



# Recent Pillar Two Developments

Middle East Updates | **January 2025**



The Sultanate of Oman has issued royal decree [70/2024](#) that introduces a Top-up Tax (the “Law”), which marks a significant milestone in the evolution of Oman’s tax framework. The Top-up Tax takes the form of an Income Inclusion Rule (“IIR”), and will apply to MNEs that are in scope of Pillar Two.

The Top-up Tax (hereafter referred to as “IIR”), is effective from 1 January 2025. Notably, the IIR will only apply to Oman entities that are part of an MNE Group with global consolidated revenues (in at least two of the preceding four fiscal years) of at least EUR 750m, including MNEs headquartered in and outside Oman.

The tax will be imposed on parent entities in Oman that have an ownership interest in low-taxed foreign constituent entities (with an effective tax rate of less than 15%). While parent entities in Oman will be liable for the tax, the tax will only apply on the low-taxed profits of their foreign constituent entities, and specifically excludes the profits of Oman entities.

The specifics on the IIR, including details on the calculation methodology, safe harbours, treatment of permanent establishments, compliance requirements and other implementation aspects will be issued in the Regulations. Based on the Law, it is expected that the IIR will be in accordance with the OECD Global Anti-Base Erosion (“GloBE”) Model Rules.

There is no indication on whether Oman will also introduce a Domestic Top-up Tax (“DMTT”) to capture low-taxed profits in Oman. While Oman’s corporate tax rate is 15%, there may be instances where an MNE Group’s effective tax rate in Oman is less than 15% for Pillar Two purposes (due to differences in the calculation methodology and required adjustments, freezone exemptions, and other tax benefits available in Oman). Under the current law, such low-taxed profits would not be subject to Top-up Tax in Oman (note they could be taxed under other jurisdictions’ Pillar Two rules, depending on the MNE Group’s structure).

The IIR is a key tax development for MNEs in Oman, and while all the specifics on the tax are yet to be issued, we have outlined below certain key features of the IIR, including some of our initial reactions and key takeaways.

## Key features of the IIR



| Issue              | Comment   |
|--------------------|---|
| Scope of the rules | <p>The IIR introduces a Top-up Tax on the profits of non-Omani Constituent Entities (“CEs”) that are owned by parent entities in Oman, ensuring that their profits are subject to a minimum effective tax rate (“ETR”) of 15%. Specifically, the tax would apply where the ETR of the foreign entity(ies) is below 15%,</p> <p><b>Constituent Entities</b> are entities or permanent establishments that are consolidated for purposes of the MNE Group’s Consolidated Financial Statements.</p> <p>While the Law is silent on whether IIR will apply to profits of joint ventures, it is expected that low-taxed profits of foreign joint ventures will be in-scope (in accordance with the OECD Model Rules).</p> |
| Liable entities    | <p>The Law requires parent entities located in Oman to pay a Top-up Tax in Oman on the low-taxed profits of foreign CEs that they hold an ownership interest in. This includes:</p> <ul style="list-style-type: none"> <li>• An Ultimate Parent Entity located in Oman,</li> <li>• An Intermediate Parent Entity located in Oman, and</li> <li>• A Partially-owned Parent Entity located in Oman.</li> </ul>  |

## Key features of the IIR



| Issue                                | Comment  |
|--------------------------------------|--|
| <b>Excluded Entities</b>             | <p>The Law excludes the below entities from the IIR:</p> <ul style="list-style-type: none"> <li>- Government entities;</li> <li>- Non-profit organizations;</li> <li>- International organizations;</li> <li>- Pension funds;</li> <li>- Investment funds that are Ultimate Parent Entities (“UPEs”); and</li> <li>- Real estate investment vehicles that are UPEs.</li> </ul> <p>The conditions for eligibility of the above exclusions are expected to be clarified in the Regulations. Important to note that in accordance with the GloBE Model Rules, while Excluded Entities are not treated as CEs of the MNE Group, the revenue of such entities should be considered in determining whether the revenue threshold of EUR 750m or more is met by the MNE Group.</p>  |
| <b>Calculation of the Top-up Tax</b> | <p>The Law does not provide details on the calculation aspects of the IIR, which will be issued under the Regulations.</p> <p>Assuming the IIR will be aligned with the GloBE Model Rules, the below would be envisaged as the calculation mechanism:</p> <div> <div> <p><b>Step 1:</b> Calculate aggregate GloBE Income and Adjusted Covered Taxes for each jurisdiction</p> <p><b>Step 2:</b> Calculate the ETR for each jurisdiction</p> <p><b>Step 3:</b> Calculate the Top-up Tax percentage for each jurisdiction</p> <p><b>Step 4:</b> Calculate the Substance-based Income Exclusion for each jurisdiction</p> <p><b>Step 5:</b> Calculate Top-up Tax for each jurisdiction</p> <p><b>Step 6:</b> Determine Additional Current Tax / Permanent Difference Tax liability</p> <p><b>Step 7:</b> Determine the total Top-up Tax liability</p> </div> <div> <p><b>(1) Aggregate CE Income</b> = Sum of all adjusted income for all non-excluded entities in a jurisdiction</p> <p><b>(2) Aggregate Adjusted Covered Taxes</b> = Sum of Adjusted Taxes for all non-excluded entities in a jurisdiction</p> <p><b>(3) ETR</b> = <math>(2) / (1) \times 100</math></p> <p><b>(4) Top-up Tax percentage</b> = <math>15\% - (3)</math></p> <p><b>(5) Substance-based Income Exclusion</b> = 5% to 9.6% of the sum of eligible payroll costs for all entities in a jurisdiction + 5% to 7.6% of the sum of eligible tangible assets for all entities in a jurisdiction</p> <p><b>(6) Jurisdictional Top-up Tax</b> = <math>(4) \times [(1) - (5)]</math></p> <p><b>(7)</b> Determine (if any) whether additional current tax and/or permanent difference tax liability arises due to certain criteria being met, e.g. restatement of financial statements or non-GloBE permanent differences</p> <p><b>(8) Jurisdictional total Top-up Tax liability</b> = <math>(6) + (7) - \text{QDMTT (if any)}</math></p> </div> </div> <p>Once the jurisdiction Top-up Tax is calculated, the Top-up Tax should be allocated to each CE based on an allocation formula. The parent entity will then be liable for the allocated Top-up Tax based on its ownership percentage.</p> <p>If the IIR follows the GloBE Model Rules, the Top-up Tax relating to Joint Ventures (and their subsidiaries) as well as Minority-Owned Constituent Entities (and their subsidiaries) will be calculated and the IIR liability would be determined separately from other CEs in the same jurisdiction. Minority-Owned Constituent Entities as entities that are consolidated but in which the UPE has a 30% or less ownership interest.</p> |
| <b>Safe harbours</b>                 | <p>The Law stipulates that the Regulations will include details on the available safe harbours. While the Law does not specify which safe harbours will be available, these can include:</p> <ul style="list-style-type: none"> <li>• de minimis safe harbour - the Top-up Tax is considered nil where the aggregate average revenue in a jurisdiction is below EUR 10m and the average Income or Loss does not exceed EUR 1m for the current and two prior fiscal years.</li> <li>• simplified calculations safe harbour.</li> <li>• the transitional Country-by-Country Reporting (“CbCR”) Safe Harbour - for fiscal years beginning on or before 31 December 2026 and excluding fiscal years ending after 30 June 2028, the Top-up Tax due may be considered nil if any of the simplified tests are met, i.e. De Minimis Test, ETR Test or Routine Profit Test. A Qualified CbCR is typically required to access this safe harbour.</li> </ul>  |





To comply with the Law, MNE Groups will need to take several immediate steps to assess whether they are in scope, complete the required disclosures for financial year 2024, register if needed (to be clarified when the Regulations are issued), and plan for both interim and year-end compliance requirements. While the Law is expected to be aligned with the GloBE Model Rules, affected MNE Groups should stay alert for ongoing updates, as the Sultanate of Oman will release the Regulations giving clarity to the rules, in addition to explanatory guides, clarifications, and illustrative evidence necessary for implementing the Law. We have outlined some of the immediate steps that must be taken to ensure compliance with the Law (some of these aspects can be looked at in the context of the GloBE Model Rules in advance of the Regulations being issued).

- **Assessment:** Determine whether the MNE Group is in scope of IIR including undertaking an impact assessment and, if required, a data and systems gap assessment, to understand the impact (financial and otherwise), whether any safe harbours or exclusions are available, if it needs to register and, if relevant, the steps it needs to undertake to be able to meet its IIR compliance, reporting and payment obligations, as well as any related financial statement disclosures. This will involve engaging with overseas teams for data as the IIR is imposed on overseas profits, as well as the broader business functions (finance, legal, tax, investment teams, etc.) within the group to ensure they understand the impact of the IIR, and the need for internal stakeholder buy-in and attention to tackle it.
- **Financial Year 2024 Disclosure Requirements:** Affected MNE Groups must ensure compliance with IAS 12 requirements relating to Pillar Two disclosures. At a minimum, in-scope MNE Groups will need to disclose an assessment of their Pillar Two profile, including the Law for FY25 purposes. See more in relation to Pillar Two accounting disclosures [here](#).
- **Use Assessment for Compliance Planning and Execution:** Based on your impact assessment and data and systems gap assessment, plan for:
  - **Interim Financial Reporting:** Interim financial statement disclosures and/or provisions, if required, for the first quarter of 2025.
  - **Year-End Roadmap:** Create a roadmap to ensure end-of-year compliance for tax and financial statement purposes.
    - This will include not only determining the year-end IIR tax liability and IIR filing requirements, but also determining the timing of the IIR filing.
    - In addition, MNE Groups will need to consider the processes to be able to determine and provision for IIR liabilities to ensure compliance with their statutory financial reporting obligations.
- **Qualified CbCR:** Ensure that CbCR meets the 'qualifying' requirements in order to access the reliefs under the transitional CbCR Safe Harbour.
- **Transfer pricing policies:** Map your group's intercompany transactions, review and update transfer pricing policies to ensure compliance with the Arm's Length principle which is expected to be included in the Regulations.

## Contact Us



MNE Groups operating in Oman should plan ahead and prepare for the upcoming compliance requirements. Our team is working on impact assessments, readiness, and implementation and compliance support, such as systems and process updates for a variety of businesses in the region in the context of the Pillar Two rules, and will be happy to support you. Please contact us for further assistance.

**Stay tuned for any further updates!**



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