



Finance (No. 2) Act 2023

2023 CHAPTER 30

PART 3 U.K.

MULTINATIONAL TOP-UP TAX

CHAPTER 6 U.K.

CALCULATION OF TOP-UP AMOUNTS

195 Substance based income exclusion U.K.

- (1) The substance based income exclusion for a period for a territory is calculated by taking the following steps—

Step 1

Determine the payroll carve-out amount for that period for each standard member of the group in that territory.

Step 2

Determine the tangible asset carve-out amount for that period for each standard member of the group in that territory.

Step 3

Add together the amounts determined at steps 1 and 2.

- (2) But if the filing member for the group elects not to calculate the substance based income exclusion for the period, the exclusion is nil.
- (3) Paragraph 2 of [Schedule 15](#) (annual elections) applies to an election under subsection (2).
- (4) The payroll carve-out amount for a member is 5% of the eligible payroll costs incurred by the member in the period.
- (5) The tangible asset carve-out amount for a member is 5% of the eligible tangible asset amount of the member in the period.

Changes to legislation: There are currently no known outstanding effects for the Finance (No. 2) Act 2023, Section 195. (See end of Document for details)

- (6) Section 196 sets out how to calculate the eligible payroll costs of a member.
- (7) Section 197 sets out how to calculate the eligible tangible asset amount of a member.
- [^{F1}(7A) Section 197A sets out the treatment of operating leases.]
- (8) Section 198 sets out special rules on calculating the eligible payroll costs and eligible tangible asset amount of a member that is a permanent establishment or a flow-through entity.

Textual Amendments

- F1** S. 195(7A) inserted (22.2.2024 with effect for accounting periods beginning on or after 31.12.2023 in accordance with Sch. 12 para. 1(2) of the amending Act) by [Finance Act 2024 \(c. 3\)](#), [Sch. 12 para. 25\(1\)](#)

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There are currently no known outstanding effects for the Finance (No. 2) Act 2023, Section 195.