



# Finance (No. 2) Act 2023

## 2023 CHAPTER 30

### PART 3

#### MULTINATIONAL TOP-UP TAX

### CHAPTER 10

#### DEFINITIONS ETC

#### *Introduction*

#### **230**    **Meaning of terms and concepts used in [this Part](#)**

- (1) The provisions of [this Chapter](#) define or otherwise explain terms and concepts used in [this Part](#).
- (2) Unless the contrary appears, those provisions have effect for the purposes of this Part.

#### *Meaning of “entity” etc*

#### **231**    **Meaning of entity**

- (1) In this Part “entity” means—
  - (a) a company,
  - (b) a partnership,
  - (c) a trust, or
  - (d) any other arrangement that results in the preparation of separate financial accounts in respect of the activities carried out under the arrangement.
- (2) An entity which is, or is part of, a national, regional or local government is not to be regarded as an entity for the purposes of this Part.

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- (3) Sections 232 to 238 make further provision about entities including provision—
- (a) treating permanent establishments as entities,
  - (b) defining various particular types of entities, and
  - (c) about when entities are “tax transparent”.

### 232 Permanent establishments treated as entities

- (1) A “permanent establishment” of an entity (“the main entity”) means a place of business of the main entity that—
- (a) is located in a territory other than the territory of the main entity, and
  - (b) meets any of the conditions in paragraphs (a) to (d) of subsection (2).
- (2) Those conditions are—
- (a) that the place of business is situated in a territory where it is treated as a permanent establishment in accordance with an applicable tax treaty in force provided that such territory taxes the income attributable to it in accordance with a provision similar to Article 7 of the OECD tax model;
  - (b) that the place of business is in a territory where there is no applicable tax treaty in force and the territory, under its domestic law, taxes the income attributable to such place of business on a net basis similar to the manner in which it taxes its own tax residents;
  - (c) that the place of business is in a territory that has no corporate income tax system, but would be treated as a permanent establishment in accordance with the OECD tax model provided that such territory would have had the right to tax the income attributable to it in accordance with Article 7 of that model;
  - (d) that—
    - (i) the place of business does not meet any of the conditions in paragraphs (a) to (c), and
    - (ii) the territory of the main entity exempts the income attributable to the place of business’s operations.
- (3) For the purposes of this Part, a permanent establishment is to be treated as an entity distinct from the entity it is a permanent establishment of (whether that would otherwise be the case or not).
- (4) In this section “place of business” means a place of business as construed in accordance with the OECD tax model, and includes a deemed place of business for the purpose of that model, a tax treaty or the domestic law of a territory.
- (5) In this Part, a reference to “the main entity” in relation to a permanent establishment is to be construed in accordance with this section.

### 233 Treatment of protected cell companies

- (1) For the purposes of this Part—
- (a) a protected cell company is not to be regarded as an entity, and
  - (b) each part of a protected cell company is to be treated as an entity distinct from the others.
- (2) Accordingly—

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- (a) the fact an entity is a part of a protected cell company is irrelevant to determining whether it is a member of a consolidated group, and
- (b) the accounts of the protected cell company are not to be regarded as consolidated financial statements.

(3) In this Part—

“protected cell company” means a protected cell company incorporated under Part 4 of the Risk Transformation Regulations 2017 (S.I. 2017/1212);

a “part” of a protected cell company means its core or a cell of the company;

“core” and “cell” have the meaning they have in those regulations.

## 234 Governmental, international and non-profit entities

(1) An entity is a “governmental entity” if—

- (a) it is wholly owned by a national, regional or local government,
- (b) it has the principal purpose of—
  - (i) carrying on a public function of that government, or
  - (ii) managing or investing the assets of that government through investment activities (such as the making and holding of investments or asset management),
- (c) it is accountable to that government on its overall performance and provides annual information reporting to that government,
- (d) it does not carry on a trade or business, other than an investment business described in paragraph (b)(ii),
- (e) its assets vest in that government on its dissolution, and
- (f) it does not make distributions of its profits to, or for the benefit of, any person other than that government.

(2) “International organisation” means an intergovernmental or supranational organisation, or an entity that acts for, is part of, or is wholly owned by such an organisation, provided—

- (a) the organisation is comprised primarily of governments,
- (b) the organisation has a headquarters, or privileges or immunities in respect of its establishments, in the territory in which it is established, and
- (c) its governing documents, or the law of that territory, preclude the distribution of its profits for the benefit of private persons.

(3) An entity is a “non-profit organisation” if—

- (a) it is established and operated in the territory it is located in—
  - (i) exclusively for religious, charitable, scientific, artistic, cultural, athletic, education, or other similar purposes, or
  - (ii) as a professional organisation, business league, chamber of commerce, labour organisation, agricultural or horticultural organisation, civic league or an organisation operated exclusively for the promotion of social welfare, and
- (b) it meets all of the conditions mentioned in subsection (4).

(4) Those conditions are that—

- (a) substantially all of the income from the activities it carries out for the purposes it was established is exempt from income tax in the territory where it is located,

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- (b) it has no shareholders or members who have any interest in its income or assets,
- (c) the income or assets of the entity may not be distributed to, or applied for the benefit of, a private person or non-charitable entity other than—
  - (i) pursuant to the conduct of the entity in carrying out activities for the purposes for which it was established,
  - (ii) as payment of reasonable compensation for services rendered or for the use of property or capital, or
  - (iii) as payment representing the fair market value of property which the entity has purchased,
- (d) upon termination, liquidation or dissolution of the entity, all of its assets must be distributed or revert to a non-profit organisation or to a governmental entity of the territory in which the entity is located, and
- (e) the entity does not carry on a trade or business that is not directly related to the purposes for which it was established.

### **235 Pension funds and pension services entities**

- (1) An entity is a “pension fund” if—
  - (a) it is an entity that is established and operated in a territory exclusively or almost exclusively to administer or provide retirement benefits and ancillary or incidental benefits to individuals where—
    - (i) the entity is regulated as such in that territory, or
    - (ii) those benefits are secured or otherwise protected by national regulations and funded by a pool of assets held through a fiduciary arrangement or trust to secure the fulfilment of the corresponding pension obligations against a case of insolvency of the entity or the group the entity is a member of, or
  - (b) a pension services entity.
- (2) An entity is a “pension services entity” if it is an entity established and operated exclusively or almost exclusively—
  - (a) to invest funds for the benefit of an entity falling with the description in [subsection \(1\)\(a\)](#), or
  - (b) to carry out activities that are ancillary to the regulated activities carried out by an entity falling with that description, provided that the entities are members of the same group.

### **236 Investment funds and investment entities**

- (1) An “investment fund” is an entity that meets all of the following conditions—
  - (a) it is designed to pool assets (which may be financial and non-financial) from a number of investors, at least some of which are not connected;
  - (b) it invests in accordance with a defined investment policy;
  - (c) it operates with a view to allowing its investors to reduce transaction, research, and analytical costs, or to spread risk collectively;
  - (d) it is primarily designed to generate investment income or gains, or protection against a particular or general event or outcome;
  - (e) investors have rights to the assets of the fund, or to income earned on those assets, based on the contributions made by those investors;

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- (f) the entity, or its management, is subject to a regulatory regime, that includes anti-money laundering and investor protection regulation, of—
    - (i) the territory in which the entity is established or managed, or
    - (ii) in the case of a permanent establishment, the territory in which the main entity is established or managed;
  - (g) it is managed by an investment management professional on behalf of the investors.
- (2) An “insurance investment entity” is an entity that meets all of the following conditions—
- (a) the entity is not an investment fund under subsection (1), but would be an investment fund if it were designed to pool assets from more than one investor or those investors were required not to be connected;
  - (b) the costs or risks the entity operates with a view to reducing are those associated with insurance or annuity contracts;
  - (c) the income or gains the entity is designed to generate are intended to offset, or the event or outcome the entity is designed to protect against consists of, losses arising or that may arise in connection with insurance or annuity contracts;
  - (d) no person other than members of the group has ownership interests in the entity;
  - (e) each person with direct ownership interests in the entity is subject to a regulatory regime in the territory in which it is established or managed, and that regime is specific to persons engaged in the business of entering into insurance or annuity contracts or of performing activities ancillary to such business.
- (3) An entity is an investment entity if it is—
- (a) an investment fund,
  - (b) a UK REIT or an overseas REIT equivalent,
  - (c) an entity—
    - (i) that is 95% owned by one or more entities falling within [paragraph \(a\)](#) or [\(b\)](#), and
    - (ii) whose activities consist, wholly or almost wholly, of the holding of assets or the investment of funds for the benefit of those owners,
  - (d) an entity—
    - (i) that is 85% owned by one or more entities falling within [paragraph \(a\)](#) or [\(b\)](#), and
    - (ii) whose income is wholly or almost wholly excluded dividends or excluded equity gains (or a mixture of both), or
  - (e) an insurance investment entity.
- (4) For the purposes of [subsection \(3\)](#) references to an entity being 95% or 85% owned by one or entities falling within [paragraph \(a\)](#) or [\(b\)](#) of that subsection is to those entities together having at least that percentage of the ownership interests in that entity.

### **237 Intermediate and partially-owned parent members**

- (1) A member of a multinational group is a partially-owned parent member of that group if—
- (a) it is not a permanent establishment, investment entity or the ultimate parent,

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- (b) it has (directly or indirectly) an ownership interest in another member of the group, and
  - (c) more than 20% of the ownership interests that represent an entitlement to a share of the profits of the member are held by persons that are not members of the group.
- (2) A member of a multinational group is an intermediate parent member of the group if—
- (a) it is not a permanent establishment, investment entity, a partially-owned parent member or the ultimate parent, and
  - (b) it has (directly or indirectly) an ownership interest in another member of the group.

### 238 Tax transparency of entities

An entity is regarded as tax transparent in a territory if the territory treats the income, expenditure, profits and losses of the entity, for the purposes of covered taxes, as the income, expenditure, profits and losses of the direct owner of the entity in proportion to its interest in the entity.

*Provision relating to location of entities*

### 239 Location of entities

- (1) The normal rule for determining, for the purposes of [this Part](#), the territory in which an entity is located is that—
- (a) if it is tax resident in a territory based on its place of management or place of creation, or based on similar criteria, it is located in that territory, or
  - (b) if it is not tax resident in any territory based on such criteria, it is located in the territory in which it was created.
- (2) But [subsection \(1\)](#) does not apply to a flow-through entity or a permanent establishment (as to which, see [section 240](#)).
- (3) Where, in an accounting period, an entity is tax resident based on its place of management, place of creation or similar criteria in more than one territory and—
- (a) all of those territories are party to a tax treaty, and
  - (b) for the purposes of the treaty the entity is deemed resident in one of those territories,
- the entity is treated as located in that territory for that period.
- (4) Otherwise, where an entity is tax resident in an accounting period based on its place of management, place of creation or similar criteria in more than one territory—
- (a) if the entity has accrued more covered taxes in an accounting period in one of those territories than in the others, ignoring any taxes accrued in accordance with a controlled foreign company tax regime, it is to be treated as located in that territory for that period,
  - (b) if paragraph (a) does not apply and the entity has a greater qualifying substance based income exclusion amount in one of those territories than in the others, it is to be treated as located in that territory for that period, or
  - (c) if neither [paragraph \(a\)](#) nor [\(b\)](#) applies—

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- (i) if the entity is the ultimate parent of a multinational group, it is to be treated as being located in the place where it was created for that period, or
  - (ii) otherwise, the entity is a stateless entity for that period.
- (5) For the purposes of [subsection \(4\)\(b\)](#) “the qualifying substance based income exclusion amount” for an entity for a period in a territory is—
  - (a) if the substance based income exclusion is calculated for that period for that territory, the sum of the payroll carve-out amount and the tangible asset carve-out amount as would be determined under [section 195\(1\)](#) for the entity for that period if the entity were located in that territory, and
  - (b) if the substance based income exclusion is not calculated for that period for that territory, nil.
- (6) Where—
  - (a) an entity is not (ignoring [this subsection](#)) subject to Pillar Two IIR tax within the meaning of [section 128](#),
  - (b) it is tax resident based on its place of management, place of creation or similar criteria in the United Kingdom,
  - (c) as a result of the application of [subsection \(3\)](#) or [\(4\)](#) it is treated as not being located in the United Kingdom, and
  - (d) if it were located in the United Kingdom, it would be a responsible member of a multinational group,the entity is instead to be treated as located in the United Kingdom for the purposes of [sections 122](#) and [126](#) of [this Part](#) (but not otherwise).
- (7) For the purposes of [this Part](#)—
  - (a) a “stateless entity” is to be treated as not being located in any territory;
  - (b) where an entity’s location changes during an accounting period, it is to be treated as being located in the territory it was located, or was treated as being located, at the start of that period.

## **240 Location of flow-through entities and permanent establishments**

- (1) A flow-through entity which is a responsible member of a multinational group is located in the territory in which it was created.
- (2) Any other flow-through entity is a stateless entity.
- (3) A permanent establishment that is a permanent establishment falling within [paragraph \(a\)](#) of [section 232\(2\)](#) (entity treated as permanent establishment in accordance with tax treaty) is located in the territory where it is treated as a permanent establishment in accordance with the tax treaty in accordance with which it is treated as a permanent establishment.
- (4) A permanent establishment that is a permanent establishment falling within [paragraph \(b\)](#) of [section 232\(2\)](#) (permanent establishment taxed on similar basis to residents in absence of tax treaty) is located in the territory where it is subject to net basis taxation based on its business presence.
- (5) A permanent establishment that is a a permanent establishment falling within [paragraph \(c\)](#) of [section 232\(2\)](#) (permanent establishment located in territory without corporate income tax) is located in the territory in which it is situated.

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- (6) A permanent establishment that is a permanent establishment falling within [paragraph \(d\) of section 232\(2\)](#) (other permanent establishments) is a stateless entity.

#### **241 Pillar Two territories**

- (1) In this Part “Pillar Two territory” means the United Kingdom and every other territory specified as such in regulations made by the Treasury.
- (2) Regulations may only specify a territory as a Pillar Two territory if the Treasury consider that provisions equivalent to this Part—
- (a) have effect under the law of that territory, or
  - (b) will have effect under the law of that territory on or before the specification has effect.
- (3) Regulations under this section may provide that the specification of a territory is to have effect from a time before the regulations are made (but may not provide that the specification of a territory previously specified ceases to have effect before the regulations are made).

#### *Ownership of entities*

#### **242 Ownership interests and controlling interests**

- (1) In this Part “ownership interest” means a direct ownership interest or an indirect ownership interest.
- (2) An entity or an individual (“A”) has a direct ownership interest in an entity (“B”) if—
- (a) A has an interest (whether by way of shares, other security or otherwise) that gives rise to a share of the profits, capital or reserves of B or of a permanent establishment of B (whether on the making of a distribution of profits, winding up or otherwise), and
  - (b) that interest would, ignoring any requirement to consolidate the assets, liabilities, income, expenses and cash flows of B in the consolidated financial statements of A, be accounted for as equity in those statements.
- (3) An entity or an individual (“C”) has an indirect ownership interest in an entity (“D”) if C has a direct ownership interest in—
- (a) an entity that has a direct ownership interest in D, or
  - (b) an entity that has (as a result of the single or repeated application of this subsection) an indirect ownership interest in D.
- (4) An entity (“R”) has a controlling interest in another entity (“S”) if condition A or B is met.
- (5) Condition A is that as a result of an ownership interest R has in S—
- (a) R is required to consolidate the assets, liabilities, income, expenses and cash flows of S on a line-by-line basis in accordance with an acceptable financial accounting standard, or
  - (b) R would have been required to do so if R had prepared consolidated financial statements.



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(6) Condition B is that S is a permanent establishment of R.

#### **243 Calculating percentage ownership interests of a specific entity or individual**

- (1) For the purpose of determining the percentage ownership interests in an entity (“A”) held by a specific entity or individual (“B”)—
  - (a) ignore any indirect ownership interest not held by B, and
  - (b) where B has an indirect ownership interest in A, reduce the direct ownership interest from which it is derived by the amount of that indirect ownership interest.
- (2) But this section does not apply for the purpose of any provision that requires the calculation of direct ownership interests only.

#### **244 Calculating percentage ownership interests of a class**

- (1) For the purpose of determining the percentage of ownership interests in an entity (“A”) held by a class of entities (“B”)—
  - (a) ignore any indirect ownership interest required to be ignored as described in [subsection \(2\)](#), and
  - (b) reduce any percentage direct ownership interest required to be reduced in accordance with [subsection \(3\)](#).
- (2) An indirect ownership interest is to be ignored if—
  - (a) it is an indirect ownership interest held by an entity that is not a member of B, or
  - (b) it is an indirect ownership interest held by a member of B through another entity that is a member of B.
- (3) Where a member of B holds an indirect ownership interest in A solely through an entity, or entities, that are not members of B, the direct ownership interest from which it is derived is to be reduced by the amount of that indirect ownership interest.
- (4) [This section](#) does not apply—
  - (a) for the purpose of any provision that requires the calculation of direct ownership interests only, or
  - (b) for the purposes of [section 127\(6\)\(a\)](#) and [\(7\)\(a\)](#) (whether an entity is 95% or 85% owned by qualifying excluded entities).

#### **245 Calculating percentage ownership interests: excluded entities**

- (1) For the purpose of determining, under [section 127\(6\)\(a\)](#) and [\(7\)\(a\)](#), the percentage of ownership interests in an entity (“A”) held by qualifying excluded entities—
  - (a) ignore any indirect ownership interest apart from ownership interests held solely through one or more qualifying service entities or qualifying exempt income entities, and
  - (b) ignore any direct or indirect ownership interest required to be ignored as described in [subsection \(2\)](#).
- (2) Where an entity holds an indirect ownership interest in A solely through an entity, or entities, that are qualifying service entities or qualifying exempt income entities, each direct and indirect ownership interest from which it is derived is to be ignored.

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## 246 Calculating percentage direct and indirect ownership interests

- (1) To determine the percentage of direct ownership interest an entity or individual (“E”) has in an entity (“F”)—
  - (a) add together the proportional entitlement of E to the following types of interest that are relevant—
    - (i) an interest that gives rise to a share of profits of F,
    - (ii) an interest that gives rise to a share of the capital of F, and
    - (iii) an interest that gives rise to a share of the reserves of F, and
  - (b) if—
    - (i) F issues all of those types of interest and all of those types are relevant, divide the result of [paragraph \(a\)](#) by 3, or
    - (ii) F only issues 2 of the relevant types of interest or there are only 2 types of interest that are relevant and E issues both of them, divide the result of [paragraph \(a\)](#) by 2.
- (2) For the purposes of [subsection \(1\)](#)—
  - (a) where a provision under which a percentage of ownership interests is to be determined refers to types of interest mentioned in those sub-paragraphs, the types referred to are “relevant”, and
  - (b) where such a provision does not refer to types of interest mentioned in [sub-paragraphs \(i\) to \(iii\) of subsection \(1\)\(a\)](#), all of those types of interest are “relevant”.
- (3) To determine the percentage indirect ownership interest an entity or individual (“G”) has in an entity (“H”)—
  - (a) determine the percentage indirect ownership interest arising as a result of each stack through which it has an indirect ownership interest in H, and
  - (b) add those percentage indirect ownership interests for those stacks together.
- (4) For the purposes of [subsection \(3\)](#) a “stack” means a chain of entities through which G has an indirect ownership interest in H which is comprised of an entity (“J”) which has a direct ownership interest in H and—
  - (a) where G has a direct ownership interest in J, G, or
  - (b) where G does not have a direct ownership interest in J—
    - (i) G,
    - (ii) an entity (“K”) which has a direct ownership interest in J and that G has a direct or indirect ownership interest in, and
    - (iii) where G does not have a direct ownership interest in K, an entity which has a direct ownership interest in K and that G has a direct or indirect ownership interest in, and so on until an entity is reached that G has a direct ownership interest in.
- (5) To determine G’s percentage indirect ownership interest in H arising as a result of a stack—
  - (a) determine, in accordance with [subsection \(1\)](#)—
    - (i) J’s percentage direct ownership interest in H, and
    - (ii) the percentage direct ownership interest each other member of the stack has in the member of the stack it has a direct ownership interest in, and

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- (b) multiply together the percentage direct ownership interests determined under [paragraph \(a\)](#).

#### **247 Timing of transfers of interests**

- (1) Where ownership interests in an entity are transferred from one entity or individual to another entity or individual, that transfer is to be treated as effective at the earlier of—
  - (a) the time when the obligations of the parties to the transfer necessary to effect the transfer have been met, and
  - (b) the time when any of the substantive consideration for the transfer has been provided,(instead of at any earlier time when the transfer is effective).
- (2) In [subsection \(1\)\(b\)](#) the reference to “substantive consideration” means any amount of the consideration for the transfer other than any amount provided before the transfer which would not be refundable if the transfer did not take place as a result of the transferee not meeting its obligations under the arrangements to make the transfer.

#### **248 Exclusion of indirect interests held through ultimate parent**

For the purposes of determining whether an entity has an indirect ownership interest in a member of a multinational group (other than the ultimate parent), ignore any indirect interests arising only as a result of an ownership interest in the ultimate parent.

*Financial statements and accounting period*

#### **249 Consolidated financial statements**

- (1) The consolidated financial statements of an entity are—
  - (a) where the entity is not the ultimate parent of a consolidated group whose only members are that entity and its permanent establishments, the financial statements prepared by the entity in accordance with acceptable accounting standards in which the assets, liabilities, income, expenses and cash flows of that entity and the entities it has a controlling interest in are presented as those of a single economic unit,
  - (b) where the entity is the ultimate parent of a consolidated group whose only members are that entity and its permanent establishments, the financial accounts of that entity that are prepared in accordance with an acceptable accounting standard,
  - (c) where the entity has prepared statements that would fall within [paragraph \(a\)](#) or [\(b\)](#) but they were not prepared in accordance with an acceptable accounting standard, those statements but adjusted to prevent material competitive distortions, or
  - (d) where no statements were prepared falling within [paragraphs \(a\) to \(c\)](#), the statements that would have been prepared (whether or not the entity was required to prepare such statements) in accordance with an authorised accounting standard that is either—
    - (i) an acceptable accounting standard, or
    - (ii) a financial accounting standard whose application is adjusted to prevent material competitive distortions.

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- (2) But [subsection \(1\)\(d\)](#) is not to be taken as imposing a requirement to consolidate entities where that is not required, or is not permitted, by an authorised accounting standard.
- (3) “Authorised accounting standard” in relation to an entity means a set of generally acceptable accounting principles permitted by the body responsible for prescribing, establishing or accepting accounting standards for financial reporting purposes in the territory the entity is located in.
- (4) There are “competitive distortions” in accounts not prepared in accordance with an acceptable accounting standard if the result of the application of one or more specific principles or procedures under the standard under which it was prepared results in differences between—
- (a) the treatment of items in those accounts, and
  - (b) the treatment of those items in accounts prepared in accordance with the corresponding principles or procedures under international financial reporting standards.
- (5) Competitive distortions are “material” if the sum of the differences between the treatment of items in the accounts referred to in [subsection \(4\)](#) exceeds 75 million euros.

## 250 Acceptable accounting standards

- (1) In [this Part](#) “acceptable accounting standards” means—
- (a) UK GAAP,
  - (b) acceptable overseas GAAP, or
  - (c) international financial reporting standards.
- (2) “UK GAAP”—
- (a) means generally accepted accounting practice in relation to accounts of UK companies (other than accounts prepared in accordance with international accounting standards or international financial reporting standards) that are intended to give a true and fair view, and
  - (b) has the same meaning in relation to entities other than companies, and companies that are not UK companies, as it has in relation to UK companies.
- (3) “Acceptable overseas GAAP” means the generally accepted accounting practice and principles of any of the following—
- Australia;
  - Brazil;
  - Canada;
  - an EEA state;
  - the Hong Kong Special Administrative Region of the People’s Republic of China;
  - Japan;
  - Mexico;
  - New Zealand;
  - the People’s Republic of China;
  - the Republic of India;
  - the Republic of Korea;

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Singapore;  
Switzerland;  
the United States of America.

- (4) The Treasury may by regulations amend [subsection \(3\)](#) to add or remove territories.
- (5) In this section “UK companies” means companies incorporated or formed under the law of a part of the United Kingdom.

## **251 Accounting periods**

- (1) The general rule is that reference to an accounting period in relation to a multinational group, or any member of that group, is to an accounting period for which the ultimate parent prepares its consolidated financial statements.
- (2) Where the ultimate parent does not prepare consolidated financial statements, references to accounting periods are to the period of a year commencing on 1 January.
- (3) But—
  - (a) where an accounting period (“the default period”) has started as a result of the rule in subsection (2), but the ultimate parent prepares consolidated financial statements during the default period for a period commencing with a date after the start of the default period, the default period is to end immediately before that date, and
  - (b) where the ultimate parent had previously prepared consolidated financial statements for accounting periods, the accounting period that follows the last period for which it had prepared consolidated financial statements begins immediately after that last period and ends immediately before 1 January in the following year.

### *Miscellaneous*

## **252 Application to sovereign wealth funds**

- (1) A sovereign wealth fund that would, ignoring this subsection, be the ultimate parent of a multinational group is not to be regarded as the ultimate parent of that group and is to be ignored for the purposes of [this Part](#).
- (2) Accordingly, an entity (“A”) in which such a sovereign wealth fund has a controlling interest as a result of direct ownership interests is to be regarded as the ultimate parent of a consolidated group consisting of—
  - (a) itself, and
  - (b) the entities that A has a controlling interest in.
- (3) For the purposes of [this section](#) “sovereign wealth fund” means an entity which is a government entity for the purposes of [this Part](#) as a result of meeting the condition in [section 234\(1\)\(b\)\(ii\)](#).

## **253 Disqualified and qualified refundable imputation taxes**

- (1) An amount of tax payable by a member of a multinational group is “disqualified refundable imputation tax” if—

*Status: Point in time view as at 11/07/2023.*

*Changes to legislation: There are currently no known outstanding effects for the Finance (No. 2) Act 2023, Chapter 10. (See end of Document for details)*

- (a) it is—
    - (i) in respect of a dividend made by the member and is refundable to the beneficial owner of the dividend,
    - (ii) creditable by the beneficial owner of such a dividend against a tax liability other than a tax liability in respect of that dividend, or
    - (iii) refundable to an entity upon the distribution of a dividend, and
  - (b) it is not qualified refundable imputation tax.
- (2) An amount of tax payable by a member of a multinational group is “qualified refundable imputation tax” to the extent—
- (a) it is refundable or creditable to the beneficial owner of a dividend distributed by—
    - (i) the member, or
    - (ii) where the member is a permanent establishment, the main entity, and
  - (b) the refund is payable, or the credit is provided—
    - (i) under a foreign tax credit regime by a territory other than the territory that imposed the tax on the member,
    - (ii) to a beneficial owner of the dividend subject to tax in the territory imposing the tax payable by the member, provided the nominal rate of that tax that is at least 15%,
    - (iii) to a beneficial owner of the dividend who is an individual who is tax resident in that territory and who is subject to tax on the dividends as ordinary income,
    - (iv) to a governmental entity or an international organisation,
    - (v) to a resident non-profit organisation, a resident pension fund or a resident investment entity that is not a member of a multinational group, or
    - (vi) to a resident life insurance company to the extent the dividends are received in connection with a pension fund business and subject to tax in a similar manner as a dividend received by a pension fund.
- (3) For the purposes of [sub-paragraphs \(v\) and \(vi\)](#) of [subsection \(2\)\(b\)](#), an entity is a resident entity if it is resident in the territory that imposed the tax, and for those purposes—
- (a) a non-profit organisation or pension fund is resident in a territory if it is created and managed in that territory;
  - (b) an investment entity is resident in a territory if it is created and regulated in that territory;
  - (c) a life insurance company is resident in a territory if it is located there (see [section 239](#)).

## 254 Use of currency

Where it is necessary, for the purposes of this Part, to convert an amount expressed in one currency to another, the average exchange rate for the accounting period to which the amount relates is to be used.

*Status: Point in time view as at 11/07/2023.*

*Changes to legislation: There are currently no known outstanding effects for the Finance (No. 2) Act 2023, Chapter 10. (See end of Document for details)*

## 255 Pillar Two rules

- (1) In this Part references to the “Pillar Two rules” are to the Pillar Two model rules as interpreted in accordance with, and supplemented by—
  - (a) the Pillar Two commentary, and
  - (b) any further commentaries or guidance published from time to time by the OECD that are relevant to the implementation of the Pillar Two model rules.
- (2) In [subsection \(1\)](#)—

“Pillar Two model rules” means the model rules published by the Organisation for Economic Co-operation and Development as “Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS”;

“Pillar Two commentary” means the following—

  - (a) the commentary on the Pillar Two model rules published by the Organisation for Economic Co-operation and Development as “Tax Challenges Arising from the Digitalisation of the Economy – Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two)”, and
  - (b) the examples illustrating the application of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development as “Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two) Examples”.
- (3) Pillar Two rules apply to a multinational group, or a member of a multinational group, in an accounting period if—
  - (a) the group is a qualifying multinational group, or
  - (b) the group would be a qualifying multinational group but is not only as a result of Condition B in [section 129\(3\)](#) (requirement that at least one member located in the United Kingdom).

## 256 Qualifying domestic top-up tax

- (1) For the purposes of [this Part](#) a tax is a “qualifying domestic top-up tax” if it is—
  - (a) domestic top-up tax (see [Part 4](#)), or
  - (b) specified in a regulations made by the Treasury.
- (2) A tax may only be specified in regulations if the Treasury consider that it is equivalent in substance to domestic top-up tax (see [Part 4](#)).
- (3) A tax may be considered equivalent to domestic top-up tax despite being not being calculated in accordance with the financial accounting standard used in the consolidated financial statements of the ultimate parent if calculated in accordance with an authorised accounting standard that is either—
  - (a) an acceptable accounting standard, or
  - (b) another financial accounting standard that is adjusted to prevent material competitive distortions.
- (4) Regulations under this section may provide that the specification of a tax is to have effect from a time before the regulations are made (but may not provide that the specification of a tax previously specified ceases to have effect before the regulations are made).

*Status: Point in time view as at 11/07/2023.*

*Changes to legislation: There are currently no known outstanding effects for the Finance (No. 2) Act 2023, Chapter 10. (See end of Document for details)*

## 257 Qualifying undertaxed profits tax

- (1) For the purposes of [this Part](#) a tax is a “qualifying undertaxed profits tax” if it is specified in regulations made by the Treasury.
- (2) A tax may only be specified in regulations if the Treasury consider that the tax is an appropriate means of implementing the UTPR (within the meaning of the Pillar Two rules).
- (3) Regulations under this section may provide that the specification of a tax is to have effect from a time before the regulations are made (but may not provide that the specification of a tax previously specified ceases to have effect before the regulations are made).

## 258 Meaning of “connected”

For the purposes of this Part, a person or entity is “connected” with an entity if they are “closely related” within the meaning of Article 5(8) of the OECD tax model.

## 259 Other definitions

- (1) In [this Part](#)—
  - “company” means a body corporate;
  - “for accounting purposes” means for the purposes of accounts drawn up in accordance with acceptable accounting standards;
  - “held for sale” has the meaning given by international accounting standards;
  - “HMRC” means His Majesty’s Revenue and Customs;
  - “international financial reporting standards” or “international accounting standards” means those standards as issued or adopted, from time to time, by the International Accounting Standards Board;
  - “OECD tax model” means the Model Tax Convention on Income and on Capital published (from time to time) by the Organisation for Economic Co-operation and Development;
  - “overseas REIT equivalent” means an entity resident in a territory outside the United Kingdom that is the equivalent of a UK REIT;
  - “tax treaty” means an agreement for the avoidance of double taxation with respect to taxes on income and on capital;
  - “UK REIT” means—
    - (a) a company UK REIT within the meaning of Part 12 of CTA 2010 (see section 524 of that Act), or
    - (b) a company that is a member of a group UK REIT within the meaning of that Part (see sections 523 and 606 of that Act);
  - an “uncertain tax position”, in relation to an amount of covered taxes, exists where the amount as reflected in the underlying profits accounts is different to how it is, or will be, reflected in a tax return because of uncertainty over whether the tax authority in question will accept the basis on which it is reflected in that return.
- (2) For the purposes of this Part, an individual is “tax resident” in a territory if—
  - (a) in the case of the United Kingdom, the individual is resident for income tax purposes, and



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- (b) in any other territory, the individual is resident for the purposes of a tax on income imposed under the law of that territory.
- (3) Where a term in this Part has a meaning for accounting purposes, unless the context otherwise requires, it has that meaning in this Part.
- (4) Examples of such terms include—
  - carrying value;
  - current tax;
  - deferred tax;
  - deferred tax expense;
  - deferred tax asset;
  - deferred tax liability;
  - fair value;
  - impairment;
  - tax expense.

**Status:**

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**Changes to legislation:**

There are currently no known outstanding effects for the Finance (No. 2) Act 2023, Chapter 10.