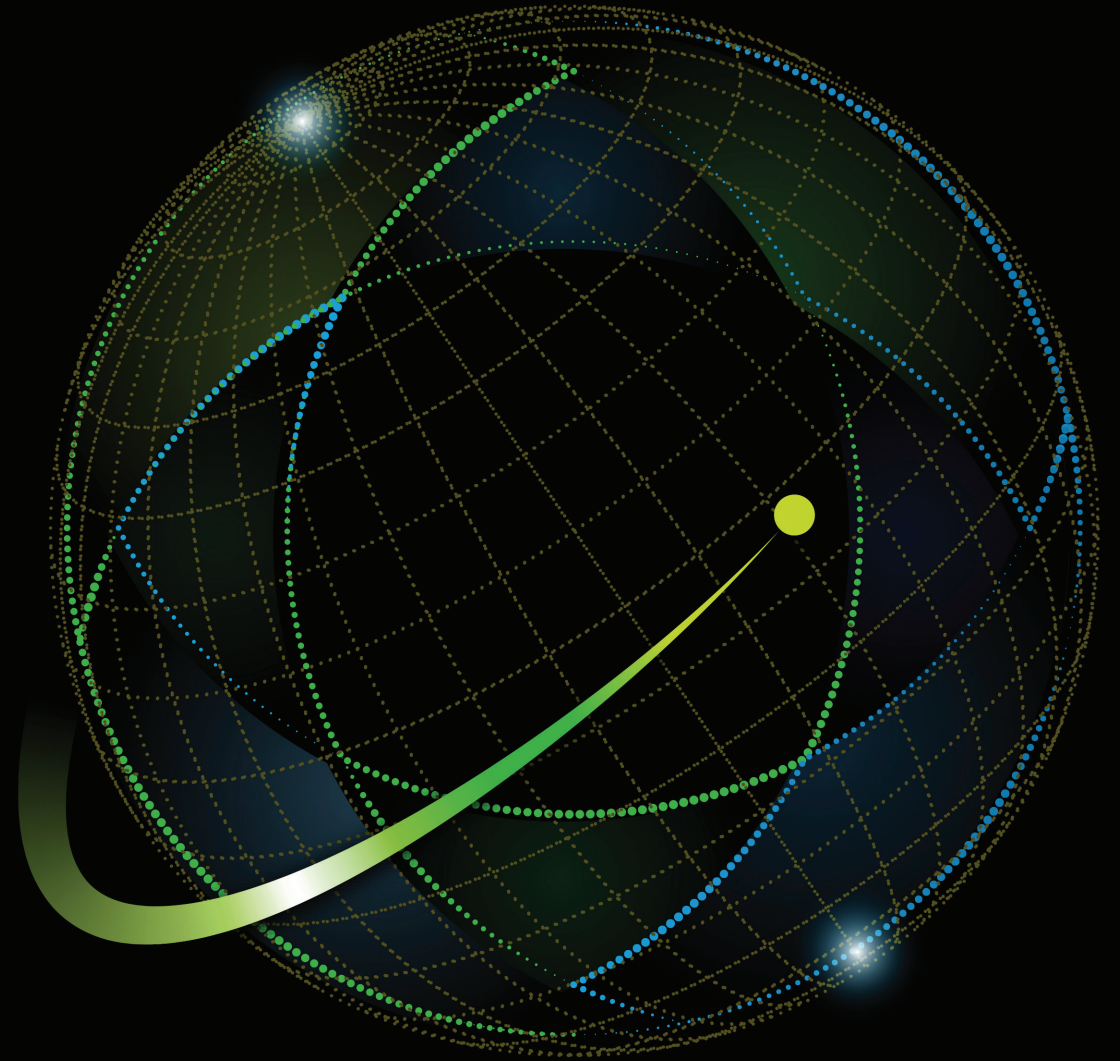


**Deloitte.**

# Getting ready for Pillar Two global tax rules

What you should know and do



## INTRODUCTION

Pillar Two, one of the most consequential international taxation frameworks in decades, is effective as of January 1, 2024, for in-scope calendar-year taxpayers. This new framework was first introduced by the Organisation for Economic Co-operation and Development (OECD) in October 2021 and is likely to be on the radar of corporate tax officers and tax departments of large multinational companies. The tax framework will have far-reaching effects across impacted companies—generally those with consolidated revenue of €750 million or more per year. Tax leaders will need to involve other departments within the organization in the implementation of Pillar Two (also known as the GloBE Rules).

Companies will need to track and calculate Global Anti-Base Erosion (GloBE) income, which is the tax base for Pillar Two and is generally derived from book income as it is calculated using the parent entity's accounting standard—US generally accepted accounting principles (GAAP), International Financial Reporting Standards (IFRS), or other acceptable GAAP. Much of the information required to calculate GloBE income will be obtained from the accounting department. Information technology (IT) departments will be tasked with developing processes and technologies to track and calculate GloBE income. Finance should plan for the effects of incremental Pillar Two taxes and enhanced scrutiny of intercompany transactions, which may not have had significant accounting or tax implications in the past.

For these reasons, it's worth delving into the details of Pillar Two, its impacts across the organization, and how to prepare.

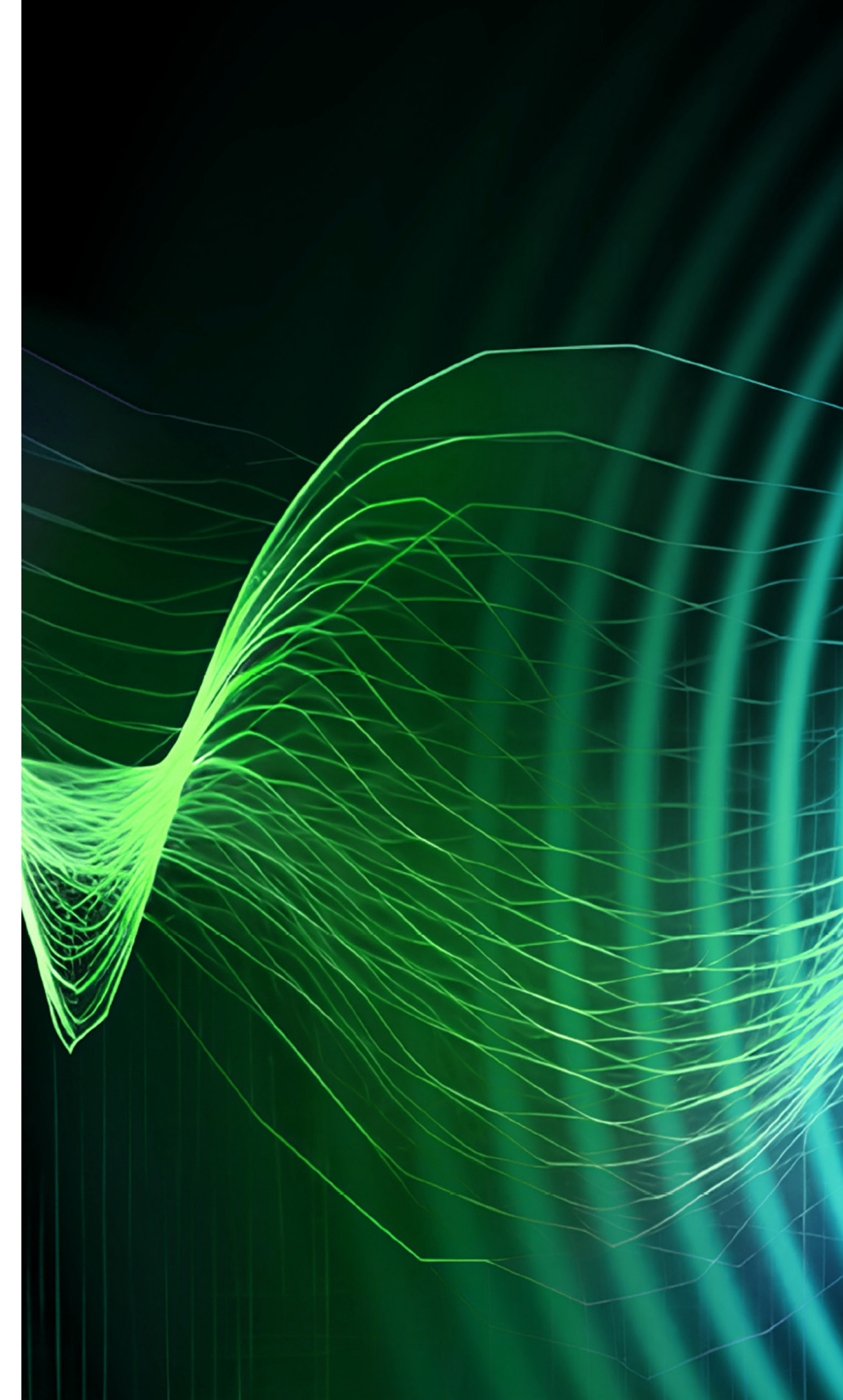


## PILLAR TWO OVERVIEW

Pillar Two is intended to establish a global minimum corporate tax rate of 15%. Specifically, the Pillar Two rules attempt to ensure that large multinational enterprises pay a minimum level of tax on the income arising in each of the jurisdictions in which they operate.

The 15% minimum tax is collected under three different sets of rules. First, when the effective tax rate, determined on a jurisdictional basis, is below the 15% minimum rate, the local country may impose a top-up tax based on the Pillar Two rules that is referred to as a qualified domestic minimum top-up tax or QDMTT. If no QDMTT has been implemented, the next Pillar Two tax in order of priority is the income inclusion rule (IIR), which applies when an owner of a low-taxed entity is located in a Pillar Two jurisdiction. Finally, if there is no QDMTT and none of the low-taxed entity's owners are in a Pillar Two jurisdiction, the undertaxed payments rule (UTPR) serves as a backstop allowing any group entity or entities located in Pillar Two jurisdictions to impose the top-up tax.

In response to public criticism of the complexity of the rules, the OECD provided a couple temporary safe harbor regimes including the transitional country-by-country reporting (CbCR) safe harbor and the transitional UTPR safe harbor. The transitional CbCR safe harbor is a short-term measure allowing a multinational to substitute streamlined CbCR-based computations for the more complicated GloBE calculations in jurisdictions that qualify. The transitional CbCR safe harbor applies for years beginning on or before December 31, 2026 (three years for most groups). There are three ways to satisfy the transitional CbCR safe harbor: the simplified effective tax rate (ETR) test, the routine profits test, and the de minimis test. The transitional UTPR safe harbor turns off the UTPR when a jurisdiction has a corporate income tax rate of at least 20% in years beginning on or before December 31, 2025.



## PARTICIPATING COUNTRIES

To date, more than 135 countries and jurisdictions have agreed to implement the Pillar Two rules. While the OECD has provided a framework, or model rules, to use in establishing tax laws, each country is responsible for developing and passing its own legislation within this framework. This approach means that each implementing country may have slightly different laws that nonetheless fit within the OECD Pillar Two framework.

Since March 2022, countries have begun to draft and enact laws to implement Pillar Two. Countries considered to be early leaders with their legislative efforts include the United Kingdom, Switzerland, Japan, and South Korea. Further, all European Union member states have committed to implementing Pillar Two, with all but a few enacting (or committing to enacting) legislation with an effective date beginning in 2024. Many other countries have made significant progress with their legislation as well.

The steps toward enactment taken by these and other countries have created an immediate need to assess the current impact of Pillar Two and to understand the magnitude of the potential impact of the tax rules on operations as additional countries adopt laws that comply with the OECD framework over time.



## TIMING

### **With respect to timing, the first two dates to be aware of are:**

- January 1, 2024: The IIR is in effect for implementing jurisdictions; QDMTTs are also in effect in some countries. For applicable groups, the transitional safe harbors may be available to lessen this burden of the new rules.
- January 1, 2025: The UTPR is eligible to go into effect (subject to UTPR safe harbor, which may be especially useful for US-owned multinationals).
- For in-scope calendar-year companies, the first information returns to report GloBE calculations are expected to be due in June 2026.



## WHY COMPANYWIDE COOPERATION IS ESSENTIAL

Although Pillar Two is an income tax system, it is not exclusively a tax challenge, meaning the tax department should not manage it in isolation. In fact, the rules will require several different groups within the company to monitor operations and transactions that could affect a company's Pillar Two compliance requirements. Unlike other global tax systems, Pillar Two is based on adjusted book income rather than taxable income. The regime not only relies on financial reporting more extensively than many other tax rules; it requires adjustments outside of other income tax or financial reporting frameworks to arrive at GloBE income. These adjustments, in turn, require access to significant data at individual subsidiary or business unit levels that may not be readily available to companies.

As a result, coordination and collaboration will be critical across the organization—including tax, accounting, finance, legal, and IT—to comply with Pillar Two's data and reporting requirements. In addition to the discussion above and below, the financial planning and analysis (FP&A) team will need to be aware of additional costs that may be incurred in ensuring Pillar Two compliance and, as it relates to tax planning, will also need to coordinate with tax to consider strategic structuring transactions that could affect the top-up taxes that may be required by

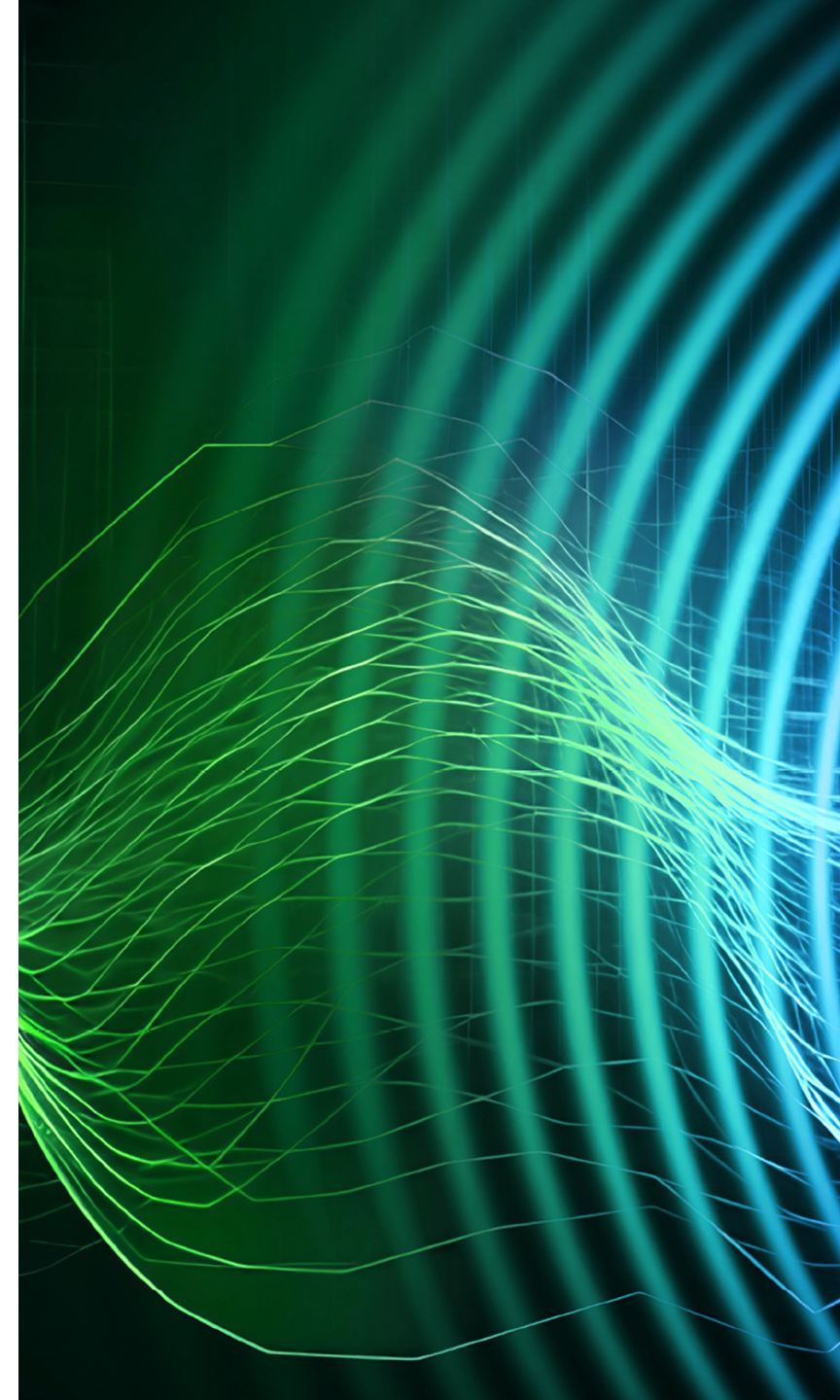
Pillar Two regimes. The legal department will need to collaborate with tax, accounting, and finance to ensure transactions are structured and tracked to comply with the Pillar Two laws in each jurisdiction. IT will have to work closely with tax, accounting, and finance to update existing software solutions and/or create new ones to accommodate the significant number of data points needed for Pillar Two compliance. In addition, appropriate internal controls will need to be established to ensure proper reporting.

Much of this coordination and readiness work ideally will be done well in advance of the key effective dates listed above so that when compliance is required, the necessary processes run smoothly. With tax typically considered the owner of Pillar Two compliance, the chief tax officer should take the accounting and finance functions along on the journey to Pillar Two compliance prior to the first compliance period. However, considering the far-reaching impacts across accounting and finance, chief financial officers and controllers should also be asking their chief tax officers how they can support this major cross-functional undertaking.

## WHAT COMPANIES SHOULD DO TO PREPARE

### **As far as specific steps a company can take in light of the January 1, 2024, launch date, first-tier priorities should include:**

- Assessing applicability of the transitional CbCR safe harbor and GloBE Rules. Determining if the safe harbors are applicable requires preparing country-by-country reporting that meets the (stricter) requirements of the Pillar Two rules and should include dry-run calculations prior to the due date for filing the CbCR and GloBE information returns.
- Identifying potential impacts of the Pillar Two rules on a jurisdictional basis based on companies' effective tax rates (including where the ETR falls below the minimum requirements).
- Reviewing existing corporate structures to identify the potential impact of Pillar Two. This process includes, but is not limited to, taking into consideration the location of revenue, business activities, assets, and employees to determine the scope of impacts.
- Monitoring relevant jurisdictions to understand implications of specific qualifying tax laws.
- Establishing appropriate internal controls for monitoring Pillar Two legislation and ensuring appropriate compliance.
- Analyzing how transfer pricing policies might affect minimum tax requirements under the Pillar Two framework.



## BUILDING YOUR COMPLIANCE PROGRAM

### **Following initial review, evaluation, and monitoring activities, in-scope companies can take concrete steps to implement their Pillar Two compliance program:**

- Enhance operations and data to align with the new global minimum tax requirements, including seeing that general ledger and financial information systems are set up to capture required data points across numerous jurisdictions.
- Develop scenarios to assess the financial impact of increased tax liabilities and adjust financial forecasts accordingly. This includes ensuring there are processes in place as part of the financial reporting and planning platforms to capture the data needed for GloBE compliance.
- Reassess existing tax, financial planning, and reporting technology to identify gaps in capturing GloBE data. Existing tax compliance software and other IT solutions may not be configured to calculate or efficiently integrate GloBE income and other required data.
- Identify a technology platform (or platforms) that can calculate Pillar Two taxes and assist with related tax and information return filing.
- Implement technology and design processes to track transactions that may have an impact on Pillar Two taxes, including those booked at the parent entity level. Transactions tracked on a business unit basis may need a jurisdictional tag if not already in place.
- Establish processes to evaluate the accounting implications of all complex transactions to also incorporate potential Pillar Two considerations.





## SKILL SET NEEDED FOR GLOBAL TAX RULE COMPLIANCE

Companies implementing a Pillar Two compliance program will need specific capabilities and skills to effectively navigate and address the framework's complex rules. The required skill set, whether provided by in-house staff or external resources, includes a strong background in technical tax and financial accounting.

### The specific skills and capabilities can include:

**Deep accounting knowledge and experience.** This skill set includes:

- Knowledge and full visibility into an entity's global corporate structure and types of entities within that structure.
- Broad experience in financial reporting standards; extensive knowledge of accounting principles; and a deep understanding of transactions, their tax impact (including Pillar Two), and the GAAP accounting treatment.
- Knowledge of audit processes, internal controls, and flows of transactions that can help to facilitate real-time capture of data required to populate Pillar Two returns.
- Experience navigating complex contracts that are already in place or are being established. These complex contracts include both intercompany agreements and third-party contracts that may affect book income on a jurisdictional basis, but were previously eliminated in consolidation (i.e., may have no cash flow impact or impact on consolidated financial reporting).

### **Knowledge and understanding of the OECD Pillar Two framework.**

These capabilities should include knowledge of Pillar Two as well as an understanding of the associated accounting framework required for annual financial statement preparation and audits, as well as:

- Deep international tax knowledge and experience in implementation of new tax rules.
- Experience in interpreting tax law, including the OECD framework, as well as an understanding of the provisions of enacted and substantively enacted tax rules.

**Effective communication.** Facilitating effective and efficient communication with internal accounting, finance, legal, and IT teams; external auditors, legal professionals, and IT consultants; and other groups is critical.

**Pillar Two collaboration experience.** This skill set includes top-tier experience teaming with tax, accounting, IT, and finance groups to build Pillar Two considerations into existing finance and tax systems or upcoming finance transformations. It also includes the ability to interact with tax specialists to design processes, understand regulations, and monitor implementation of new laws and regulations.

**Regulatory compliance experience.** Familiarity with audit and tax regulatory compliance and related project management requirements to guide compliance and reporting obligations.

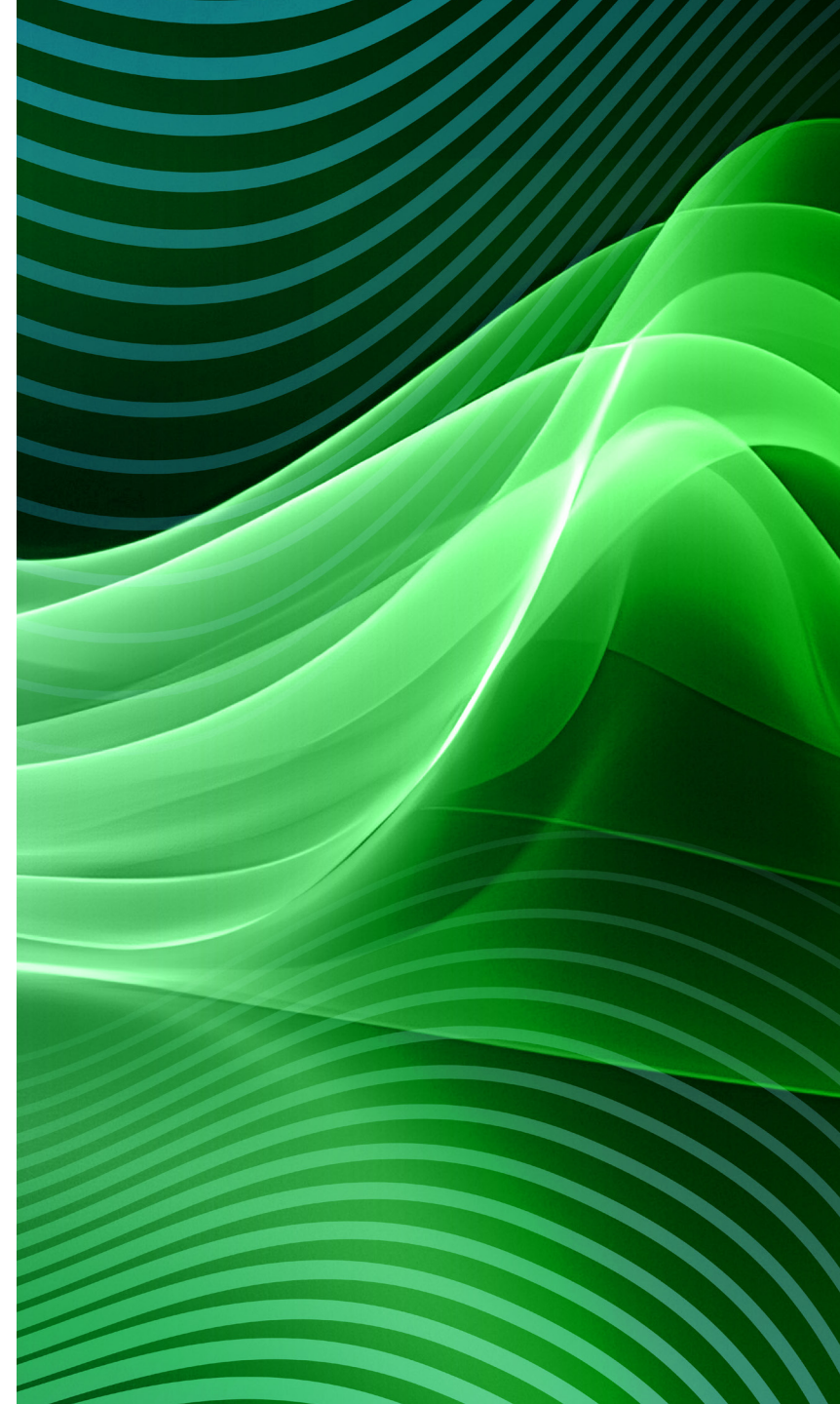
## REASONS TO CONSIDER A PROFESSIONAL SERVICE ADVISER

Because of the complexities anticipated with Pillar Two, the jurisdictional approach, and the importance of intercompany transactions for the proper calculation of Pillar Two taxes, hiring a professional services adviser to guide the implementation and plan for the accounting impacts makes sense for many companies.

Even for companies that don't have substantial operations in low-tax jurisdictions, Pillar Two could bring significant administrative and reporting burdens. A professional services adviser can provide insights to achieve an efficient and effective plan to address the impact of Pillar Two rules and regulations and assist with tax planning and compliance so Pillar Two liabilities are addressed in an efficient manner and obligations are not overlooked—reducing company risk.

## WHAT ROLE CAN DELOITTE PLAY?

Deloitte can provide advice and recommendations to your business to prepare for the rapidly approaching Pillar Two global tax rules. As a leader in tax, audit, and advisory, we can bring extensive knowledge and experience to your Pillar Two rollout and compliance challenges. We can advise you on navigating the process as you seek to determine the appropriate people, processes, and technology to guide the implementation, manage accounting impacts, and achieve efficient and effective compliance with the global rules and regulations.



## 5 insights you should know

- 1 Rules are constantly evolving, with the OECD issuing administrative guidance where clarity is needed and individual jurisdictions drafting and enacting different laws based on the Pillar Two framework.
- 2 There is potential for increases in cash taxes paid and ETR as well as changes to tax compliance.
- 3 Pillar Two is relevant for multiple stakeholders within organizations (finance, tax and regulatory, accounting and reporting, data and technology). Readiness of tax departments and financial reporting for Q1 2024 is critical.
- 4 Appropriate people, processes, and control environment are needed to understand underlying accounting conclusions, to calculate taxes, and to provide support for external auditors.
- 5 There are potentially pervasive and evolving impacts on internal and external stakeholders.

## 5 actions to take now

- 1 **Scope of Pillar Two:** Understand whether your entity will be in the scope, based on your current footprint and planned transactions.
- 2 **People and processes:** Cross-functional involvement of finance and accounting, tax, IT, and others will be critical to ensure readiness and compliance.
- 3 **Technology and data:** Businesses must compile volumes of new data for Pillar Two compliance to ensure availability, reliability, and integration of key data.
- 4 **Tax planning and accounting implications:** Accounting policies and processes drive tax outcomes; therefore, the Pillar Two compliance requirements and aligning tax planning with the accounting framework should be thoughtful considerations.
- 5 **Stakeholder communication:** Companies need to manage internal and external stakeholder communication regarding future Pillar Two impacts.

## READY TO CONNECT?

For more information on Pillar Two, we invite you to connect with one of our Deloitte leaders who specialize in Pillar Two rules and compliance:



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