Pillar Two webcast

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Your speakers for today's session

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Overview of the Pillar Two rules

Overall design of pillar two rules

Unique mechanism for determining whether a global **minimum Pillar Two ETR of 15%** has been achieved at a jurisdictional level. If not then top up tax can be applied.

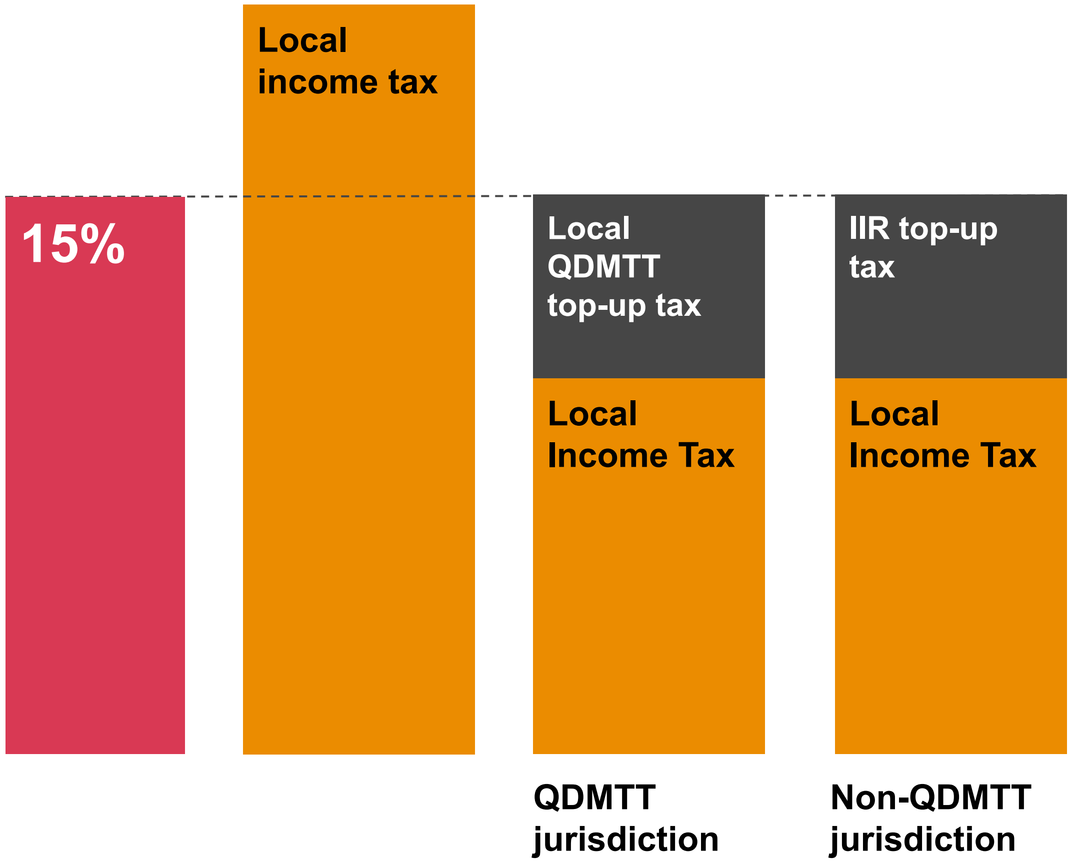
- **Qualified Domestic Minimum Top-up Taxes (QDMTT).**
- **Income Inclusion Rule (IIR).**
- **Undertaxed Profits Rule (UTPR).**

UK status:

- The UK has brought in an IIR and QDMTT for accounting periods beginning on/after 31 December 2023.
- The UK QDMTT applies to wholly UK groups that are large.

Global status:

- Over 35 countries enacted rules in 2024.
- Expect over 60 by end of 2025.



Transitional safe harbour tests

Taking data from a qualified* CBCR report determine whether one of three exemptions applies.

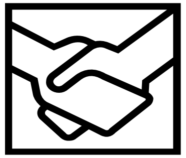
De minimis	Simplified ETR	Routine profits
CbCR revenue < €10 million AND CbCR PBIT < €1 million	$\frac{\text{Simplified Covered Taxes}}{\text{CbCR PBIT}}$ 15% in Y1, 16% in Y2, 17% in Y3	CbCR PBIT < SBIE SBIE is a formulaic calculation of a routine return on local payroll costs and tangible assets
Not required to do the detailed GloBE calculation if safe harbour applies	Available for first 3 years	Once a territory fails safe harbour, it cannot get back in

* Qualified = uses data from accounts used to prepare consolidated financial statements or certain local financial statements and is prepared in accordance with local rules enacting OECD CbCR guidance.

What changed from a CbCR perspective in the latest OECD guidance in December?

Significant uncertainty

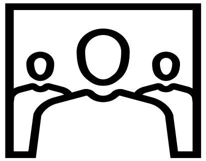
- Making adjustments to QFS in CbCR disqualifies it from use in CbCR Safe Harbour.
- Recapping if using consolidated FS for CbCR then need to use the numbers from the accounts used to prepare consolidated FS - which are ?



Hybrid anti arbitrage arrangements

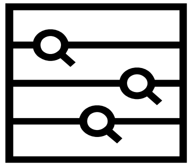
Arrangements entered into after 15/12/22 require analysis to determine if they are.

- Deduction non-inclusion arrangements
- Duplicate loss arrangements
- Duplicate tax recognition arrangement.



Key actions

- Revisit safe harbour analysis.
- Status of legislation in QDMTT territories.
- Model QFS on two bases
  - Reporting pack only
  - Reporting pack plus topside adjustments.
- If fail or close to fail on one of above bases, then model under main rules using appropriate reporting simplifications and materiality levels.
- If still on track identify hybrid arbitrage arrangements and rerun numbers excluding them



Dealing with Pillar Two uncertainty

Day to day transactions can create both Safe Harbour ETR and GloBE ETR reductions. Combined with the uncertainty in the application of the CbCR Safe Harbour, this means that groups need to establish a process to deal with this pragmatically from both a reporting and governance perspective.

Issue	Our Practical Experience	Action
Challenges in achieving Qualifying CbCR safe harbour status		
CbCR cannot be reconciled back to the UPE consolidated accounts and OECD CbCR guidance not applied rigorously	Practically all CbCR reports we have reviewed are non-qualifying. Either due to the data sources not reconciling back to the UPE consolidated accounts (or other qualified financial statements), consolidation adjustments not being reversed appropriately and/or the OECD guidance not being applied correctly.	• Understand data sources and reconcile CbCR report to consolidated accounts • Review application of CbCR guidance
December 2023 OECD Administrative Guidance creates new uncertainty as to which consolidation numbers should be used for the CbCR report	A literal reading of the OECD guidance is that the correct consolidated accounts numbers are those included in the local 'reporting pack' which does not include any 'topside' GAAP adjustments. Adjusting these numbers by including ‘topside’ adjustments causes the report to be non-qualifying. Given that two companies with identical data could have different CbCR outcomes based upon their approach to reporting, it is uncertain whether this outcome is intended. Therefore, there could be further changes to the guidance.	• Undertake safe harbour profit calculations with and without topside adjustments
Adjustments to CbCR safe harbour calcs are required for ‘Hybrid Arbitrage arrangements’	The definition of hybrid arbitrage arrangements is very broad and has no motive test. We are finding that ordinary course investment and financing transactions are within scope such that associated P&L debits need to be backed out, thus increasing CbCR profits and reducing safe harbour ETR.	• Identify transactions qualifying as hybrid arbitrage arrangements and adjust CbCR profit calculations
How do day to day transactions create safe harbour volatility and potentially GloBE income?		
Transactions which consolidate out and also benefit from a tax relief can reduce ETR	A number of common tax neutral transactions arising from ongoing hedging, internal restructurings, entity reductions and third party disposals benefit from tax reliefs which can reduce the ETR in the safe harbour calculations. Certain of these can also create GloBE income (e.g. forex hedging (tax and accounting), loan waivers, asset disposals, transactions with flow through entities) . Consequently it is necessary to assess the Pillar Two impacts of all transactions.	• Model expected baseline ETR so as to be able to assess directional impact • Obtain tax accounting advice on consolidated financial statement treatment • Assess restructuring options
How do you practically manage the CbCR and GloBE income uncertainty?		
Need to determine whether to rely on CbCR safe harbour for interim reporting purposes or undertake modelling under main rules	A high level model using materiality levels and simplifying assumptions can be used to assess the risk of a top up tax for reporting purposes, should it not be possible to apply safe harbours. Such a model can also be used to identify if a tax neutral transaction is at risk of creating a top up tax such that it requires a more detailed review.	We have several modelling options for outsourcing / insourcing / co-sourcing these calculations, using: • Pillar Two Engine • Structured Excel Model

Where we are today and the future timeline

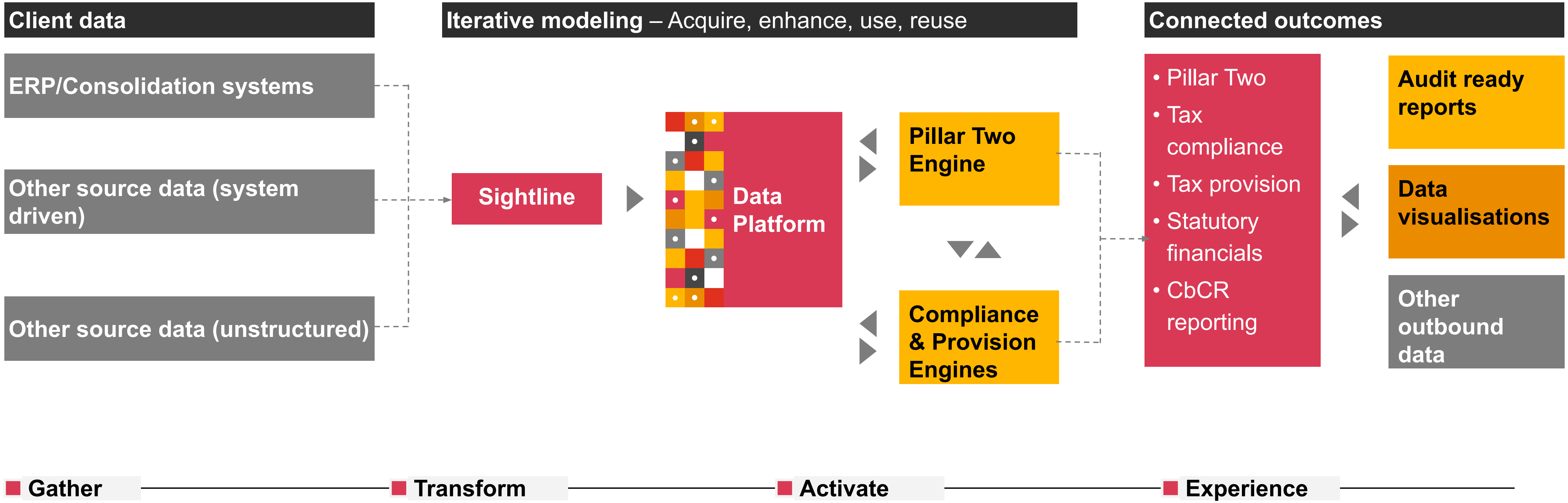
PwC's Pillar Two Country Tracker provides the status of Pillar Two implementation in different countries and regions.

Ongoing releases on administrative guidance. Ongoing changes to implemented legislation.

Compliance and reporting commences. Note that local QDMTT filings can differ from GloBE information filing, e.g use of local GAAP and local responsibility.

1. **End of 2023**
   Additional OECD admin guidance released December 2023.
2. **1 January 2024**
   Pillar Two went live.
3. **April / May**
   Next batch OECD guidance?
   XML Schema expected soon.
4. **30 June 2024**
   Second quarter for US GAAP filers & first half year for IFRS filers - to be based on enacted legislation.
5. **Late 2024**
   Further OECD guidance?
6. **31 December 2024**
   First year end for full Pillar Two calculations (safe harbour calcs or full calcs) for US GAAP and IFRS filers.
7. **30 June 2025**
   Deadline for registering in scope with HMRC.
8. **30 June 2026**
   GloBE information return due to be filed.
   Local QDMTT returns to be filed (check if local timing exceptions - none currently known).

Pillar Two in our Connected Tax Compliance outsource approach



Are you #PillarTwoReady?

01

[Pillar Two Country Tracker]

02

[Pillar Two Data Input Catalog]

03

[Pillar Two Engine]

https://www.pwc.co.uk/services/tax/pillar-2-are-you-ready.html