Global Minimum Tax and its Potential Effects in Puerto Rico: A Window of Opportunity

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The Global Minimum Tax and its Potential Effects in Puerto Rico: A Window of Opportunity

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Introduction

The digitalization and globalization of the economy have enabled large groups of companies to structure their global operations by shifting their business profits to low-tax jurisdictions. In this way, they benefit from tax rates significantly lower than those accessible to small and medium-sized enterprises and the global workforce. This situation has resulted in the loss of substantial corporate tax revenues internationally[1] and, consequently, has led to a widespread reduction in adequate financing for public services in critical sectors such as education, health, infrastructure, and technology.[2] The current scenario has fostered an unprecedented commitment to international tax cooperation, in which over 140 countries propose to change this trend by taxing the business profits of multinational enterprises (multinationals or MNEs) at a global minimum tax rate of 15%.

This report will evaluate the impact of the 15% Global Minimum Tax (GMT) in Puerto Rico and quantify the potential revenue the island would forgo if appropriate legislation is not enacted in a timely manner. Furthermore, while the current initiative proposes a more equitable tax system, it is equally important to highlight that the development of low-tax jurisdictions has often been driven by the same economic interests of the countries that now lead a proposal to mitigate the erosion of the global tax base. The current proposal presents a combination of risks for Puerto Rico's model that must be mitigated along with an opportunity that must be seized. The government of Puerto Rico needs to implement robust legislative proposals that meet the OECD and G-20 criteria for the GMT, position the island as an attractive jurisdiction for foreign investment through non-tax incentives, and can retain or even increase employment and increase the productive capacity of already established multinationals. Finally, the local legislative proposals should incorporate feedback from both the OECD and the federal government and aim to reinvest part of the potential short-term revenue

[1] $200 billion per year in global revenue losses from corporate taxes (10% of total global corporate tax revenues). “The Missing Profits of Nations.” National Bureau of Economic Research, 2018, Thomas R. Tørsløv, Ludvig S. Wier, and Gabriel Zucman. https://www.nber.org/system/files/working_papers/w24701/w24701.pdf

[2] EUTAX Observatory. Global Tax Evasion Report 2024. https://www.taxobservatory.eu//www-site/uploads/2023/10/global_tax_evasion_report_24.pdf

increase[3] into strategic sectors that diversify our productive base and mitigate the real risks of long-term declines in local corporate revenues if the GMT achieves its ultimate objective.[4]

Global Context

The OECD[5] and the G-20[6] developed the inclusive framework[7] of the Base Erosion and Profit Shifting (BEPS[8]) action plan, which enabled 137 jurisdictions[9] to commit in October 2021 to several key principles and actions[10] aimed at addressing the erosion of the international tax base and the shifting of profits by large multinationals to low-tax jurisdictions. As of August 2024, the inclusive framework's agenda has the commitment of 147 jurisdictions and proposes a two-pillar solution to reform international taxation, ensuring that multinationals pay fair taxes where they operate and generate profits. The first of these two pillars (Pillar I) aims to reallocate a portion of the taxing rights over the profits of large multinational enterprises, especially digital companies, from their countries of origin to the markets where their global sales occur. Pillar I will apply to companies with annual global revenues exceeding 20 billion euros and a profit

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[3] As we will demonstrate later in this report, implementing the GMT in Puerto Rico will result in a top-up tax that will increase short-term revenues from foreign corporations.

[4] If the GMT's objective is achieved in the medium to long term, it could threaten Puerto Rico's hybrid strategy model based on low taxation of multinationals to attract a combination of: (1) investment in real economic activity and (2) profit shifting through transfer pricing strategies. That is, if Pillar II is successful globally, which remains to be seen, the tax base of foreign corporations established in Puerto Rico could gradually decline due to reduced profit shifting, fixed capital investment, employment, and local tax revenues associated with these activities.

[5] Organisation for Economic Co-operation and Development. https://www.oecd.org/

[6] Group of Twenty (G-20). https://www.g20.org/en

[7] OECD/G-20 Base Erosion and Profit Shifting Project. "Tax Challenges Arising from Digitalization – Economic Impact Assessment." Inclusive Framework on BEPS. https://www.oecd-ilibrary.org/deliver/0e3cc2d4-en.pdf?itemId=%2Fcontent%2Fpublication%2F0e3cc2d4-en&mimeType=pdf

[8] Base erosion and profit shifting. OECD (2013), Action Plan on Base Erosion and Profit Shifting, OECD Publishing, Paris, https://doi.org/10.1787/9789264202719-en.

[9] As of August 2024, 147 countries and jurisdictions have joined the inclusive framework. https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf

[10] Among these key principles and actions is the implementation of four minimum standards (Actions 5, 6, 13, and 14), monitoring and peer review, adoption of a multilateral approach, continuous dialogue, transparency, and capacity building. https://www.oecd.org/en/topics/policy-issues/base-erosion-and-profit-shifting-beps.html

margin[11] above 10%[12]. 25% of the residual profits[13] will be reallocated to the jurisdictions where their total sales are made. Although the impact of Pillar I in Puerto Rico is beyond the scope of this study, it will undoubtedly be crucial to understand the U.S. Congress's intention regarding whether the island will be considered part of the United States when evaluating the impact of Pillar I.[14]

The second pillar (Pillar II) includes the Global Minimum Tax (GMT) and the Subject to Tax Rule (STTR). The STTR allows the jurisdiction of origin to tax cross-border intragroup income subject to rates below 9%, while the GMT imposes a top-up tax to achieve a minimum effective tax rate of 15% on multinationals with consolidated annual revenues exceeding 750 million euros. This study will focus on analyzing Pillar II and its impact on local GMT revenues of 15% in Puerto Rico. Further in this study, we will delve into the theoretical framework and practical implications of Pillar II for the island.

Local Context

Historically, Puerto Rico has had two major actors trying to promote investment from large multinational enterprises on the island. The first, led by the Puerto Rican government, has used the island's limited tax autonomy to try to stimulate the development of its economy through tax incentives[15] and decrees granting preferential tax rates[16] on income, among other types of incentives[17]. The second

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[11] The profit margin of a company is the ratio of net profit to total revenues.
[12] OECD. The Multilateral Convention to Implement Amount A of Pillar I. https://www.oecd.org/tax/beps/multilateral-convention-amount-A-pillar-one-overview.pdf
[13] Residual profits are those that exceed the normal return that the OECD defines for multinational companies at 10%.
[14] U.S. Congress House and Ways Committee. Joint Committee on Taxation. "Background and Analysis of the Taxation of Multinational Enterprises and the Potential Reallocation of Taxing Rights Under the OECD's Pillar I." https://www.jct.gov/getattachment/ada69ece-7f9e-42d3-beee-a917b14e59e9/x-7-24.pdf
[15] Specifically, Act No. 135 of 1997 and Act No. 73 of 2008, which are part of the Puerto Rico Incentives Code, Act No. 60 of July 1, 2019. https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf
[16] Of the total $24,539 million that Puerto Rico generates in tax expenditures annually (which represents about one-third of its economy), 75% of these tax expenditures ($22,223 million) correspond to corporations. Espacios Abiertos. "Tax Privileges: Analysis of the latest central government tax expenditure report and a glance at municipal tax expenditures." https://drive.google.com/file/d/1RGIcnBH1LfHSoaZYgeYYQqyM9R7jDRWG/view
[17] Chapter 3 of Subtitle B of the Puerto Rico Incentives Code details that a foreign entity owning more than 80% of a local subsidiary can deduct 100% of the dividends paid to its foreign parent.

actor has been led by the federal government, in which the U.S. Congress has pushed various tax initiatives through amendments to its federal internal revenue code, such as the significant, albeit now repealed, Section 936. From 1976, this federal law allowed a preferential tax treatment where U.S. multinational enterprises established on the island benefited from a tax credit that exempted these companies from paying federal taxes on income earned in Puerto Rico. The U.S. Congress[18] began its gradual phase-out in 1996, culminating in its total elimination in 2006, which in turn led to a decrease in investment, employment, and the productive capacity of the island[19].

For very different reasons, both the local and federal governments have incorporated recent tax policies into the equation that have contributed to increasing the instability of local tax policy. Locally, after the loss of revenue caused by the elimination of Section 936, the island's government enacted Act 154 of 2010[20], which established a special 4% tax on gross income generated by certain transactions[21] where the multinational group's parent company could claim a tax credit against their U.S. taxes paid. This law was originally temporary, but it was extended longer than initially planned, culminating in December 2021 with a note[22] from the U.S. Department of the Treasury and the Internal Revenue Service (IRS) revoking the note issued by the Treasury and IRS in 2011[23] that avoided double taxation of foreign corporations. On June 30, 2022, Act 52 of 2022[24] was signed, which would replace[25], for companies that choose to do so, the temporary

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[18] U.S. Congress. "The Small Business Job Protection Act of 1996."
https://www.congress.gov/bill/104th-congress/house-bill/3448/text

[19] "U.S. Multinationals in Puerto Rico and the Repeal of Section 936 Tax Incentives". National Bureau of Economic Research, 2017, Zadia M. Feliciano y Andrew Green.
https://www.nber.org/system/files/working_papers/w23681/w23681.pdf

[20] Act No. 154 of October 25, 2010. "Law to Establish a Tax on Foreign Corporations."
https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/154-2010.pdf

[21] Possible transactions include: the sale of goods produced or manufactured on the island, the sale of services rendered, payments made for the use of intangible assets, and certain inter-subsidiary transactions involving the transfer of value from a Puerto Rican subsidiary to an affiliated entity abroad.

[22] U.S. Treasury and Internal Revenue Service (IRS). Notice 2022-42. https://www.irs.gov/pub/irs-drop/n-22-42.pdf

[23] U.S. Treasury and Internal Revenue Service (IRS). Notice 2011-29. https://www.irs.gov/pub/irs-drop/n-11-29.pdf

[24] Act No. 52 of 2022. https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/0052-2022.pdf

[25] Corporations that transition to Act No. 52 of 2022 will extend their tax decrees for an additional 15 years.

4% excise tax with a tax of 10.5% on industrial development income creditable against U.S. taxes paid[26]. On the other hand, the federal government enacted the "Tax Cuts and Jobs Act" (TCJA[27]) in December 2017, which lowered the U.S. corporate tax rate from 35% to 21% and introduced the taxation of global intangible low-taxed income (GILTI[28]), with an effective tax rate of 10.5% until 2025 and 13.125% thereafter. Both provisions present significant risks for Puerto Rico. In the case of GILTI[29], although its concrete effects on the island have not been measured since 2021[30], the fact that the foreign parent can only reduce the taxes paid in Puerto Rico by 80% could undoubtedly affect the island's tax attractiveness.

With respect to Pillar II in Puerto Rico, the local Legislative Assembly attempted to pass legislation related to the Global Minimum Tax, specifically, House Bill No. 1908, a few days before the end of the last ordinary session of the 2020-2024 four-year term. However, it did not have the necessary votes in the upper house for the bill to become law. House Bill No. 1908 raised significant concerns from the Puerto Rico Department of Treasury[31] and representatives of the U.S. Treasury[32]. Lastly, both the Federal Treasury representatives and the Puerto Rico

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[26] Notice 2022-42 invalidated the 4% excise tax credit of Act 154 of 2010 against U.S. taxes paid by foreign companies.

[27] U.S. Congress. "Tax Cuts and Jobs Act (TCJA)." https://www.congress.gov/115/bills/hr1/BILLS-115hr1enr.pdf

[28] Urban Institute and Brookings Institution. Tax Policy Center (TPC). "What is the TCJA tax on Global Intangible Low-Taxed Income (GILTI), and how does it work?" https://www.taxpolicycenter.org/briefing-book/what-tcja-tax-global-intangible-low-taxed-income-and-how-does-it-work

[29] The U.S. design of the coexistence or not, and under what conditions, between GILTI and Pillar II will be crucial for Puerto Rico.

[30] Between 2015 and 2020, the percentage of profit shifting to tax havens, a list that includes Puerto Rico, remained constant during this period according to the following publication: García-Bernardo J., Jansky P., & Zucman G. (2021). "Did the Tax Cuts and Jobs Act Reduce Profit Shifting by U.S. Multinational Companies?" https://gabriel-zucman.eu/files/GBJZ2022.pdf

[31] Office of Legislative Services (OLS). Unified Legislative Tracking System (SUTRA, its Spanish abbreviation). House Bill No. 1908. Report to the Senate Committee on Judiciary and Economic Development of Puerto Rico. https://sutra.oslpr.org/osl/esutra/medidareg.aspx?rid=145419

[32] The Puerto Rico Department of Treasury held two meetings with U.S. Treasury representatives to discuss House Bill No. 1908, and on June 22, 2024, it expressed the following through an Explanatory Memorandum to the Senate Committee on Judiciary and Economic Development of Puerto Rico: "In a first meeting on November 9, 2023, the federal government representative expressed concerns about the elective and voluntary nature of the regime provided in subsections (b) and (c) of the new Section 2062.01 A (b) proposed to be incorporated into Act No. 60 of July 1, 2019, as amended, known as the Puerto Rico Incentives Code. Specifically, the

Department of Treasury expressed reservations about the language of the bill and uncertainty regarding its compliance with the OECD model rules[33]. As a result, the U.S. Treasury representative recommended obtaining the OECD's opinion on the bill and understanding the treatment the OECD would give to the legal framework proposed by House Bill No. 1908 to implement the GMT in Puerto Rico.

PILLAR II, THE GLOBAL MINIMUM TAX (GMT), AND THE GLOBE RULES

Pillar II is the second overarching initiative of the OECD and the G-20 designed to address Base Erosion and Profit Shifting (BEPS) by ensuring that multinational enterprises (MNEs) with consolidated revenues of at least 750 million euros[34] pay a minimum tax on their global profits regardless of where they are generated. Pillar II determined that this minimum tax would be 15%, and it is referred to as the Global Minimum Tax (GMT). The global anti-base erosion rules, or GloBE rules, are the specific provisions within Pillar II that establish how to implement the 15% GMT. There are three GloBE rules[35]:

1. **Income Inclusion Rule (IIR):** Allows the ultimate parent entity (UPE) jurisdiction to apply a top-up tax if the profits of its subsidiaries have been taxed at a rate lower than 15%.

2. **Qualified Domestic Minimum Top-Up Tax (QDMTT):** Permits the country or jurisdiction of the subsidiary company to apply a top-up tax on the

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federal government official raised doubts about its potential impact on entities that chose the regime under Act No. 52 of 2022, the agreements established by the Federal Treasury under Notice 2022-42, and the rules on non-compulsory payments under the regulations of Section 901 of the Federal Internal Revenue Code. In a second meeting on June 10, 2024, with Scott Levine, Deputy Assistant Secretary for International Tax Affairs in the Office of Tax Policy of the Federal Treasury Department, the Federal Treasury raised additional concerns. In this last meeting, certain reservations were raised regarding the language of House Bill No. 1908 and the uncertainty regarding its compliance with OECD standards." (Our translation)

[33] OECD (2023), Minimum Tax Implementation Handbook (Pillar Two), OECD/G-20 Base Erosion and Profit Shifting Project, OECD (Paris). https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/minimum-tax-implementation-handbook-pillar-two.pdf

[34] Consolidated revenues of 750 million euros or more in at least two of the previous four years.

[35] OECD (2023), Minimum Tax Implementation Handbook (Pillar Two), OECD/G-20 Base Erosion and Profit Shifting Project, OECD, Paris. https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/minimum-tax-implementation-handbook-pillar-two.pdf

profits generated by the MNE's subsidiary within its territory if those profits have been taxed at a rate lower than 15%.

3. **Undertaxed Payments Rule (UTPR):** Acts as a backstop if neither the IIR nor the QDMTT are applied, allowing the jurisdictions where the MNE operates to collect the top-up tax[36].

WHAT IS THE ORDER OF PRIORITY AMONG THE THREE GLOBE RULES?

1. **QDMTT:** The QDMTT has priority. If a jurisdiction applies the QDMTT, locally generated profits are first taxed at the national level to ensure the 15% minimum effective tax rate is met. This prevents other jurisdictions from applying top-up taxes on those same profits.

2. **IIR:** If the QDMTT has not been applied, the IIR takes precedence. The parent company's jurisdiction can apply a top-up tax on the profits of its subsidiaries if these have been taxed at a rate lower than the GMT.

3. **UTPR:** The UTPR acts as a backstop if neither the QDMTT nor the IIR has been properly applied. It allows jurisdictions where the MNE has operations to make adjustments equivalent to the minimum effective tax rate, such as denying deductions or imposing additional taxes.

[36] The proportion of the top-up tax allocated to each UTPR jurisdiction is calculated according to a formula that distributes in proportions of 50% the amount of tangible assets and employees in that jurisdiction relative to the total tangible assets and employees of all UTPR jurisdictions. See detailed formula in Article 2.6 (page 13) of the publication "Tax Challenges Arising from Digitalization – Economic Impact Assessment." Inclusive Framework on BEPS. https://www.oecd-ilibrary.org/deliver/0e3cc2d4-en.pdf?itemId=%2Fcontent%2Fpublication%2F0e3cc2d4-en&mimeType=pdf

DATA

DATABASES USED

This report combines data from the OECD's corporate tax statistics database[37], the Orbis private company database[38], the OpenCorporates private company database[39], the Puerto Rico Department of State's registry of corporations[40], the U.S. Bureau of Labor Statistics' wage database[41], and PwC's digital tool for tracking the implementation of Pillar II by country[42].

1. **OECD Corporate Tax Statistics Database:** This database includes anonymous and aggregated data[43] from Country-by-Country Reports (CbCR), providing an overview of global financial and economic variables for thousands of MNE groups and their subsidiaries.
2. **Orbis (Moody's):** Fed by public records on public and private corporations, it provides microdata on operational and financial metrics, as well as information on ownership structures among MNEs and their subsidiaries.
3. **OpenCorporates:** The world's largest open database on private companies, sourced from official records. The database offers transparent data on financial variables and information on the hierarchical structure among MNEs and their global subsidiaries.
4. **Department of State (Corporation Registry):** Provides variables associated with the registration of local and foreign corporations operating in Puerto Rico.

[37] OECD. Corporate Tax Statistics Database. Data Explorer. Table 1. https://data-explorer.oecd.org/
[38] Orbis (Moody's). https://www.moodys.com/web/en/us/capabilities/company-reference-data/orbis.html
[39] OpenCorporates. https://opencorporates.com/
[40] Puerto Rico Department of State. Registry of Corporations. https://rcp.estado.pr.gov/en
[41] U.S. Bureau of Labor Statistics. "Employment and Wages Data Viewer." https://data.bls.gov/cew/apps/data_views/data_views.htm#tab=Tables
[42] PwC. "Pillar Two Country Tracker." https://www.pwc.com/gx/en/services/tax/pillar-two-readiness/country-tracker.html
[43] All calculations in this report used the subsample of "profit-making entities" from the OECD's Corporate Tax Statistics Database except for counting the number of employees and the number of foreign subsidiary corporations.

5. **U.S. Bureau of Labor Statistics (Quarterly Census of Employment and Wages):** The agency's database includes the latest available quarterly wage data for Puerto Rico, classified by industry[44].
6. **PwC's Pillar II Country Tracker Online:** PwC's tracker provided the status of Pillar II implementation in different countries and jurisdictions worldwide.

Methods and Frequencies of Extraction

1. **OECD:** Download method via Developer API with periodic updates[45].
2. **Orbis (Moody's):** Bulk download method with periodic updates.
3. **OpenCorporates:** Download method via RESTful API with real-time and periodic updates.
4. **Department of State:** Download method via web scraping using Python code.
5. **U.S. Bureau of Labor Statistics:** Bulk download method with periodic updates.
6. **PwC's Pillar II Country Tracker Online:** Bulk download method with periodic updates.

Number of Variables Extracted

1. **OECD:** 924,817 data points from 241 global jurisdictions including Puerto Rico.
2. **Orbis:** Links around 314 thousand corporations in thousands of networks.

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[44] This report replicates the methodology of the publication "Revenue Effects of the Global Minimum Tax Under Pillar II" (M. Baraké, P. Chouc, T. Neef & G. Zucman) for calculating wages. The authors incorporate a 20% premium to reflect above-average wages paid by multinational companies. The 20% premium is based on the study by Fredrik Heyman, Fredrik Sjöholm & Patrik Tingvall, "Is There Really a Foreign Ownership Wage Premium? Evidence from Matched Employer-Employee Data," 73(2) J. Int'l Econ. 355–376 (2007), Rita Almeida, "The Labor Market Effects of Foreign Owned Firms," 72(1) J. Int'l Econ. 75–96 (2007), or Khadija Van der Straaten, Niccolò Pisani & Ans Kolk, "Unraveling the MNE Wage Premium," Journal of International Business Studies (2020), SSRN, https://ssrn.com/abstract=3717151.

[45] Periodic updates refer to the origin source, not Espacios Abiertos.

3. **OpenCorporates:** Detailed information on 8,000 parent and subsidiary multinational corporations.
4. **Department of State:** Detailed information on 180,000 active parent and subsidiary multinational corporations.
5. **U.S. Bureau of Labor Statistics:** Wage data for Puerto Rico across 13 industrial sectors (NAICS).
6. **PwC's Pillar II Country Tracker:** Status and implementation dates of IIR, QDMTT, and UTPR rules for 117 countries.

Limitations of the Databases

1. **OECD[46]:** The CbCR database double counts some profits. For example, in the case of "stateless entities," particularly for U.S. companies, it is common for them to be double-counted either within the U.S. or in other jurisdictions. To avoid the possibility of overestimating profits, this study excluded "stateless entities." Additionally, the CbCR database double counts intra-company dividends that could increase pre-tax profits and artificially reduce their effective tax rate since these dividends usually pay little to no tax[47].
2. **Department of State:** The database does not include information on parent companies, requiring the use of additional data sources such as OpenCorporates and Orbis to complete the analysis.
3. **OpenCorporates:** To identify the parent company, the highest corporate hierarchy among "Home Company (HC)," "Controlling Company (CC)," and "Ultimate Parent Company (UPC)" was selected. Since UPC information was scarcely obtained (264 companies), CC information was used (7,824 companies).
4. **Orbis:** Since Orbis does not use the same unique identifier as OpenCorporates, companies across databases had to be matched by name and country.

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[46] OECD. "Important disclaimer regarding the limitations of the Country-by-Country report statistics." https://www.oecd.org/tax/tax-policy/anonymised-and-aggregated-cbcr-statistics-disclaimer.pdf
[47] "Revenue Effects of the Global Minimum Tax Under Pillar II." Mona Baraké, Paul-Emmanuel Chouc, Theresa Neef & Gabriel Zucman. https://gabriel-zucman.eu/files/BCNZ2022.pdf

Lastly, this study does not include the effects on Pillar I revenues in Puerto Rico, although the "OECD's Impact Assessment (2020)" finds only marginal effects related to its application.

METHODOLOGY

This study largely replicates the methodology of one of the first and most robust academic studies[48] conducted to estimate the potential global revenue impact of the implementation of the GMT. This report adapts the pioneering study to the case of Puerto Rico using aggregated data from the OECD[49] and additionally matching all parent multinational corporations with consolidated revenues above 750 million euros with their subsidiaries on the island and elsewhere in the world[50]. The report will use the following equations for the analysis that will be presented in the results section:

(1) $\textit{Tax Base}_{ms} = \textit{Profits}_{ms} - \textit{Substance-based Carve-outs}_{ms}$

(2) $\textit{Substance-based Carve-outs}_{ms} = [10\% \times (\textit{Payroll}_{ms})] + [8\% \times (\textit{Tangible Assets}_{ms})]$

(3) $\textit{Potential Revenue}_{m} \textit{ Under the Income Inclusion Rule (IIR)} = \sum_{s}^{S}(15\% - \textit{Effective Tax Rate}_{ms}) \times \textit{Tax base}_{ms}$

(4) $\textit{Potential Revenue}_{s} \textit{ Under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT)} = \sum_{m}^{M}(15\% - \textit{Effective Tax Rate}_{ms}) \times \textit{Tax Base}_{ms}$

(5) $\textit{Top-up Tax}_{ms} = 15\% - \textit{Effective Tax Rate}_{ms}$

(6) $\textit{Excess Profit}_{ms} = \textit{Total Revenues}_{ms} - \textit{Substance-based Carve-outs}_{ms}$

(7) $\textit{Payroll}_{ms} = \textit{Number of Employees}_{ms} \times \textit{Weighted average of Sectoral Wages}$

(8) $\textit{Effective Tax Rate}_{ms} \textit{ (ETR)} = \textit{Taxes}_{ms} / \textit{Profits}_{ms}$

The previous equations will serve as the basis for quantifying the implementation of the Global Minimum Tax. The 15% GMT will apply to the pre-tax profits of the subsidiaries of multinationals, also known as foreign companies, as Puerto Rico is considered a foreign jurisdiction for tax purposes both for the U.S. and the rest of the world's economies. These profits must be reduced by what are known as

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[48] "Revenue Effects of the Global Minimum Tax Under Pillar II." Mona Baraké, Paul-Emmanuel Chouc, Theresa Neef & Gabriel Zucman. https://gabriel-zucman.eu/files/BCNZ2022.pdf

[49] OECD. "Corporate Tax Statistics Database." https://www.oecd.org/en/data/datasets/corporate-tax-statistics-database.html

[50] The matching exercise between parent and subsidiary companies was primarily done with the Orbis (Moody's) and OpenCorporates databases.

substance-based carve-outs (see equations 1 and 2) according to a percentage of the book value of tangible assets and payroll expense (see equation 7).

(1) Tax Base$_{ms}$ = Profits$_{ms}$ – Substance-based Carve-Outs$_{ms}$
(2) Substance-based Carve-Outs$_{ms}$ = [10% x (Payroll$_{ms}$)] + [8% x (Tangible Assets$_{ms}$)]
(7) Payroll$_{ms}$ = Number of Employees$_{ms}$ x Weighted Average of Sectoral Wages

After the first 10 years, the exclusion rates will decrease from 8% of the value of assets and 10% of payroll to a long-term rate of 5% of payroll and tangible assets. This provision reduces the top-up tax obligation (see equation 5) in jurisdictions where these companies generate a certain level of economic activity. However, it will impose a top-up tax close to 15% in jurisdictions where multinational companies generate little economic activity.

(5) Top-up Tax$_{ms}$ = 15% - Effective Tax Rate$_{ms}$

The OECD database we used in the study provides aggregated data from country ***m*** headquarters of parent multinational groups with subsidiaries in country ***s***. Their tax base will be that of equation (1):

(1) Tax Base$_{ms}$ = Profits$_{ms}$ - Substance-Based Carve-Outs$_{ms}$

For the above equation, Profits$_{ms}$ are the pre-tax profits of the subsidiaries of multinational groups headquartered in country ***m*** operating through a subsidiary company in jurisdiction ***s***. Payroll$_{ms}$ (see equation 7) denotes the payroll expense of jurisdiction ***s*** and Tangible Assets$_{ms}$ denotes the value of tangible assets of jurisdiction ***s***. All these variables were found in aggregate form in the OECD database. The variable Weighted Average Sectoral of Wages was estimated from the U.S. Bureau of Labor Statistics' quarterly wage data.

(7) Payroll$_{ms}$ = Number of Employees$_{ms}$ x Weighted Average of Sectoral Wages

The Income Inclusion Rule (IIR) allows countries ***m*** with parent multinational groups' headquarters to collect the Top-up Tax$_{ms}$ when the country of the subsidiary companies in jurisdiction ***s*** does not have local legislation (QDMTT). In this way, the potential revenues of the multinational parent country under IIR would be as follows (see equation 3):

(3) Potential Revenue$_m$ Under the Income Inclusion Rule (IIR) = $\sum_s^S(15\% - \boldsymbol{Effective\ Tax\ Rate}_{ms})$ ***x Tax Base$_{ms}$***

The Tax base$_{ms}$ is determined by equation (1) for the subsidiaries in jurisdiction ***s*** of multinationals headquartered in country ***m***. In addition, the Effective Tax Rate$_{ms}$ is the average effective rate for these subsidiaries.

On the other hand, if the subsidiary company's jurisdiction enacts local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT), region ***s*** of the subsidiary company will have priority in collecting the Top-up tax$_{ms}$ and will take precedence over the IIR rule issued in country ***m*** of the multinational parent. Thus, the potential revenues of the subsidiary country under QDMTT would be as follows (see equation 4):

(4) Potential Revenue$_s$ Under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT) = $\sum_m^M(15\% - \boldsymbol{Effective\ Tax\ Rate}_{ms})$ ***x Tax Base$_{ms}$***

Finally, if neither country ***m*** with multinational parent group headquarters nor jurisdiction ***s*** of the subsidiary company has enacted laws on the IIR and QDMTT rules respectively, countries ***w*** that have Undertaxed Payments Rule (UTPR) in place can claim[51] the potential Top-up Tax$_{ms}$ revenues not claimed by either country ***m*** or jurisdiction ***s***.

RESULTS

This study will present the results for the years 2024 and 2025 regarding the projections of potential revenues under the GloBE rules of IIR, QDMTT, and UTPR defined in the second section of this report. The short-term projections will assume no immediate adjustment in the behavior of foreign corporations and that their main variables reported in the OECD database[52] for 2021[53] remain constant for the years 2024 and 2025.

[51] See footnote 36 for an understanding of the distribution of the top-up tax among the various jurisdictions with UTPR in force.
[52] OECD. "Corporate Tax Statistics Database." https://www.oecd.org/en/data/datasets/corporate-tax-statistics-database.html
[53] OECD. Corporate Tax Statistics Database. Data Explorer. Table 1. https://data-explorer.oecd.org/

To this end, we will project for the years 2024 and 2025 the main variables detailed in the previous methodological section according to the latest aggregated data on corporate tax statistics for 2021 for Puerto Rican foreign corporations. In addition to the above, the study will address two important questions:

1. How much additional revenue would be generated from corporations on the island if Puerto Rico enacted local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT)?
2. How much additional revenue would be generated by other jurisdictions worldwide, either under IIR or UTPR[54], if Puerto Rico did not enact local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT)?

RESULTS FOR PUERTO RICO'S FOREIGN CORPORATIONS

- Number of Employees_{ms} = **99,575**
- Number of Foreign Corporations_{ms} = **1,108**
- Payroll_{ms} = **$4,444 million**
- Tangible Assets_{ms} = **$23,997.3 million**
- Effective Tax Rate_{ms} = **2.43%**
- Taxes Accrued_{ms} = **$798.8 million**
- Weighted Average of Sectoral Wages_{ms} = **$50,209**
- Profits_{ms} = **$32,927.8 million**
- Retained Earnings_{ms} = **$19,530.9 million**
- Substance-based Carve-outs_{ms} = **$2,364.2 million**
- Tax Base_{ms} = **$30,563.6 million**
- Top-up Tax_{ms} = **12.57%**

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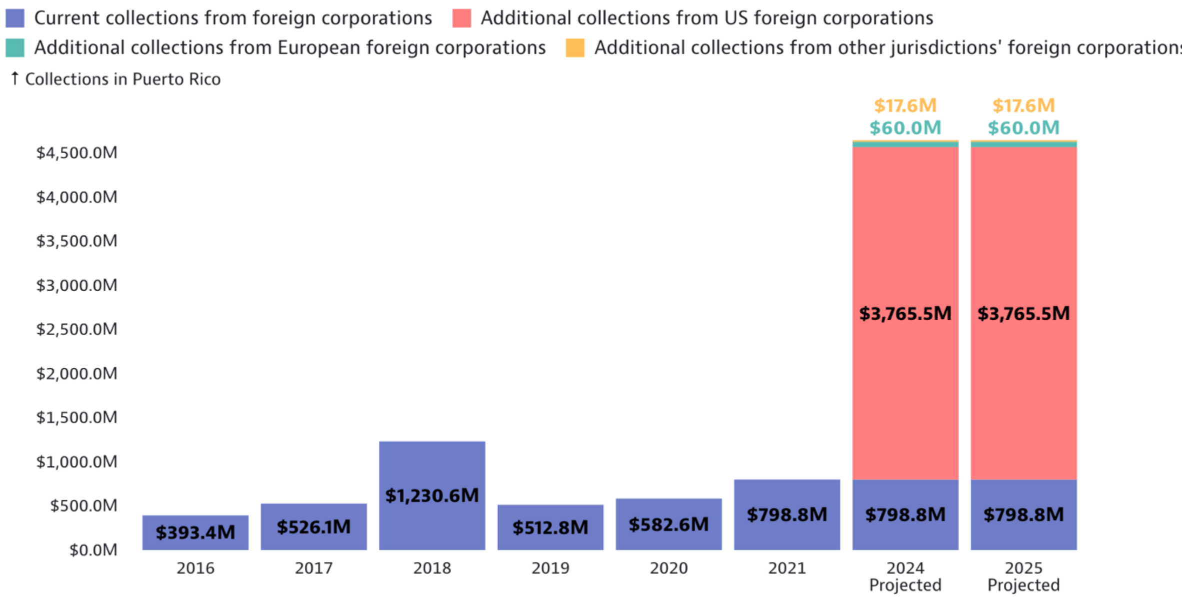
[54] Due to the complexity of calculation and its more residual impact, this report does not evaluate the additional revenue that Puerto Rico could generate if it enacted UTPR legislation. If Puerto Rico were to pass UTPR legislation, the island could claim the top-up taxes from countries that meet the following three conditions: 1) countries that have related subsidiaries to the MNE with a subsidiary on the island; 2) countries of related subsidiaries that do not have QDMTT; and 3) countries of related subsidiaries that have MNEs established in countries without IIR. In conclusion, the projections in the next section on potential revenues if the island enacts QDMTT are conservative estimates and are at the lower end of the range of potential additional revenues for Puerto Rico.

- Total Revenues$_{ms}$ = **$105,065 million**
- Excess Profit$_{ms}$ = **$102,700.8 million**

1) ***Additional Gains in Puerto Rico*** *if the island* ***enacts local legislation*** *under the Qualified Domestic Minimum Top-up Tax Rule (QDMTT)*



Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

Projections for the years 2024 and 2025:

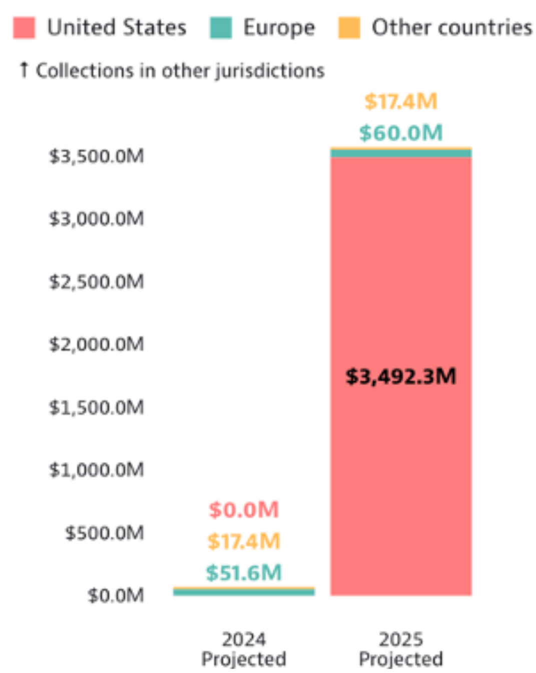
1. Additional gain from U.S. foreign subsidiaries (QDMTT) = **$3,765.5 million.**
2. Additional gain from European foreign subsidiaries (QDMTT) = **$60.0 million.**
3. Additional gain from foreign subsidiaries of other countries (QDMTT) = **$17.6 million.**

In conclusion, if Puerto Rico had enacted local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT), it would have collected up to $3,843.1 million for each of the years 2024 and 2025[55]. Of the $3,842.1 million

[55] As of August 2024, 147 members have subscribed to the inclusive framework on BEPS. Among the previous members, 105 countries have already joined Pillar II. For 2024 and 2025, 31 and 40 countries have enacted QDMTT laws, respectively. While the U.S. has subscribed to the inclusive

additional tax revenue it would have collected per year, $3,765.5 million would be from US foreign corporations, $60.0 million from European foreign corporations, and $17.6 million from foreign corporations from all other countries. However, it is crucial to emphasize that this does not mean that the General Fund budget of Puerto Rico would increase by that amount for the fiscal years 2024 and 2025. Ultimately, the island's public policy will need to decide what proportion of these revenues would be allocated to the subsidiaries of multinationals established on the island in the form of non-tax and non-proportional incentives relative to the top-up tax paid by those foreign corporations, and what part of those revenues will be allocated for other budgetary purposes.

2) ***Additional Gains in other Jurisdictions*** *if Puerto Rico* ***does not enact local legislation*** *under the Qualified Domestic Minimum Top-up Tax Rule (QDMTT)*



Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

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framework on BEPS and joined Pillar II, it has not yet enacted legislation on IIR, QDMTT, and UTPR. On the other hand, Puerto Rico has not subscribed to the inclusive framework on BEPS, has not joined Pillar II, and has not enacted legislation on IIR, QDMTT, and UTPR.

Projections for the year 2024:

1. Revenue collections in European jurisdictions (IIR) = **$51.6 million.**
2. Revenue collections in jurisdictions of other countries (IIR) = **$17.4 million.**

Projections for the year 2025:

1. Revenue collections in other jurisdictions worldwide where U.S. parent companies have subsidiaries (UTPR) **= $3,492.3 million.**
2. Revenue collections in European jurisdictions (IIR) = **$60.0 million.**
3. Revenue collections in jurisdictions of other countries (IIR) = **$17.4 million.**

In conclusion, if Puerto Rico does not enact local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT), other jurisdictions can claim part of the top-up tax from Puerto Rico[56]:

1. $69.0 million under IIR[57] in 2024; and
2. $3,569.7 million: $77.4 million under IIR[58] and $3,492.3 million under UTPR[59] starting in 2025.

If Puerto Rico does not join Pillar II and fails to enact local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT) before January 1, 2025, UTPR will come into effect. If UTPR is applied to Puerto Rico, other jurisdictions will lay claim to $3,569.7 million in tax revenue generated through economic activity of subsidiaries in Puerto Rico through their own IIR or UTPR laws. Espacios Abiertos found that most of the U.S. parent companies with subsidiaries in Puerto

[56] The difference between the 15% global minimum tax and the average effective tax rate of 2.43% paid by foreign companies established in Puerto Rico.

[57] The following countries with foreign subsidiaries in Puerto Rico, which have joined Pillar II, subscribed to their IIR rule for 2024: in Europe (Germany, Spain, Greece, Italy, and Luxembourg) and the rest of the world (Japan).

[58] In 2025, Switzerland subscribes to IIR and joins the European group of Germany, Spain, Greece, Italy, and Luxembourg that subscribed to IIR from 2024 onwards.

[59] If Puerto Rico does not join Pillar II and does not enact local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT) before January 1, 2025, UTPR will come into force. Espacios Abiertos found that U.S. parent companies with subsidiaries in Puerto Rico have at least one of their subsidiaries in a country that has enacted UTPR legislation. After adjusting for the total revenues of the MNEs, we estimate that 92.7% ($3,492.3 million) of the top-up tax from U.S. foreign companies would be collected by these countries that enacted UTPR (see Table 4 in the appendix). The proportion in which each country would collect its share is explained in footnote 36 of this report.

Rico have at least one of their subsidiaries in a country that has enacted UTPR legislation. After adjusting for the total revenues of the MNEs, we estimate that 92.7% ($3,492.3 million) of the top-up tax from U.S. foreign companies would be collected by these countries that enacted UTPR (see Table 2 in the appendix). Additionally, Puerto Rico would forgo $69.0 million in tax revenue in 2024 and $77.4 million in 2025 to European countries and other countries with an IIR that has come into effect.

CONCLUSION

The results of this report are based on first-round effects, that is, before any behavioral adjustments[60] by multinational companies and before Puerto Rico implements legislation on Pillar II.

This research demonstrates and concludes the following:

1. If Puerto Rico had enacted local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT), it would have collected up to $3,843.1 million for each of the years 2024 and 2025.

2. If Puerto Rico had enacted QDMTT, it does not mean that the General Fund budget of Puerto Rico would have increased by $3,843.1 million for the fiscal years 2024 and 2025, as part of these revenues could be allocated to non-tax incentives for foreign corporations.

3. The island's public policy will need to decide what proportion of these revenues would be allocated to the subsidiaries of multinationals established on the island in the form of non-tax and non-proportional incentives relative to the top-up tax paid by those foreign corporations,

[60] Although our report, focusing on short-term revenue effects (years 2024 and 2025), does not include corporate behavioral adjustments, those long-term effects should be studied. The study that inspired this report, "Revenue Effects of the Global Minimum Tax Under Pillar II" (M. Baraké, P. Chouc, T. Neef & G. Zucman), cites various academic writings that have found semi-elasticities in profits relative to tax rate differentials that would be worth applying to Puerto Rico (see section 6.2 of M. Baraké, P. Chouc, T. Neef & G. Zucman's publication: "Results in Light of Firm's Behavioural Responses"). Specifically, the report cites the works of Heckemeyer and Overesch (2017), Johansson, Skeie, Sorbe, and Menon (2017), Beer et al. (2020), Dharmapala (2014), and Bratta et al. (2021).

and what part of those revenues will be allocated for other budgetary purposes.

4. If Puerto Rico does not enact local legislation under the Qualified Domestic Minimum Top-Up Tax rule (QDMTT), other jurisdictions could claim the top-up tax from Puerto Rico:

    - $69.0 million under IIR in 2024; and

    - $3,569.7 million: $77.4 million under IIR and $3,492.3 million under UTPR starting in 2025.

5. While the focus of this report is limited to projecting short-term revenue effects (years 2024 and 2025), Espacios Abiertos urges both the executive branch and the legislative assembly to establish an independent evaluation commission on the long-term impact of the Global Minimum Tax (GMT) in Puerto Rico, comprising experts in the field both nationally and internationally. The commission should evaluate, among other issues, the appropriate proportion and mechanisms for non-tax benefits to foreign corporations established in Puerto Rico and the long-term impact of the GMT on job preservation and creation, as well as the maximization of long-term revenues from these corporations.

RECOMMENDATIONS

1. Obtain an official opinion from the OECD and the U.S. federal government[61] regarding the degree of compliance with the OECD model rules and GloBE rules in implementing Pillar II and a global minimum tax in Puerto Rico through a Qualified Domestic Minimum Top-Up Tax (QDMTT).

2. Evaluate and decide by the end of 2024 on Puerto Rico's adherence to the group of 147 jurisdictions that have subscribed to the inclusive framework on BEPS. Subsequently, evaluate and decide on Puerto Rico's adherence to the Pillar II declaration and approve an implementation schedule for the IIR, QDMTT, and UTPR rules.

[61] Tax Foundation. "Puerto Rican Competitiveness and Pillar II." https://taxfoundation.org/research/all/federal/puerto-rico-tax-competitiveness-pillar-two/

3. Enact local legislation on the GMT under the QDMTT rule through an extraordinary session in the legislative assembly before the end of this calendar year to avoid forgoing up to $3,843.1 million in revenue for the next year, 2025.

4. Enact local legislation on the GMT under the Income Inclusion Rule (IIR) and the Undertaxed Payments Rule (UTPR).

5. Establish an evaluation commission on the impact of the Global Minimum Tax (GMT) in Puerto Rico, composed of independent local and international experts.

6. Quantify[62] the fiscal cost of any non-tax incentive project or any proposed Qualified Refundable Tax Credits (QRTC) before enacting any local legislation.

7. Avoid any government benefits, such as the refundable and transferable tax credits proposed in House Bill No. 1908 that could be considered a *quid pro quo*[63] or proportional remuneration to the top-up tax payable by the foreign corporation.

8. Establish an annual maximum limit for any non-tax incentive proposal or any project of Qualified Refundable Tax Credits (QRTC).

9. Eliminate the possibility of transferability of any refundable tax credit to taxpayers subject to the top-up tax to avoid introducing distortive elements to the public policy objective of the GMT.

10. Eliminate any voluntary or flexible aspects of the top-up tax, as it could compromise the OECD's accreditation of a Qualified Domestic Minimum

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[62] Ideally, the Legislative Budget Office (OPAL, its Spanish abbreviation) should quantify all refundable and transferable tax credits to taxpayers subject to the top-up tax proposed in Article 4 of House Bill No. 1908, such as, for example, a credit of 5.25% of gross receipts in manufacturing production or services that have at least 1,000 direct jobs. https://sutra.oslpr.org/osl/esutra/medidareg.aspx?rid=145419

[63] OECD. "Tax Challenges Arising from Digitalization of the Economy - Global Anti-Base Erosion Model Rules (Pillar II)." Page 66 (Tax means a compulsory unrequited payment to the General Government). https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/12/tax-challenges-arising-from-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two_eed81a23/782bac33-en.pdf

Top-Up Tax (QDMTT) and its approval might not meet the definition of "tax"[64] provided by the OECD model rules.

11. Avoid future legislation on tailored tax decrees for foreign or local corporations and replace it with a comprehensive tax reform proposal that makes transparent and standardizes the rules for any foreign or local multinational corporation wishing to do business on the island.

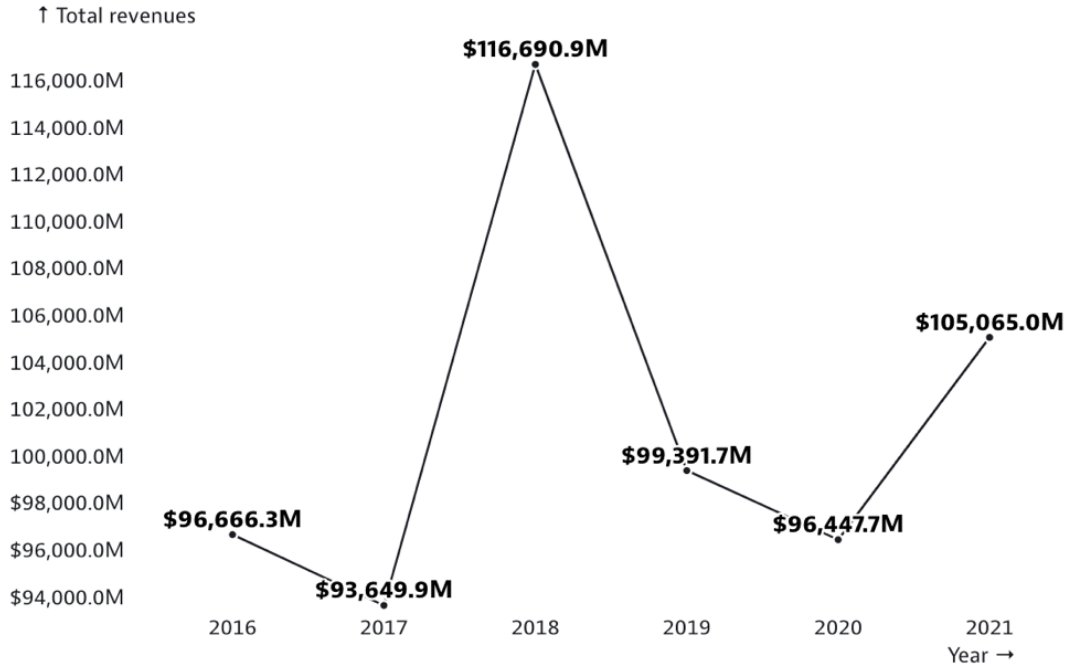
12. Evaluate the tax impact on additional revenue collections by establishing a 15% minimum tax for multinational corporations with local headquarters whose total annual revenues exceed 750 million euros.

[64] Puerto Rico Department of Treasury. "Explanatory Memorandum to House Bill P. de la C. 1908." https://sutra.oslpr.org/osl/esutra/medidareg.aspx?rid=145419

Appendix

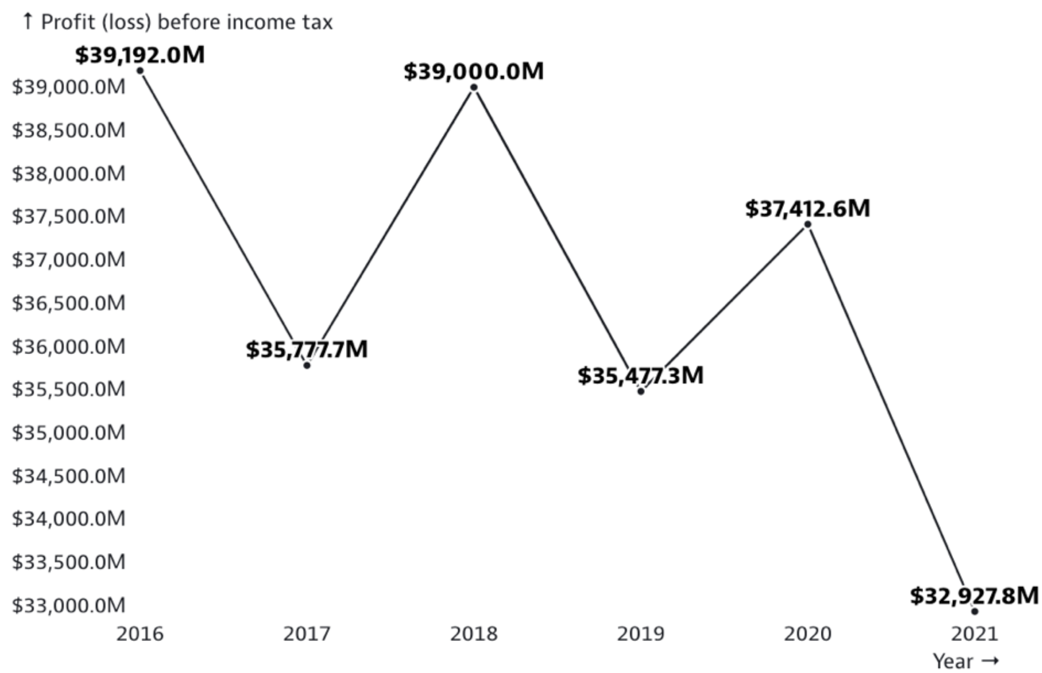
Appendix 1 - Aggregated Results

Total Revenue from Foreign Corporations (M=million)



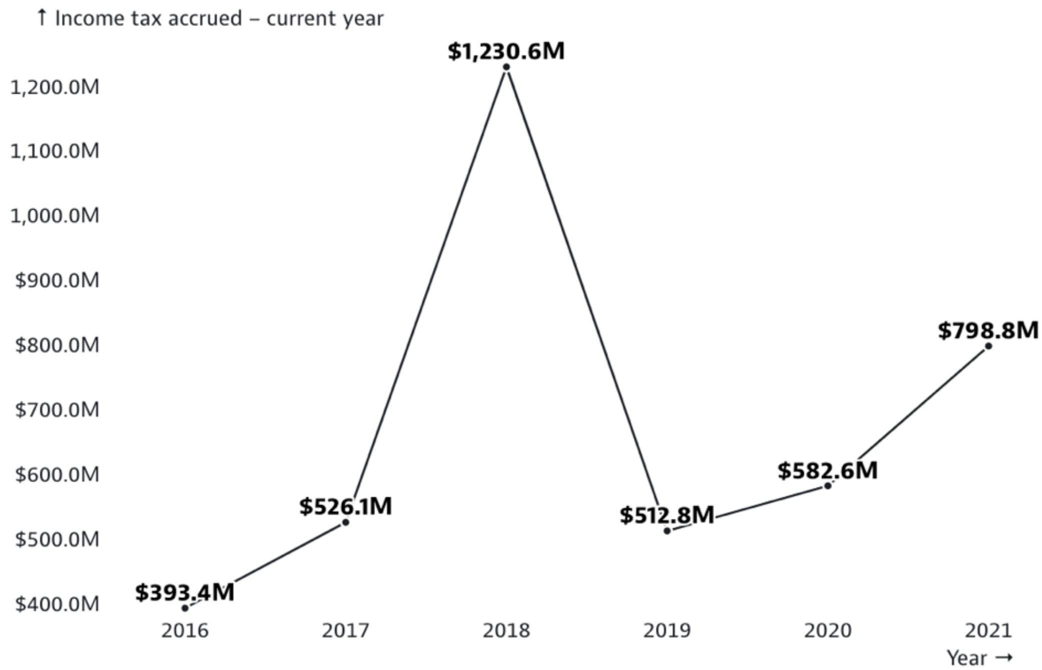
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

Profit (loss) Before Income Tax from Foreign Corporations (M=million)



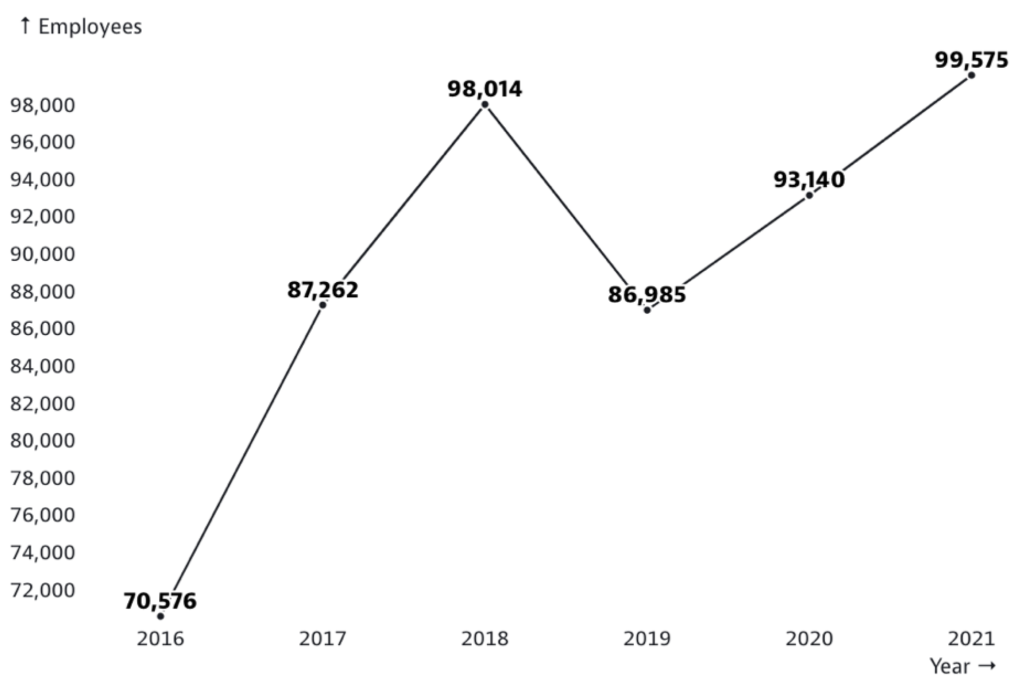
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

INCOME TAX ACCRUED FROM FOREIGN CORPORATIONS (M=MILLION)



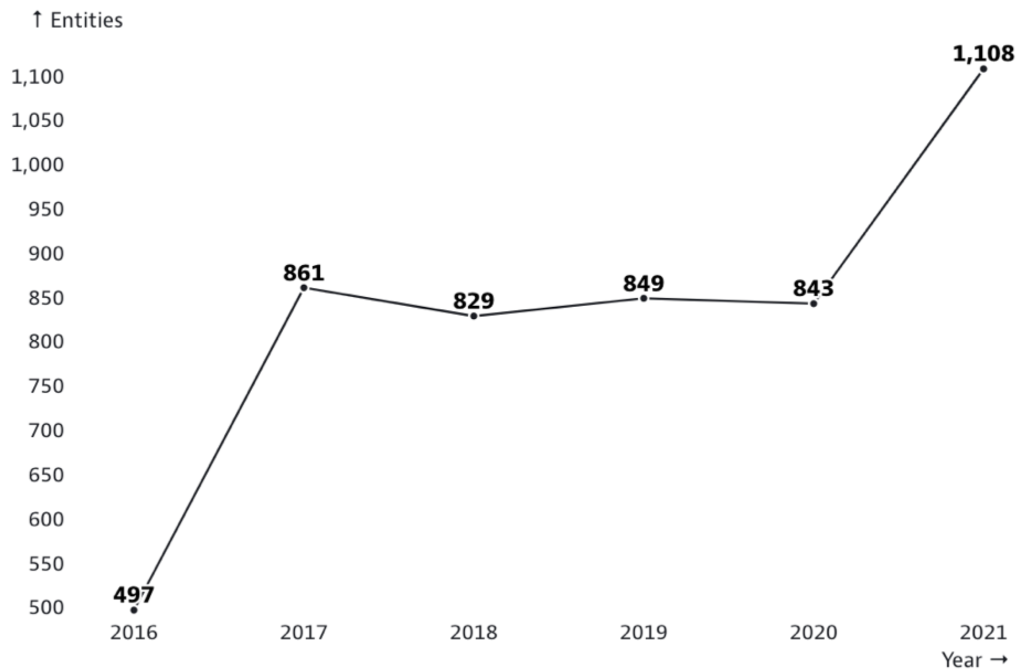
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

NUMBER OF EMPLOYEES FROM FOREIGN CORPORATIONS (M=MILLION)



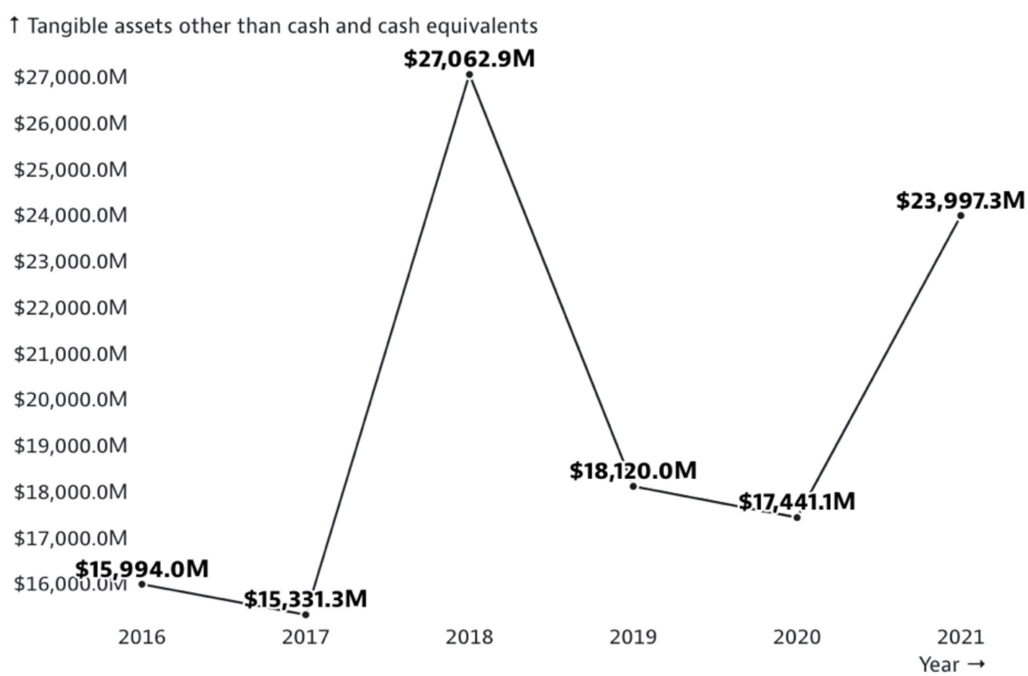
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

NUMBER OF FOREIGN CORPORATIONS (M=MILLION)



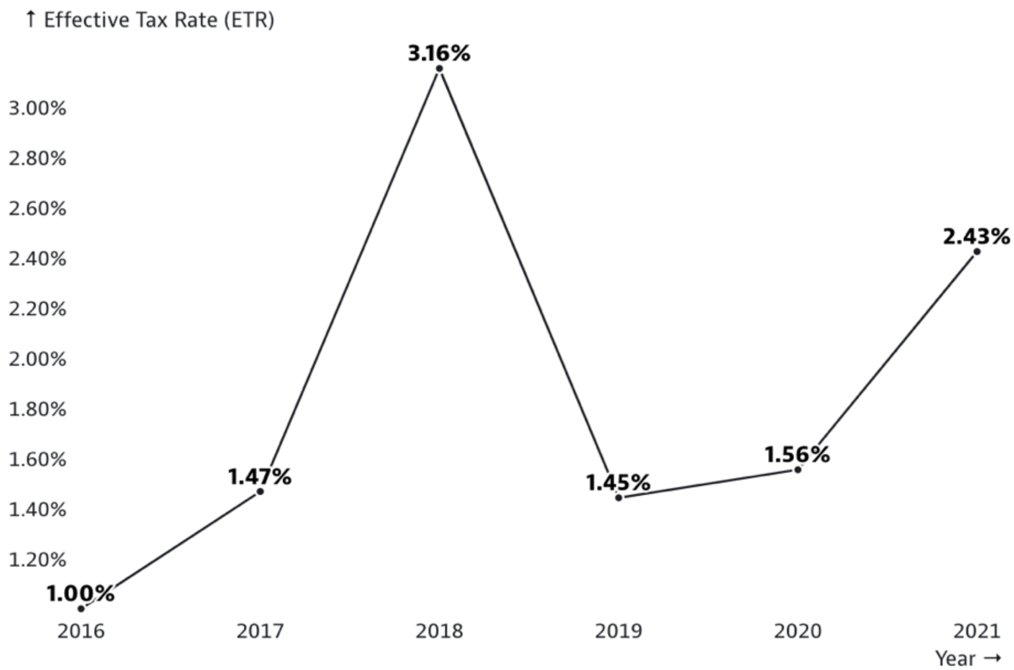
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

TOTAL TANGIBLE ASSETS FROM FOREIGN CORPORATIONS (M=MILLION)



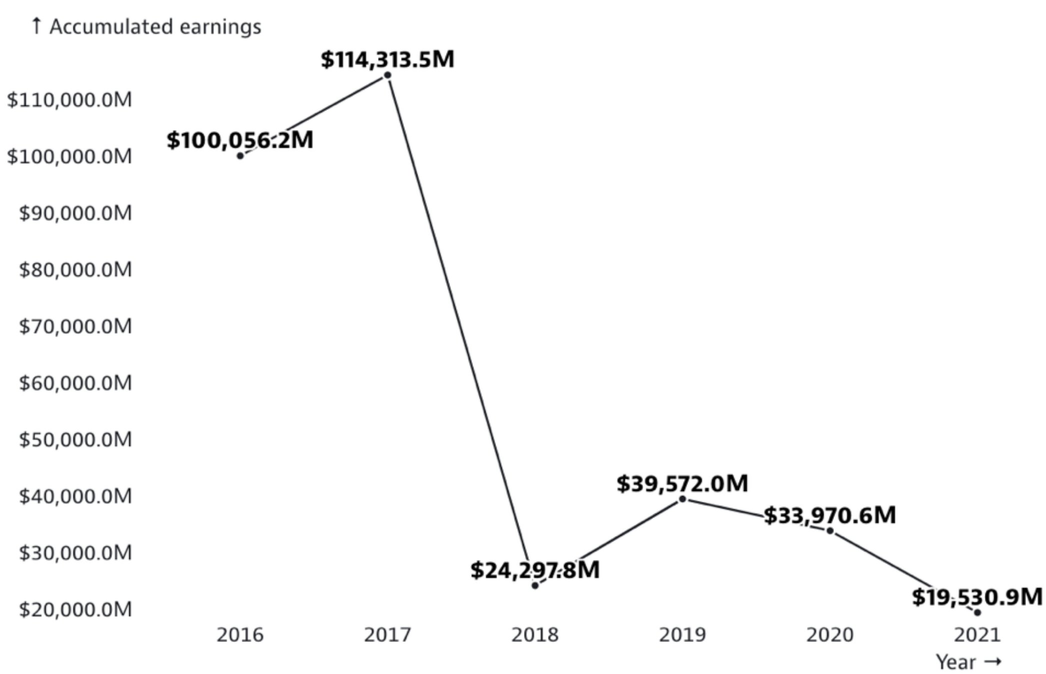
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

EFFECTIVE TAX RATE (ETR) FROM FOREIGN CORPORATIONS (%)



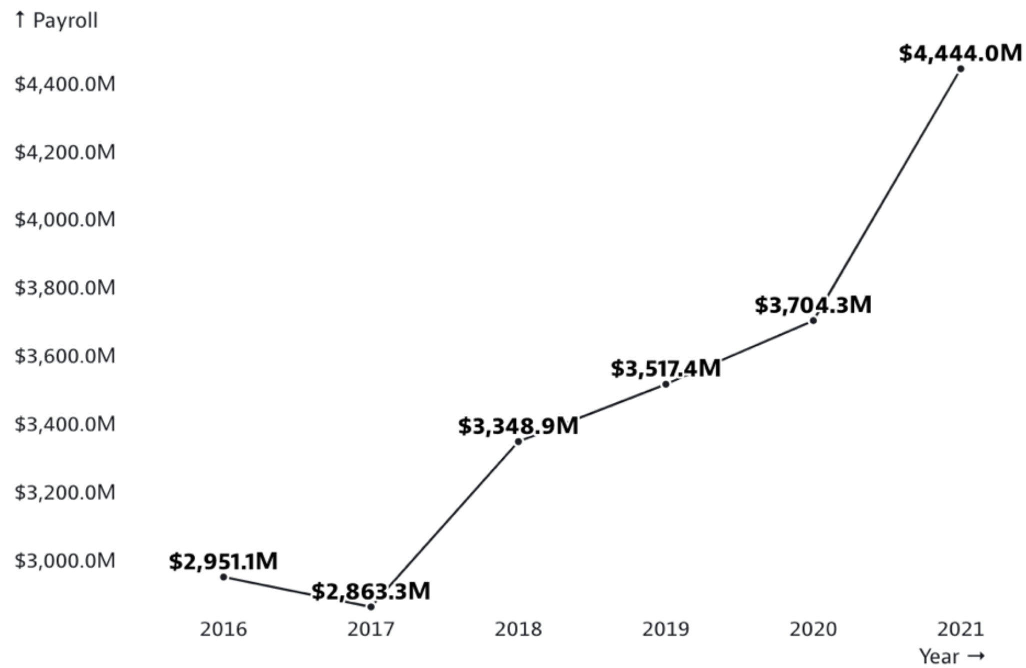
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

ACCUMULATED EARNINGS FROM FOREIGN CORPORATIONS (M=MILLION)



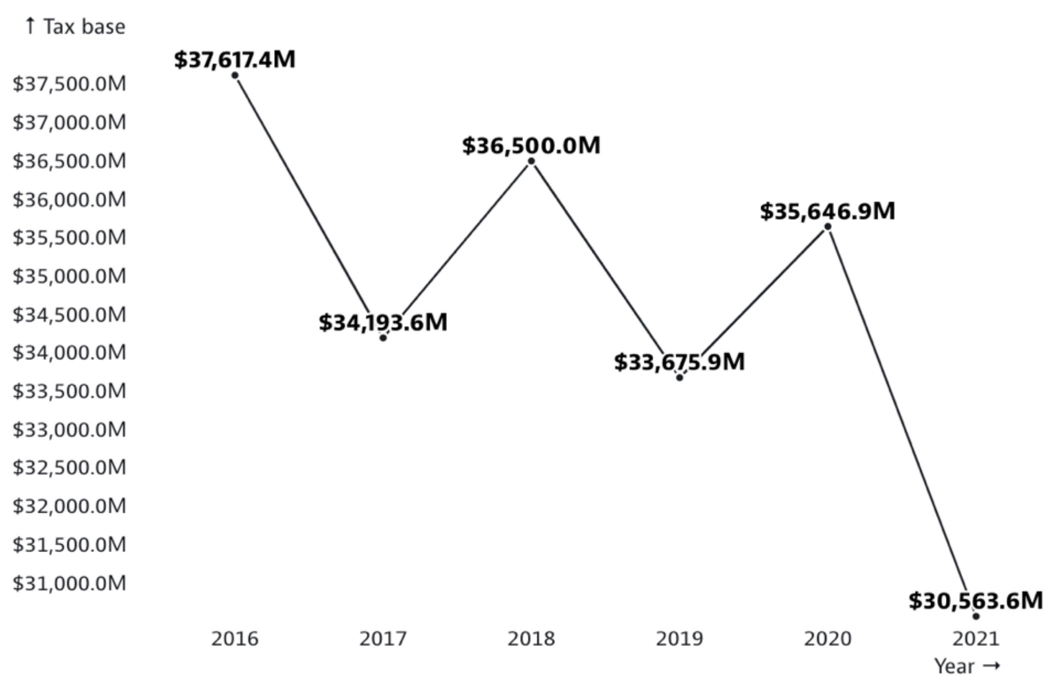
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

TOTAL PAYROLL FROM FOREIGN CORPORATIONS (M=MILLION)



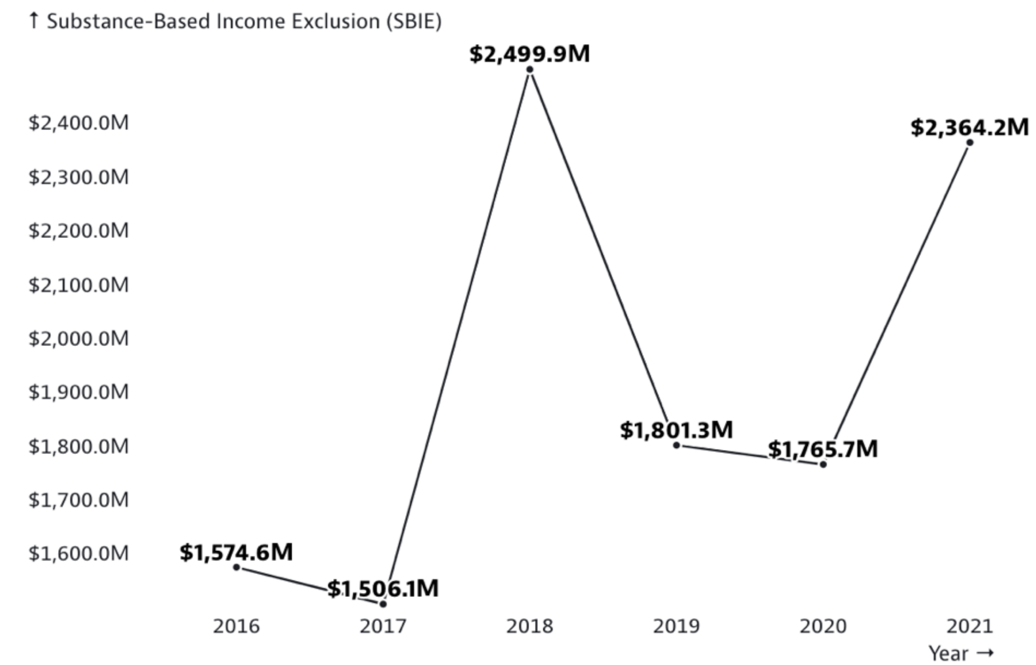
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

TAX BASE FROM FOREIGN CORPORATIONS (M=MILLION)



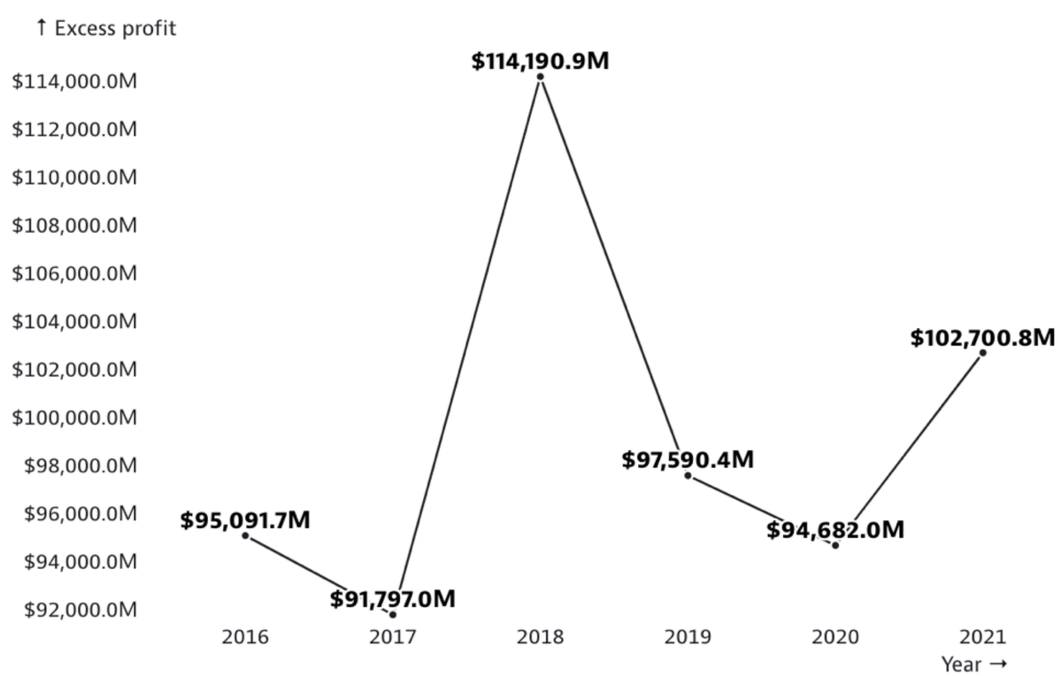
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

SUBSTANCE-BASED INCOME EXCLUSION (SBIE) FROM FOREIGN CORPORATIONS (M=MILLION)



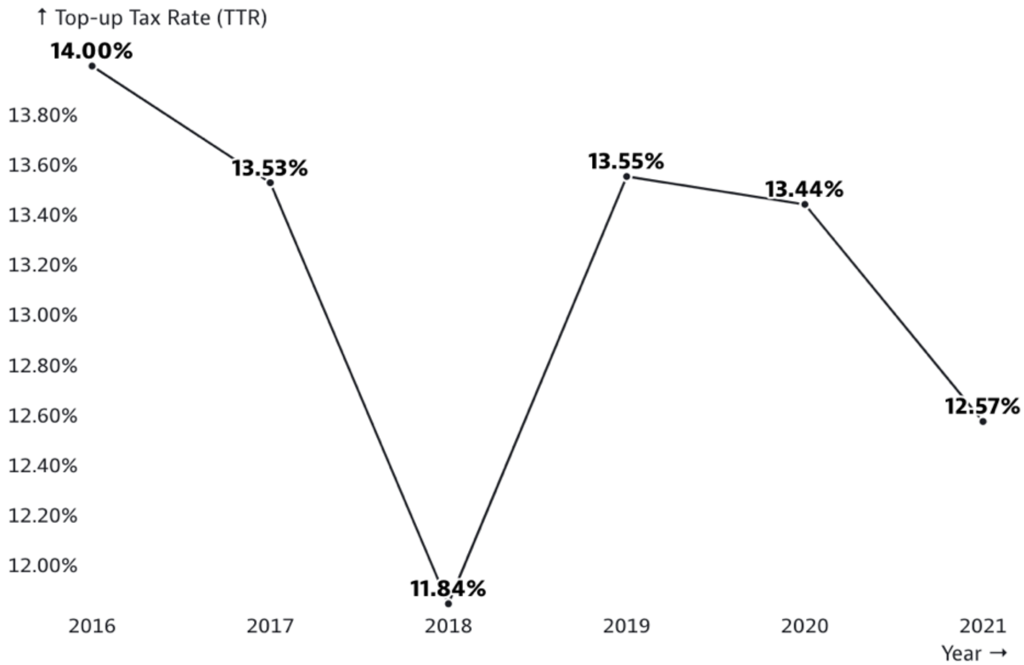
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

EXCESS PROFIT FROM FOREIGN CORPORATIONS (M=MILLION)



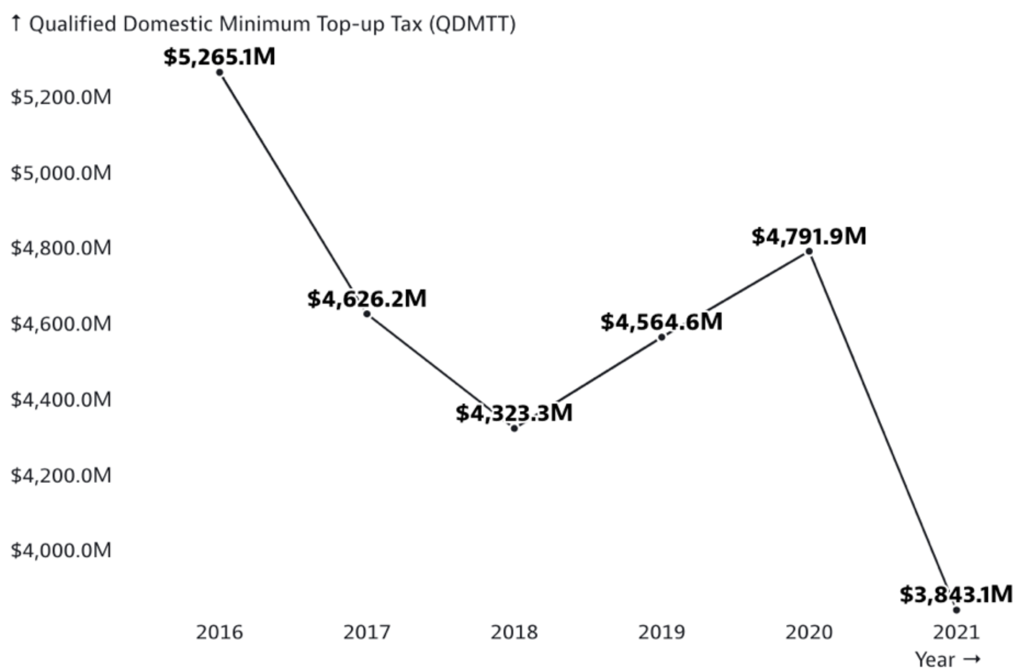
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

Top-up Tax Rate (TTR) from Foreign Corporations (%)



Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

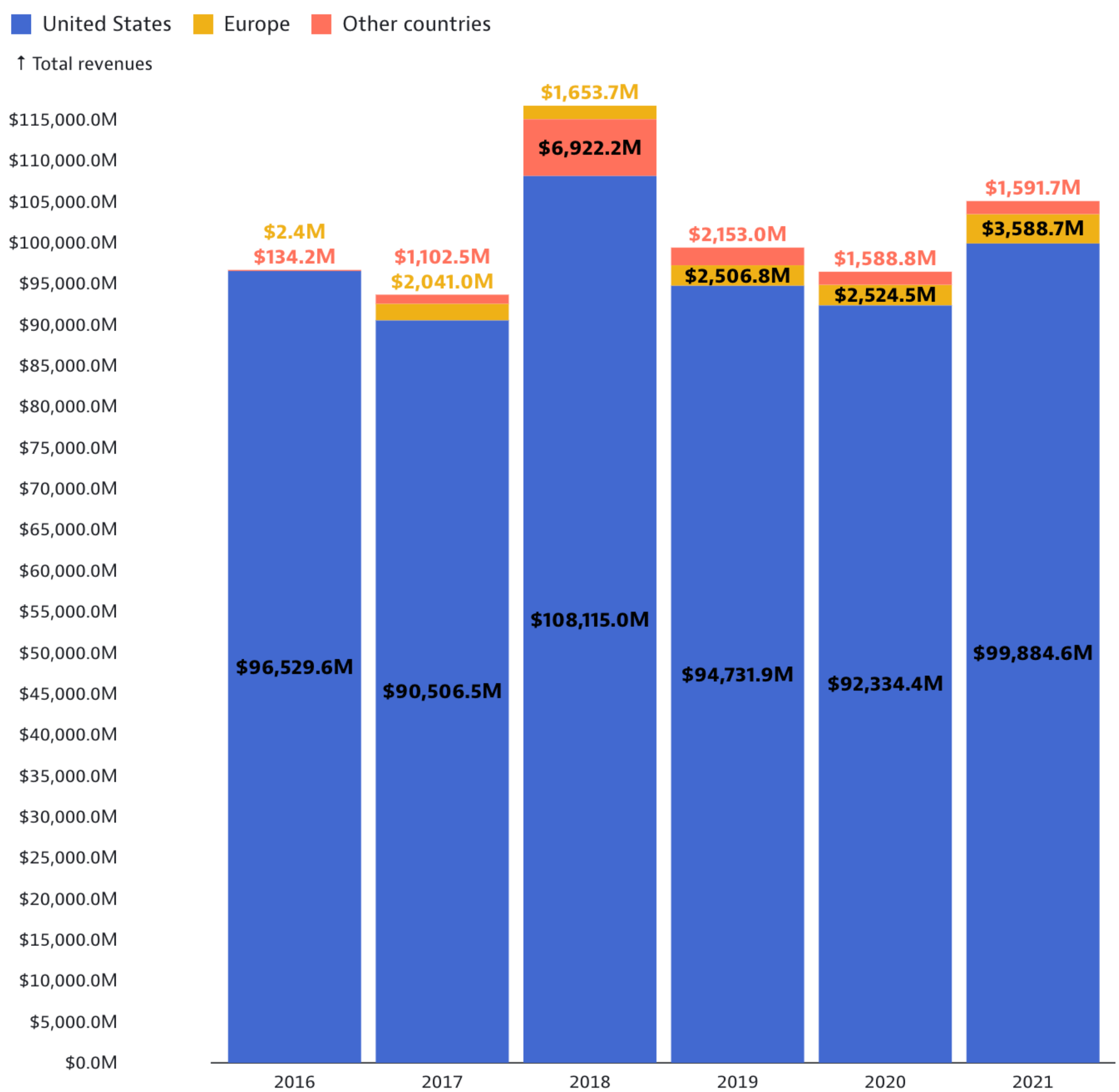
Qualified Domestic Minimum Top-up Tax (QDMTT) from Foreign Corporations (M=million)



Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

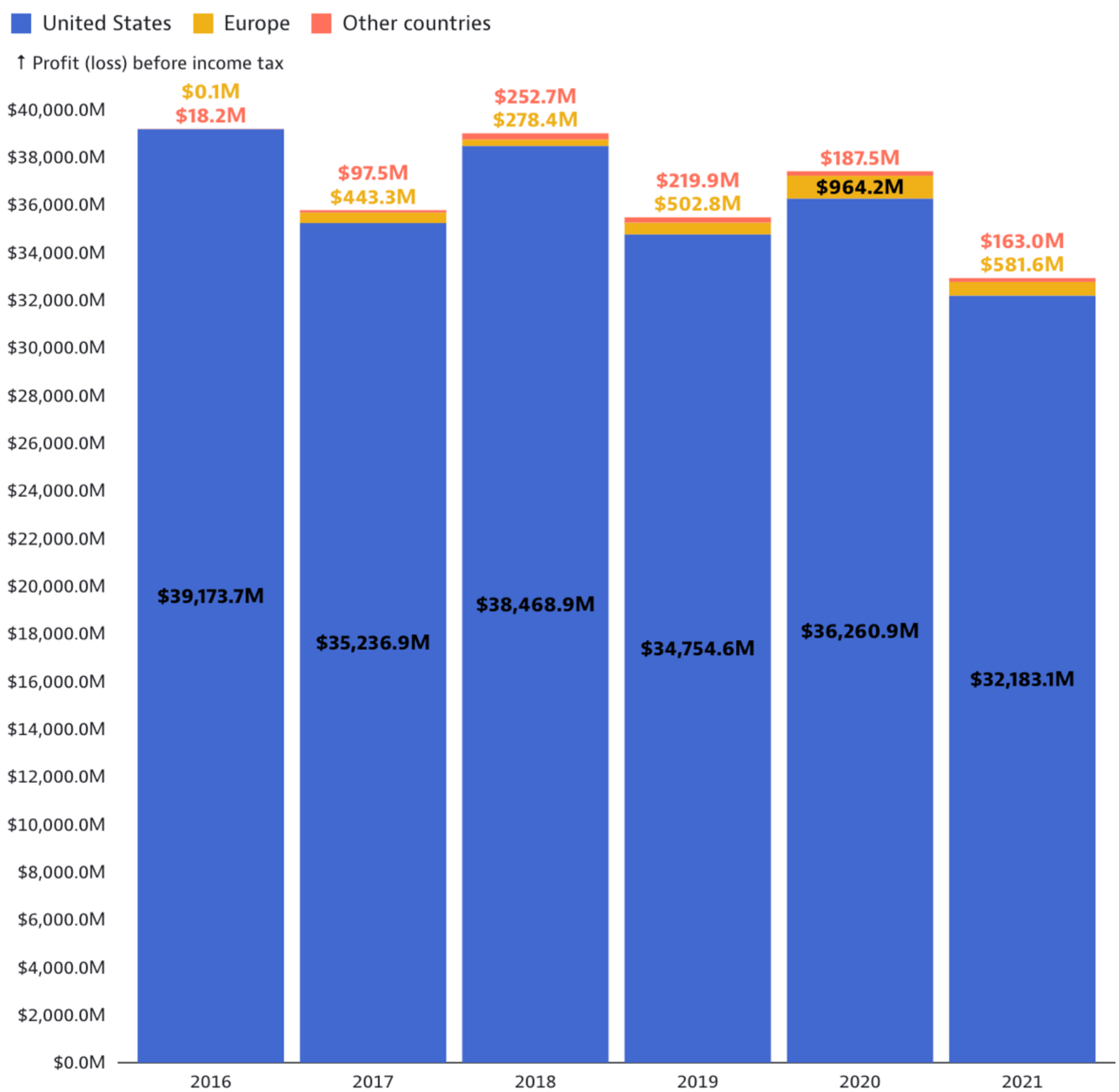
Appendix 2 - Results by Geographic Area

Total Revenue from Foreign Corporations by Geographic Area (M=million)



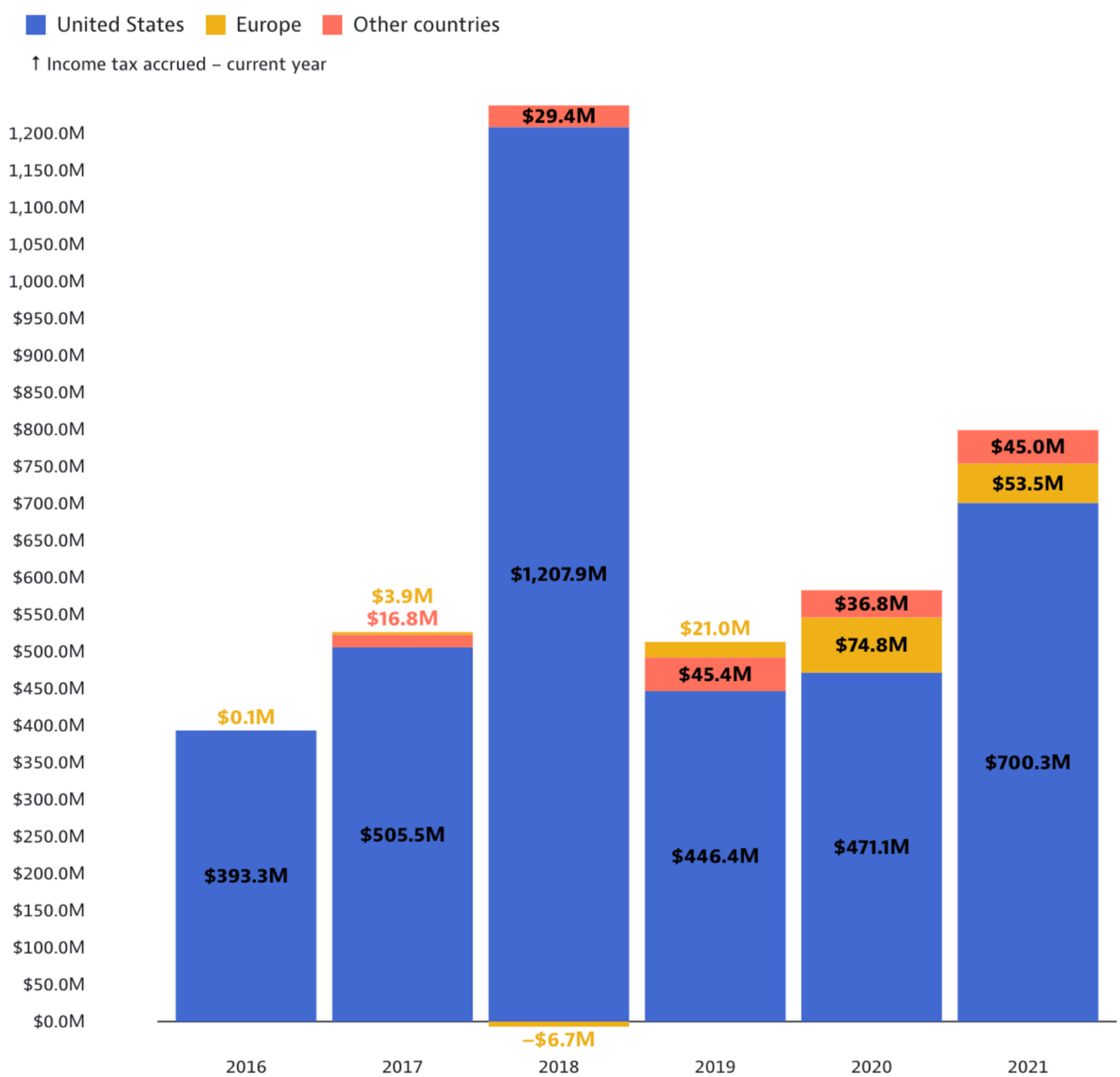
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

PROFIT (LOSS) BEFORE INCOME TAX FROM FOREIGN CORPORATIONS BY GEOGRAPHIC AREA (M=MILLION)



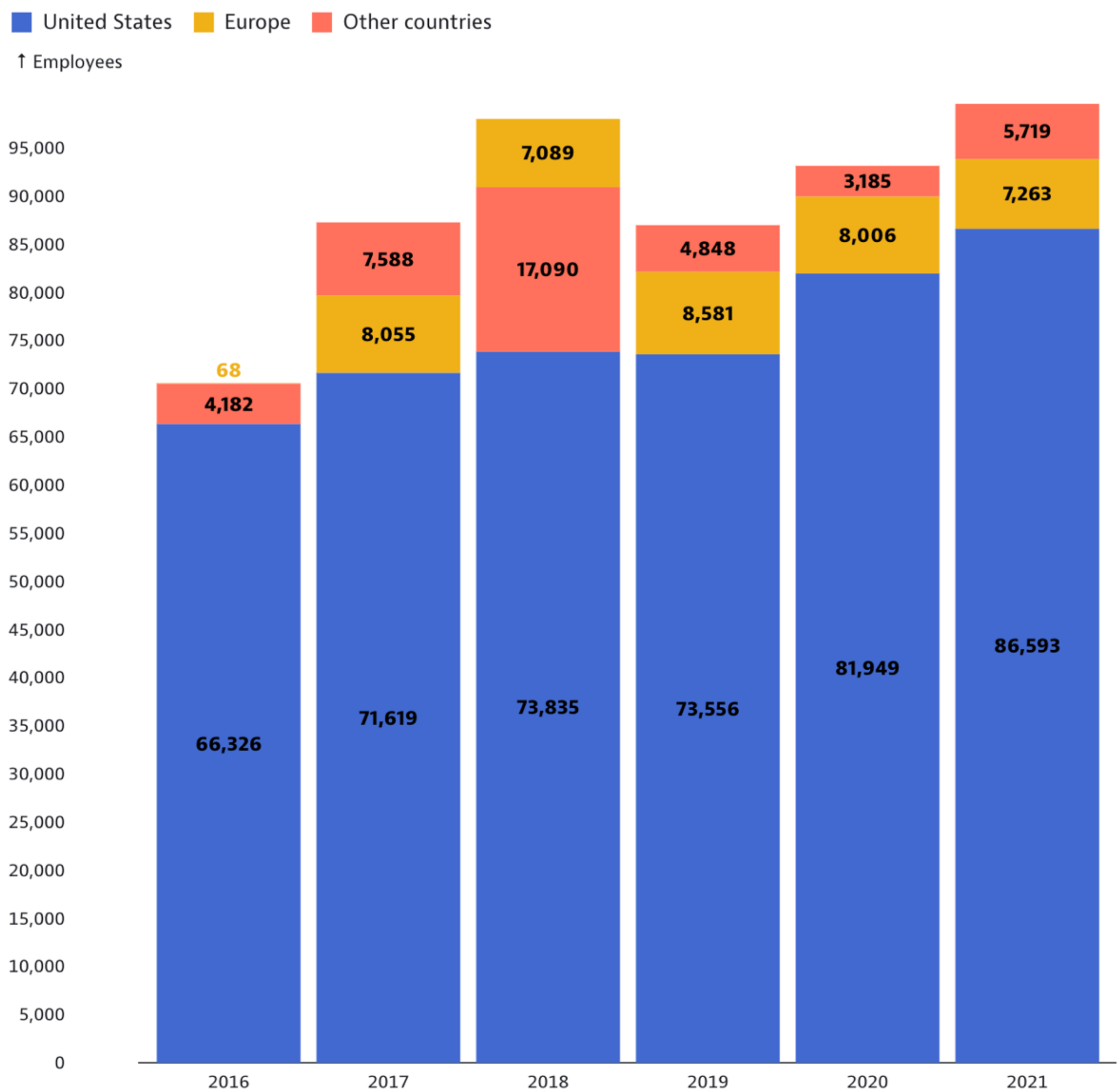
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

INCOME TAX ACCRUED FROM FOREIGN CORPORATIONS BY GEOGRAPHIC AREA (M=MILLION)



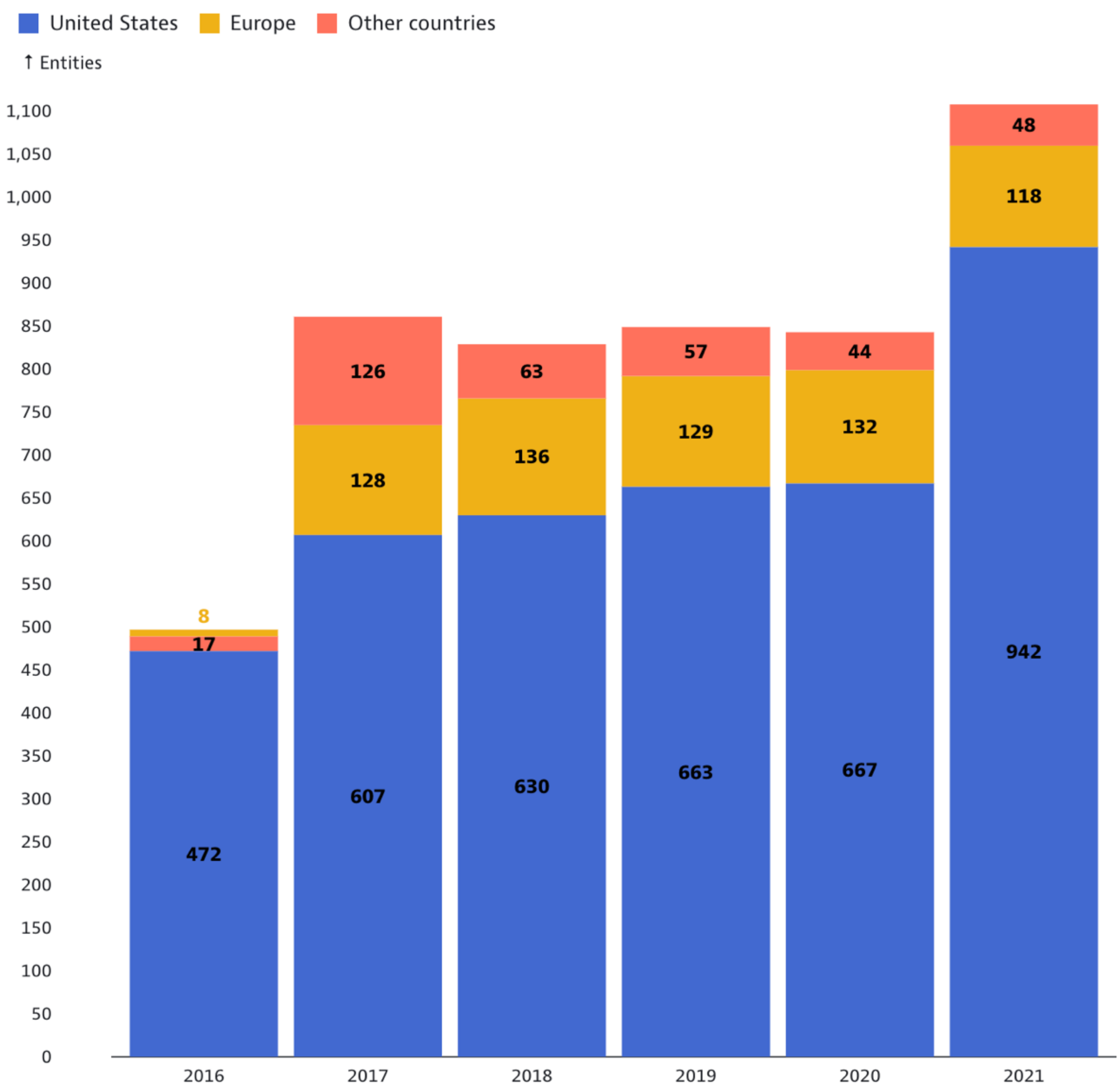
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

NUMBER OF EMPLOYEES FROM FOREIGN CORPORATIONS BY GEOGRAPHIC AREA (M=MILLION)



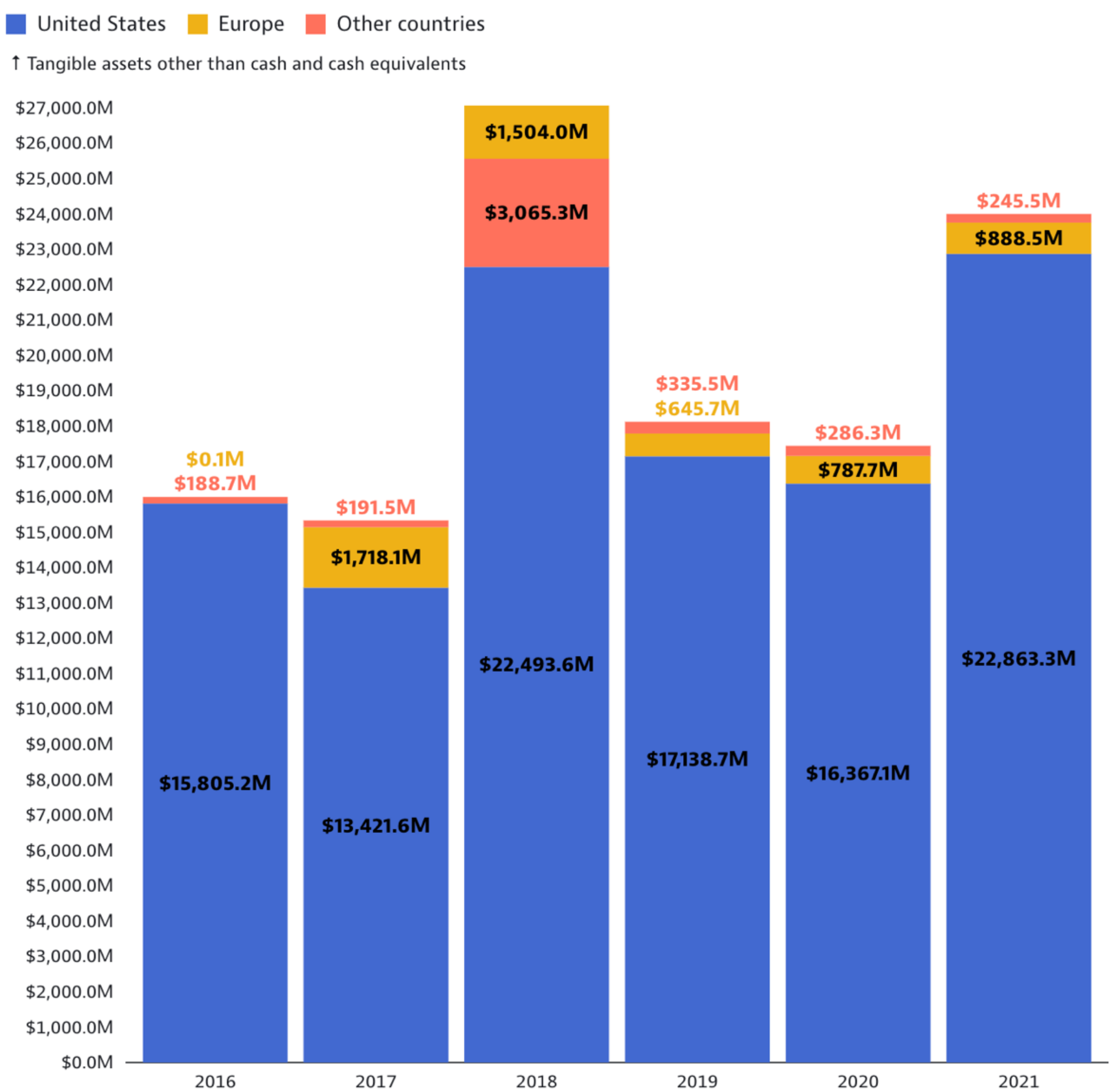
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

NUMBER OF FOREIGN CORPORATIONS BY GEOGRAPHIC AREA
(M=MILLION)



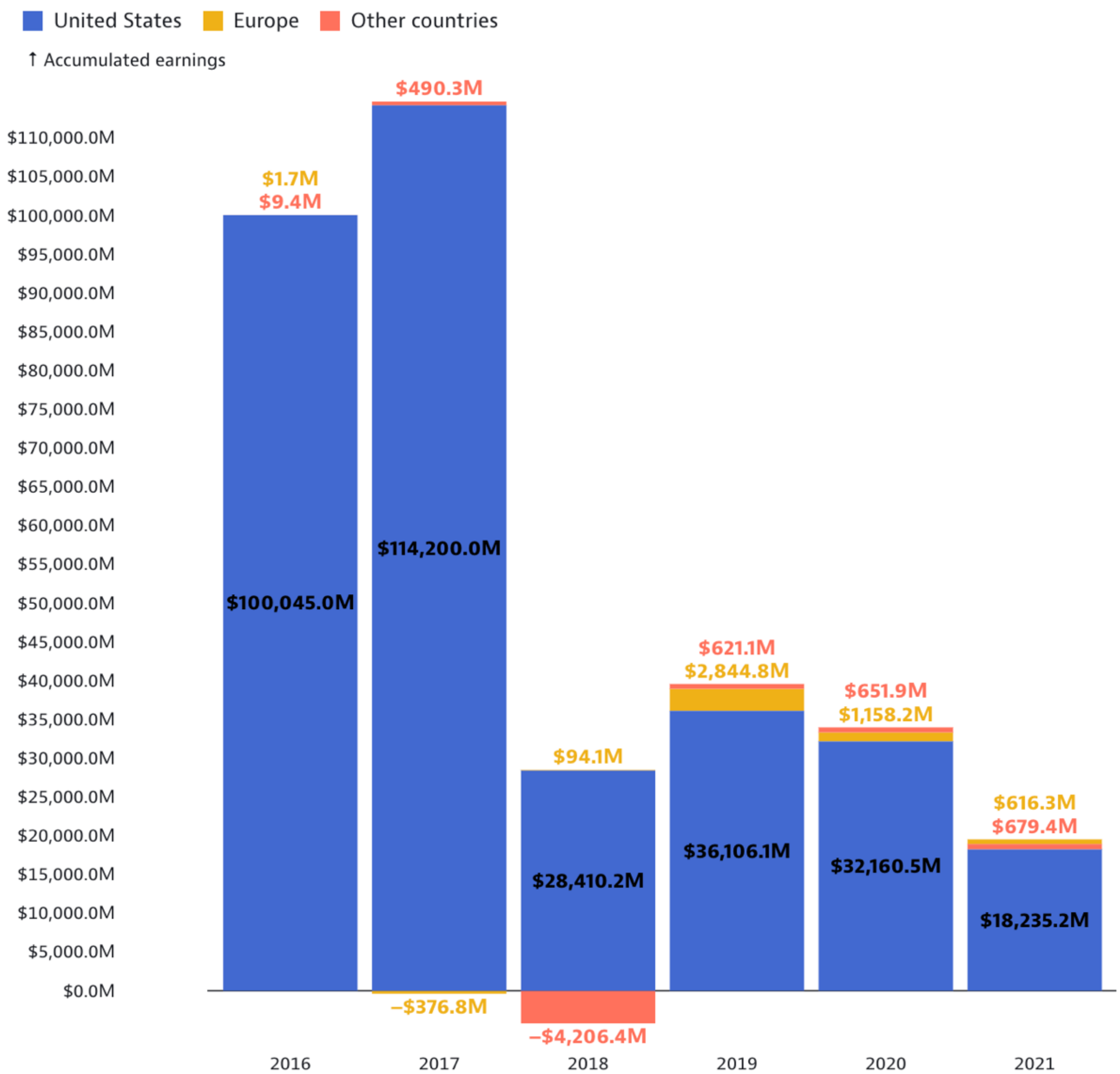
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

TOTAL TANGIBLE ASSETS FROM FOREIGN CORPORATIONS BY GEOGRAPHIC AREA (M=MILLION)



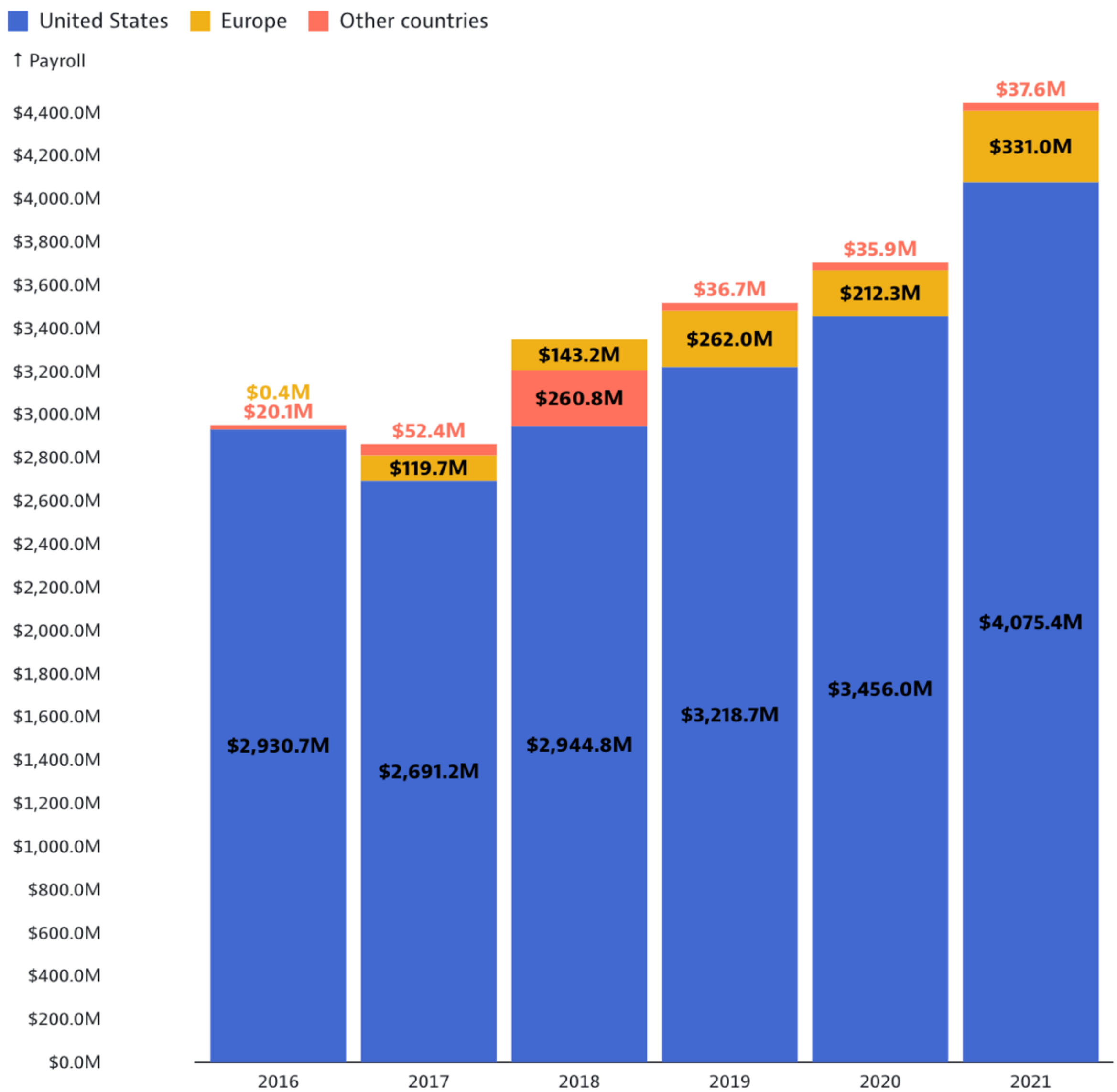
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

ACCUMULATED EARNINGS FROM FOREIGN CORPORATIONS BY GEOGRAPHIC AREA (M=MILLION)



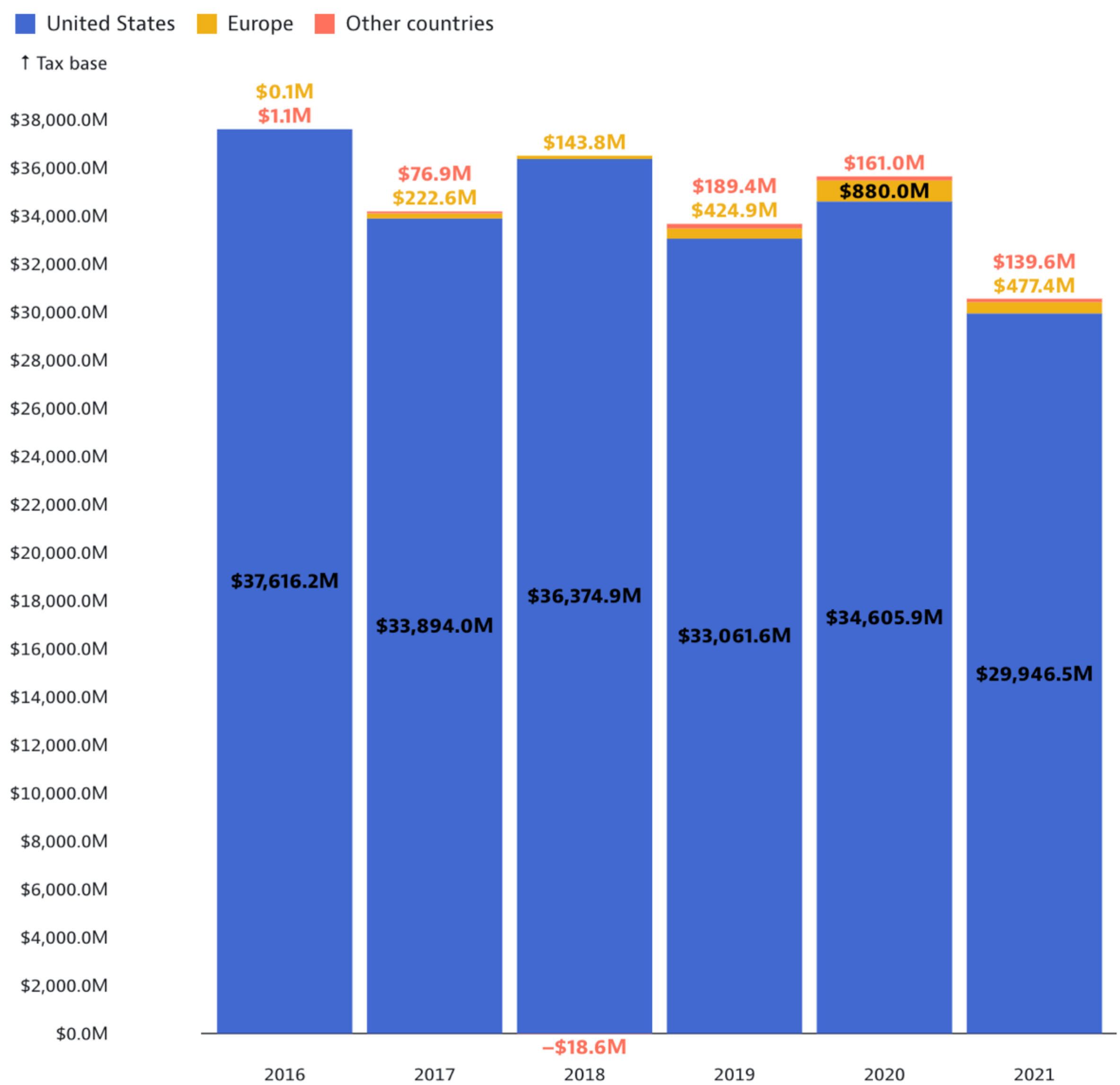
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

TOTAL PAYROLL FROM FOREIGN CORPORATIONS BY GEOGRAPHIC AREA
(M=MILLION)



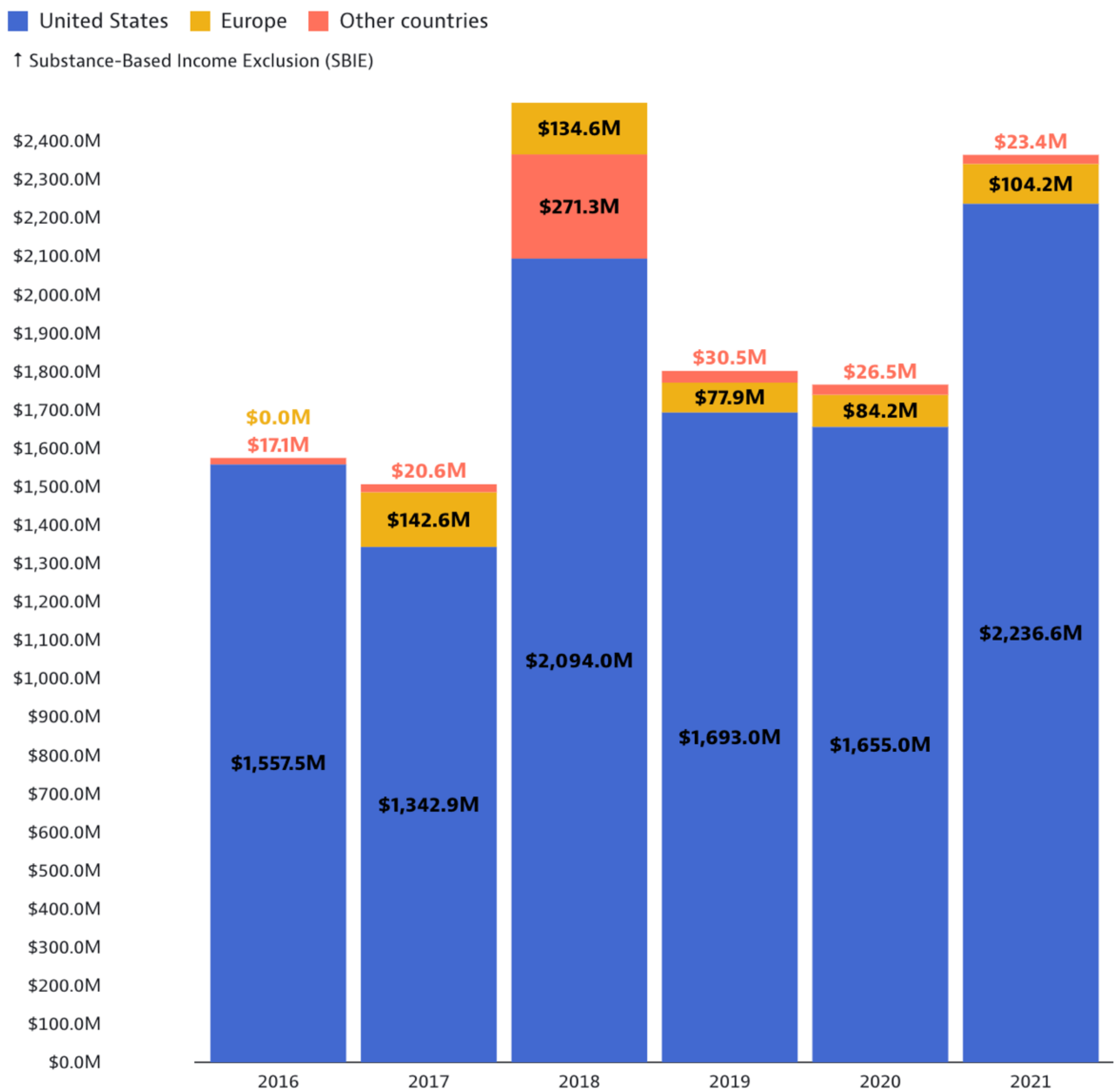
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

TAX BASE FROM FOREIGN CORPORATIONS BY GEOGRAPHIC AREA
(M=MILLION)



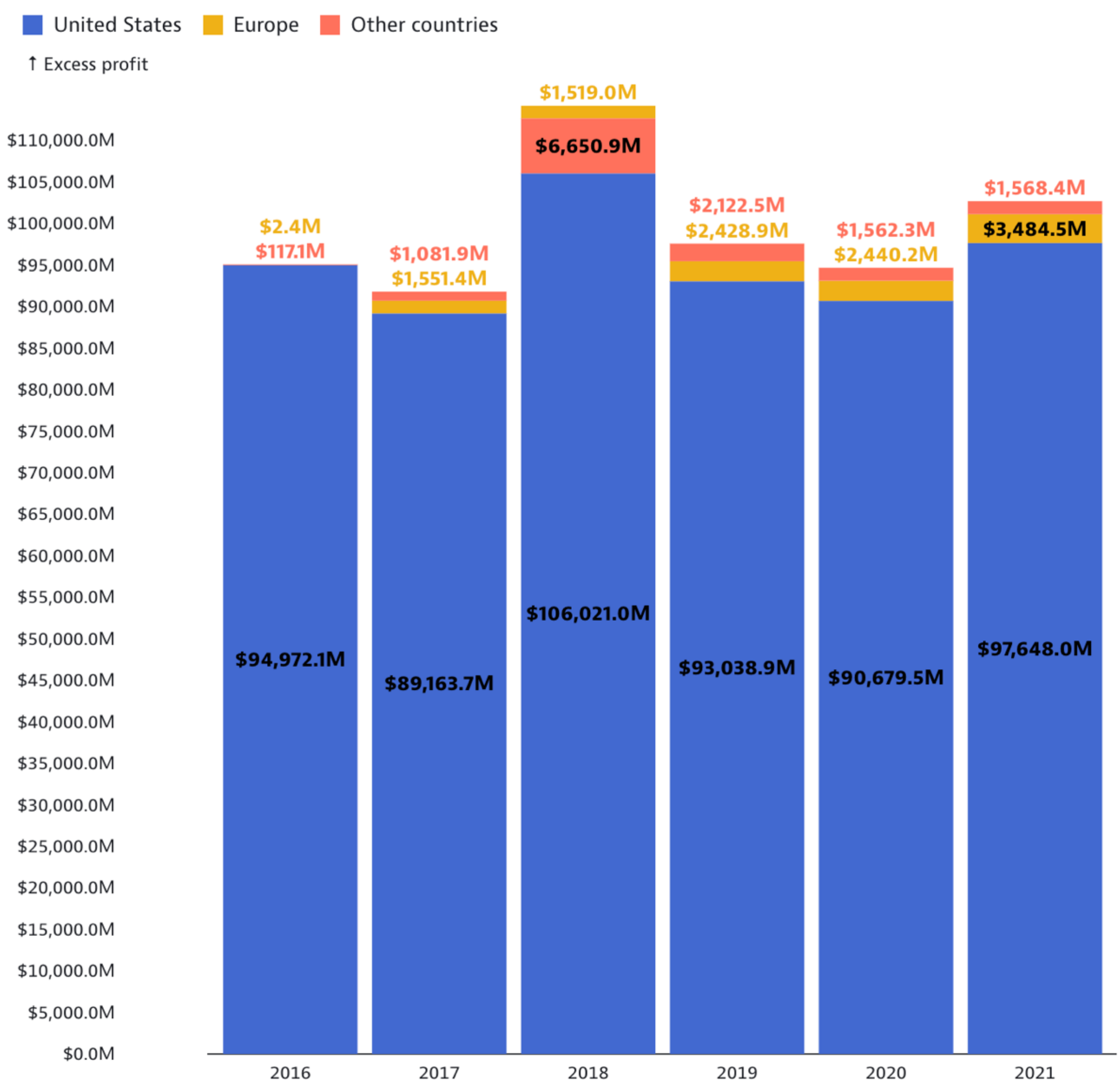
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

Substance-Based Income Exclusion (SBIE) from Foreign Corporations by Geographic Area (M=million)



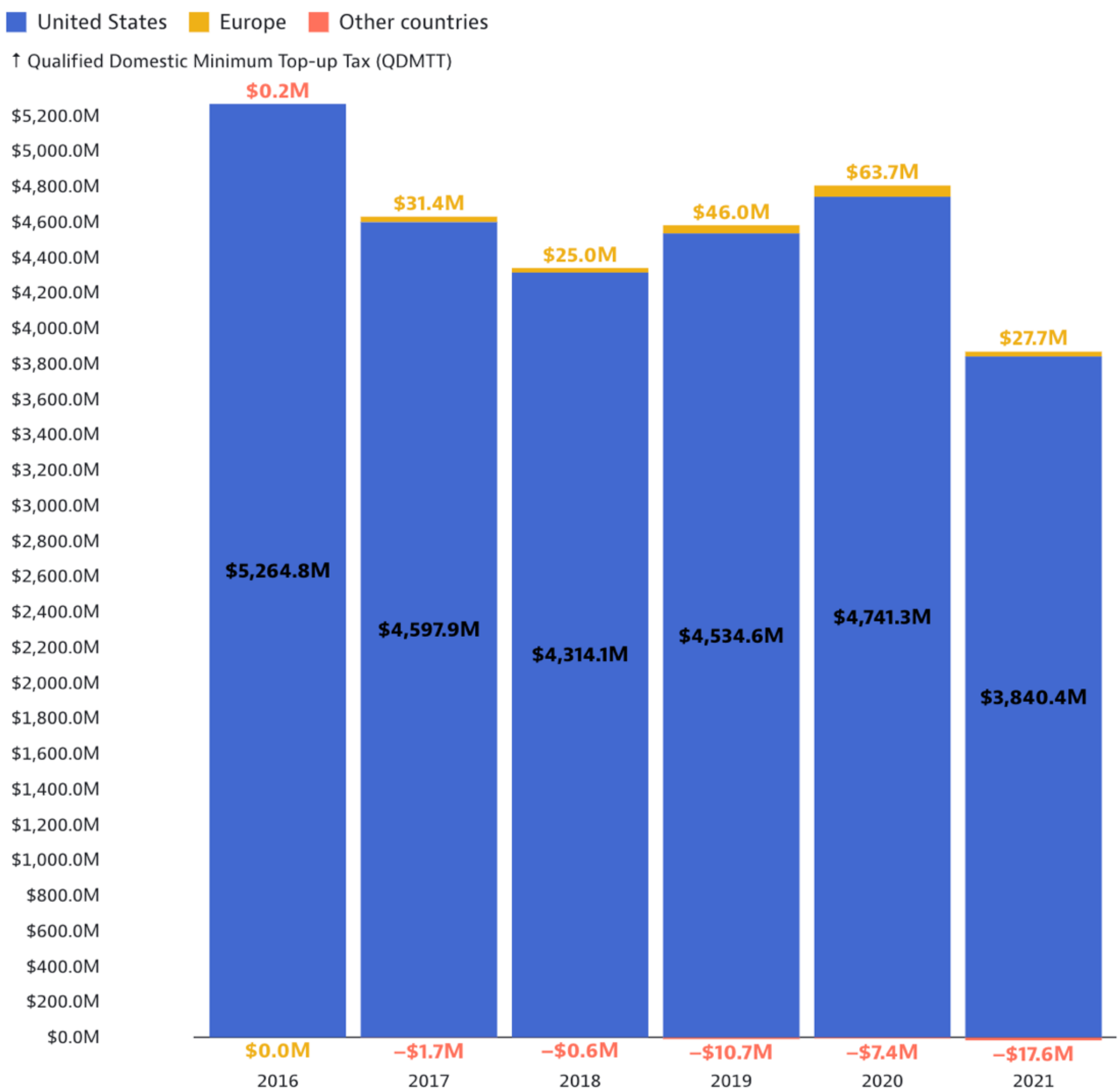
Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

Excess Profit from Foreign Corporations by Geographic Area (M=million)



Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

QUALIFIED DOMESTIC MINIMUM TOP-UP TAX (QDMTT) FROM FOREIGN CORPORATIONS BY GEOGRAPHIC AREA (M=MILLION)



Sources: Organisation for Economic Co-operation and Development (OECD) and analysis from Espacios Abiertos.

Appendix 3 - Country Analysis

Table 1

Country	Number of Parent Companies	Number of Subsidiaries in Puerto Rico	Total Revenue from Parent Companies (millions of euros)
United States	582	749	€ 6,953,293
Ireland	11	24	€ 199,364
Japan	21	24	€ 632,730
United Kingdom	20	21	€ 670,140
Canada	16	20	€ 236,375
Germany	18	20	€ 869,902
Netherlands	9	12	€ 354,828
France	10	12	€ 207,084
India	6	12	€ 60,591
Switzerland	6	12	€ 275,845
Italy	6	9	€ 222,792
Spain	7	8	€ 147,685
Korea, Republic of	3	5	€ 227,721
Denmark	5	5	€ 83,003
Sweden	5	5	€ 73,170
Cayman Islands	4	4	€ 8,147
China	4	4	€ 36,686
Australia	3	4	€ 16,953
Puerto Rico	3	3	€ 2,809
Austria	3	3	€ 4,448
Bermuda	3	3	€ 16,085
British Virgin Islands	2	2	€ 6,280
Brazil	1	2	€ 66,209
Luxembourg	2	2	€ 6,910
Israel	1	1	€ 13,753
Dominican Republic	1	1	€ 782
Poland	1	1	€ 1,129
Taiwan	1	1	€ 5,413
Gibraltar	1	1	€ 1,142
Thailand	1	1	€ 16,375
Liberia	1	1	€ 12,579
Portugal	1	1	€ 20,297

Sources: Department of State of Puerto Rico, OpenCorporates, Orbis, and analysis from Espacios Abiertos. The data is shown in millions of euros because it illustrates the cutoff of 750 million euros in total revenue for the Global Minimum Tax (GMT) to be applied to the multinational group (MNE).

TABLE 2

Country	Number of Parent Companies	Number of Subsidiaries in Puerto Rico	Number of Parent Companies with Subsidiaries in a Country with UTPR	Total Revenue from Parent Companies (millons of euros)	Total Revenue from Parent Companies with Subsidiaries in Countries with UTPR (millones de euros)	Total Revenue from Parent Companies with Subsidiaries in Countries with UTPR Over Total Revenue from Parent Companies (%)
United States	582	749	275	€ 6,953,293	€ 6,448,914	92.7%
Germany	18	20	18	€ 869,902	€ 869,902	100.0%
United Kingdom	20	21	19	€ 670,140	€ 667,564	99.6%
Japan	21	24	21	€ 632,730	€ 632,730	100.0%
Netherlands	9	12	8	€ 354,828	€ 299,602	84.4%
Switzerland	6	12	6	€ 275,845	€ 275,845	100.0%
Canada	16	20	15	€ 236,375	€ 221,472	93.7%
Korea, Republic of	3	5	3	€ 227,721	€ 227,721	100.0%
Italy	6	9	6	€ 222,792	€ 222,792	100.0%
France	10	12	10	€ 207,084	€ 207,084	100.0%
Ireland	11	24	11	€ 199,364	€ 199,364	100.0%
Spain	7	8	6	€ 147,685	€ 146,726	99.4%
Denmark	5	5	5	€ 83,003	€ 83,003	100.0%
Sweden	5	5	5	€ 73,170	€ 73,170	100.0%
Brazil	1	2	1	€ 66,209	€ 66,209	100.0%
India	6	12	6	€ 60,591	€ 60,591	100.0%
China	4	4	3	€ 36,686	€ 35,099	95.7%
Portugal	1	1	1	€ 20,297	€ 20,297	100.0%
Australia	3	4	3	€ 16,953	€ 16,953	100.0%
Thailand	1	1	1	€ 16,375	€ 16,375	100.0%
Bermuda	3	3	3	€ 16,085	€ 16,085	100.0%
Israel	1	1	1	€ 13,753	€ 13,753	100.0%
Liberia	1	1	1	€ 12,579	€ 12,579	100.0%
Cayman Islands	4	4	4	€ 8,147	€ 8,147	100.0%
Luxembourg	2	2	2	€ 6,910	€ 6,910	100.0%
British Virgin Islands	2	2	2	€ 6,280	€ 6,280	100.0%
Taiwan	1	1	1	€ 5,413	€ 5,413	100.0%
Austria	3	3	3	€ 4,448	€ 4,448	100.0%
Puerto Rico	3	3	0	€ 2,809	€ 0	0.0%
Gibraltar	1	1	1	€ 1,142	€ 1,142	100.0%
Poland	1	1	1	€ 1,129	€ 1,129	100.0%
Dominican Republic	1	1	0	€ 782	€ 0	0.0%

Sources: Department of State of Puerto Rico, OpenCorporates, Orbis, PwC, and analysis from Espacios Abiertos. The data is shown in millions of euros because it illustrates the cutoff of 750 million euros in total revenue for the Global Minimum Tax (GMT) to be applied to the multinational group (MNE).

TABLE 3

Country	Number of Parent Companies	Number of Subsidiaries in Puerto Rico	QDMTT 2024 (Yes/No)	IIR 2024 (Yes/No)
United States	582	749	No	No
Ireland	11	24	Yes	Yes
Japan	21	24	No	Yes
United Kingdom	20	21	Yes	Yes
Germany	18	20	Yes	Yes
Canada	16	20	Yes	Yes
Netherlands	9	12	Yes	Yes
France	10	12	Yes	Yes
Switzerland	6	12	Yes	No
India	6	12	No	No
Italy	6	9	Yes	Yes
Spain	7	8	Yes	Yes
Korea, Republic of	3	5	No	Yes
Denmark	5	5	Yes	Yes
Sweden	5	5	Yes	Yes
Cayman Islands	4	4	No	No
China	4	4	No	No
Australia	3	4	Yes	Yes
Austria	3	3	Yes	Yes
Puerto Rico	3	3	No	No
Bermuda	3	3	No	No
British Virgin Islands	2	2	No	No
Brazil	1	2	No	No
Luxembourg	2	2	Yes	Yes
Israel	1	1	No	No
Dominican Republic	1	1	No	No
Poland	1	1	No	No
Gibraltar	1	1	Yes	No
Portugal	1	1	No	No
Liberia	1	1	No	No
Taiwan	1	1	No	No
Thailand	1	1	No	No

Sources: Department of State of Puerto Rico, OpenCorporates, Orbis, PwC, and analysis from Espacios Abiertos.

TABLE 4

Country	Number of Parent Companies	Number of Subsidiaries in Puerto Rico	QDMTT 2025 (Yes/No)	IIR 2025 (Yes/No)	Number of Parent Companies with a Subsidiary in a Country with UTPR
United States	582	749	No	No	275
Japan	21	24	No	Yes	21
Ireland	11	24	Yes	Yes	11
United Kingdom	20	21	Yes	Yes	19
Germany	18	20	Yes	Yes	18
Canada	16	20	Yes	Yes	15
France	10	12	Yes	Yes	10
Switzerland	6	12	Yes	Yes	6
Netherlands	9	12	Yes	Yes	8
India	6	12	No	No	6
Italy	6	9	Yes	Yes	6
Spain	7	8	Yes	Yes	6
Denmark	5	5	Yes	Yes	5
Korea, Republic of	3	5	No	Yes	3
Sweden	5	5	Yes	Yes	5
Australia	3	4	Yes	Yes	3
Cayman Islands	4	4	No	No	4
China	4	4	No	No	3
Bermuda	3	3	No	No	3
Austria	3	3	Yes	Yes	3
Puerto Rico	3	3	No	No	0
Brazil	1	2	No	No	1
Luxembourg	2	2	Yes	Yes	2
British Virgin Islands	2	2	No	No	2
Taiwan	1	1	No	No	1
Thailand	1	1	Yes	Yes	1
Israel	1	1	No	No	1
Dominican Republic	1	1	No	No	0
Poland	1	1	Yes	Yes	1
Gibraltar	1	1	Yes	No	1
Portugal	1	1	Yes	Yes	1
Liberia	1	1	No	No	1

Sources: Department of State of Puerto Rico, OpenCorporates, Orbis, PwC, and analysis from Espacios Abiertos.

APPENDIX 4 - SALARY ANALYSIS

TABLE 5

Business Activity (OECD) and NAICS		Average weekly salary (BLS)	Average annual salary (BLS)	Parent Companies (Orbis)	Weight (NAICS)	Weighted average annual salary (Orbis)
Administrative, management or support services business activity						
NAICS 55	Management of companies and enterprises	$1,479	$76,908	25	33%	$25,298.68
NAICS 56	Administrative and support and waste management and remediatic	$412	$21,424	51	67%	$14,376.63
				76	**100%**	**$39,675.32**
Holding or managing intellectual property business activity						
NAICS 51	Information	$794	$41,288	24	100%	$41,288.00
				24	**100%**	**$41,288.00**
Holding shares or other equity instruments business activity						
NAICS 52	Finance and insurance	$1,091	$56,732	120	100%	$56,732.00
				120	**100%**	**$56,732.00**
Manufacturing or production business activity						
NAICS 21	Mining, quarrying, and oil and gas extraction	$516	$26,832	2	1%	$310.20
NAICS 23	Construction	$528	$27,456	10	6%	$1,587.05
NAICS 31-33	Manufacturing	$906	$47,112	161	93%	$43,844.12
				173	**100%**	**$45,741.36**
Provision of services to unrelated parties						
NAICS 22	Utilities	$1,204	$62,608	53	78%	$48,797.41
NAICS 61	Educational services	$506	$26,312	5	7%	$1,934.71
NAICS 62	Health care and social assistance	$567	$29,484	10	15%	$4,335.88
				68	**100%**	**$55,068.00**
Research and development business activity						
NAICS 54	Professional, scientific, and technical services	$947	$49,244	69	100%	$49,244.00
				69	**100%**	**$49,244.00**
Sales, marketing or distribution business activity						
NAICS 71	Arts, entertainment, and recreation	$553	$28,756	4	4%	$1,223.66
NAICS 72	Accommodation and food services	$349	$18,148	3	3%	$579.19
NAICS 42	Wholesale trade	$913	$47,476	35	37%	$17,677.23
NAICS 44-45	Retail trade	$473	$24,596	18	19%	$4,709.87
NAICS 48-49	Transportation and warehousing	$646	$33,592	34	36%	$12,150.30
				94	**100%**	**$36,340.26**
Other business activity						
NAICS 53	Real estate and rental and leasing	$595	$30,940	8	50%	$15,470.00
NAICS 81	Other services (except public administration)	$488	$25,376	8	50%	$12,688.00
				16	**100%**	**$28,158.00**

Sources: Bureau of Labor Statistics (BLS), Department of State of Puerto Rico, Organisation for Economic Co-operation and Development (OECD), Orbis, and analysis from Espacios Abiertos.

TABLE 6

Business activity (OECD)	Weighted average annual salary (Orbis)	Parent Companies (OECD)	Parent weight by business activity (%)	Final weighted average annual salary (OECD)
Administrative, management or support services business activity	$39,675.32	88	9%	$3,548.20
Holding or managing intellectual property business activity	$41,288.00	3	0%	$125.88
Holding shares or other equity instruments business activity	$56,732.00	23	2%	$1,326.05
Manufacturing or production business activity	$45,741.36	124	13%	$5,764.16
Provision of services to unrelated parties	$55,068.00	268	27%	$14,998.20
Research and development business activity	$49,244.00	1	0%	$50.04
Sales, marketing or distribution business activity	$36,340.26	286	29%	$10,562.31
Other business activity	$28,158.00	191	19%	$5,465.63
		984	**100%**	**$41,840.46**
	Salary premium in multinational companies (*)		+20%	$8,368.09
				$50,208.56

(*) Fredrik Heyman, Fredrik Sjöholm & Patrik Tingvall, "Is There Really a Foreign Ownership Wage Premium?"
Evidence from Matched Employer-Employee Data, 73(2) J. Int'l Econ. 355–376 (2007), Rita Almeida, The Labor Market Effects of Foreign Owned Firms, 72(1) J. Int'l Econ. 75–96 (2007), or Khadija Van der Straaten, Niccolò Pisani & Ans Kolk, Unraveling the MNE Wage Premium, Journal of International Business Studies (2020), SSRN, https://ssrn.com/abstract=3717151.

Sources: Bureau of Labor Statistics (BLS), Department of State of Puerto Rico, Organisation for Economic Co-operation and Development (OECD), Orbis, and analysis from Espacios Abiertos.

Appendix 4 - Glossary

Department of State of Puerto Rico

Variable	Definition
response.corporation.corpRegisterIndex	Primary corporation ID
response.corporation.corpName	Corporation name
response.corporation.jurisdictionEs	Corporation jurisdiction. Includes "Foreign," "Foreign - Non-US," and "Domestic"
response.corporation.statusEs	Corporation status
response.corporation.homeState	Corporation home state. Only applies to US foreign corporations

Source: https://rcp.estado.pr.gov/es

OpenCorporates

Variable	Definition
results.company.company_number	Corporation ID in the OpenCorporates system. Match it with the "jurisdiction_code" to use it correctly
results.company.name	Name of the corporation
results.company.jurisdiction_code	Abbreviation of the jurisdiction where the corporation is registered. Corresponds to the country or state, if applicable
results.company.registered_address.locality	Municipality or location of the corporation
results.company.home_company	Home company of the corporation in question
results.company.controlling_entity	Corporation in control of the corporation in question
results.company.ultimate_controlling_company	Corporation with the greatest control of the lineage of companies that the corporation belongs to

Source: OpenCorporates. https://opencorporates.com/

Orbis

Variable	Definition
own_id	ID provided to Orbis for the matching process during the corporation search. In our case, we included the company_number of the Puerto Rican subsidiary
bvd_id_orbis	The ID of the corporation as stored in Orbis
model_data_global_parent_bvdid	ID of the parent company in charge of the corporation in question. In the case both are the same, it is the same value as bvd_id_orbis
company_name	Name of the corporation
city	City
country	Country
operating_revenue_year_last_eur_th	Most recent value available of the corporation's revenues. Presented in thousands of euros
operating_revenue_year_YYYY_eur_th	Value of the corporation's revenues in the year YYYY where this covers from 2014 to 2024. Presented in thousands of euros
model_data_global_parent_operating_revenue_eur_th	Value of the parent company's revenues
naics_2022_core_code	NAICS code
naics_2022_core_code_description	Description of the NAICS code

Source: Orbis (Moody's). https://www.moodys.com/web/en/us/capabilities/company-reference-data/orbis.html

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Variable	Definition
ACT_ADMIN	Administrative, management or support services business activity
ACT_DOR	Dormant business activity
ACT_FIN	Regulated financial services business activity
ACT_HOLDING	Holding shares or other equity instruments business activity
ACT_IGF	Internal group finance business activity
ACT_INS	Insurance business activity
ACT_IP	Holding or managing intellectual property business activity
ACT_MAN	Manufacturing or production business activity
ACT_OTHER	Other business activity
ACT_PUR	Purchasing or procurement business activity
ACT_RD	Research and development business activity
ACT_SALES	Sales, marketing or distribution business activity
ACT_SER	Provision of services to unrelated parties business activity
ASSETS	Tangible assets other than cash and cash equivalents
CBCR_COUNT	Multinational enterprise groups
EARNINGS	Accumulated earnings
EMPLOYEES	Employees
ENTITIES_COUNT	Entities
ETR	Income tax accrued – current year relative to profit (loss) before inco
PROFIT	Profit (loss) before income tax
PROFIT_ADJ	Adjusted profit (loss) before income tax
RPR	Related party revenues
STATED_CAPITAL	Stated capital
SUBGROUPS_COUNT	Multinational enterprise sub-groups
TAX_ACCRUED	Income tax accrued - current year
TAX_PAID	Income tax paid (on cash basis)
TOT_REV	Total revenues
UPR	Unrelated party revenues
PAYROLL	Payroll
TTR	Top-up tax rate
TAX_BASE	Tax base
SBIE	Substance-based income exclusion
EXCESS_PROFIT	Excess profit
QDMTT	Qualified domestic minimum top-up tax
IIR	Income inclusion rule

Source: https://data-explorer.oecd.org/

PwC

Variable	Definition
country	Country
year	Year when laws apply
pillar2	Has the country expressed an intention to implement Pillar 2? Yes or No
QDMTT	Answers whether the country passed legislation to have QDMTT implemented by the year in question
IIR	Answers whether the country passed legislation to have IIR implemented by the year in question
UTPR	Answers whether the country passed legislation to have UTPR implemented by the year in question

Source: https://www.pwc.com/gx/en/services/tax/pillar-two-readiness/country-tracker.html

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¡ea!