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5x5 series: Insights and actions

Pillar Two GloBE Adjustments

The GloBE Rules require a set number of adjustments ("GloBE Adjustments") to the financial accounting net income or loss for each constituent entity to determine its GloBE income or loss. The net GloBE income serves as the denominator for determining the ETR for each jurisdiction. When the jurisdictional ETR is below 15%, the GloBE Rules are designed to apply a top-up tax in order to bring the total amount of taxes paid on an MNE's excess profit in a jurisdiction up to the minimum rate of 15%. Therefore, it's important to identify which GloBE adjustments could cause the jurisdictional ETR to fall below the minimum rate of 15%.

5 insights you should know

- GloBE income starts with the financial accounts based on the ultimate parent's consolidated financial statement, but is subject to different adjustments under the model rules to arrive at the "adjusted" GloBE income.
- Adjustments include: net taxes expense (including covered taxes), dividends, equity gains/losses, revaluation gains/losses, gains/losses from transfers as part of "GloBE reorganization", asymmetric foreign currency gains/losses, policy disallowed expenses (e.g., bribes), prior period errors and changes in accounting principles, accrued pension expenses, intragroup financing expenses without increase in taxable intragroup income, and purchase accounting adjustments.
- A variety of GloBE elections also impact the GloBE income calculation and are an important consideration in the Pillar Two planning and compliance process.
- A large point of discussion relating to GloBE adjustments is how push-down is done for financial accounting purposes. The extent to which adjustments are recorded and pushed down to applicable jurisdictions and entities will define the scope of work required to determine necessary adjustments.
- Current financial accounting systems may or may not record Pillar Two adjustments and may require customization or upgrades to automate.

5 actions to take now

1. Establish systems and processes. Financial datasets, starting in 2024, must meet the more granular needs of the new rules; therefore, taxpayers should have systems and processes in place to extract or collect the data as part of the compliance process.
2. Conduct a deep dive into GloBE rules to identify relevant GloBE adjustments. The GloBE rules allow for a variety of different adjustments. It is beneficial to understand early on which of these adjustments are (or could be) applicable to the group's financials and to what degree. Specifically, for purchase accounting adjustments, understanding the timing and structure of the transaction is imperative for determining if an adjustment is needed.
3. Analyze current financial accounting processes. As you begin to analyze the GloBE adjustments, you will discover they can come from a variety of sources and teams. Identifying what the current process looks like for each GloBE adjustment and who owns the data will be crucial.
4. Create a team and assign responsibilities. As GloBE adjustments can come from a variety of different sources, establishing a cross-functional team to collaborate and take responsibility for extracting and calculating necessary GloBE adjustments will be imperative.
5. Begin designing and implementing future accounting systems. New Pillar Two concepts will demand updates or even overhauls to existing accounting systems. Planning to incorporate GloBE adjustments into future accounting systems can help eliminate the need for side calculations and additional analysis.

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