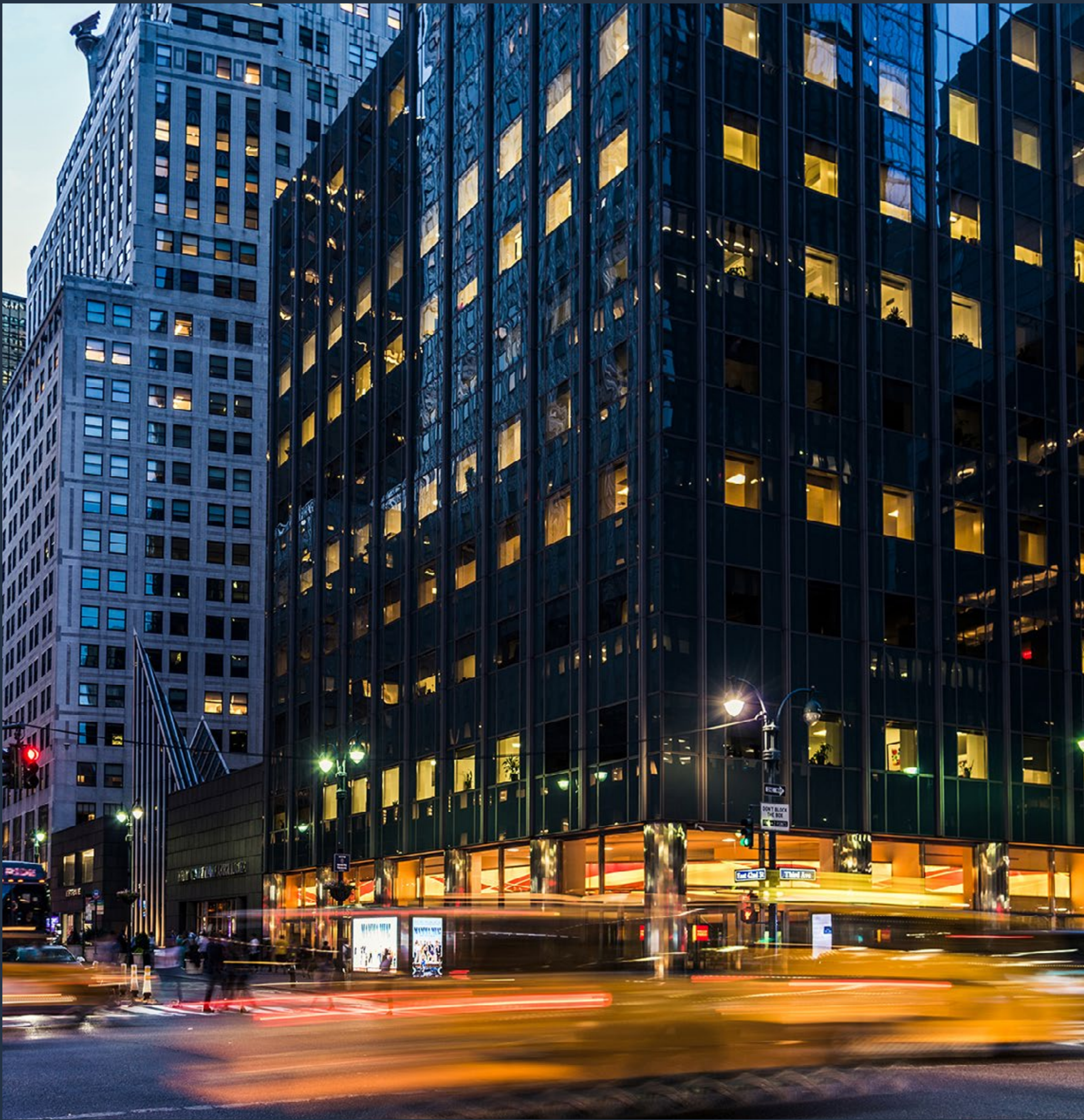
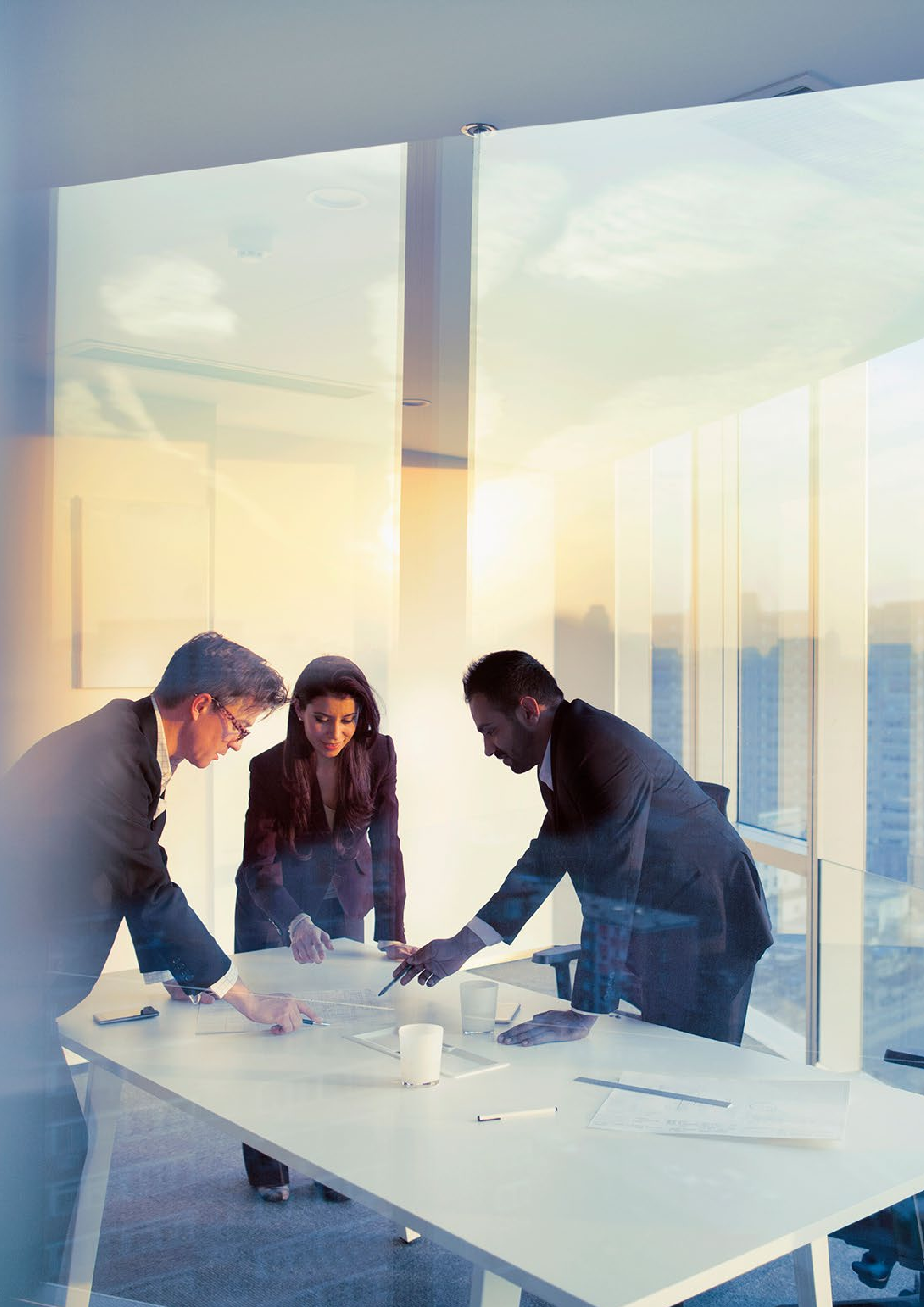


A practical guide to Pillar 2 Global Anti-Base Erosion (GloBE)

Preparing for a Global Minimum Tax

mazars



Foreword — An introduction to Pillar 2 GloBE

The introduction of the Pillar 2 Global Anti-Base Erosion (GloBE) rules is set to impose fundamental changes to the international tax landscape. It heralds a challenging time for CEOs, leadership teams and heads of tax as they navigate new and complex requirements.

Developed by the Organisation for Economic Co-operation and Development (OECD) as an Inclusive Framework to help address the tax challenges of the digital economy, the Pillar 2 GloBE rules provide a common system of taxation that ensures multinational groups (MNEs) with consolidated accounting revenue globally of €750m pay a minimum tax of 15% in each jurisdiction in which they operate.

New reporting and strategic impacts

Closely involved in developing Pillar 2 GloBE rules with the OECD, and as a key participant in the consultation process, Mazars has acquired a deep understanding of how the new rules will impact companies. As jurisdictions change their tax systems to comply, companies will have to make a number of changes to ensure that global reporting functions are more closely integrated so that the onerous data requirements for reporting are captured as efficiently as possible.

In addition, as the global tax playing field levels out, strategies will need to focus less on financial incentives when deciding where to locate and more on whether there's a robust financial system, a stable political climate, good infrastructure and the right talent.

For many MNEs and privately owned businesses (POBs) currently below the threshold, baking Pillar 2 GloBE impacts into growth strategies now will ensure a smoother transition to being able to meet reporting obligations.

A moving target and tight timeframes

With such a new and ambitious set of tax rules, there are still many unknowns and implementation practicalities to be ironed out. While 139 jurisdictions have signed up to Pillar 2 GloBE, not all jurisdictions will implement the rules simultaneously or in the same format, making compliance a potential moving target.

How, for example, will safe harbour rules work if calculations are based on different reporting periods? In addition, further complications may arise in low-tax territories or countries with Blended Controlled Foreign Corporation (CFC) tax regimes. Tight timeframes are exacerbating the challenges groups now face.

As a result, the right support to help join the dots between the reporting obligations of parent entities (PEs) and subsidiaries will be crucial.

Taking a tool-based approach

What is clear from our discussions with regulators and clients is that a tool-based approach is essential in extracting the many data requirements needed to comply. As a result, dedicated GloBE tool-based software solutions from Mazars will be available to calculate ETR and top-up taxes for more complex structures to help reduce the burden.

Unsurprisingly, attempts to implement a new and complex tax regime are unlikely to run smoothly from the get-go. But by using targeted solutions and a technology-based approach, groups can ensure they embark on their Pillar 2 GloBE journey cost-effectively and confidently.

This practical guide highlighting the key Pillar 2 GloBE issues is designed to help CEOs, leadership teams and heads of tax gain a clearer view of the road ahead and, more importantly, the steps that need to be taken.

Neil Rolfe
Partner, Mazars

Which companies and groups are impacted and how?

The Pillar 2 GloBE rules ensure that multinational groups (MNEs) with consolidated accounting revenue globally of €750m pay a minimum tax of 15% in each jurisdiction in which they operate.

There is little doubt that MNEs in the financial services and insurance sectors may find that tax function operations are more impacted by GloBE reporting than other sectors. However, it's essential to keep in mind that size, not sector, is the starting point, as the Pillar 2 GloBE compliance threshold focuses on companies with global revenue above €750m. In theory, alongside MNEs, it also puts large privately owned businesses (POBs) in scope and growth companies currently just below the €750m global revenue threshold but likely to breach it in the future.

Furthermore, certain groups will be exempt from GloBE reporting, including government entities, non-profit organisations, pension funds, or investment funds and real estate investment vehicles that are ultimate parent entities.

Another important consideration is that Pillar 2 GloBE rules may increase the local tax compliance burden in some cases and put many other aspects of the business model under pressure.

This includes:

- Potential tech transformation initiatives
- Organisational restructuring to cope with parent entities dealing with additional tax information from subsidiaries and vice versa to ensure top-up taxes are paid to the correct jurisdictions, plus
- The additional calculations required for the financial statements will require more time and expertise to complete, particularly in the initial stages of GloBE reporting.

Key Pillar 2 GloBE implementation rules

The rules involve a top-up tax system that includes an Income Inclusion Rule (IIR) and an Undertaxed Payments Rule (UTPR). The UTPR only applies if the parent company's jurisdiction has not yet legislated for IIR.

The top-up tax system ensures that the aggregate amount of incremental tax payable under the rules in each jurisdiction does not cause the effective tax rate (ETR) to exceed 15%. In addition, the design of the IIR and UTPR as top-up taxes does not restrict a jurisdiction from implementing the rules under a corporate income tax system in its domestic law.

A subject-to-tax rule (STTR) will take precedence over UTPR and allow countries to charge a withholding tax on payments to countries with a tax rate lower than 9%. The rules also enable governments to introduce a qualified domestic minimum top-up tax (QDMTT) to ensure that any top-up tax due on profits is collected in the country where it is generated.

Other measures include:

- Rules to avoid double taxation.
- The prevention of unintended tax consequences for specific industries that would impinge economic growth.
- Preventing the exploitation of differences in national tax systems.

On 14 March 2022, the OECD published a comprehensive commentary and illustrative examples of what the implementation of the GloBE rules could look like. On 2 February 2023, the OECD/G20 Inclusive Framework on BEPS released technical guidance to assist governments in reforming international tax systems and ensure coordinated outcomes and greater certainty for businesses as they apply the global minimum corporate tax rules. In addition, on 17 July 2023, the OECD issued further administrative guidance on how to apply the rules.

Making use of safe harbour provisions

Due to the complexity of tax reforms required, transitional safe harbour provisions will reduce the initial administrative burden on MNEs if certain conditions are met. Developing a regulatory framework to establish potential permanent safe harbours is also underway.

The main area of focus for groups will be the application of these transitional safe harbour provisions, which could limit the compliance burden significantly for three years through a simplified ETR test.

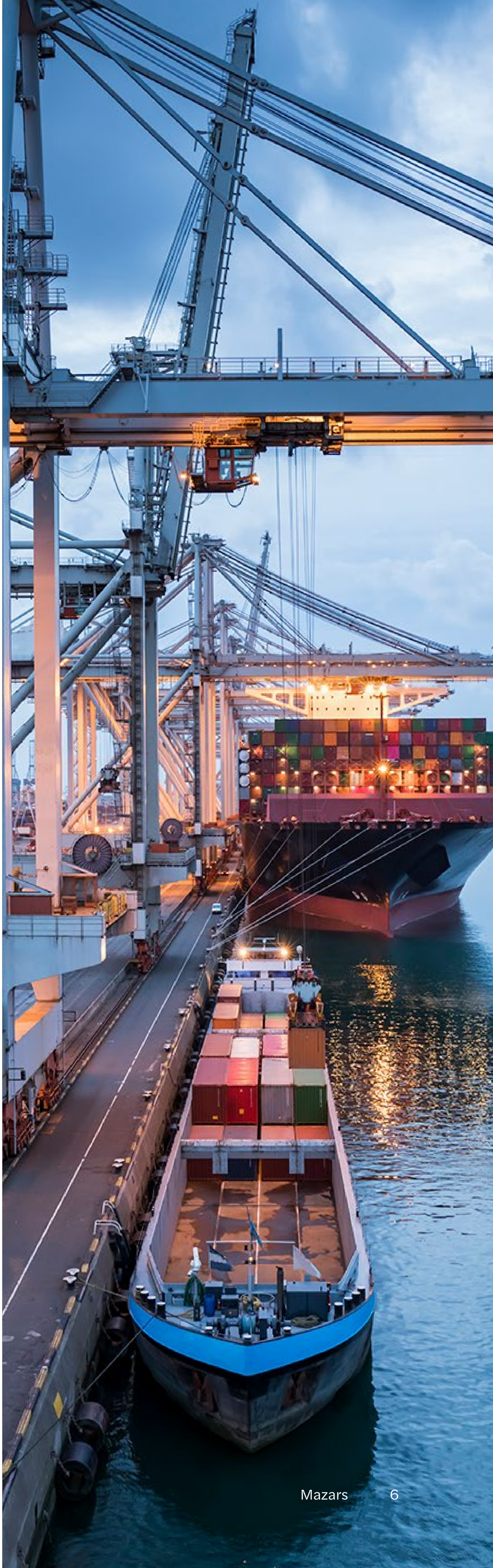
However, assessment is not straightforward and requires robust analysis of where the data will come from and whether any adjustments are necessary.

In addition:

- Some groups may have investment entities in their structure or jurisdictions where the simplified ETR test or other temporary safe harbour provisions do not apply due, for example, to a low tax rate. Further detailed work on complying with the full calculation requirements, including data capture, which in the case of the EU and UK will be required from **1 January 2024**, may be necessary in these areas.
- For International Accounting Standards Board (IASB) reporting groups, disclosures relating to GloBE could be required for the **2023 year-end financial statements**. The disclosures need ETR to be calculated and disclosed for each jurisdiction on both a GloBE and a basic financial statements basis. If adopted, work for these disclosures will be an immediate priority.

Key Pillar 2 GloBE implementation rules

- The availability of the safe harbours is assessed on a country-by-country rather than a group basis. In the majority of cases, work will need to be done to determine whether the group's Country-by-Country Reporting (CbCR) data is qualifying for the purposes of transitional safe harbour provisions. Testing the robustness of the CbCR data in each country in which the group operates will, therefore, be essential.
- Whether safe harbours can be accessed needs to be reassessed each year, and if, at any point, a country where an entity is located falls outside of the safe harbour conditions, it will remain outside for the remainder of the three-year transition period. In such cases, full Pillar 2 GloBE calculations will be required.
- Groups should not view the transitional safe harbours as a tool to defer consideration of the full impact of GloBE reporting for three years. Groups need to be on top of where there are risks of safe harbours not being available and where full calculations may be required. As a result, MNEs using safe harbours need to implement a plan to be ready to comply fully with the rules at short notice, or the latest, from **1 January 2027**. While this feels like a long time, detailed and complex calculations are required to become fully GloBE compliant.
- From an accounting perspective, heads of tax need to be thinking now about the disclosures required for fiscal year 2023. While there is a temporary mandatory exemption from calculating any deferred tax impact, there will be qualitative disclosure requirements around how the company expects to be impacted that require consideration, as well as some high-level quantitative disclosures around any potential impact on ETR. Early preparation of GloBE impact assessments will be critical as will assessing whether disclosures are required in entity accounts as well as group accounts.



In terms of reporting, GloBE returns will need to be filed no later than 15 months from the end of the reporting period. The first return benefits from an extension to this period of 18 months.

Specific filing dates will depend on when jurisdictions introduce GloBE rules. For example, the EU and the UK have announced that their introduction of the GloBE rules will commence for accounting periods beginning on or after **31 December 2023**. For these regions, if the first return relates to the year ended **31 December 2024**, the first report would be due by **30 June 2026.**

MNEs in scope will need to conduct an initial reporting obligation assessment based on the accounting period set by relevant jurisdictions.

Key considerations

Identifying data sources and collection mechanisms and procedures is crucial. The large number of data points required - estimated between 250 and 300 (depending on granularity) - means MNEs may find it challenging to access data that is not currently collected or is held in areas where access may still need to be automated.

Other key considerations are:

- Determine whether computations will be carried out at local or group level, ensuring aggregated and top-up taxes are agreed, paid and charged, considering how different jurisdictions implement the rules.
- Identify whether there are benefits to applying for any of the GloBE elections.
- Review transfer pricing methodology and adjustments.
- Consider whether excess tax is being suffered and restructure if appropriate.

What are the main challenges?

As jurisdictions begin to implement the rules, understanding the compliance and fiscal impact on current arrangements is challenging, as are implementation timescales.

Further challenges include:

- The requirement to extract and report such a significant number of data points. In many cases, there will be a need to re-design systems to obtain the necessary information.
- The increased and unprecedented burden on those responsible for tax within in-scope groups. Support will be crucial in developing and implementing a Pillar 2 GloBE roadmap.
- Not all jurisdictions will implement the rules. Plus, jurisdictions that have agreed may adopt different timescales and apply the rules differently, particularly non-EU jurisdictions. This will bring additional compliance complexity since reviewing the enactment status in all relevant jurisdictions will be necessary. It means the GloBE reporting requirements for a subsidiary of a foreign group one year, for example, may not be the same the following year.

What are the main benefits?

In terms of benefits, despite the initial complexity and increased compliance burden, the GloBE rules are designed to ensure that all countries benefit from a fair share of tax, which is closely linked to the need for MNEs to improve the sustainability of business models.

In addition:

- The ability to show more transparency on tax paid per jurisdiction is a key corporate sustainability reporting (CSR) benefit.
- Equally, any resulting organisational or operational decisions encouraging a local presence will benefit communities by providing economic security.
- From an internal perspective, GloBE can also catalyse CFOs to encourage boards to invest in upscaling and enhancing current systems to automate and streamline tax collection and compliance across the group.

Preparing to report

Next steps

As an initial step, companies should assess that they are an in-scope MNE with consolidated accounting revenue globally of €750m.

A cost-effective starting point is to **conduct a CbCR data health check**.

- First, confirm that there is a **separate report for each jurisdiction** in which the group operates.
- Secondly, has the **report been tested** to ensure that it's fit for purpose in terms of the accuracy of calculations and the information it holds?
- Following this, **assess any data adjustments** that need to be made for GloBE reporting, which is particularly important when looking at safe harbour qualification.

Once there is a clear map of where your GloBE data liabilities lie in completing less complex (green) or full data (red) calculation exercises, focus can be directed to dealing with red jurisdictions and where to spend money on reaching the required compliance level.

Dedicated **GloBE tool-based software solutions from Mazars** will be available to calculate ETR and top-up taxes for more complex structures to help reduce the burden.

Disseminating how you plan to meet your Pillar 2 GloBE objectives across the organisation is essential. A roadmap can help articulate the required stages, identify actions, and the necessary outcomes.

A typical 5-step workstream for GloBE reporting would include:

1. **Workshops** to build teams, action change management, allocate responsibilities, deadlines and assess readiness.
2. **Initial data collection,** including a health check on identifying and classifying constituent entities (CEs) and master data procurement measures.
3. **Quick check and conception** to see whether safe harbour rules apply to relevant CEs.
4. **Operations and extensions** required to conduct full and simplified reporting obligations.
5. **Reporting** based on evaluation of information by data verification, system analysis and consolidated paths. GloBE information and calculation of tax provisions to fulfil filing obligations.

A tool-based approach

Mazars offers a pragmatic, holistic solution by collecting and analysing your data based on your existing internal systems or, if desired, integrate our process structure directly into your system landscape.

Implementation takes place in four phases.

Phase 1	→	Phase 2	→	Phase 3	→	Phase 4
We create a complete, detailed overview of all subsidiaries and their (minimum) tax treatment in Mazars' Pillar 2 tool.		We supplement the data in our Pillar 2 tool by providing the additional information necessary for the GloBE calculations.		We identify the business units that qualify for the temporary Safe Harbour rules. Next, we use the tool to prepare an interim report that gives an initial robust overview of the impact that Pillar 2 will have on your business.		The results from the previous phases of the Pillar 2 project are taken into account, and, if necessary, we also conduct a comprehensive GloBE calculation. This gives you a precise and timely overview of additional tax accruals. Due to the international focus of Pillar 2 projects, our consulting always takes a global approach.

Developing a Pillar 2 GloBE Roadmap

Timelines

2023: Concept Phase

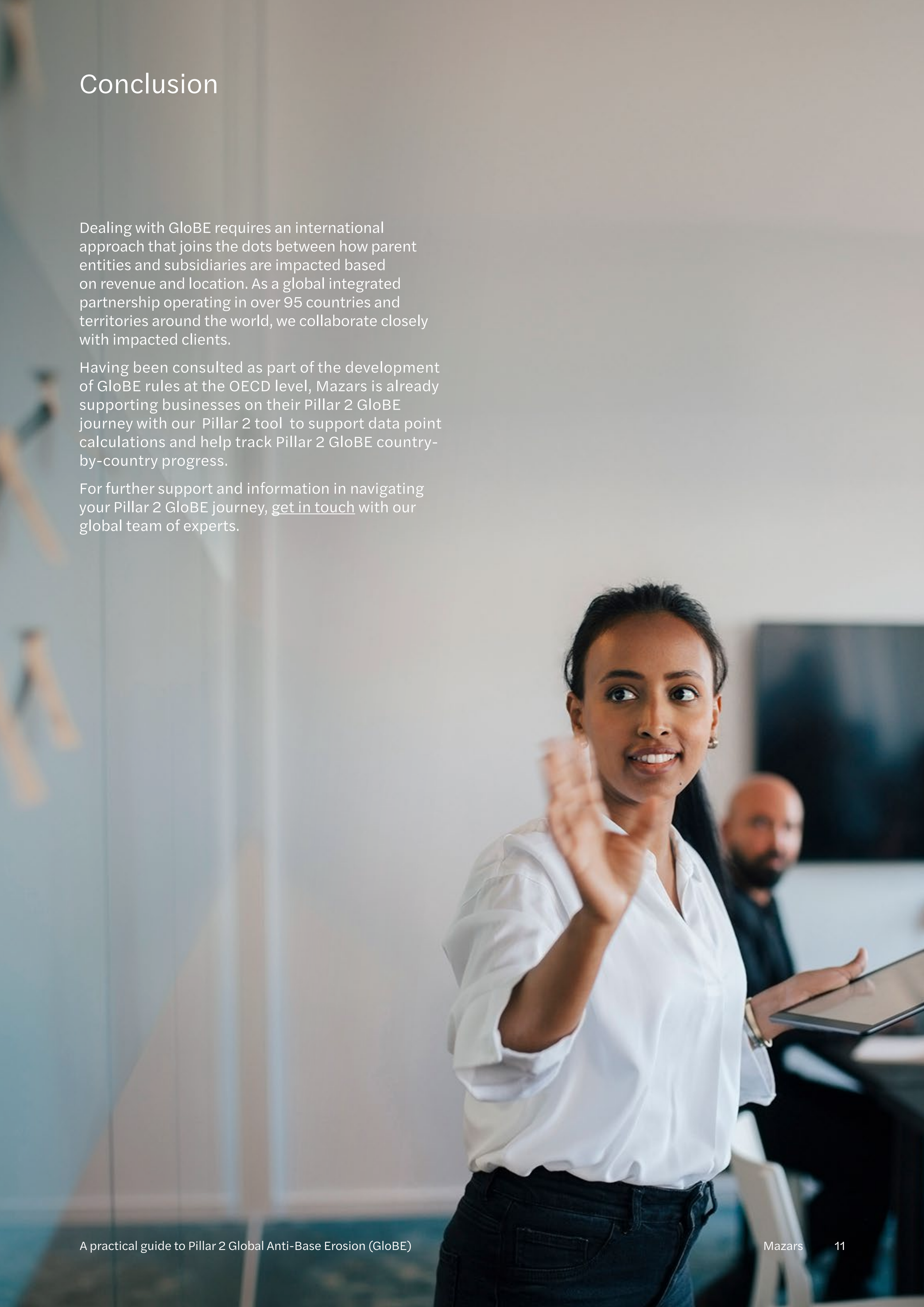
Q1	Q2	Q3	Q4
	Data scoping and safe harbour review	Data scoping and safe harbour review	Pillar 2 group overview Safe harbours checked Data gap analysis completed

2024: Calculation Phase

Q1	Q2	Q3	Q4
	Data and process readiness Testing completed and system running	Tax approach defined	Prepared for provisions (PfP) Tax provisions calculated

2025: Reporting Phase

Q1	Q2	Q3	Q4
			Data validated and filing completed Status report and next year’s risk analysis



Conclusion

Dealing with GloBE requires an international approach that joins the dots between how parent entities and subsidiaries are impacted based on revenue and location. As a global integrated partnership operating in over 95 countries and territories around the world, we collaborate closely with impacted clients.

Having been consulted as part of the development of GloBE rules at the OECD level, Mazars is already supporting businesses on their Pillar 2 GloBE journey with our Pillar 2 tool to support data point calculations and help track Pillar 2 GloBE country-by-country progress.

For further support and information in navigating your Pillar 2 GloBE journey, get in touch with our global team of experts.

Contacts

Neil Rolfe
Partner, Mazars
neil.rolfe@mazars.co.uk

Gene Kwee
Partner, Mazars
gene.kwee@mazars.com.sg

Vesko Petkov
Partner, Mazars
vesko.petkov@mazars.co.uk

Florian Mengele
Partner, Mazars
florian.mengele@mazars.de

Lucy Redding
Partner, Mazars
lucy.redding@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 95 countries and territories around the world, we draw on the expertise of more than 47,000 professionals – 30,000+ in Mazars' integrated partnership and 17,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*Where permitted under applicable country laws

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