Practical Approaches for Managing Pillar Two

Transforming tax.
Redefining connections.

2025 US Cross-Border Tax Summit

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Practical challenges

01

U.S. position on Pillar Two and possible modifications to the rules

02

Constantly evolving nature of the rules, often with retroactive effect

03

Evolving nature of incentives; are they “Pillar Two friendly” ?”

04

Inconsistent implementation of the OECD rules

05

Inconsistent compliance requirements, both in terms of timing and substance

Practical challenges (continued)

01 U.S. position on Pillar Two and possible modifications to the rules

- There has been public reporting of various potential “US asks” including:
  - Extending UTPR Safe Harbor
  - GILTI functionally equivalent to IIR
  - QDMTT jurisdictions allowed to credit GILTI, if they wish

- **What do each of these items practically mean for US-based MNEs? i.e., what changes?**

- **Recognizing these items will likely take several months to play out, what are practical steps that companies can take now?**

Practical challenges (continued)

02 Constantly evolving nature of the rules, often with retroactive effect

- To date the OECD has released:
  - Model Rules, Commentary, Admin Guidance 1, 2, 3, 4 and 5, and "Qualified" Peer Review
- **How does a company practically stay in front of this ever-growing body of guidance?**
- **Is there particular forthcoming guidance that you consider important? E.g., "permanent safe harbors"**

Practical challenges (continued)

03

Evolving nature of incentives; are they "Pillar Two friendly" ?"

- Tax incentives are evolving in response to Pillar Two and other factors:
  - Refundable credits
  - Grants
  - Transferable credits
- Further, the OECD has indicated that it is developing guidance on "related benefits" that may treat certain incentives as a reduction to tax expense regardless of accounting treatment

- **What should companies be considering related to existing and new tax incentives in a post Pillar Two world?**

Practical challenges (continued)

04 Inconsistent implementation of the OECD rules

- Local Pillar Two law controls and in some circumstances local law may diverge from the OECD Pillar Two rules
- In some cases, these divergences reflect “slow adoption”
  - For example, a few jurisdictions were slow to adopt the UTPR Safe Harbor into local law creating issues for Q1 provision
- In other cases, these divergences reflect ambiguity in the rules

- **How should a company manage though this lack of standardization recognizing it is not practical to review the rules of every jurisdiction?**

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Practical challenges (continued)

05

Inconsistent compliance requirements, both in terms of timing and substance

- Pillar Two compliance includes: registrations, GIR, notifications and local returns
- Timing and substance of these forms vary, especially registrations
  - Belgium, Germany, France, Vietnam, etc registration forms are all due at different times and request similar but not identical data

- **How can a company manage though this lack of standardization with respect to compliance?**

Q&A

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