PKF

The Pillar Two Framework: Navigating the Global Tax Landscape

What is Pillar Two?

Pillar Two is the introduction of a 15% global minimum tax rate for multinational enterprise (MNE) groups with a consolidated group revenue of EUR 750 million or more, in at least two of the four financial years, immediately preceding the tested financial year

The main objective is to ensure that large MNE groups, operating in more than one jurisdiction, pay a minimum level of tax on the income arising in each jurisdiction where they operate in. This is achieved by applying a system of top-up taxes that brings the total amount of taxes paid on an MNE group's excess profits in a jurisdiction up to the minimum rate of 15%.

Pillar Two works alongside Pillar One, which focuses on reallocating some taxing rights over the largest and most profitable companies to the jurisdictions where their customers are, rather than where they are headquartered.

To comply with Pillar Two of the Organisation for Economic Co-operation and Development's (OECD) global tax framework, multinational enterprises (MNEs) must meet specific requirements to ensure a minimum tax on profits across all locations – this involves key steps and ongoing obligations for companies.

Pillar Two comprises two components; GloBE rules (Income Inclusion Rule and the Undertaxed Profits Rule) and Subject To Tax Rule (STTR). There are are different Pillar Two deadlines across the world – MNEs operating in multiple jurisdictions must monitor its global Pillar Two obligations, which can vary from year to year.

Does Pillar Two apply to you?

Pillar Two rules apply to groups with a consolidated turnover of EUR 750 million or more in at least two of the four financial years immediately preceding the tested financial year.

Government entities, international organisations, non-profit organisations, real estate investment vehicles, pension funds or investment funds

Members of large groups that are in a Pillar Two jurisdiction will need to think about Pillar Two to varying extents. If, for example:

You're the ultimate parent of an in-scope MNE group. Therefore, you may need to pay top-up taxes for the jurisdiction you are in, as well as for your subsidiaries (to the extent they're not collected locally).

You're a subsidiary in an in-scope MNE group, but your parent company isn't in a Pillar Two jurisdiction. In which case, you may need to pay top-up taxes for the jurisdiction your parent company is in. If you have subsidiaries yourself, you may also have 'ultimate parent' responsibilities for your subgroup.

Your in-scope MNE group has an effective tax rate of 15%+ in each jurisdiction it operates in. In which case, you may still need to register for Pillar Two and file annual returns to show no top-up taxes are payable (if your parent does not do so).

Your group is not an MNE (i.e. the whole group operates in just one jurisdiction) but it still breaches the €750 million revenue threshold. However, you may still be subject to a domestic top-up tax (and related filing obligations).

Illustrative example

This table sets out the various Pillar Two implementation dates* using the example of an MNE group located in the UK, Germany, Canada and Singapore.

As shown, from year to year there are different aspects of Pillar Two compliance that the group would need to consider.

MNE with a financial year-end of 31 December		UK	Germany	Canada	Singapore
Income Inclusion Rule	applies for periods starting on or after	31 Dec 2023	31 Dec 2023	31 Dec 2023	1 Jan 2025
Qualified Domestic MinimumTop-up Tax		31 Dec 2023	31 Dec 2023	31 Dec 2023	1 Jan 2025
Undertaxed Profits Rule		31 Dec 2024	31 Dec 2024	31 Dec 2024	To be confirmed
Pillar Two registration with local tax authorities	earliest deadline for groups already in scope	30 June 2025	28 Feb 2025	N/A	30 June 2026
First filing of Pillar Two returns		30 June 2026	30 June 2026	30 June 2026	30 June 2027

*correct at the time of publishing

Challenges

- Effective Tax Rates (ETRs) must be calculated per jurisdiction according to their specific Pillar Two rules and require complex calculations and detailed jurisdictional data, which may not currently be tracked. This requires updates to existing systems and processes, increasing the compliance burden.
- Filing of Globe Information Return requires analysis and reporting of extensive and granular data, with more than 100 data points (estimated) that might be required from each entity within the Group. Certain financial data would also be required from outside the ERP system, while involving multiple stakeholders.
- Pillar Two regulations provide for multiple safe harbor regulations, elections and optional treatments. Relevant technical expertise is required in performing the right analysis and choosing the appropriate rules/approaches that apply based on the fact pattern of the Group.
- Robust technical infrastructure, processes and systems will be required to be in place by the MNE Group that closely interacts with the ERP system to ensure appropriate data capturing, consistency, analysis and reporting.
- Pillar Two regulations are evolving on day to day basis. There is a need to keep pace with the constant updates.

How we can help

Impact assessment

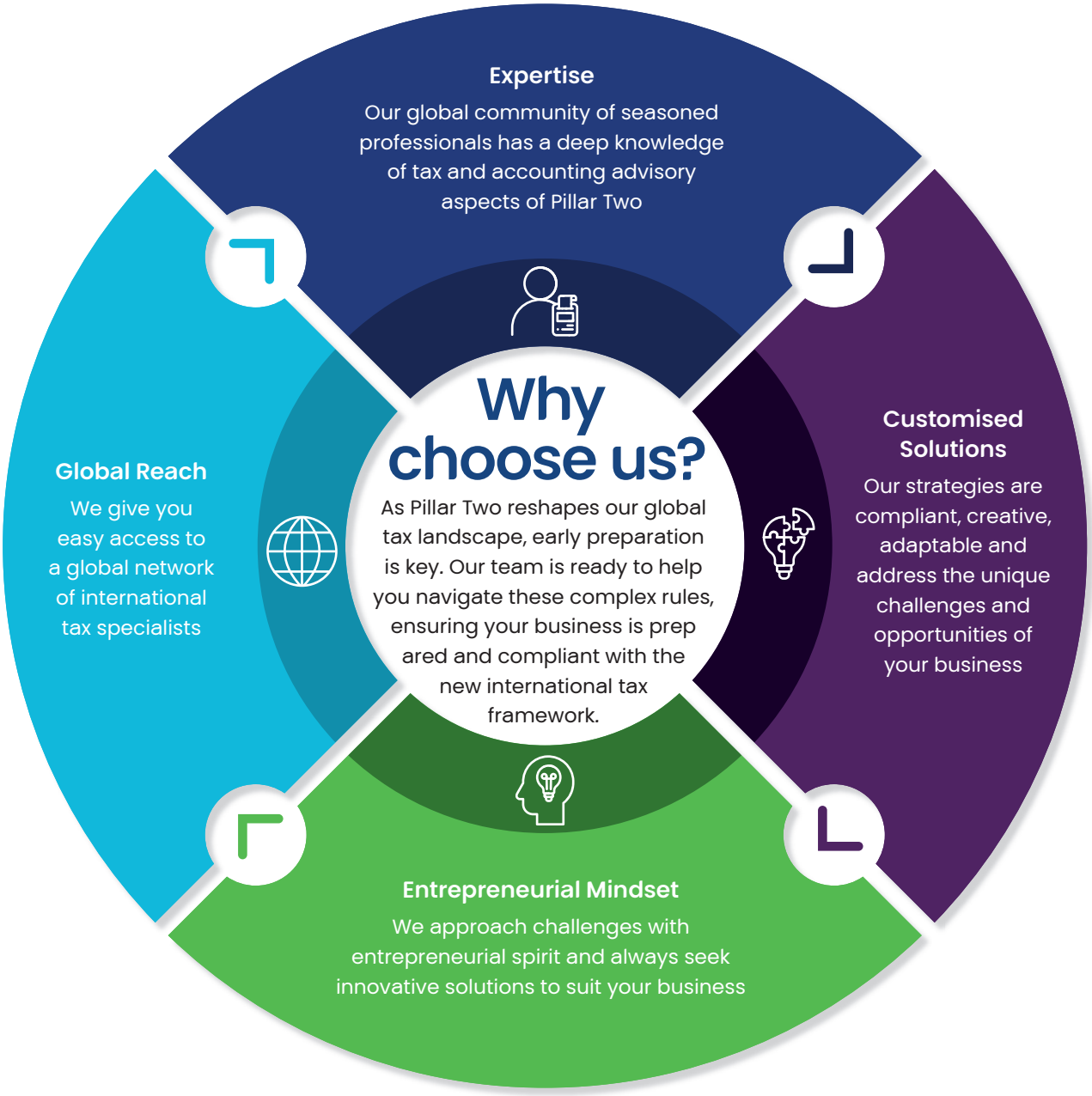
- Evaluate your group's exposure to Pillar Two rules
- Identify at-risk jurisdictions and model top-up tax liabilities
- Review the Country by Country Report (CbCR) safe harbours and their potential application
- Accounting advisory considerations

Operational readiness

- Assess data readiness, identify any gaps and assist in resolving these
- Agree on a feasible compliance model and on the key responsibilities of internal group functions
- Assist with selecting appropriate Pillar Two technology solutions

Compliance and on going support

- Prepare ETR calculations for each jurisdiction
- Preparation and/or review of annual Pillar Two returns
- Other ad hoc Pillar Two advisory matters



Contact

Pillar Two Lead

Lars Heymann
Partner
lars.heymann@pkf-fasselt.de

PKF International

Stefaan De Ceulaer
Head of Tax and Legal Support
stefaan.deceulaer@pkf.com

Africa

Antonia Nicoloudakis
Associate
antonian@pkfoctagon.com

Asia Pacific

Wonseop Lim
Partner
wonseop.lim@pkf.kr

Asia Pacific

Becky Nguyen
Partner
bnguyen@pkf.com.au

Sahil Seth
Director
sahil.seth@pkf.com

Middle East and India

Sudha Ashok
Partner
sudha.a@pkdindia.in

Shailesh Kumar
Associate Partner
skumar@pkfuae.com

North America and Latin America

Peter Baum
Partner
pbaum@pkfod.com

Renato Vila Skrzypek
Partner
rvila@pkfperu.com

UK and Europe

Mimi Chan
Partner
mchan@pkf-l.com

Lars Heymann
Partner
lars.heymann@pkf-fasselt.de

PKF Global
15 Westferry Circus,
London, E14 4HD, United Kingdom

Tel: +44 20 3691 2500
pkf.com

PKF Global refers to the network of member firms of PKF International Limited, each of which is a separate and independent legal entity. PKF International Limited coordinates activities of PKF Global but provides no services to clients, and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm(s). Correspondent firms are not members of PKF Global.