TAXING THE UNTAXED: CAN QDMTT CATCH DIGITAL PROFITS BETTER THAN GILTI?

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1. Introduction

The rise of highly digitalized multinational enterprises (MNEs) has challenged the traditional international tax system. Such firms often generate large profits with little or no physical presence in a market country, allowing digital profits to "slip through tax nets". In response, international policymakers agreed in 2021 on a two-pillar solution: Pillar One to allocate new taxing rights to market jurisdictions, and Pillar Two to impose a global minimum corporate tax. Pillar Two's framework (also called the GloBE Rules) establishes a 15% minimum effective tax rate (ETR) for large MNEs. A key component is the **Qualified Domestic Minimum Top-Up Tax (QDMTT)**, which allows jurisdictions to collect any shortfall up to 15% on local constituent entities' profits. In parallel, the United States enacted in 2017 the **Global Intangible Low-Taxed Income (GILTI)** regime, a minimum-tax on foreign earnings of U.S. corporations, intended to curb profit-shifting.

This paper examines whether QDMTTs under OECD Pillar Two can capture untaxed digital profits more effectively than the U.S. GILTI regime. We first review the literature and authoritative sources on these rules. We then analyze their technical mechanisms (including blending rules, ETR calculations, and carve-outs) and compare their coverage. Using hypothetical scenarios of digital platform businesses, we illustrate how each regime would tax mobile digital profits. Finally, we discuss the implications for tax sovereignty, base erosion, and developing country revenues. We conclude by assessing the legal, economic, and policy merits of each approach.

2. Literature Review

The Global Minimum Tax (Pillar Two) and QDMTT: Under the 2021 OECD/G20 agreement, Pillar Two's Global Anti-Base Erosion (GloBE) Rules require large MNEs to pay

a minimum 15% ETR on their profits in each jurisdiction. This is enforced by three interlocking rules: an Income Inclusion Rule (IIR) at the parent level, an Undertaxed Profits Rule (UTPR) as a backstop, and an Optional Qualified Domestic Minimum Top-Up Tax (QDMTT) that jurisdictions may enact domestically. The QDMTT (also called the "Domestic Top-Up Tax") is defined in Article 10 of the OECD Model Rules (Lautz & Watson 2023). It is a domestic tax applied to each in-scope MNE's local excess profits, calculated consistently with the Pillar Two base, and top-ups the local tax liability so that the post-exclusion tax rate reaches 15%. In practice, any tax paid under a QDMTT counts dollar-for-dollar as credit against top-up taxes under the IIR/UTPR.

Analyses emphasize that QDMTTs allow source jurisdictions to *keep* revenue that would otherwise accrue to other countries. For example, the OECD and others note that without a QDMTT, low-taxed profits would be subject to top-up taxation by foreign governments (via the IIR or UTPR), effectively transferring revenue abroad. By contrast, a QDMTT "fully prevents the treasury transfer" by collecting the top-up at source. The IMF likewise recommends that all countries, especially those with low-taxed profits, adopt a QDMTT so they "capture the revenue" themselves. In other words, QDMTT adoption preserves taxing rights for the jurisdiction where profits arise, reinforcing fiscal sovereignty. Indeed, many jurisdictions (notably EU members, UK, Canada, etc.) have legislated domestic minimum top-up taxes to implement QDMTTs (Mehboob 2019).

A QDMTT is generally designed to match the GloBE calculation: it applies only to large MNEs (annual revenues ≥€750 million) and uses the same adjustments (including the 5% payroll and 5% tangible-asset carve-outs, known as the substance-based income exclusion). Because it is domestic, a QDMTT can be tailored by local law and is credited against any IIR/UTPR charges, simplifying compliance for MNEs headquartered in jurisdictions that impose it (Herzfeld 2022; Gasbarra & Merrick 2023; Herzfeld 2019). Critics note that if a QDMTT calculation differs from the OECD Model (due to local GAAP or tax base differences), a small residual top-up tax might still be imposed abroad. However, safe-harbor guidance from the OECD assures that most top-up taxes will be collected by the QDMTT country itself.

The U.S. GILTI Regime: The U.S. Global Intangible Low-Taxed Income (GILTI) rules were introduced in the Tax Cuts and Jobs Act of 2017 (IRC §951A). GILTI imposes an immediate U.S. tax on most earnings of controlled foreign corporations (CFCs) owned by U.S (Bunn et

al. 2023). shareholders. Its stated goal is to deter profit-shifting by ensuring that "the most profitable foreign activities" of U.S. firms are taxed at a minimum rate. Technically, GILTI includes a U.S. shareholder's share of a CFC's *net CFC-tested income* (roughly income minus local taxes and 10% of tangible asset bases, the QBAI carve-out). The U.S. tax on GILTI-excluded income is calculated at an effective 10.5% rate through 2025 (50% deduction of the 21% rate) and 13.125% thereafter (37.5% deduction after 2025). Foreign taxes on GILTI income offset up to 80% of the U.S. tax. GILTI uses a worldwide blending approach: a U.S. MNE aggregates the tested incomes and taxes of all its CFCs across jurisdictions (netting high-tax against low-tax) (Herzfeld 2022; Gasbarra & Merrick 2023; Herzfeld 2019).

GILTI differs from Pillar Two in several respects. Its threshold and scope are set by U.S. law (all U.S. shareholders of 10%+ owned CFCs), whereas Pillar Two applies to large groups on a country-by-country basis. The effective minimum under GILTI (10.5–13.125%) has historically been below Pillar Two's 15%, meaning U.S. firms pay a smaller residual tax under current law. Unlike Pillar Two's country-level calculation, GILTI is computed at the U.S. shareholder (or domestic consolidated) level. GILTI's base includes a 10% return on tangible assets (the QBAI carve-out), whereas Pillar Two allows 10% on payroll and capital. GILTI also prohibits loss carryforwards and cross-year blending, unlike normal corporate tax. Analysts note that GILTI's global blending allows high foreign tax rates in one country to shield income in another, whereas Pillar Two's jurisdictional approach does not allow such offset (Bunn et al. 2023).

Digital Profits and Developing Countries: The digital economy poses special challenges. By definition, many digital platform business models can generate income in markets without a physical presence, meaning local tax base erosion. Traditional tax treaties grant "primary" taxing rights to physical source jurisdictions, which may leave market countries (often lower-income) unable to tax digital sales (OECD 2022). As a result, several developing countries have pursued unilateral digital services taxes or advocated multilateral solutions. The OECD/IMF literature recognizes that global minimum tax rules, including QDMTT adoption, could help arrest tax competition and base erosion. The IMF predicts that the Pillar Two agreement will modestly raise global corporate revenue (+6% of global CIT, about 0.15% GDP), with developing countries likely net beneficiaries, though gains may be small relative to needs. However, UN experts and others caution that Pillar Two alone may not fully address

digital under-taxation, hence the UN has explored alternatives (like an UN Model Article 12B to tax digital services at source) (OECD 2023).

GILTI in the U.S. Tax Policy Dialogue: The U.S. has not formally joined Pillar Two, partly due to domestic political considerations. GILTI has been the de facto U.S. minimum tax on foreign income. Policy analysts have compared GILTI and Pillar Two, noting that if the rest of the world enforces a 15% minimum while the U.S. tax on foreign income remains at 13.125%, U.S. MNEs will face extra levies abroad and U.S. revenue may decline. U.S. budget groups have modeled scenarios where foreign countries implement QDMTTs, showing that U.S. taxable foreign income would face a much higher total tax burden (e.g. effective foreign tax rising from 16.6% to 24.4%) and U.S. GILTI receipts would shrink. These analyses underscore that GILTI alone may not capture all low-tax income if a higher common threshold applies elsewhere (Herzfeld 2022; Gasbarra & Merrick 2023; Herzfeld 2019).

3. Methodology

This study undertakes a comparative qualitative analysis of QDMTT and GILTI, supplemented by stylized scenarios. We review official model rules (OECD, EU) and empirical analyses (IMF, Tax Foundation, etc.) to extract the core design and intent of each regime. We then construct hypothetical cases of a digital platform MNE to illustrate how each tax would apply to its profits. This approach illuminates differences in coverage (residence vs source, global vs local blending) and computes implied tax burdens under each rule. While no original econometric modeling is done, existing simulations (e.g. from Penn Wharton and Tax Foundation) provide benchmarks for overall ETR impacts. Our analysis also examines secondary impacts—on tax sovereignty and developing countries—by synthesizing policy reports (IMF, UN, OECD commentary) on these issues.

4. Analysis

QDMTT (Pillar Two). Pillar Two applies to MNEs with consolidated revenues ≥€750 million. A QDMTT, if enacted, affects all in-scope *constituent entities* in the jurisdiction imposing it. Thus, if a digital MNE has a local subsidiary, that subsidiary's excess profit (after a 10% payroll and 10% depreciation carve-out) must be taxed at 15%. If the domestic corporate tax is below 15%, the QDMTT makes up the difference. Importantly, each jurisdiction's calculation is

independent (country-by-country)[1]. The Pillar Two regime has extraterritorial reach via the IIR/UTPR, but QDMTT itself is domestic. Because many digital firms operate in multiple countries, a QDMTT can potentially tax profits in every market where they have a legal entity[2].

GILTI (U.S.). GILTI covers income of U.S.-owned CFCs. Only U.S. shareholders of *foreign* companies are in scope, and the test excludes Subpart F income (essentially passive or easily mobile income). Importantly, if a digital firm has no foreign subsidiary (for example, if it sells directly to consumers without a local affiliate), GILTI does not apply. GILTI also has a "capped" nature: it taxes CFC income net of 10% QBAI and allows 80% FTC, producing a 10.5% floor. Critically, GILTI pools all CFCs of a U.S. group, so profits in high-tax and low-tax countries are aggregated[3].

In short, QDMTT can affect any large MNE's operations in adopting jurisdictions (regardless of the firm's nationality), whereas GILTI only taxes U.S. shareholders on their foreign subsidiaries' income. This means non-U.S. digital MNEs (e.g. Spotify from Sweden, Alibaba from China) are unaffected by GILTI. Conversely, a U.S. digital MNE will be subject to GILTI on its foreign profits, but those same foreign profits could also be subject to host-country QDMTTs if in place.

5. Tax Base and Effective Rate Calculations

QDMTT Mechanism: The QDMTT is calculated using the Pillar Two GloBE formulas. Starting with financial accounting profit, adjustments are made for excluded income, taxes, and thresholds. After computing *excess profit* (revenue minus cost of goods sold, compensation, interest, etc., minus the 10% payroll and 10% tangible carve-out), the local tax liability is raised so that total covered taxes equal 15% of the excess profit. If local statutory CIT is 12%, a QDMTT of 3% on excess profit would be due. The effect is that the *jurisdictional effective tax rate* (ETR on qualifying income) meets 15%. Notably, the GloBE ETR calculation for triggering top-ups excludes the substance carve-out; thus a jurisdiction might impose extra domestic tax (QDMTT) even if its local taxes on *excess* profit exceed 15%. This nuance means

[1] Englisch, Joachim. "Pillar 2: QDMTT or Safe Harbour Domestic Minimum Top-Up Tax (SHDMTT)?" *Kluwer International Tax Blog*. November, 2023.
[2] Herzfeld, Mindy. "Do GILTI + BEAT + BMT = GloBE?" *Intertax* 50, no. 12 (2022).
[3] Joint Committee on Taxation, U.S. Congress. *Overview of the Global Intangible Low-Taxed Income (GILTI) Provisions*. JCX-15-17. 2017.

QDMTT can be superior: it ensures the base (after carve-out) is fully taxed to 15%, whereas simply raising statutory CIT might still leave the GloBE ETR (on total profit) below 15.

GILTI Mechanism: GILTI's tax base is calculated in U.S. tax returns. Each year, U.S. shareholders include in income the aggregate net income of their CFCs (minus deductions and 10% of QBAI)[4]. The resulting GILTI inclusion is subject to U.S. corporate tax (21%) but with a 50% (increasingly 37.5%) deduction, giving a 10.5% (later 13.125%) effective rate. Foreign taxes up to 80% of the inclusion are creditable. Thus GILTI's effective tax is computed on a worldwide basis of aggregate CFC income after allowing certain exclusions and credits. In practice, some U.S. analysts treat GILTI as a "blended CFC regime" because of this pooling effect[5].

Comparison of Calculations: Pillar Two with QDMTTs uses jurisdiction-by-jurisdiction ETRs, disallowing cross-subsidy: a profitable entity in Country A can't escape top-up because of high taxes paid in Country B. GILTI, by contrast, computes a single effective ETR across all CFCs of the U.S. parent. In one simulation, U.S. multinationals under GILTI faced a 16.6% ETR abroad and 3.0% at home (total 19.7%), whereas with hypothetical foreign QDMTTs the foreign ETR rose to 24.4% and total to 27.0%. This illustrates that a 15% floor applied per jurisdiction can yield a much higher combined rate on foreign income than a global 10.5% GILTI rate (especially once the QDMTT moves each entity to 15%).

Furthermore, QDMTTs use financial statement accounting with minimal adjustments, whereas GILTI uses tax-basis figures. The Pillar Two Model Rules allow choice of local GAAP, while requiring adjustments to align with GloBE definitions. If differences exist, a residual top-up might emerge under an IIR/UTPR. GILTI's use of U.S. tax net income can create distortions: for example, accelerated depreciation can reduce GILTI income but has limited effect under the Pillar Two adjusted accounts method.

6. Substance Carve-Outs and Special Rules

Under Pillar Two, each jurisdiction has a **substance-based carve-out**: 5% of payroll costs plus 5% of tangible asset value (combined 10%) is excluded from the base. This reflects a notional

[4] Herzfeld, Mindy. "Do GILTI + BEAT + BMT = GloBE?" Intertax 50, no. 12 (2022).
[5] Joint Committee on Taxation, U.S. Congress. Overview of the Global Intangible Low-Taxed Income (GILTI) Provisions. JCX-15-17. 2017.

return to real investment and employment. In comparison, GILTI's carve-out is 10% of QBAI (tangible assets) but no payroll component. Thus, labor-intensive businesses might get a larger exemption under Pillar Two than GILTI.

Other special rules differ. The GloBE rules have safe harbors (e.g. for small operations) and provide for deferral through deferred tax assets if losses occur. GILTI has no loss carryforwards and does not allow excess foreign tax credits to carry forward or back beyond the 80% limit. On the flip side, Pillar Two offers an OECD-sanctioned **safe harbor** calculation: a jurisdiction that enacts a QDMTT in line with model rules can use simplified (GIR) reporting, reducing compliance burdens[6]. The U.S. GILTI regime has no such international safe harbor, though it is treated by the OECD as an "example" of a blended regime with partial credit for foreign tax.

7. Illustrative Scenario: A Digital Platform MNE

Consider *ExampleCorp*, a hypothetical digital platform with $1 billion in revenue. ExampleCorp has an Irish subsidiary that earns $100 million of advertising profits from global users. Ireland's statutory rate is 12.5%, and under Pillar Two, assume Ireland enacts a QDMTT to top-up to 15%. Also assume ExampleCorp is a U.S. company and the Irish profits are subject to U.S. GILTI.

- **Under the QDMTT:** The Irish entity's excess profit (after 10% carve-outs) will be taxed at an effective 15%. If its local tax is 12.5%, Ireland will levy a 2.5% additional tax on those profits via the QDMTT. This $2.5 million goes to Ireland's treasury. Because of the QDMTT credit, the U.S. would not impose further tax under the IIR on these Irish profits.

- **Under GILTI:** ExampleCorp includes the Irish income in its U.S. tax base. Ireland's 12.5% tax would generate an $8.75 million foreign tax credit (80% of 12.5%). ExampleCorp's GILTI inclusion (net of 10% QBAI carve-out) would be subject to a 10.5% effective U.S. tax rate, yielding about $10.5 million tax, offset by the $8.75M credit, so $1.75M net U.S. tax. Combined with the Irish tax, total tax is ~14.25% on the $100M. Notably, this is below 15%. If QDMTT were in effect and Ireland levied the

[6] Hey, Jonathan. "Guest Editorial: The 2020 Pillar Two Blueprint: What Can the GloBE Income Inclusion Rule Do That CFC Legislation Can't Do?" *Intertax* 49, no. 1 (2021).

2.5M top-up, the total would become 15%.

In this simple scenario, QDMTT ensures the 15% floor locally, whereas GILTI yields only 14.25% total. More importantly, with QDMTT, Ireland collects the full 15% (12.5% + 2.5% top-up), whereas under GILTI the extra top-up effectively goes to the U.S. Treasury. This illustrates the source vs residence perspective: QDMTT keeps revenue in the source country, while GILTI sends some revenue back to the residence country (the U.S.)[7].

If the MNE were non-U.S. (for example, EU-headquartered), GILTI would not apply at all. In that case, without a domestic top-up the group's effective ETR could remain at 12.5%, triggering Ireland's QDMTT (or a UTPR by another country). If Ireland did not enact a QDMTT, a UTPR from another jurisdiction (e.g. where the ultimate parent is) could apply. In any event, Pillar Two gives a mechanism to capture at least 2.5% more tax.

8. Digital Profits Without Local Entities

Not all digital sales involve a local subsidiary. Suppose ExampleCorp instead sells digital content to Country X consumers, where it has no local affiliate or PE, and X has no DST or Pillar Two law. In this case, there is no domestic base to tax, so a QDMTT cannot be imposed in X. Under current Pillar Two rules, this profit escapes both QDMTT and IIR/UTPR (unless X joins Pillar Two and has a UTPR jurisdiction that can claim it). Under GILTI, if Example Corp is U.S.-owned but the revenue is booked in, say, the Cayman Islands affiliate, the low-tax rules apply to that affiliate's profit. GILTI will tax that foreign affiliate income in the U.S. anyway, albeit at 10.5%[8]. Thus, GILTI may catch profits even when source country cannot tax them, whereas a QDMTT cannot fire without a local entity. This highlights that neither system fully solves digital sourcing issues: QDMTT requires presence, and GILTI requires U.S. parentage.

9. Discussion

The comparative analysis shows complementary strengths and weaknesses

[7] Lautz, Eric, and Garrett Watson. The 2025 Tax Debate: GILTI, FDII, and BEAT Under the TCJA. Bipartisan Policy Center, May 2023.
[8] Hey, Jonathan. "Guest Editorial: The 2020 Pillar Two Blueprint: What Can the GloBE Income Inclusion Rule Do That CFC Legislation Can't Do?" Intertax 49, no. 1 (2021).

Effectiveness in raising tax: If most jurisdictions adopt Pillar Two with QDMTTs, the overall tax on digital MNE profits will increase. For any in-scope MNE, each local entity would pay at least 15% on its excess profit, shrinking incentives to shift profits to zero-tax havens. The literature suggests global corporate tax revenue would modestly rise (IMF: +0.15% GDP). GILTI also raises the rate on U.S. multinationals' foreign income, but only to 10.5–13.125%. The lower floor and blending means some low-tax profit may escape, especially if the firm has high-QBAI assets. In practice, if QDMTTs become widespread, U.S. MNEs may face higher foreign taxation than the 10.5% floor, reducing U.S. GILTI revenue (as shown in simulations).

Allocation of Revenue (Sovereignty): QDMTTs preserve taxing rights for source countries. As a recent analysis notes, a QDMTT allows a jurisdiction to "collect top-up tax at source" rather than ceding it to the residence country or a UTPR jurisdiction. This aligns with principles of source-based taxation and may be especially important for developing markets seeking to tax digital sales. Conversely, GILTI shifts some tax revenue to the U.S. If a digital profit of a U.S. firm's foreign affiliate is below 15%, GILTI can transfer up to 10.5% to the U.S. treasury (after foreign credits). Thus, GILTI benefits U.S. tax sovereignty at the possible expense of source country revenue.

Base Erosion Implications: Pillar Two (with QDMTT) is explicitly aimed at stopping base erosion by establishing a floor. It should dissuade competition to attract profits via low tax. Some analysis argues this may reduce "wasteful" tax incentives and even allow countries to raise statutes (IMF, OECD). By requiring a 15% minimum globally, QDMTT helps ensure that tax base is not eroded below a threshold. GILTI similarly seeks to reduce U.S. base erosion by clawing back low-taxed income. However, critics point out GILTI's blending may blunt its effect: high-tax subsidiaries effectively subsidize low-tax ones, meaning some shifting can continue. Pillar Two's jurisdictional approach avoids this by resetting each country's base.

Impact on Developing Countries: The Pillar Two framework recognizes developing countries' concerns by allowing QDMTTs and by including an intergovernmental "Subject to Tax Rule" (STTR) for certain payments. Many developing nations have embraced the idea of QDMTTs, as it enables them to collect revenue on inward investment. As noted, the IMF expects developing countries to gain some revenue. However, gains may be modest if few low-tax profits reside there. Also, if developing countries have higher statutory rates than 15%, Pillar Two may not increase their collections. In contrast, GILTI directly benefits the U.S.

treasury and provides no new taxing right to developing source countries. Moreover, GILTI can create double taxation risks for subsidiaries in countries that themselves would want to top-up to 15% (since the 80% FTC limit may leave U.S. tax on top).

On tax sovereignty, Pillar Two is an international framework (though optional per country) and thus entails ceding some unilateral freedom. A QDMTT is domestic law, but its existence is driven by an OECD agreement. Some critics argue that the UTPR (and even IIR) constitute an "unprecedented" intrusion by allowing taxation by countries with no relation to the taxpayer. GILTI, being unilateral U.S. law, does not rely on such coordination, but it still raises concerns. For instance, some U.S. policymakers resist Pillar Two partly due to fears of outside limits on U.S. tax policy. Conversely, the EU's Directive explicitly implements Pillar Two by adopting QDMTT, IIR, and UTPR uniformly among member states, indicating regional consensus.

Policy discussions highlight possible interactions. If the U.S. refuses to adopt Pillar Two but others do, U.S. MNEs face foreign top-ups via UTPR, while their own GILTI remains lower. Conversely, if the U.S. embraces Pillar Two (perhaps by raising GILTI to 15% and applying it cbyc), it could align with others and collect its share via a domestic QDMTT. Some proposals have suggested making GILTI more like an IIR by using country-by-country computations and eliminating the 80% FTC cap. Such changes could bridge the gap between the systems.

A final consideration is complexity and compliance: Pillar Two's framework is notoriously complex (multi-layer rules, reporting requirements), but a QDMTT can simplify matters by localizing the calculation. GILTI itself is also complex for multinationals. The two systems coexisting could impose double burdens: MNEs might have to prepare two sets of tax calculations (one for Pillar Two, one for GILTI). This is noted as a drawback in U.S. analyses, suggesting some alignment would be beneficial[9].

10. Conclusion

The Qualified Domestic Minimum Top-Up Tax (QDMTT) under Pillar Two and the U.S. GILTI regime share the goal of taxing mobile intangible profits, but they differ fundamentally in design and effect. QDMTTs, as part of a global 15% minimum tax, ensure that source jurisdictions can collect top-up taxes on low-taxed profits, thus reinforcing their primary taxing

[9] Wardell-Burrus, Henry. *GILTI and the GloBE*. 2023.

rights. This is particularly important for digital platform profits, which often arise in markets with limited physical nexus. By contrast, GILTI is a unilateral U.S. anti-abuse rule: it imposes a de minimis tax on foreign profits of U.S. firms, mainly for the benefit of U.S. tax revenue.

In scenarios involving digital MNEs, QDMTTs appear more effective at capturing untaxed profits *at source*, as they lift all in-scope local profits to a 15% floor. GILTI would collect only up to its lower floor (10.5–13.125%) and only from U.S.-owned companies. The academic and policy literature largely supports this conclusion: analyses by the OECD, IMF, and independent think tanks indicate that Pillar Two (including QDMTT adoption) would raise global tax levels and make source taxation more robust, whereas GILTI has been found to leave a gap relative to the 15% global standard.

However, neither regime is a panacea for digital taxation. If digital sales occur without a local presence, a QDMTT cannot apply, and GILTI cannot reach a non-U.S. entity. Moreover, the gains to developing countries depend on their participation and capacity to implement these rules. The balance of sovereignty and fairness is delicate: QDMTTs empower source countries but require international coordination, while GILTI is domestically controlled but grants little new revenue to markets.

In sum, from a technical and tax-equity perspective, QDMTTs (as envisioned under Pillar Two) are better suited to "catch" untaxed digital profits at their source. GILTI serves a narrower function for U.S. corporate tax policy, but it cannot substitute for a comprehensive global minimum tax. Policymakers should therefore consider harmonizing these approaches. For example, the U.S. could align its GILTI system with Pillar Two (raising rates and adopting QDMTT-like rules), ensuring that the new global floor of 15% benefits all countries. Meanwhile, developing countries should implement QDMTTs and complementary source-based measures (such as the UN's Article 12B proposals) to maximize revenues from the digital economy. Only through such coordinated reforms can the under-taxation of digital multinational profits be effectively addressed.

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