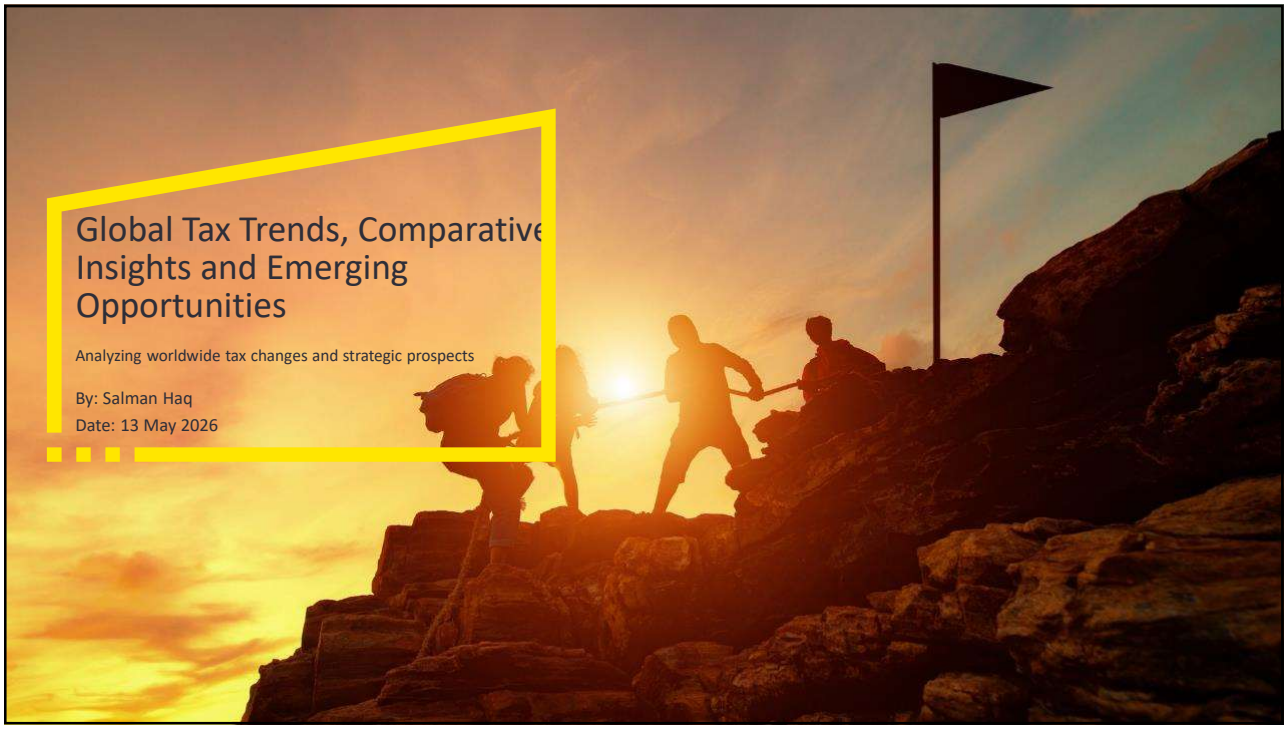

Global Tax Trends, Comparative Insights and Emerging Opportunities
Analyzing worldwide tax changes and strategic prospects
By: Salman Haq
Date: 13 May 2026


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Overview of Current Global Tax Trends



Current Global Tax Trends

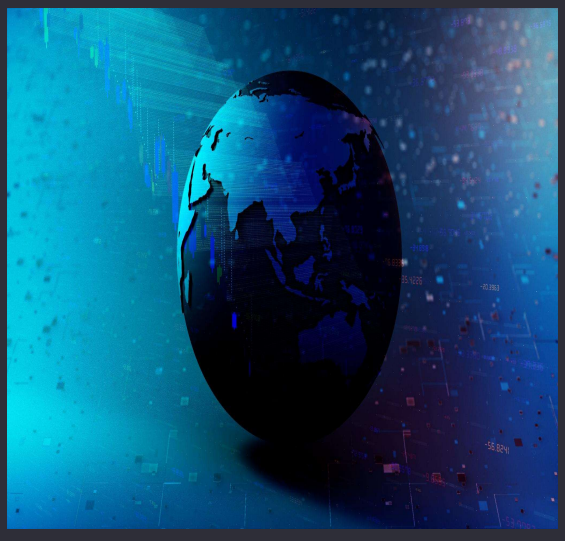
Why is the Global Tax Landscape Changing?

Digitalization

- Digitalization of business models has outpaced traditional tax rules
- The traditional taxation framework was designed for a "physical economy" where value creation links to tangible assets and Permanent Establishments (PE).
- Digital business models generate revenue without physical presence, causing profit and tax location mismatches.

Transparency

- Modern tax regulations emphasize transparency to reduce tax evasion and promote fair reporting across borders.



How Tax is Responding

OECD in Action

Organization for Economic Co-operation and Development (OECD) introduced BEPS 1.0 (in 2013) and BEPS 2.0 (in 2019) to address profit shifting and restore tax fairness.

- **BEPS 1.0** – addressed the existing tax framework by closing loopholes and aligning profits with value creation
- **BEPS 2.0** – structured taxability for digital economy and introduced minimum level of taxation so that MNEs can pay taxes where value is created

Digital Services Taxes (DSTs)

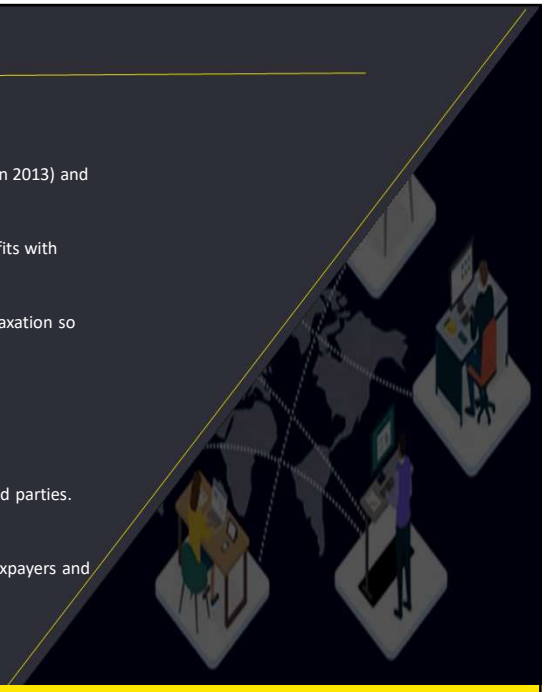
Government, across the Globe, are introducing DSTs to address e-commerce businesses

Transfer Pricing (TP) Guidelines

TP Regulations have been synchronized to ensure fairness in dealings of associates/related parties.

Exchange of Information Protocols

Arrangements have been made between Governments to exchange information about taxpayers and MNEs, so that there is more visibility and transparency over operations



Global Tax Developments and Pakistan's Response

BEPS 2.0 – The New Global Tax Architecture

What is BEPS 2.0?

BEPS 2.0 is the OECDs second phase of international tax reform, especially for a digital, globalized economy. BEPS 2.0 has two components:

- Pillar One
- Pillar Two

Together, the pillars aim to stabilize international tax systems, reduce unilateral actions, and increase government certainty.

- **Pillar One - Tax Reallocation**

Pillar One reallocates taxing rights to market jurisdictions for large MNEs of physical presence.

- **Pillar Two - Global Minimum Tax**

Pillar Two establishes a 15% global minimum tax ensuring multinational groups pay a fair tax in all jurisdictions in which they operate.

Pillar One – Tax Reallocation

Scope and Applicability

Reallocates taxing rights from where profits are recorded to where markets and customers are located. Pillar One has 2 components:

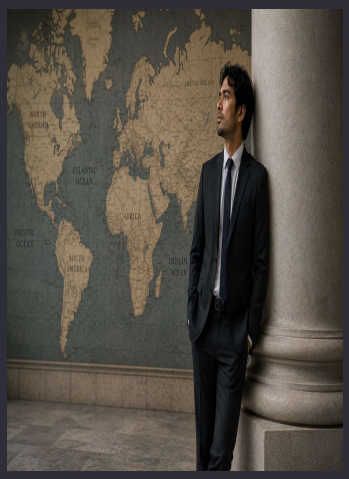
- Digital business (Amount A of Pillar 1); and
- Baseline Marketing and Distribution companies (BMDs) (Amount B of Pillar 1)

Amount A

- Targets groups with; 1) Global revenue above €20 billion, and 2) Profitability above 10%
- Reallocates "residual profit" to market jurisdictions.
- Applies regardless of physical presence.
- To be implemented through a Multilateral Convention (MLC)
- Linked to a political commitment to withdraw or standstill the domestic provisions of DSTs once Pillar One viz amount A is implemented.

Amount B

- It applies to BMDs of MNE group without any revenue threshold criteria
- Calculates a simplified, standardized return for BMDs, based on OECDs developed pricing matrix that yields a fixed Return on Sales (RoS), differentiated by Objective factors
- The RoS ranges between 1.5% to 5.5%



Pillar One – Tax Reallocation - Continued

Current Status of Pillar One

- Pillar One is not yet in force.

Amount A

- Amount A remains unimplemented globally.
- A detailed draft MLC for Amount A was released in October 2023, with further refinements through 2024. Despite technical progress, global consensus has not been achieved.
- The United States has withdrawn its support to implement Pillar One
- As a result:
  - The MLC is not in force
  - No reallocation of profits under Amount A has commenced
  - Original target timelines (2024–2025) have overpassed

Amount B

- Amount B is effectively "live" from a technical standpoint:
  - OECD has issued a consolidated Amount B report
  - Guidance has been built into the OECD TP Guidelines
  - Adoption is optional and unilateral
  - Countries can choose whether and how to apply Amount B
  - Some developing and emerging markets have begun referencing it as a benchmark tool.

Pillar Two – Global Minimum Tax

1 Scope and Applicability

Pillar Two applies to MNEs with consolidated revenues above EUR 750 million.

Introduces a global minimum effective tax rate (ETR) of 15% on profits of MNEs

2 Top-Up Tax Mechanism

A top-up tax applies when effective tax rates falls below 15%, ensuring a global minimum tax threshold is met.

3 Interlocking Rules

Mechanisms like Qualified Domestic Minimum Top-up Tax (QDMTT), Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR) coordinate tax collection across jurisdictions to enforce the minimum tax.

4 Impact on Tax Structures

The global minimum tax changes incentives around low-tax structures, tax holidays, and preferential regimes worldwide.

Who Gets the Tax? — Pillar Two IIR in Action



Visual depiction for illustrative purposes only

QDMTT: Tax Collected at Source



Visual depiction for illustrative purposes only

Implications of BEPS Pillar Two for Pakistan

- **Domestic Legislation Status**

Pakistan has not enacted BEPS Pillar Two domestically, creating uncertainty about direct implementation effects.

- **Impact Through Foreign Parents**

The impact arises mainly through foreign parent companies implementing Pillar Two tax rules on Pakistani income.

- **Neutralization of Incentives**

Domestic tax incentives in Pakistan may be neutralized when foreign jurisdictions apply top-up taxes under Pillar Two.

- **What Pakistan should consider?**

Pakistan should evaluate whether its tax incentives generate sufficient financial and economic benefits (including employment) in comparison to the Tax revenue foregone, before deciding on Pillar 2 implementation.



Multilateral Instrument (MLI)

Treaty Reform Approach — MLI updates bilateral tax treaties collectively, avoiding the need to renegotiate each treaty individually.

Principal Purpose Test (PPT) — PPT denies treaty benefits when obtaining them is a key purpose of a transaction or structure.

Impact on Tax Planning — MLI reduces certainty in treaty-based planning, especially affecting holding, financing, and IP structures.

MLI Adoption Pakistan Insights

- **MLI Adoption Impact**

Pakistan has submitted to update 66 tax treaties through the MLI out of which 29 have been counter signed-off. This has aligned its treaty network with OECD anti-BEPS standards and now provides protections against treaty abuse.

- **Selective Implementation Approach**

While adopting all mandatory minimum standards, Pakistan has selectively opted out of certain optional MLI provisions to preserve fiscal autonomy and administrative flexibility.

- **Recommended Way Forward**

Cross-border arrangements involving Pakistan require greater discipline, substance alignment, and documentation, as treaty positions face heightened scrutiny and enforcement.

Transfer Pricing Evolution

Shift to Risk Management

Transfer pricing has transitioned from mere documentation to a key risk management focus for tax authorities worldwide.

Economic Reality Focus - DEMPE

Emphasis is now on economic reality over contractual terms. Hence substance and beneficial ownership takes supremacy over form of the arrangement.

Development, Enhancement, Maintenance, Protection and Exploitation (DEMPE) is a concept introduced to ensure that profits from intangible assets, such as intellectual property (IP), are allocated to the entities that actually create economic value, rather than solely to the legal owner of the asset. It shifts the focus from formal ownership to substance-over-form.

Global Data Usage & Increased Scrutiny/Audit

Tax authorities utilize TP policy, the Master file and Local File to detect profit misalignment effectively.

Transfer Pricing: Pakistan's Perspective

➢ **TP Documentation**

Pakistan has subscribed to the OECD prescribed methodologies for determining arms-length results in relation to transactions between associate/related parties.

The Law also requires preparation, maintenance and, on request, submission of Master Files and Local files.

➢ **Greater scrutiny & TP Audit**

Recent years have witnessed deeper scrutiny into related party transactions. Also, Exchange of information Protocol allows the Pakistan Tax Authority to have access to information which was not earlier available. There is a higher chance of audits or inquiries into transfer pricing, profit attribution, and tax avoidance schemes.

➢ **Challenge for Pakistan Businesses**

Benchmarking studies (BM) are not available for Pakistan in public domain and therefore reliance has to be placed on results in the comparative jurisdictions.

Digital Economy and DSTs

Digital Services Taxes

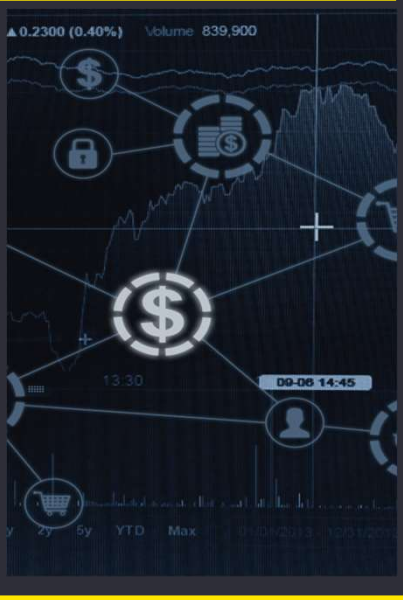
- Due to delays and uncertainty around OECD Pillar One (Amount A), Governments have introduced DSTs to address Digital Economy

Basis of Taxation

- Across countries, DSTs share four core design features:
  - Gross-revenue based - Levied on turnover (and not profits). The rate ranges typically, from 2%–5%
  - User / market / transaction driven - Tax applies where users, customers, or impressions are located
  - Threshold-based – prescribed a monetary threshold beyond which taxability occurs. Intends to tax large MNEs only
  - Targeted digital activities – attempts to tax only prescribed digital activities and not all.

Potential challenge

- DSTs are often economically distortive, non-creditable, and can lead to double taxation issues.



Pakistan's Approach to Digital Taxation

Withholding-Based Taxation

Pakistan employs withholding mechanisms to simplify tax collection for digital transactions.

Provisions have been made in the Ordinance to deal with both local and foreign digital transaction, including payment for transactions in e-commerce platforms, online marketplace, fee for off-shore digital services, transaction through debit and credit cards etc.

Treaty Challenge

Since DTTs have an over riding effect over the provisions of the Ordinance, Article 7 (Business Profits) is invoked to avoid taxability in Pakistan on the premise that the Foreign Service Provider does not have a Permanent Establishment (PE) in Pakistan.

UN Model Convention Initiative

UN Model has proposed insertion of Article 12B in the Convention which permits Automated Digital Services to be taxed either on:

- Gross Amount as per agreed upon rate; or
- Net Amount at the rate of tax applicable in the Source State by exercising the option of such net taxation.

Pakistan may consider inserting Article 12B in its DTTs



Exchange of Information (EOI): Global Perspective

Why the need for EoI

In order to address tax evasion and base erosion and enable transparency, OECD introduced a core minimum standard for EOI

EoI Architecture

Principally, there are two streams for EoI:

- Automatic Exchange of Information (AEOI) such as in the form of common reporting standard and CbCR
- Exchange of Information on Request (EOIR)

The USA follows similar scheme through Foreign Account Tax Compliance Act (FATCA)

Effect of EOI

EOI has:

- Increased transparency over operations
- provided greater information symmetry
- Eliminated banking secrecy
- Increased audits and investigations



Exchange of Information (EOI): Pakistan's Perspective

Compliance with standards

- Pakistan has implemented CbC reporting requirements since 2018.
- Pakistan also requires submission of CRS by its financial institutions.
- The FBR has an AEOI portal and has established a specialized AEOI unit within the Directorate General of International Taxes.
- Pakistan undertakes peer reviews to ensure data confidentiality and proper use.

Greater scrutiny & TP Audit

Pakistan is using AI and data analytics to identify gaps and mismatches. Currently, the analysis is at its initial screening level but, with the available information, there is high likely of deeper scrutiny and questioning in near future.

Also, AEOI allows the Pakistan Tax Authority to have access to information which was not earlier available. There is a higher chance of investigation, audits and inquiries into the tax affairs of the taxpayer.

Current challenges

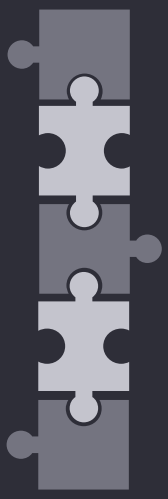
- Capacity to process data and information
- Lag in information gathering and exchange

What lies Ahead?

Consistency and substance are key. Companies in Pakistan (local or multinationals) need to ensure their global filings are aligned with their Pakistan filings. The era of keeping tax strategies "out of sight" is over. Transparency is, effectively, now mandatory.

Emerging Global Tax Issues & Trends

What Lies Ahead?



01 Carbon / ESG taxes

Taxability of Virtual Assets 02

03 AI & Automation taxation

E-Invoicing / Real-time reporting 04

05 GloBE Information Return (GIR)

Pakistan: Strategic Opportunities

Modernized tax administration

Pakistan is moving toward e-administration of taxes via IRIS and PRAL.

The FBR introduced:

- Integrated POS system linking retailers' cash registers to the tax system;
- Track & Trace system for excisable goods
- E-invoicing system is in the implemented on a phased-wise approach.

Incentive Re-design

Whilst BEPS 2.0 has not been adopted by Pakistan, it must consider the available tax concessions versus the economic benefits (employment, FDI, etc) to taxpayers so as to determine whether it is worst off in providing these concessions and should rather implement Pillar Two.



Pros & Cons of Global Tax Developments

Pros

Reducing Profit Shifting	Global tax reforms limit aggressive profit shifting, ensuring fairer tax distribution among countries.
Minimizing Tax Competition	A minimum tax floor reduces destructive tax competition, promoting balanced economic environments.
Enhanced Transparency	Improved transparency helps governments monitor tax practices and increase trust in the system.
Simplified Enforcement	Global rules aid countries by simplifying tax enforcement procedures.

Cons

Rising Compliance Costs	Multinational businesses face sharply increased compliance costs due to new reporting and data requirements.
Reduced Predictability	Managing and predicting global effective tax rates has become more difficult with offshore incentives neutralized.
Increased Complexity and Risk	Complexity has increased and CFOs face tax risks beyond local compliance, involving governance and reporting.

Key Takeaways



From Tax Planning to Tax Governance

Shift to Tax Governance

Global taxation is evolving from optimization towards robust governance and strategic risk management.

Cross-Functional Coordination

Effective tax governance requires collaboration between tax, finance, IT, and senior leadership teams.

Risk Management Integration

Embedding global tax changes into enterprise risk management enhances strategic decision-making and compliance.

Conclusion

“Tax advantage no longer lies in minimization, but in building strategies that can withstand transparency, scrutiny, and global alignment”



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