KPMG

Pillar Two Gameplan

An executive guide for US accounting and finance professionals

—

October 2023

The kickoff

The new OECD Pillar Two rules and football may seem like two different worlds, but they share surprising similarities. Both involve complex strategies, coordination among players, and the goal of gaining and protecting valuable turf. But while most of us are cheering for our favorite teams this time of year, US multinationals are preparing for the impact of Pillar Two.

Pillar Two is a new tax regime aimed at making sure certain multinationals[1] pay their fair share of taxes – 15% to be exact – in every jurisdiction in which they do business. If that minimum tax rate has not been met in a particular jurisdiction, companies will need to make up the shortfall by paying a 'Top-Up Tax'.

But figuring out whether the Top-up Tax is owed is not easy.

The Pillar Two rules require complicated and data-intensive calculations of a new effective tax rate measure (the 'Globe ETR') for every single jurisdiction in which the company has operations. These calculations are based on a unique hybrid of tax and financial accounting concepts, which will effectively require companies to create a third set of books.

While this may seem like a tax-only problem at first glance, Pillar Two is expected to disrupt the finance and controllership functions as well.

Time is ticking on the game clock too – we expect many US multinationals to be impacted in the first quarter of 2024, which is when these rules begin to go into effect.

Calendar-year public companies will be required to report on the forecasted effects of Pillar Two in their 2024 Q1 income tax provision and consider disclosure obligations in their 2023 10-K.

Given the scope and complexity of the new rules, implementing Pillar Two can seem daunting – think of it as implementing the new revenue and leases standards at the same time. That's why we've drawn up this gameplan to help US companies meet their immediate financial reporting obligations.

Written with US professionals (and US GAAP) in mind, our gameplan provides an overview of the new rules, implementation steps companies should be taking to get ready for Q1, and how the accounting and finance functions may be impacted – including where the external auditor may be focused.

Nick Tricarichi
Partner

1. Multinationals with revenues of €750 million or more in at least two of the prior four years are subject to Pillar Two GloBE rules.

The gameplan

First down

Any good gameplan starts with having the right personnel on the field. We provide our thoughts of who in the organization to include in the implementation process and why.

Second down

It's also good to know who you're playing against. We've analyzed jurisdictions around the world and identified the ones most likely to be impacted in 2024.

Third down

Sometimes the best move is to punt and allow your offense to regroup. We take a look at the safe harbors that are available and highlight key items to consider.

Fourth down

And other times, you have to go the length of the field. We provide practical insights into the areas most likely to take the most time and how the accounting department's expertise can speed up the timeline.

The extra point

After crossing the goal line, the last thing you want is to miss the extra point. We briefly cover the financial reporting – arguably the easiest part of this whole process – to make sure the ball sails through the uprights.

Path to the playoffs

Winning the season opener is nice, but the real goal for any football team is to win it all. We offer longer-term insights that you should be thinking about as you plan your initial implementation process.

Along the way, we call a few timeouts to spotlight key items that can impact the implementation timeline and give you the right play calls on how to actually operationalize Pillar Two. It's also important not to get called for penalties as you go, so we have included specific considerations as to where the referees – er – external auditors, may be watching closely. By following this gameplan, we believe companies can avoid having to throw a last-minute Hail Mary.

First down: The right personnel

Make no mistake, implementing Pillar Two is much bigger than just a tax compliance exercise. Companies that attempt to silo this effort entirely within the tax department are potentially missing a big transformation opportunity and, quite frankly, risk getting it wrong.

To prevent this from happening, this is our list of internal stakeholders who we believe will be critical to getting the most out of the Pillar Two implementation process.

Think of it as your starting lineup.

Position	Function	The role
Quarterback	**Tax**	Like a quarterback who must study the new playbook and ensure every team member is on the same page, the tax department must comprehend the intricacies of the Pillar Two rules and ensure all relevant departments understand their respective roles.
Skill players	**Accounting (corporate and local)**	Many requirements are driven off of financial statement concepts and related accounting records. For that reason, the tax department will likely need to hand off large portions of the calculations to the accounting department. As the experts on the accounting policies and financial reporting systems, corporate and local accounting departments will play a big role in moving the ball downfield.
	IT	Pillar Two is extremely data intensive – upwards of 400 different data points may be required to calculate and report Top-up Tax amounts. Plus, once fully effective, companies will need to perform these calculations for virtually every legal entity in their org chart. The IT department has the skillset to automate as much as possible, allowing companies to pick up big yards.
	Internal audit	Protecting the quarterback is the number one job of the offensive line. Internal audit plays a critical role in ensuring that the appropriate internal controls are in place to prevent things from slipping through the cracks.
Offensive line	**Legal**	The offensive line doesn't just react though; they also create opportunities for the offense. Similarly, coordination with the legal department can proactively identify planning opportunities related to these tax reforms (e.g. legal entity rationalization) while maintaining compliance with all laws and regulations.

Audit insights

Conduct a kickoff session with your external auditors before year-end to walk through your project plan, expected safe harbor jurisdictions, potential Top-up Tax exposure, internal control strategy and technology blueprint.

This is also a great opportunity to understand the auditors' approach – including timing, information they will need and expected incremental effort.

Early and transparent communication will be critical to avoid racking up penalty flags late in the game.

Second down: The timeline

Not all jurisdictions will implement Pillar Two at the same time and even within a given jurisdiction, the rules may be implemented over several years. That's because Pillar Two contains three different mechanisms for collecting the Top-up Tax and it's up to each jurisdiction to decide which ones to implement and when.

Think of these collection mechanisms as the defense in a football game, which, like Pillar Two, also has three layers that work together to stop the offense.

Qualified Domestic Minimum Top-up Tax ('Local Country Tax')

The Local Country Tax is like the defensive line – in the trenches with the first chance to make the tackle. The Local Country Tax gives the jurisdiction where the income was generated the first right to collect the Top-up Tax.

Income Inclusion Rule ('Parent Country Tax')

The Parent Country Tax is the primary means for collecting the Top-up Tax, just like the linebackers are the primary tacklers in a defense. If a jurisdiction has not implemented a Local Country Tax, this provision kicks in and allows the parent entity's jurisdiction to collect the Top-up Tax.

Timeout

The **Parent Country Tax** generally works under a top-down approach, meaning that the jurisdiction of the ultimate parent entity has the first right to collect. If that jurisdiction has not implemented the Parent Country Tax, you move down the chain to the next parent entity (i.e. an intermediate parent) and see if its jurisdiction has implemented the Parent Country Tax. And so on…

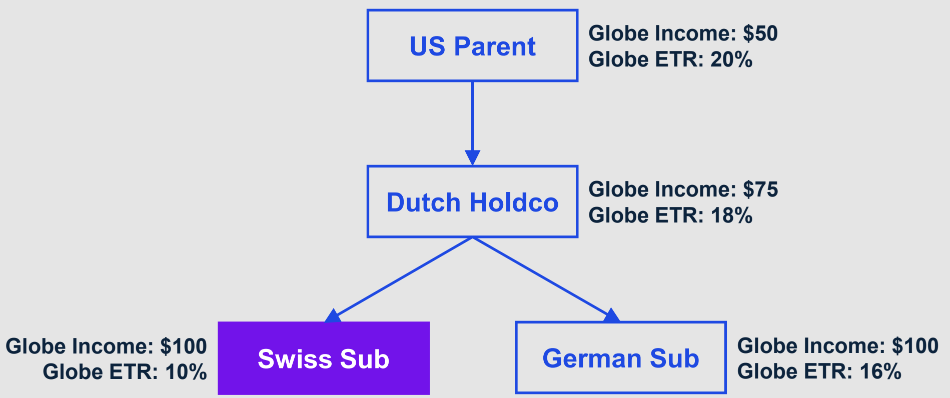
Undertaxed Profits Rule ('Back-Stop Tax')

The Back-Stop Tax is like the secondary – it is the last line of the defense, whose job it is to prevent the offense from scoring a big play. If the local jurisdiction has not implemented the Local Country Tax and no parent jurisdiction has implemented the Parent Country Tax, this provision comes into play and allows any other jurisdiction in which the company has a taxable presence to collect the Top-up Tax.

Timeout

Currently, it is not expected that the Back-Stop Tax will be effective until 2025. However, given the massive impact this can have on the potential Top-up Tax exposure once effective, it's wise to start planning for it now.

To illustrate how these collection mechanisms will work in practice, the following is a simple example of a hypothetical US multinational org chart; for simplicity, the effects of safe harbors have been ignored.[2]



In this example, only Swiss Sub causes the group to owe Top-up Tax because every other jurisdiction has a Globe ETR of at least 15%. The amount of Top-up Tax owed is $5, which is the difference between the minimum tax required of $15 ($100 of income × 15%) and taxes already paid of $10 ($100 of income × 10%).

Scenario 1: Switzerland has not implemented the Local Country Tax and no other jurisdiction has implemented the Parent Country Tax or Back-Stop Tax. In this scenario, the group does not have to pay the Top-up Tax.

Scenario 2: Switzerland has implemented the Local Country Tax. In this scenario, Switzerland collects the $5 Top-Up Tax from Swiss Sub.

Scenario 3: Switzerland has not implemented the Local Country Tax and the US has not implemented the Parent Country Tax, but the Netherlands has. In this scenario, Dutch Holdco pays the $5 to the Dutch taxing authority. Even though the US (jurisdiction of the ultimate parent) has not implemented the Parent Country Tax, you work 'down the chain' to intermediate parent entities to see if they reside in a jurisdiction that has implemented the Parent Country Tax.

Scenario 4: Switzerland has not implemented the Local Country Tax and the US and Netherlands have not implemented the Parent Country Tax, but Germany has implemented the Back-Stop Tax. In this scenario, German Sub pays the $5 of Top-up Tax to the German taxing authority.

As the example demonstrates, the question of 'who has implemented what?' is critical to determining whether the Top-up Tax is owed. Given the global nature of this tax regime and each jurisdiction having its own decisions to make, the answer to this question is constantly changing.

Similar to how teams need to adjust their respective gameplan each week, US multinationals need to be diligent in monitoring the implementation status of all relevant jurisdictions around the world to determine their Pillar Two exposure.

2. Also for simplicity, it is assumed that $5 is the Top-up Tax in each scenario. However, there are various reasons why this may not be the case.

Audit insights

Auditors may not have specifically evaluated certain aspects of the legal entity hierarchy before, but they likely will now.

Specifically, expect your auditors to test controls over the completeness and accuracy of the org chart, including determining that the jurisdiction for each legal entity and the ownership structure up and down the chain is accurate.

The Play Call

1.Identify which jurisdictions are expected to implement Pillar Two in 2024

As of the date of this publication, the following table reflects which jurisdictions we expect to implement in 2024, including the specific collection mechanisms we expect to go live.

However, this list is highly susceptible to change as more jurisdictions finalize their plans. You can continue to monitor the status of each jurisdiction by accessing our State of Play, which we update as things change.

2. Review your legal entity org chart to determine when Pillar Two will impact your organization

As a starting point, work with your Legal team to make sure your org chart is complete, including dormant entities and permanent establishments. Every entity in the org chart that is either (1) located in a jurisdiction that is expected to implement the Local Country Tax in 2024 or (2) owned by another entity that is located in a jurisdiction expected to implement the Parent Country Tax in 2024 (an 'in-scope entity') will have a potential Top-up Tax exposure next year.

	Local Country Tax	Parent Country Tax
EU member states	X[3]	X
United Kingdom	X	X
Lichtenstein	X	X
Norway	X	X
Switzerland	X	X
Australia	X	X
Canada	X	X
Japan		X
Korea		X
New Zealand		X
Vietnam	X	X

3. The Local Country Tax is optional for EU Member States. While many Member States have announced plans to implement the Local Country Tax in 2024, we do not expect this to be the case for all. The latest position for each EU Member State is available by accessing our State of Play.

Audit insights

Ultimately, it is your responsibility to monitor ongoing changes in tax laws around the world, including the implementation of Pillar Two.

Auditors will expect to see internal controls in place to identify these changes in a timely manner. Consider who in the organization is best equipped to perform this control and how often it should occur.

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Third down: Transitional safe harbor

Every now and then, the defense jumps offsides allowing the offense a free play. Under Pillar Two, this comes in the form of the transitional[4] CbCR[5] safe harbor, which allows you to temporarily avoid paying the Top-up Tax. The CbCR safe harbor can be used on a jurisdiction-by-jurisdiction basis, but only if the jurisdiction meets one of three quantitative tests.

Qualifying jurisdictions must be retested each year to make sure they continue to meet one of the three tests. If not, the CbCR safe harbor is off the table for good in that jurisdiction.

Timeout

To use the CbCR safe harbor in the first place, you must prove that your CbCR is 'qualified' under the Pillar Two rules.

While there is limited guidance as to what qualifies a CbCR, one thing is clear: it must be prepared using either (1) the same accounts that were used to prepare the consolidated financial statements of the ultimate parent or (2) the separate financial statements of each entity, provided they are prepared under acceptable accounting standards (referred to as 'qualified financial statements').

4. For a calendar-year company, the transitional safe harbor is available in 2024, 2025 and 2026.
5. Under current US rules, US multinationals have to report certain financial information on a country-by-country basis to the IRS on Form 8975 (the Country-by-Country Report, or 'CbCR'). The CbCR is then provided to other taxing authorities around the world for informational purposes.

The De Minimis Test

If total revenues are < €10 million and pre-tax income/loss is < €1 million in the jurisdiction, it qualifies.

The Simplified ETR Test

If the jurisdiction's ETR (calculated using income tax expense from its qualified financial statements as the numerator, with a few adjustments, and pre-tax income from its CbCR as the denominator) ≥ 15% in 2024, it qualifies that year. In 2025 this Simplified ETR must be at ≥ 16%, and in 2026 it must be ≥ 17% to qualify.

The Routine Profits Test

If the pre-tax income of the jurisdiction, as reported on the CbCR, is less than the 'substance-based income exclusion' amount, calculated as a percentage of the jurisdiction's payroll costs and tangible assets, it qualifies.

Timeout

Importantly for US multinationals, there is another transitional safe harbor that will neutralize the effects of the Back-Stop Tax with respect to their US income for 2024 and 2025 (the Back-Stop safe harbor). However, only one transitional safe harbor can be used for the US jurisdiction – either the Back-Stop or the CbCR safe harbor. It may be more advantageous to use the CbCR safe harbor, provided it qualifies, as it offers relief for three years instead of two.

Audit insights

Now that CbCRs will be used to potentially delay the full effects of Pillar Two (and avoid paying Top-up Taxes during the transitional period), you should expect more scrutiny from your auditors over their preparation – including how the information reconciles to financial reporting systems.

The Play Call

1. Perform preliminary safe harbor calculations for each in-scope jurisdiction

This will allow you to get an initial idea of which jurisdictions may be exposed to a Top-Up Tax and therefore need to perform the full-blown Pillar Two calculations. We recommend using multiple years of historical CbCRs (e.g. 2022, 2021) to avoid skewing the calculations.

2. Evaluate whether historical CbCRs would be 'qualified' under Pillar Two

For each jurisdiction that is expected to qualify for the safe harbor, make sure the information included in the historical CbCR meets the Pillar Two requirements.

This will depend on how that historical information was derived for each jurisdiction – i.e. was it based on amounts prepared in accordance with acceptable accounting standards or some other source of information such as management reporting? Using the 2022 CbCR, which is likely now being finalized for calendar-year companies, may be most efficient because the processes and information used to prepare it will be top of mind.

If any of these jurisdictions do not have qualified CbCRs, you still have time to fix it because the safe harbor will ultimately be based on the 2024 report. However, this may require significant work, including potentially having to prepare separate financial statements for the first time. The corporate and/or local accounting functions can play an important role in this effort given their expertise.

3. Re-perform safe harbor tests using 2024 forecasted results

With that blocking and tackling out of the way, it is time to estimate whether the jurisdictions will actually qualify for the safe harbor in 2024. Importantly, this will be based on 2024 results, which will not be known in Q1.

There may be multiple ways to perform this step, including, but not limited to (1) leveraging your existing quarterly processes for estimating the annual effective tax rate or (2) adjusting your 2023 CbCR to remove nonrecurring items and adding items or assumptions expected to occur in 2024.

Regardless of how this is ultimately done, the process must be performed at the appropriate level of detail to meet the Pillar Two requirements.

4. Identify jurisdictions that are not expected to qualify for the safe harbor

For this residual population of in-scope jurisdictions/entities, a full-blown Globe ETR calculation will need to be performed. We discuss what this entails in the next section, Fourth down: The impact.

Audit insights

In addition to understanding how the CbCR is prepared, auditors will be keenly focused on the process and information used to determine safe harbor jurisdictions for 2024.

Because these determinations will be based on projected results, internal controls will be key to evaluating the accuracy of the estimates and the completeness of the entities within a jurisdiction.

Fourth down: The impact

At this point, we are essentially in the redzone – just 20 yards away from crossing the goal line. But don't be fooled by the short distance; the redzone is one of the hardest parts of the field from which to score.

The actual calculation of the Globe ETR, which must be performed for every jurisdiction that does not qualify for the safe harbor (and potentially every entity in that jurisdiction), is very similar in this regard. It is by far the most intense part of the process, requiring a significant amount of data and a full-team effort to get it done. Tax, accounting and IT must be lined up and reading from the same playbook.

The Globe ETR calculation can be broken down into two parts – the numerator and the denominator – each of which starts with amounts recorded in the financial statements of the jurisdiction/entity but then requires its own set of adjustments and calculations.

The numerator – Covered Taxes – will likely be performed by the tax department because many of the adjustments relate to specific types of taxes and credits. Therefore, we don't discuss the detail here, but you can learn more in our analysis of the Pillar Two model rules.

The denominator – Globe Income – on the other hand, will require the expertise of the corporate and local accounting departments. Most of the adjustments needed to determine Globe Income either draw on financial accounting principles or will be driven by how a company maintains its books and records, including how the consolidation process is configured.

Timeout

The calculation of Globe Income begins with pre-elimination net income (i.e. intercompany elimination entries are ignored). However, you have the option of including intercompany eliminations for transactions between entities that are in the same jurisdiction if those entities are also part of the same tax consolidated group (the 'in-jurisdiction consolidation option'). This may be beneficial because the Globe ETR is otherwise required to be calculated for each individual entity within a jurisdiction.

For example, if one entity in a jurisdiction provides a service to another entity in the same jurisdiction, one will record income and one will record expense on a pre-elimination basis. If a company does not choose this option, the entity with the income will be more susceptible to paying the Top-up Tax because that transaction will increase its Globe Income, potentially lowering its Globe ETR to < 15%.

However, many companies may not perform their consolidation process at the individual jurisdiction level. Therefore, it may be worth reconfiguring your consolidation process to perform jurisdiction-by-jurisdiction eliminations to avoid having to manually adjust amounts recorded in the general ledger each year. This will likely require close coordination between the corporate accounting and IT departments.

Audit insights

Many of the adjustments necessary to compute Covered Taxes and Globe Income may not be covered by existing internal controls.

Therefore, new internal controls may need to be designed and implemented to determine if all applicable adjustments have been identified for each entity and that the amount of those adjustments has been calculated in accordance with the relevant rules.

Instead of going through each potential adjustment to calculate Globe Income – there could be upwards of a dozen or more depending on the company and industry – here we highlight those adjustments we believe are likely to be more significant or require more extensive work.

Purchase accounting adjustments

Pillar Two generally does not allow purchase accounting adjustments to be factored into the calculation of Globe Income – *regardless of when the acquisition took place* – except in limited circumstances.

Timeout

If your historical practice has been to apply push-down accounting – i.e. to step up the basis of acquired assets and liabilities in the target company's general ledger – it may be very difficult to undo the effects of purchase accounting, especially if the acquisition occurred many years ago. Therefore, you should review the acquisition history in each jurisdiction to determine what information may be available to perform this process.

Pillar Two does allow an exception to this rule for US multinationals if (1) the acquisition occurred before December 1, 2021 and (2) the company does not have sufficient records to reliably determine the amount of this adjustment. With respect to the second criterion, it is not clear how a company would demonstrate that sufficient records are not available. Therefore, tread carefully if deciding to not reverse purchase accounting adjustments.

Statutory accounting conversions

For US multinationals, Globe Income is determined under US GAAP. Often, the separate books and records of foreign entities may be maintained under statutory accounting standards and then converted to US GAAP in the consolidation process. This process must be carefully evaluated to ensure all statutory-to-GAAP conversions are being made at the individual legal entity level, regardless of materiality.

Timeout

Some jurisdictions may decide to use local GAAP for purposes of the Local Country Tax when they enact the Pillar Two rules. However, for purposes of the Parent Country Tax and Back-Stop Tax, the ultimate parent entity's accounting standards must be used (i.e. US GAAP for US multinationals) and therefore statutory accounting conversions will still be necessary.

Top-side adjustments

Some companies may record certain expenses or income related to individual entities or businesses top-side, meaning not in the general ledgers of the specific entities to which they relate. For example, stock compensation may be recorded in the corporate ledger even though some of that expense relates to employees of subsidiaries. Such amounts may be pushed down to the individual legal entity for purposes of calculating Globe Income to the extent the item can be directly traced to that legal entity.

Audit insights

Your auditor will need to perform audit procedures over each adjustment that has a risk of material misstatement to the financial statements.

When designing internal controls in this area, consider making different people the control owner based on what expertise is needed to review the specific adjustment – e.g. corporate accounting may be best suited to review for top-side adjustments while local jurisdiction personnel may be best suited to identify local accounting differences.

The Play Call

1. Choose your elections under Pillar Two

For each jurisdiction, decide whether to choose the in-jurisdiction consolidation option and other elections available. For the in-jurisdiction consolidation option, this will likely involve separating intercompany transactions into two groups – activity between entities within a jurisdiction and activity with entities outside of the jurisdiction. Depending on how your intercompany transactions are currently eliminated, this can be a difficult exercise.

2. Perform a scoping exercise

Based on these elections, perform a scoping exercise to determine which potential adjustments apply to the in-scope jurisdictions/entities ('applicable adjustments'). Importantly, not every adjustment potentially required under Pillar Two will be applicable to every entity.

3. Determine your data needs and identify data gaps

We recommend building a databook or similar resource that clearly identifies the department that owns each required data point for applicable adjustments, whether each data point is currently available, and how the data is prepared – either manually or system-generated.

4. Develop a roadmap

The roadmap should (1) close each identified data gap and (2) evaluate whether any manually prepared data can be obtained from an existing system or by modifying an existing system, which will require close collaboration with the IT department.

It may be most efficient to have each department perform this exercise with respect to their assigned data points.

5. Develop or acquire a data model

The data model needs to perform the necessary Globe ETR calculations and model potential Top-up Tax exposure under various scenarios.

Given the complexity of the Pillar Two rules, the vast amounts of data needed to comply, and scenario planning that companies will likely find valuable, we expect most multinationals to implement a third-party model. Care should be given when selecting a model factoring in your long-term Pillar Two requirements and other technology solutions with which it may be integrated.

This entire process will need to be performed in a very short amount of time to be ready for your Q1 filing obligations. Every good offense needs to be prepared for the two-minute drill!

Audit insights

Whenever new technology is being implemented or upgraded, the auditors will want to understand its impact on financial reporting – which, in the case of Pillar Two, is obvious.

Appropriate safeguards (i.e. internal controls) should be in place over the reliability of the technology. This includes both general IT controls as well as other controls, such as reviewing the output for a sample of different scenarios and evaluating SOC reports from the technology vendor.

The extra point

Arguably the easiest part of this whole process is accounting for the Top-up Taxes, just like kicking the extra point after the touchdown has been scored. However, all too often the kicker pulls one to the left or clanks it off the goal post. Therefore, let's briefly cover the accounting and disclosure requirements to make sure the ball sails through the uprights.

Accounting

The FASB has said that Pillar Two Top-up Taxes are an alternative minimum tax; therefore, deferred taxes will not need to be recorded or remeasured as a result of Pillar Two. Instead, Top-Up Taxes will simply be expensed as incurred (i.e. a current period item). For interim tax provision purposes, Top-Up Taxes will be included in the calculation of the annual effective tax rate.

Disclosure

US registrants should consider existing SEC requirements to determine if anything related to Pillar Two should be disclosed in the year before it becomes effective. For example, does Pillar Two represent an uncertainty that management reasonably expects could have a material effect on the company's results of operations and financial position?

Once Pillar Two becomes effective, you may need to make specific disclosures in the financial statements under Topic 740 – e.g. in the effective tax rate reconciliation disclosure. US multinationals should also pay close attention to the FASB's proposed ASU on income tax disclosures and how Pillar Two may need to be disclosed once effective.

Global Minimum Tax

We provide an overview of the Pillar Two GloBE rules and accounting for the new Top-up Tax.

FASB proposes improvements to income tax disclosures

The proposed amendments would enhance income tax disclosures to address investor requests for more information.

Audit insights

Pillar Two will directly impact your income tax provision and ETR. Make sure existing internal controls are updated to include the effects of Pillar Two when preparing the financial statements.

Auditors will want to understand your plans for disclosing the effects of Pillar Two now and under the new ASU once it becomes effective, which may be a complex undertaking. Best to have those discussions well in advance of reporting under the new requirements.

Path to the playoffs: long-term thinking

Winning the season opener is nice, but the real goal for any football team is to win it all. Here are our longer-term insights that companies should be thinking about as they plan their initial implementation process.

1. Finance transformation opportunities

As much of the information necessary to calculate the Globe ETR will come from financial accounting systems, accounting and finance functions have a significant opportunity to transform their systems and processes. Potential areas for consideration include statutory to US GAAP conversions, internal bookkeeping infrastructure (e.g. entity-level trial balances or general ledgers), allocation of corporate or company-wide expenses and jurisdictional consolidation.

2. Planning opportunities

Many companies have implemented legal entity structures designed to optimize existing tax laws and regulations. Once Pillar Two becomes fully effective, those legacy structures may no longer be providing the same after-tax returns on investment. Pillar Two presents a prime opportunity for you to revisit and rationalize your legal and operational structures.

3. Expiration of safe harbors

Under a ‘best case scenario’, the CbCR safe harbor can effectively buy you three years before the full requirements of Pillar Two apply to a particular jurisdiction. However, there could potentially be a significant number of jurisdictions for which the CbCR safe harbor will expire at the same time, requiring a significant amount of work to be performed all at once. We recommend planning in advance to avoid this bottleneck.

4. Implementation of Back-Stop Tax

This will go into effect for many jurisdictions in 2025 and will have a significant impact on the entities that will then be subject to Pillar Two. The gameplan will need to be repeated for each ‘new’ jurisdiction, including application of the CbCR safe harbor tests. Make sure you understand which entities will be impacted next year and get a head start.

5. Globe Information Return

Pillar Two will require multinationals to prepare and file a new form, referred to as the Globe Information Return. It comprises 28 pages and up to 480 data points for each jurisdiction, covering all areas of the Pillar Two rules. To that end, a multinational with 100 in-scope entities could have tens of thousands of data points of information to provide.

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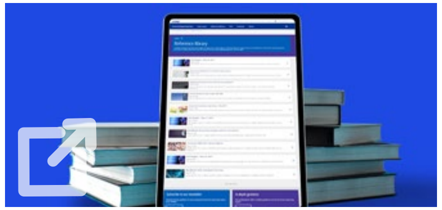

The State of Play

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