KPMG

Pillar Two – Global Implementation and Incentives Update

June 11 and 12, 2024

Ahead of the wave

2024 U.S. Cross-Border Tax Conference

Notices

The following information is not intended to be “written advice concerning one or more Federal tax matters” subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

Note: The information in the slides is accurate as of June 12, 2024

With you today

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Introduction

Agenda

Introduction and Opening Remarks

Overview of Implementation Status	• Pillar Two – Global state of play • Select country developments
Examples of differences in the rules	• Local implementation matters – an example • Local implementation nuances – European examples • Switzerland's approach to Pillar Two and US considerations around global adoption
Why do incentives matter	• What types of tax incentives might trigger Pillar Two implications? • Pillar Two treatment of tax credits

Q&A and summary

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The Age of Pillar Two

- In December, 2021, the OECD released GloBE rules for the implementation of Pillar Two.
- Subsequent administrative guidance has been published.
- Many jurisdictions have enacted the rules.

- The ETR test is calculated on a jurisdictional basis and uses book income subject to certain adjustments.

- Applies to entities within a MNE group with annual revenues exceeding 750M Euro threshold (in 2 out of the prior 4 years) in the consolidated financial statements of the parent entity.

- There are transitional safe harbors to provide compliance / Pillar Two tax relief for the 2024-2026 years.
- The UTPR safe harbour for 2024 and 2025 particularly relevant for the U.S.

- Rules are designed to ensure that large internationally operating businesses pay a 15% minimum level of tax in every jurisdiction.

- For those Pillar Two eligible companies in 2024, largely a financial statement exercise
- GloBE information returns are due within 15 months of the reporting fiscal year (18 months in the 1st year)
- Watch out for registration requirements.

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Overview of Implementation Status

Pillar Two — Global state of play

[Digital Gateway - Pillar Two - State of Play (kpmgservices.tech)]

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Examples of Differences

Local implementation nuances: European examples

Belgium

- Early registration requirement
- For groups with a Belgian constituent entity that came within scope on January 1, 2024, the due date of this registration form is **July 13, 2024.**
- Registration requires details of the MNE group including ownership.
- The early registration exists because Belgium has instituted an advance payment mechanism for GloBE tax.
- Top-up Tax under the QDMTT and IIR will be due in the same year in which the low-taxed profits are realized.

EU

- EU Commission has indicated that the Pillar 2 implementation should be interpreted to ensure consistency with the GloBE rules, Commentary, and Administrative Guidance (unless in conflict with the Directive).
- Each member state will need to determine how this is achieved and timing and differences are emerging.

European countries

- Different European countries have different rules as to which accounting standard can be used for QDMTT purposes.
- For example, Germany and in most cases the UK will require UPE GAAP to be used unless not reasonably practicable.
- Ireland, Luxembourg and Switzerland use local GAAP unless certain conditions are met.
- France allows a taxpayer to choose whether to use local or UPE GAAP.

Ireland & Luxembourg

- Both Ireland and Luxembourg have legislated that the QDMTT will not apply to Investment Entities.

*High level overview only – contact local KPMG member firm for latest position.

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Local implementation nuances: Switzerland
US implementation considerations

Enacted (1)	Enactment deferred	Enactment deferred
QDMTT	IIR	UTPR

- Domestic implementation act states that the OECD Model Rules are applicable and are in particular to be interpreted according to the commentary and the further guidance of the OECD/G20
- Rules administered and top-up taxes levied by Cantonal Tax Authorities
- Filing/paying entity: limited to one single Swiss entity
- Electronic platform (work in progress) hosted by Cantonal Tax Authorities for (mandatory) registration as filer and subsequent filing of top-up tax return

1) For business years starting on/or after 1/1/24

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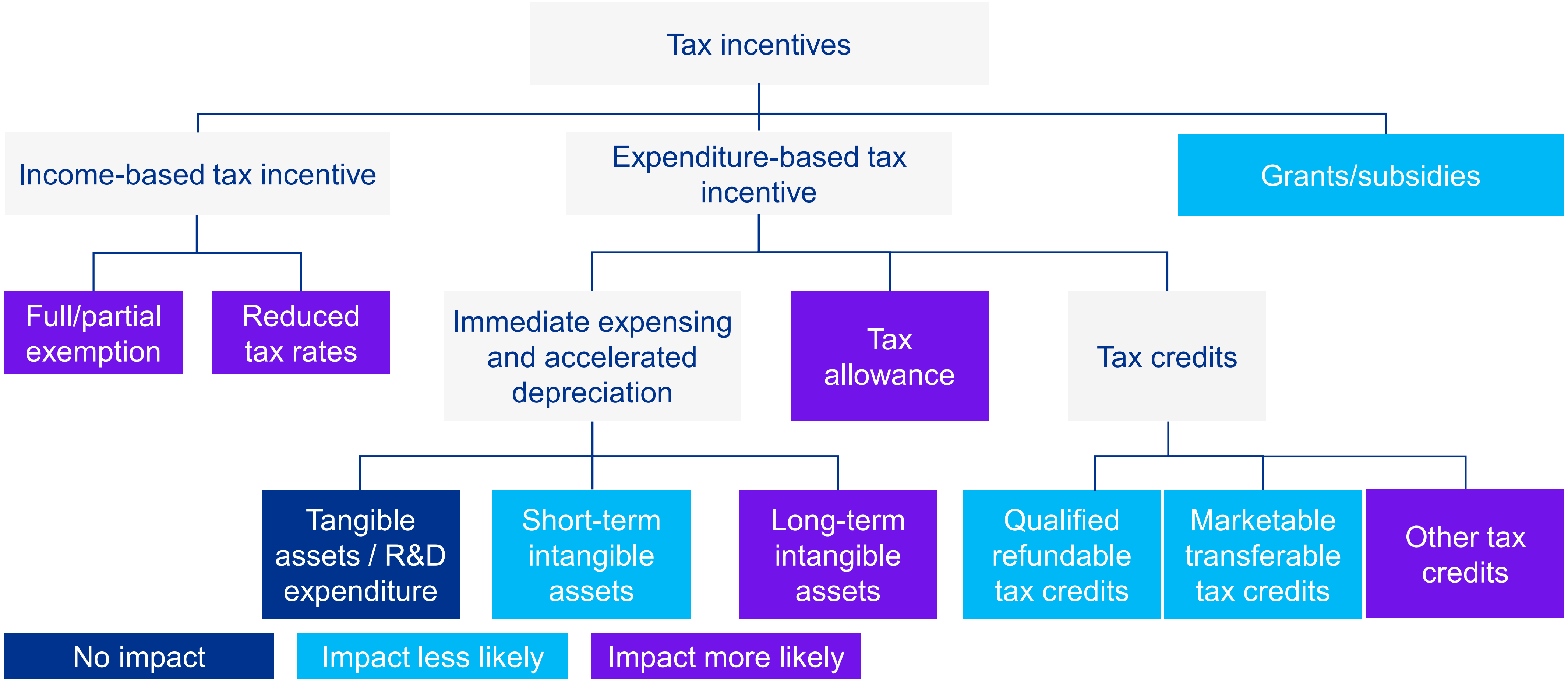
Why do Incentives Matter

What types of tax incentives might trigger Pillar Two Top-up Tax?



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Pillar Two treatment of tax credits

Type Of Tax Credit	Definition	GloBE Treatment
Qualified Refundable Tax Credit (QRTC)	Refundable tax credit that must be paid as cash or made available as cash equivalent within four years	Increase to Globe Income
Non-qualified refundable tax credit	Refundable tax credit (in whole or in part) that is not a QRTC	Reduction to Covered Taxes
Marketable Transferable Tax Credit (MTTC)	Tax credit that can be used by the holder of the credit to reduce its liability for a Covered Tax (CT) and meets the legal transferability and marketability standards.	Originator: increase to GloBE Income. Purchaser: difference between purchase price and face value is an increase to Globe Income so long as the credit remains a MTTC in its hands.
Non-Marketable Transferable Tax Credit (Non-MTTC)	Tax credit that, if held by the originator, is transferable but is not a MTTC, and if held by a purchaser, is not a MTTC (e.g., because not transferable by it).	Originator: reduces its CT to the extent it is used to satisfy its CT liability and to the extent of any amount received in exchange for the credit. Purchaser: reduces its CT by any excess of the face value of the tax credit over its purchase price.
Other Tax Credits	Non-refundable and nontransferable credits that can only be used to offset a CT liability of the originator	Reduction to Covered Taxes

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Q&A

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