How can Pillar Two compliance offer new business opportunities?

Fit for Pillar Two series

The **Fit for Pillar Two** series aims to help tax teams of multinational enterprises (MNEs) within the scope of Pillar Two prepare for the upcoming wave of international tax changes by putting theory into practice. In this series, Christian Athanasoulas, the Global Head of International Tax and M&A Tax, KPMG International and Tax Practice Leader — Services, KPMG US, provides his insights and draws on experiences from professionals across KPMG member firms worldwide. Articles in the **Fit for Pillar Two** series build upon each other and are designed to guide companies through the phases of Pillar Two readiness.

With Pillar Two compliance deadlines approaching fast, business leaders can turn a new legal obligation into a competitive advantage by reimagining their approach to tax governance and refining or redesigning their target operating model. To meet Pillar Two requirements, companies must generate, gather and manage more data than ever before. The ability to leverage these expanded data sets can become a business advantage, transforming a regulatory burden into an opportunity for short and long-term planning and strategic business restructuring.

Background

The Organisation for Economic Co-operation and Development (OECD) is working on the global implementation of tax proposals under two 'pillars' as part of its Base Erosion and Profit Shifting (BEPS) project. Pillar Two focuses on ensuring that large MNEs pay a minimum rate of tax. Under these global anti-base erosion (GloBE) rules, MNEs with consolidated revenue above EUR750 million will be subject to a minimum 15 percent tax rate in each jurisdiction in which they operate. MNEs will need to look at their operations in each of these jurisdictions separately to see whether their effective tax rate falls under 15 percent. If so, a top-up tax tax will need to be calculated and paid. MNE groups will generally be required to file a GloBE Information Return and generally make any required payments within 15 months after the last day of their fiscal year. MNE groups that do not comply with these rules may be subject to significant penalties.

Strategic implications of Pillar Two compliance

For multi-jurisdictional businesses, tax compliance has traditionally been a significant yet manageable aspect of multinational operations. However, with the introduction of Pillar Two requirements, the landscape is undergoing a seismic shift. This framework part of the broader BEPS initiative developed by the OECD, imposes a minimum tax rate of 15 percent on multinational entities. This development is not just a routine change; it represents a fundamental transformation in how businesses approach tax obligations across international borders.

As businesses scramble to adapt to these new rules, the additional workload is undeniable. Companies are now facing the daunting task of gathering, generating and managing more data than ever before, necessitating significant enhancements in their IT and tax technology infrastructures, as well as overall data gathering processes. These data sources are also more varied and no longer restricted to traditional enterprise resource planning (ERP) sources such as trial balances and general ledger accounts.

This surge in data and compliance obligations prompts a critical question: Is this an inflection point that forces companies to reevaluate their existing compliance models? Whether it's managed services, outsourcing, co-sourcing or in-sourcing, the strategic decisions made today will define the tax function of tomorrow.

From a taxpayer's perspective, the approach to these changes is multifaceted. The budget allocations for staffing, external consultancy, and technology upgrades should be carefully balanced to meet these new demands without disrupting the existing operational flow. For many, this could mean an increase in the tax and legal budget lines, not just for the short term but as a sustained investment in compliance infrastructure.

Moreover, the strategic implications extend beyond compliance. The ability to leverage expanded data sets could become a competitive advantage, transforming a regulatory burden into an opportunity for short-term and long-term tax planning and business restructuring. This perspective shifts the narrative from one of obligation to one of strategic business enhancement.

As we stand at this crossroads, the decisions made by tax leaders today will have a lasting impact. The transition to Pillar Two compliance is not just about meeting new legal requirements — it's about reimagining the tax function as a pivotal component of modern corporate strategy.

With Pillar Two compliance fast approaching, can business leaders turn a new legal obligation into a competitive advantage by reimagining their approach to tax governance?

Q&A insights

Q1. With Pillar Two reporting requirements fast approaching, how can business leaders turn a new compliance obligation into a competitive advantage by reimagining their approach?

For companies using decentralized tax governance approaches, Pillar Two offers an opportunity to introduce reimagined tax governance structures by centralizing from a technology standpoint and, if aligned with their wider organization direction, a compliance delivery model standpoint.

Consider global tax governance

As Pillar Two is a global tax requirement, it creates the need to introduce some level of global governance and tracking. In turn, this represents an opportunity to either implement a new global tax governance approach or go even further than your organization has gone before and make your tax operating model more efficient.

Revisit processes, technology and data strategy

Business leaders need to rethink their tax operating model, including how accounting and the timing of statutory accounts impact tax. Companies may benefit from the acceleration of statutory accounts as well as aligning more closely to materiality at the statutory accounting level in situations where Ultimate Parent Entity (UPE) generally accepted accounting principles (GAAP) equals statutory GAAP.

Pillar Two compliance also offers the opportunity to look at corporate income tax (CIT) as a whole. By its nature, any change initiative to implement new Pillar Two processes will touch on every jurisdiction where the MNE is present, affecting the finance systems used in those jurisdictions, the data produced and the people who work with it. Real efficiencies can be achieved by combining this initiative with a broader tax change agenda and integrating CIT and Pillar Two processes.

Some specific items to focus on include:

- Revisit data strategy, particularly given the focus on different data sources — structured, unstructured and others. Utilize data analytics to understand your effective tax rate drivers by country, not just globally.
- Determine if ERPs and processes can be adjusted to close data gaps that have been identified and to integrate as many processes as possible — collecting the same data once.
- Revisit the robustness of your country-by-country reporting (CbCR) given its increased importance moving from a compliance exercise to something that could impact cash tax and increase global tax compliance costs if not done correctly.
- Consider a move to real-time compliance to achieve greater accuracy in tax reporting, which in turn minimizes Return-to-Provision adjustments and accelerates the completion of tax returns.

Q2. What aspects of the new reporting requirements related to Pillar Two are proving to be the most burdensome for MNE groups?

Pillar Two and local Qualified Domestic Minimum Top-up Tax (QDMTT) compliance creates a burdensome additional obligation for a tax function on top of their already existing work which requires augmenting existing processes, creating new processes, collecting significant amount of data points and navigating the disparate requirements in each relevant jurisdiction.

Process

The components of a Pillar Two calculation aren't simply minor adjustments from CIT, they represent a separate tax system that results in a tax base that is a hybrid between financial statement principles and tax principles. Certain jurisdictions have implemented Pillar Two legislation where the computations of GloBE income start with group GAAP where certain jurisdictions have opted to use local GAAP. With careful analysis and planning though, Pillar Two could be integrated into the overall direct tax process in certain situations (e.g., when the QDMTT starting point is local GAAP or group GAAP is US GAAP for US MNEs). As such, these processes require the amalgamation of group accounting GAAP, and in some countries, local GAAP and CIT information.

Some of the requirements, such as the classification of entities or determining the impact of certain adjustments (e.g., dividend classification) may seem simple in principle, but are actually time consuming and challenging in practice for some groups. For example, classifying dividends based on intra-group versus third party, and dividends from shares owned for a short term versus those owned on a longer-term basis might be quite difficult depending on the type of MNE.

As a result, designing and implementing these processes is complex, often requiring a large number of global stakeholders and other colleagues to be involved.

Data

Gathering the significant number of data points required to do this calculation is also a challenge. Not only do the data points come from multiple source processes (e.g., group accounting, local stats, CIT returns), but some of the data points also required are not data points which might not typically be used for accounting or tax in some jurisdictions, e.g., headcount numbers.

As such, the number of data points required to comply with QDMTTs and IIRs for jurisdictions that fail the Transition County by Country Safe Harbors as well as having a system in place that can efficiently collect this data, is a major concern of MNEs.

Local requirements

Although jurisdictions are generally implementing local Pillar Two legislation to be consistent with OECD principles, the filing requirements are differing in each jurisdiction. In some cases, the filing requirements are quite simple (e.g., UK where if the GIR has been completed, the local QDMTT filing requirements are simplified) whereas in certain cases more full computations are being required (e.g., Belgium). Some jurisdictions are requiring simplified filings when the Transitional Country-by-Country Safe Harbors are being elected, whereas some jurisdictions are not. Analyzing the filing requirements is a significant undertaking.

Q3. What role does technology play, and what lessons have organizations learned about technology related to Pillar Two in the early stages of implementation?

Technology plays a vital role in Pillar Two compliance as MNEs need to gather and analyze the data required to meet their Pillar Two obligations as efficiently as possible. Technology designed for Pillar Two compliance can also offer opportunities to reimagine global tax frameworks and governance.

Technology

MNEs should keep the following considerations in mind as part of their Pillar Two planning, irrespective of the core technology decision they make relating to ‘buying’ or ‘building’ a technology solution or going down a hybrid route.

- **Auditability and process management:** Having a technology solution enables the tracking of process activities and provides an audit trail for compliance, which can be used to satisfy tax authorities, internal auditors, external auditors and other stakeholders regarding the approach taken and the robustness of the process. The better technologies on the market significantly enhance auditability and process management, particularly in the context of complex compliance frameworks such as BEPS 2.0. Unlike spreadsheet models — which rely on manual inputs, ad hoc tracker sheets and email trails — modern digital platforms are purpose-built to provide a secure, transparent and traceable process environment.

  This was our approach in developing the KPMG BEPS 2.0 Automation Technology (KBAT). The solution offers a robust audit trail, granular access controls, automated change tracking and version management. These features are essential not only for internal process governance but also to satisfy the requirements of tax authorities, internal and external auditors, and other stakeholders.

- **Efficiency:** Given the additional burden of Pillar Two, it’s usually advisable to seek efficiencies in the process by automating the calculation and using technology to make the data collection process as streamlined as possible. In nearly all cases, the upfront investment in the technology will outweigh any ongoing processing cost, even just in the first couple of years.

- **Governance:** As mentioned earlier, there is an opportunity to use Pillar Two to implement reimagined global tax frameworks and governance. Technology can play a key role by creating a global platform to track obligations and tasks that any user can access around the world in the MNE’s organization. These intra-group tax platforms can help MNEs overcome issues that may arise from decentralized approaches.

- **Scenario modeling:** Increasingly, organizations are using technology to do scenario modeling. Where modeling a new scenario in a spreadsheet may take hours or days, a new scenario can be created in a technology platform in minutes and then directly compared with other scenarios in various visualizations, creating an easily digestible output for stakeholders. A common example is modeling the impact of mergers & acquisitions (M&A) by changing group structures in the technology to get a new model output. Scenario modeling for top-up tax is a great resource for MNEs, allowing them to edit numbers to see how top-up tax results change.

Gen AI

In addition to technology, generative artificial intelligence (Gen AI) may also play a role in Pillar Two compliance. For example, KPMG member firms have developed several BEPS 2.0 personas ("agents") that include:

- **Entity classifications:** These are key during implementations. Gen AI enables the analysis of PDFs and other similar-format group structure documents to tabulate and bring together entity information from disparate sources.
- **Virtual tax advisor personas:** These personas support Q&A and interpretation of the model rules or country legislation using personas with source data appropriately contained (e.g., model rules, commentary, etc.).

Q4. What best practices are you seeing organizations implement in preparation for compliance with the Pillar Two rules, and what common mistakes have you seen in the marketplace?

Pillar Two compliance involves various forms and filings, with different frequencies and due dates. Understanding the specific requirements for each jurisdiction is crucial for compliance.

Best practices

KPMG member firms have a framework to help organizations prepare for Pillar Two compliance.

- **Technology**: How do you decide which technology solutions to use (e.g., spreadsheet vs a tool), and how do you integrate them with your wider technology strategy? While a spreadsheet might work for provision calculations, the volume of information reporting required for compliance means that a more robust tool is a better option.
- **Data sourcing strategy**: What are the options and how do you decide? How does this align with the data sourcing strategy? Data aggregation tools can pull data from various systems in the organization and then do the computations needed within those data aggregators.
- **In-house capabilities**: What skills do you need to optimize, report and comply? It is also about capacity. The capabilities might be there, but the volume will call into question the ability to do this in-house by hiring incremental resources.
- **Integration**: Consider overlaps between CIT work and Pillar Two global income calculations. If the starting point for a jurisdiction is local GAAP, many synergies exist between the local tax book and tax differences and Pillar Two global income computations. For example, of the five most common Pillar Two adjustments — dividends, equity gains and losses, accrued pensions, stock-based compensation and purchase accounting — most jurisdictions have rules that would make the same or very similar adjustments.
- **Risk and controls framework**: In your framework, to meet local governance requirements and manage legislative changes, which ones impact your BEPS calculations? Best practices in this area include conducting early risk assessments and developing plans.
- **Business case**: All of the above, including a data sourcing exercise, can be the business case for a tax department transformation around data and their operations.

How does KPMG recommend approaching this?

Create a project plan

Having a project plan is important — the impacts of Pillar Two for MNEs are large and complex. Getting ready for Pillar Two requires tax technical work, impact assessments, data work, technology implementation or outsourcing transitions, operating model considerations, understanding and tracking your compliance obligations, keeping up to date with changes in legislation around the world and with OECD guidance and more.

The best practice is to document your obligations and develop a timeline of when they take place, then list all the activities required to meet those obligations, group them into workstreams or responsibility areas and then track your progress.

We tend to see four key workstreams for Pillar Two readiness; here are the best practice recommendations for each.

- **Impact assessment and technical analysis:**
  - Determine to what extent you are within the scope of Pillar Two.
  - Utilize safe harbors to reduce your compliance burden while also ensuring that safe harbors meet the qualification standards.
- **Data:**
  - Conduct a gap analysis now to the extent that it is not yet complete, to determine your requirements and identify the size of the task needed to effectively source the data you have and to plug any gaps. The resultant data work scope varies between MNEs and isn't always proportionate to size. For example, divisionalized or regionalized businesses with different finance systems may require significantly more effort to source the data and close gaps than a single global finance system of a much larger company.
- **Operating model, including sourcing and/or technology:**
  - Make a decision about what you want to do in-house (including who will do it) and what should be outsourced.
  - Get your technology implemented sooner rather than later — at a minimum, many jurisdictions will require technology to file a return. Doing so can help with scenario planning, as well as set you up for compliance.
  - If you plan to outsource part of your activities, engage early and plan the transition.
- **Compliance:**
  - Make sure you have your compliance calendar.
  - Do test runs — if your FY24 period is closed, you should be able to produce your returns early. Use this as an opportunity to stress test your operating model, data and technology early.

Challenges we are seeing in practice

Common mistakes in these workstreams can include the following.

- **Impact assessment and readiness**: Failing to keep up-to-date with technical guidance can lead to various risks. We sometimes see technical analysis that is outdated, leading to risks. The most common example is related to work done surrounding the CbCR Safe Harbor. Organizations often believe they have satisfied the requirements of the CbCR Safe Harbor but haven't properly tested their CbCR process and then find that the CbCR process is not yielding a qualified CbCR. We have repeatedly picked up these issues during year-end audits.
- **Data**: There is often an assumption that the data work will be small or straightforward. We observe some organizations assume that the majority of their data will be in a single system (particularly those using global ledgers), but upon analysis, they have much larger data gaps than expected.
- **Operating model**: There can be an over-reliance on safe harbors. Some organizations are rightly utilizing safe harbors wherever possible to reduce the compliance burden. However, we don't recommend using that as a reason for not designing and implementing a more detailed compliance process. This is for two reasons: firstly, the safe harbors are temporary and will disappear in two years; secondly, they operate on a 'once out, always out' basis, meaning that if you fail to meet the safe harbor criteria for a period then you will have to comply fully for that and all future periods, potentially creating extreme time pressure to implement a new and complex process. One example we see is when an MNE believes it has passed Safe Harbor , but then a business disposal occurs in a jurisdiction that imbalances the CbCR calculation, dropping them below the threshold and causing them to fail the safe harbor.
- **Compliance**: Thinking of compliance as a single process can lead to complications and oversights. It's essential to understand that compliance involves multiple processes feeding multiple obligations, all with different nuances in terms of requirements, data and timelines.

Click here for Pillar Two compliance — navigating the complexity guide.

KPMG observations

1. Business leaders can turn a new legal obligation under Pillar Two into a competitive advantage by reimagining their approach to tax governance and leveraging expanded data sets for strategic business planning.
2. Pillar Two significantly increases the compliance burden on MNEs. Companies need to establish a centralized process to ensure the timely filing of all returns and notices and to improve efficiency.
3. Companies must generate, gather and manage more data than ever before. Technology can play a key role by making the data collection process as streamlined as possible. These tools should output numbers but also provide custom inputs and custom scenario modeling.
4. The impacts of Pillar Two are large and complex. Best practices for readiness include a project plan covering impact assessment, data sourcing, operating model and compliance, among other things.
5. Pillar Two compliance is not just about meeting new legal requirements; it's about reimagining the tax function as a pivotal component of modern corporate strategy.

Stay tuned for the article in our next Fit for Pillar Two series that will delve deeper into data, transformation and technology.

Enabling technology

KPMG Digital Gateway — Powered by Microsoft Azure, KPMG Digital Gateway, is a single platform cloud-based solution that gives you access to the full suite of KPMG Tax technologies.

KPMG BEPS 2.0 Automation Technology (KBAT) is a cloud-based tool designed to help evaluate, monitor, compile, track, calculate, analyze, report and comply with Pillar Two obligations, through integration with the KPMG Digital Gateway platform.

KPMG BEPS 2.0 tracker — Hosted on Digital Gateway, BEPS Pillar Two content providing access to announcements, justification status information and jurisdiction contacts.

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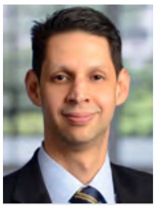

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