars will avoid negative economic implications of a protracted tax and trade related conflict, estimated to reduce global GDP from between 0.1 percent to 1.2 percent.[2]

Indeed, countries which introduce unilateral measures can face tax and trade tension, consequently, the OECD[3] have been mandated by the G20 to facilitate the design and delivery of multilateral solutions with the OECD-sponsored Inclusive Framework (IF).[4]

In October 2021, the G20/OECD two Pillar solution was endorsed by over 130 countries in the IF, including New Zealand:

- Pillar One aims to ensure a fairer distribution of profits and taxing rights among countries with respect to the largest and most profitable MNEs around the world. It is expected that USD 100 billion of profits will be reallocated to market jurisdictions each year. It is intended that Pillar One will replace unilateral digital services taxes (DSTs)

- Pillar Two seeks to put a floor on tax competition on corporate income tax through the introduction of a global minimum corporate tax that countries can use to protect their tax bases. It is estimated that Pillar Two will generate around USD 150 billion in additional global tax revenues per year.[5]

This endorsement did not bind any country to adopt either Pillar, rather it gave the OECD a mandate to continue to develop the rules and instruments with the contribution of the IF ready for implementation and ratification in participating states.

This Regulatory Impact Statement considers the Pillar Two measures only.

New Zealand has a comparatively high corporate tax rate, consequently, it benefits from multilateral measures aimed at reducing pressure to lower corporate tax rates. In the absence of this proposal, there is an incentive for foreign owned intellectual property to be moved out of New Zealand and for New Zealand MNEs to develop their intellectual property outside New Zealand. To that end, New Zealand has been actively participating in the IF to ensure the GloBE rules result in an outcome as advantageous to New Zealand as possible.

GloBE tax rules

The GloBE rules are designed to ensure that in-scope MNEs pay at least a 15% effective tax rate (ETR) on their income in each country where that income is reported for financial reporting purposes.

An important aspect of the rules is that they only apply to income in a country in excess of a substance-based income exclusion. The exclusion is calculated under a formula which gives

[2] OECD (2020), Tax Challenges Arising from Digitalisation – Economic Impact Assessment, retrieved from www.oecd.org

[3] The OECD bring together a very high level of tax technical expertise and are very influential in international tax policy matters.

4 The IF brings together over 140 countries to collaborate on the implementation of the OECDs work, including the Base Erosion Profit Shifting (BEPS) project, which was delivered in 2015 and addressed gaps and mismatches in tax rules that were being exploited.

5 (OECD) 2021, OECD releases Pillar Two model rules for domestic implementation of 15% global minimum tax, retrieved from www.oecd.org

a percentage return on the value of tangible assets and payroll expense in the country. The exclusion is intended to focus the rules on the taxation of mobile forms of income.

An in-scope MNE will follow three steps to work out if they are subject to any GloBE top-up tax which they will need to disclose in an annual GloBE information return which will be provided to every country in which they operate:

1. The MNE calculates its ETR by comparing the accounting tax expense in a country with its accounting profit (with some GloBE specific adjustments).
2. If the MNE's ETR in a country is less than 15%, it calculates GloBE top-up tax, which is the tax required to bring the ETR on its mobile income in the country up to 15%.
3. The GloBE top-up tax is then allocated under the following rules:

   - *The Income Inclusion Rule (IIR)* which applies on a top-down basis, gives the ultimate parent entity (UPE), or in some cases an intermediate holding company, country the right to collect GloBE top-up tax for the MNE's group entities.

   - *The Under-Taxed Profits Rule (UTPR)* applies as a back-up to the IIR. If no IIR applies to an MNE, the UTPR will allocate the GloBE top-up tax in proportion to the group's payroll costs and tangible asset values in each participating country. The UTPR also allocates top-up tax for the UPE country. The UTPR protects the integrity of the IIR by discouraging MNEs from relocating to countries that do not implement the GloBE rules.

The GloBE rules also allow a country to introduce a Domestic Minimum Tax (DMT) to apply the rules to income earned in that country. A DMT is optional. It gives a country priority over the Income Inclusion Rule and the Under-Taxed Profits Rule in the collection of the GloBE top-up tax for that country.

In-scope MNEs will incur upfront and ongoing costs associated with building the systems or processes required to complete the GloBE information return. Given the complexity of the GloBE rules these compliance costs are expected to be significant in nominal terms, though given the size of the organisations to which they apply, they may be relatively insignificant. Compliance costs may also be reduced through the availability of safe harbours. The details and conditions of such safe harbours are still being developed and agreed by the IF.

Implementation of the GloBE rules

If a country adopts the GloBE rules, it must adopt the OECD's Model Rules released in December 2021, its Commentary released in March 2022 and the Agreed Administrative Guidance released in February 2023. This is critical to ensuring that the rules operate in a co-ordinated way to achieve the desired tax outcomes. There would be a high risk of double taxation or double non-taxation if implementing countries adopted different rules to measure the level of taxation and top-ups required in each country. Similarly, there could be significant double taxation and disputes between countries and taxpayers if some countries do not respect the agreed ordering rules.

What is the policy problem or opportunity?

As a comparatively high tax rate country, the GloBE rules are inherently beneficial to New Zealand. The GloBE rules reduce the pressure on New Zealand's corporate tax rate through setting a floor on the tax rates other countries can use to entice New Zealand MNEs to shift their mobile income to said countries (i.e. the lowest tax rate they can offer is a 15% effective tax rate). The GloBE rules also remove the need for New Zealand to develop unilateral rules which would risk making New Zealand a relatively less attractive place for an MNE to be based.

By adopting the GloBE rules New Zealand would support the initiative by contributing to the critical mass required to make the rules effective. New Zealand would also collect any GloBE tax on New Zealand MNEs that have mobile income in other countries taxed at less than 15%.

If New Zealand decides not to introduce the GloBE tax rules but a critical mass of other countries do

- There will be tax leakage to other jurisdictions as New Zealand will not collect the GloBE tax in relation to New Zealand MNEs
- New Zealand will still benefit by the disincentive to profit shift, given the applicability of foreign GloBE rules, in which case more income should be left in New Zealand to be taxed.
- Inland Revenue will not incur the IT system build or ongoing administrative costs of implementing the tax
- New Zealand MNEs in scope of Pillar Two (NZMNEs)[6] will need to comply with the GloBE rules and pay any GloBE taxes under the UTPR to every foreign jurisdiction they're operating in which has introduced the GloBE rules (some of our larger NZMNE's are operating in more than 30 countries). This will require more resource and will result in higher compliance costs on affected NZ MNEs than if New Zealand introduced the GloBE rules where the NZMNEs could comply with and pay any taxes to Inland Revenue.
- New Zealand's ability to influence the outcomes of the Pillar Two initiative at international fora, as they relate to New Zealand specific issues (e.g. capital gains or industry specific issues) would be more limited as well as any ongoing support a NZMNE may request.

What objectives are sought in relation to the policy problem?

- Provide support for the multilateral initiative, which New Zealand have contributed to designing, to target the mischief that puts pressure on New Zealand's corporate income tax rate.

- Where a critical mass of countries implements the GloBE rules:

    - Ensure New Zealand collects the tax on NZMNEs GloBE tax liabilities.
    - Assist NZMNEs in complying with the GloBE rules by introducing the IIR in New Zealand which removes their need to comply with multiple UTPRs and therefore reduces their compliance costs.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

The criteria that have been used to assess the options are:

Compliance costs: Does the preferred option meaningfully lower the compliance obligations and associated costs for NZMNEs?

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[6] It is expected there will be around 20-25 NZMNE's in-scope of the GloBE rules

Administration: Is the preferred option possible for Inland Revenue to implement and administer without substantial upfront and ongoing administration costs?

Revenue raised: Does the preferred option raise tax revenue net of its cost to administer?

Coherence: Does the option align with and support international norms around tax policy.

What scope will options be considered within?

The scope of options are, if a critical mass of other countries adopts GloBE, should New Zealand adopt GloBE or not?

The option of New Zealand adopting the GloBE rules if a critical mass of countries does not adopt the rules has not been considered, as it is unrealistic.

What options are being considered?

Option One – New Zealand does not implement the GloBE rules (status quo)

Where a critical mass of countries introduces the GloBE rules, NZMNEs will need to comply with multiple country under taxed profit rules (UTPR), the criteria noted above are assessed as follows:

- This will result in a higher compliance obligation and associated costs through NZMNE's needing to comply with multiple UTPR's.

- Inland Revenue will not be required to administer the rules nor respond to taxpayer queries on them. To the extent NZMNE's face issues from the GloBE rules New Zealand would not be well placed to influence the outcome of these issues.

- In terms of revenue raised, no tax revenue will be raised in New Zealand under Option One other than through any behavioural changes by NZMNE's to retain in, or relocate mobile income to, New Zealand. To the extent New Zealand MNE's are required to pay tax under the GloBE rules this will be to foreign jurisdictions (i.e. tax leakage).

- On the impact of not introducing GloBE rules on the coherence of New Zealand's tax system:

    - There may be a minor impact on New Zealand's international tax reputation by not joining the critical mass.
    - Due to the mechanics of the GloBE rules, and that they would be applied by other countries in any event, there would be no practical effect of New Zealand not adopting the rules – the attractiveness of New Zealand as a destination for foreign investment, and as a place to headquarter an MNE group, would be unaffected.

Option Two – New Zealand adopts the GloBE rules, if a critical mass of other countries do

Where a critical mass of countries introduces the GloBE rules, NZMNE's will need to comply with New Zealand's income inclusion rules (IIR):

- This will result in a lower compliance obligation and associated costs against the status quo, through complying with only one tax through Inland Revenue.

- This option will have a higher administrative cost for Inland Revenue which will incur the upfront build costs as well as ongoing administrative costs.

- Option Two raises tax revenue, where NZMNE's have a GloBE tax liability it will be payable to New Zealand under the IIR (and possibly the DMT). The revenue generated should be above the costs of administration.

- With regards to coherence, adopting GloBE rules would be consistent with New Zealand's general approach to corporate income taxation, including cross-border, by supporting OECD initiatives.

- As a small country that relies on imported capital, New Zealand generally supports strong international rules-based frameworks, where the frameworks aim is to protect and enhance New Zealand interests and strengthen international cooperation. GloBE achieves this by reducing pressure on New Zealand's corporate tax rate with no impact on New Zealand's investment attractiveness.

There are still some outstanding design issues with how the GloBE rules would interface with the New Zealand tax system such as the interaction with the New Zealand imputation regime and the mode of implementation of the GloBE rules[7].

Stakeholder views

Whether New Zealand does or does not adopt GloBE if a critical mass of other countries does was the subject of an officials' issues paper *"OECD Pillar Two: GloBE rules for New Zealand"* released on 5 May 2022. The officials' issues paper canvassed the relevant options and went into further detail about incorporation into New Zealand's tax framework and laws.

Eleven submissions were received from a mix of representative bodies, advisors, non-government organisations and individuals. Officials met individually with submitters to discuss the content of their submissions and discussed the officials' preferred options.

Submitters generally supported New Zealand adopting the GloBE rules if a critical mass of other countries does. Submitters noted that:

- It is in New Zealand's interests to adopt GloBE rules as the goal of the rules, to disincentivise profit shifting by MNEs, aligns with the Government's priorities.
- The operation of the rules means that were New Zealand not to adopt GloBE rules, but a critical mass of countries does adopt, taxpayers would have the compliance costs regardless and there would be tax leakage to other jurisdictions.
- Adopting GloBE rules in New Zealand would streamline and simplify compliance for NZMNEs making it easier for them to pay top up tax in New Zealand as opposed to paying tax under the UTPR to multiple jurisdictions. There was a general preference for NZMNEs to deal with Inland Revenue rather than other tax authorities.

[7] The mode of implementation will be whether New Zealand tax legislation should directly incorporate the GloBE rules or simple reference these rules.

How do the options compare to the status quo/counterfactual?

	Option One – New Zealand does not implement the GloBE rules (if a critical mass of other countries do)	Option Two – New Zealand does implement the GloBE rules (if a critical mass of other countries do)
Compliance costs	- -	++
Administration costs	0	- -
Revenue raised	+	+
Coherence	-	+
Overall assessment	-	++

Key:

++	much better than doing nothing/the status quo/counterfactual
+	better than doing nothing/the status quo/counterfactual
0	about the same as doing nothing/the status quo/counterfactual
-	worse than doing nothing/the status quo/counterfactual
- -	much worse than doing nothing/the status quo/counterfactual

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

The option that is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits is Option Two: implementing the GloBE rules into New Zealand if a critical mass of other countries do.

The option has clear benefits over Option One (not implementing the GloBE rules if a critical mass of other countries do): it reduces compliance costs, ensures New Zealand is well placed to influence the outcomes of the global regime, is revenue positive and ensures New Zealand's international tax system remains dynamic to future responses proposed by the OECD.

What are the marginal costs and benefits of the option?

Affected groups *(identify)*	**Comment** *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional costs of the preferred option compared to taking no action			
Regulated groups: MNE's with revenues over EUR 750m	There are no additional costs for NZMNE's as they will need to comply with GloBE rules whether NZ introduces them or not.	Inland Revenue expects NZMNE's compliance costs to be reduced.	Medium, the administrative design of the GloBE rules are still being worked through.
Regulators: Inland Revenue	Inland Revenue will be required to build and maintain a system to send and receive GloBE tax information and accept payments.	Preliminary estimates are $11.1m upfront build cost and ongoing costs of $3.1m p.a.	Low, the administrative design of the GloBE rules are still being worked through.
Government	N/A	N/A	N/A
Total monetised costs		$11.1m upfront $3.1m p.a.	Low
Non-monetised costs		*Low*	*Low*
Additional benefits of the preferred option compared to taking no action			
Regulated groups: New Zealand MNE's with revenues over EUR 750m	New Zealand MNE's compliance costs will be reduced through having only one tax authority interface for GloBE tax.	It is not possible to estimate the compliance cost savings for New Zealand MNE's but Inland Revenue expect the saving to be significant.	High
Regulators: Inland Revenue	By joining the critical mass of countries Inland Revenue will have a seat at the table where they can attempt to influence the outcomes of the GloBE rules to support advantageous outcomes for the New Zealand government.	It is not possible to estimate the expected benefits as the GloBE rules are not yet finalised.	Medium
Government	New Zealand will collect the GloBE tax payable by New Zealand MNE's.	Total GloBE tax estimated to be $20-25m p.a.	Low, based on modelling, though behavioural

			reaction can materially impact this number.
Total monetised benefits		$20-25m	Low
Non-monetised benefits		*Low*	*Low*

Our initial modelling, aided by the OECD's global economic impact assessments indicate that the GloBE rules proposals will raise a modest amount of revenue. It is noted that there are a high number of assumptions in this model, as it is dependent on the final rules (in particular safe harbours), how and which countries implement the GloBE rules and the behavioural response of MNEs.

Our forecast estimate of GloBE top-up tax revenue from New Zealand adoption is approximately **$25 million** per annum made up of:

- $25 million per annum from GloBE top-up tax from applying the IIR to NZMNEs. This amount makes allowance for the possibility of other countries increasing their tax rates in response to Pillar Two to reduce the amount of top-up tax collected by us. We expect this revenue to increase over time as transitional concessions are unwound.
- A further positive amount from the UTPR and the DMT, however it is not possible to estimate how much this will be because it is dependent on the behavioural reaction to the GloBE rule from governments and MNEs so has conservatively been forecast at zero.

Inland Revenue have also estimated that the adoption of GloBE rules by other countries is likely to lead to increased income tax revenue of approximately **$16 million** per annum due to reduced profit shifting (i.e. this will occur irrespective of what option is chosen).

From a cost perspective, the administration costs for Inland Revenue are dependent on the final design aspects, but have been provisionally estimated at $11.1m for the upfront build cost and $3.1m per annum in ongoing costs.

Section 3: Delivering an option

How will the new arrangements be implemented?

The proposal to introduce the GloBE rules into New Zealand is to be legislated via a taxation bill that is likely to be introduced in March 2023. The rules would apply by way of an Order in Council once a critical mass of countries have adopted the rules.

Inland Revenue will be responsible for the implementation and ongoing administration of the new rules. No concerns have been identified with its ability to implement the proposal. Information will be provided to increase awareness regarding the new rules. This will include producing a relevant Tax Information Bulletin item and updating guidance on Inland Revenue's website along with any relevant press releases which might be issued advising taxpayers of the changes.

Adopting these rules into domestic law would require legislative change. If the OECD Model Rules are incorporated by reference in domestic legislation, then legislative change would be simpler (i.e. a legislative change could be made to state that the OECD model rules have force in New Zealand's domestic legislation). Greater legislative change would be required for replicating the rules into New Zealand legislation.

From an administration perspective, the preferred option would involve an upfront cost (preliminary estimates suggest circa $11.1m) to build functionality within START (Inland Revenue's computer system). to enable for the sharing and receiving of GloBE information with other jurisdictions.

Inland Revenue would need to exchange information with other countries, to the extent that NZ MNEs file returns that Inland Revenue must share with other countries which have implemented GloBE rules and where that MNE operates.

How will the new arrangements be monitored, evaluated, and reviewed?

If the GloBE rules are implemented, the OECD will make any future changes to the model rules where necessary. Any changes to the OECD rules and or reporting will be reflected into domestic legislation in New Zealand[8].

Inland Revenue would also allocate resource to compliance initiatives to ensure that the information received is utilised and the correct amount of tax is paid.

Inland Revenue regularly reviews tax settings on an ongoing basis and provides advice and updates to the Government accordingly. Policy officials maintain strong communication channels with stakeholders in the tax advisory community and these stakeholders will be able to correspond with Inland Revenue about the operation of the new rules at any time. If problems emerge, they will be addressed either operationally, through discussions with the OECD, or by way of legislative amendment if agreed by Parliament.

[8] Either by way of amending legislation or automatically if the OECD Model Rules are referenced in the domestic legislation.