



# Pillar Two Guide for EMEA Multinational Enterprises

November 2023

[www.pwc.com/gx/en/services/tax/pillar-two-readiness.html](https://www.pwc.com/gx/en/services/tax/pillar-two-readiness.html)

# 1 Implementation roadmap

## Introduction

The time to start preparing and adopting an action plan for Pillar Two, the new global minimum tax framework, is now. Based upon existing organisational structures and supply chains, in-scope multinational enterprises (MNEs) could face increases in their global effective tax rate (ETR), cash tax outlays, and compliance burden. Earnings in jurisdictions where the MNE's ETR (as determined under the Pillar Two rules) is below the 15% minimum rate will be subject to an additional Top-up Tax. Due to the design of its charging provisions, the Pillar Two rules are likely to also apply to those operations of MNE groups which are located in jurisdictions that do not implement or are in delay with the implementation of the new rules (this may especially be relevant in the case of those jurisdictions of the EMEA region which are not part of the European Union). In addition, other countries that enact Pillar Two may be able in the future to impose additional tax on foreign-headquartered MNEs if the tax imposed by the foreign jurisdiction on the profits in such jurisdiction of these MNEs is less than 15%. In this regard, although the foreign nominal corporate income tax rate may be above 15%, certain credits (including the R&D tax credit), as well as other deductions and incentives, could cause the effective tax rate on these foreign operations to fall below 15% for Pillar Two purposes.

Notably, the European Union has adopted the minimum tax Directive (2022/2523 of 14 December 2022) that in general imposes on all Member States the adoption of Pillar Two rules by 31 December 2023 in a way that is consistent with the common approach, but provides for some additions to the OECD Pillar Two Model Rules (e.g. the application to large scale domestic groups and the charging through the domestic Income Inclusion Rule). Several countries have asked for an exception to the deadline for implementation (see [PwC's Pillar Two Country Tracker for details](#)).

In respect of jurisdictions in the Middle East, while the majority are yet to publicly announce how and when they will implement the Pillar Two rules, certain jurisdictions have taken steps towards implementation. Notably, Qatar has recently amended its existing income tax law to include a foundation for the Pillar Two rules, including a domestic minimum tax. The UAE's recent introduction of a corporate income tax also paves the way for the UAE to implement the Pillar Two rules, noting that the UAE's Ministry of Finance has indicated that the UAE is looking to implement Pillar Two measures in 2025.

The Pillar Two rules contemplate three different mechanisms for assessing tax on a MNE's income, and MNEs will have to comply with the filing requirements for each applicable rule. The first opportunity to collect the top up tax is the so called



Qualified Domestic Minimum Top-up Tax (QDMTT) which gives the choice for the low tax jurisdiction itself to collect the tax (relating to this country). Second in line is the so called Income Inclusion Rule (IIR), which generally imposes tax on the parent entities within the MNE group to the extent that the foreign subsidiaries of the Group (and, under the Directive, also on itself and its domestic subsidiaries) are taxed at a rate less than 15% (after the application of the QDMTT in their respective countries, if any). These two mechanisms are accompanied by a 'backstop' rule, known as the Undertaxed Profits Rule (UTPR), formerly known as the Undertaxed Payments Rule, which permits (or obliges a Member State under the Directive) the collection of any remaining Top-up Tax (after QDMTT and IIR applied) globally by any country where the MNE is active, meaning there are people and/or tangible assets on the ground.

Under certain conditions, the QDMTT could be elevated to a safe harbour that switches off the IIR and UTPR in other jurisdictions.

As part of the various filing requirements for each of these taxing mechanisms, MNEs will need to establish processes and mechanisms to gather relevant and reliable data points and to track elections and deferred tax asset- and deferred tax liability (DTA and DTL) recaptures/remeasurements, and will also be required to have standalone financial data for each of their subsidiaries, with the relevant accounting standard depending on various factors (e.g., requirements of local QDMTT legislation, applicability of the QDMTT safe harbour, and whether the consolidated accounting standard is required).

Adding to the complexity of Pillar Two is the interplay with existing domestic tax regimes; for all taxpayers there is the need to deal with the identification and

quantification of CFC taxation and the treatment of taxable permanent establishment (PEs); for EMEA MNE Groups with US parents, this could include the tax imposed on Global Intangible Low-Taxed Income (GILTI). GILTI is imposed on a 'blended' basis, taking into account income earned by all foreign affiliates of such MNE in one computation. Because Pillar Two requires a computation of a MNE's ETR on a jurisdiction-by-jurisdiction basis for IIR and UTPR (but not for the QDMTT, which allocates primary taxing rights to the local jurisdiction), CFC and PE taxes and the US MNE's GILTI must be allocated among the MNE's foreign jurisdictions in order to determine the Pillar Two ETR in each jurisdiction. Any allocation would have the effect of increasing a CFC's GloBE ETR, while at the same time reducing the GloBE ETR of the US constituent entities.

Similarly, EMEA Groups with US taxpayers subject to the newly-enacted Corporate Alternative Minimum Tax (CAMT) must consider the interaction of the CAMT liability with their Pillar Two computations, given the CAMT is not a QDMTT for Pillar Two purposes that creates a non refundable credit carryforward that can decrease GloBE ETR in the future. Pillar Two effectively requires keeping a new set of books and developing all the processes and technology needed to maintain those books. Finally, the Subject To Tax Rule (STTR) is a treaty based rule that may apply to payments from countries that are taxed at less than 9%. To achieve this, the Inclusive Framework has released a Multilateral Convention to Facilitate the Implementation of the Pillar Two Subject To Tax Rule.

Pillar Two is more than just a tax issue. Responsibility for complying with this new regime will require resources beyond the traditional tax function, including financial reporting controllers, IT/systems, human resources, and other corporate stakeholders.

Board members and MNE leaders should ensure their organisations are moving toward Pillar Two compliance with full recognition of the adoption effort required. A multi-functional team is needed from the outset to identify an implementation plan that includes operational readiness, data strategy, and quantitative analysis.

The rules will be effective starting for fiscal years beginning on or after 31 December 2023 (for QDMTT and for IIR) for EU Member States and certain third country jurisdictions. Compliance with new annual tax filings will be necessary for the 2024 tax year with some jurisdictions expected to require estimated payments throughout 2024. For example, Belgium will require taxpayers resident in Belgium to make upfront payments in the course of the financial year for any Top-up Tax that is due by the UPE located in Belgium, or for any company subject to the Belgian QDMTT. In case no upfront payments are made (or insufficient upfront payments are made), a tax increase will apply on the Pillar Two tax. Hence, the runway to lay the data, technology and process foundation for global and statutory compliance is months, not years.

This Pillar Two Guide for EMEA Multinational Enterprises is intended to provide EMEA taxpayers with an illustrative step-by-step approach to prepare for Pillar Two, including upcoming disclosure, provision, and compliance requirements. Creating and adopting a plan for Pillar Two readiness will require agility and flexibility, and any plan should be viewed dynamically with many interconnected activities requiring coordination across the entire organisation. This guide should be adjusted, customised, and prioritised based on current-state Pillar Two readiness and unique organisational challenges.

## General Financial Statement Considerations

For IFRS purposes, the International Accounting Standards Board (IASB) released its final standard with amendments to IAS 12 *Income Taxes* on 23 May 2023. Such guidance provides temporary relief for companies from having to account for deferred taxes arising from the implementation of Pillar Two along with requiring disclosures that should help users of their financial statements understand their exposure to Pillar Two (particularly before legislation implementing the rules is in effect). The amendments are effective immediately; however, for local country purposes a ratification process is generally necessary. The disclosure requirements are applicable for annual periods beginning on or after 1 January 2023.

Similar approaches could be taken by local EMEA accounting standard setters.

While the majority of Pillar Two legislation is anticipated to be effective in 2024 and beyond, many jurisdictions will enact Pillar Two related tax legislation during 2023 (EU Member States shall transpose the EU minimum tax Directive by 31 December 2023). Companies should consider any related disclosures as part of their financial reporting process. For financial statements under IFRS, preparers should consider the disclosure requirements included in the amendments to IAS 12, as noted above. Other local statutory accounting standards should also be considered.

## Provision Considerations

Companies will need to include the impacts of Pillar Two in the financial reporting period when the legislation is effective (for calendar year companies, generally beginning in the first quarter of 2024). For companies with interim reporting requirements, these impacts will need to be estimated under the income tax accounting model of the applicable accounting standard.

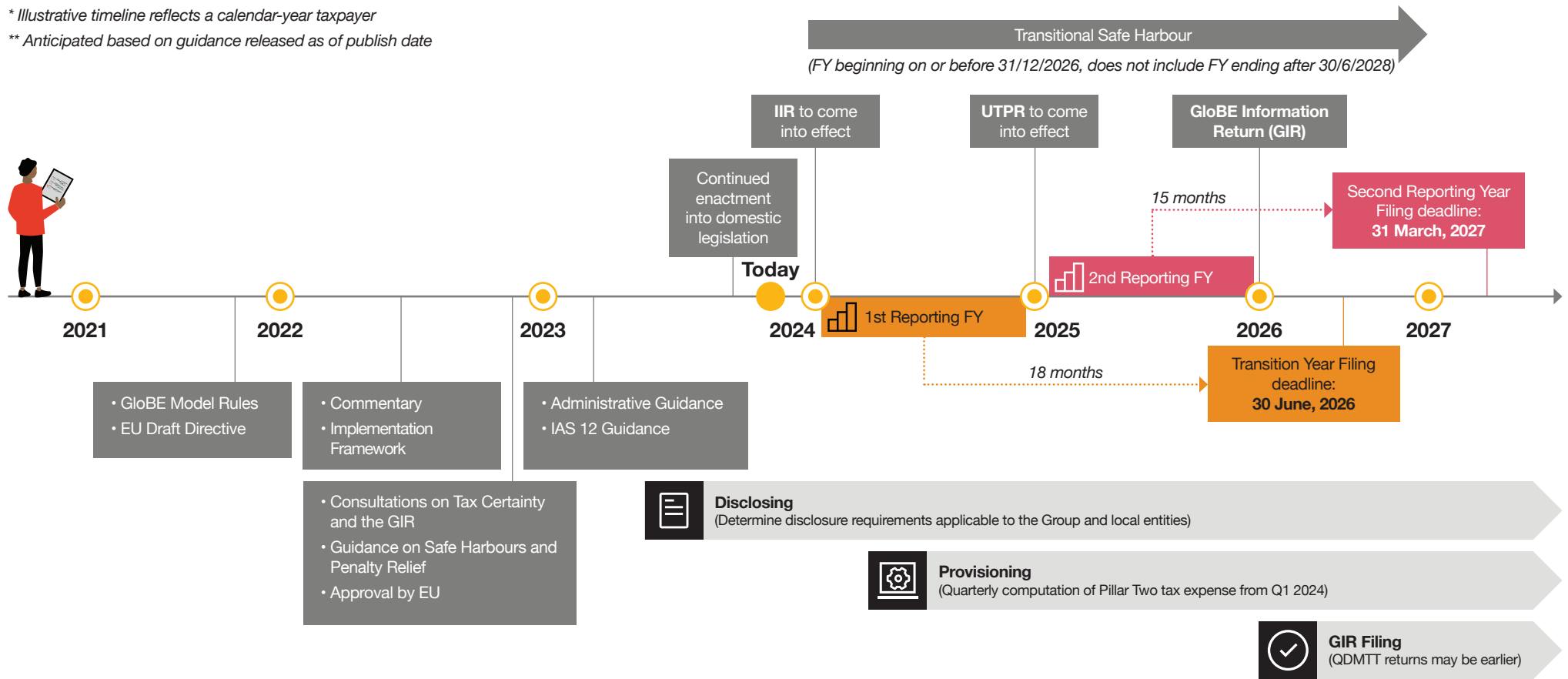
Additionally, companies will need to consider what new processes and internal controls should be established to determine any incremental Pillar Two tax liabilities, as well as to support any determinations that no liabilities exist.

## Filing Considerations

For many MNEs, compliance with new annual tax filings will be necessary for the 2024 tax year. Filing of Pillar Two tax returns, including the GloBE Information Return (GIR) by each constituent entity or a designated filing entity, is required starting 30 June 2026 for calendar-year taxpayers. A QDMTT local tax return filing will likely also be needed in jurisdictions where a QDMTT is in place and may need to be filed before 30 June 2026.

# Implementation of Pillar Two

\* Illustrative timeline reflects a calendar-year taxpayer  
 \*\* Anticipated based on guidance released as of publish date



# 2 Client action plan summary and roadmap

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### **Guardrails for success: stakeholder management, governance and controls, development tracking**

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- 1.2 Establish clear lines of communication and responsibility
- 1.3 Establish governance, oversight, and internal controls to help manage risk
- 1.4 Monitor new developments and keep stakeholder groups informed

### **Cultivate your team: resource planning, defined roles and responsibilities, timeline, training**

- 1.5 Determine the level of resources required to comply with Pillar Two and identify teams and resources
- 1.6 Define roles, responsibilities and timeline
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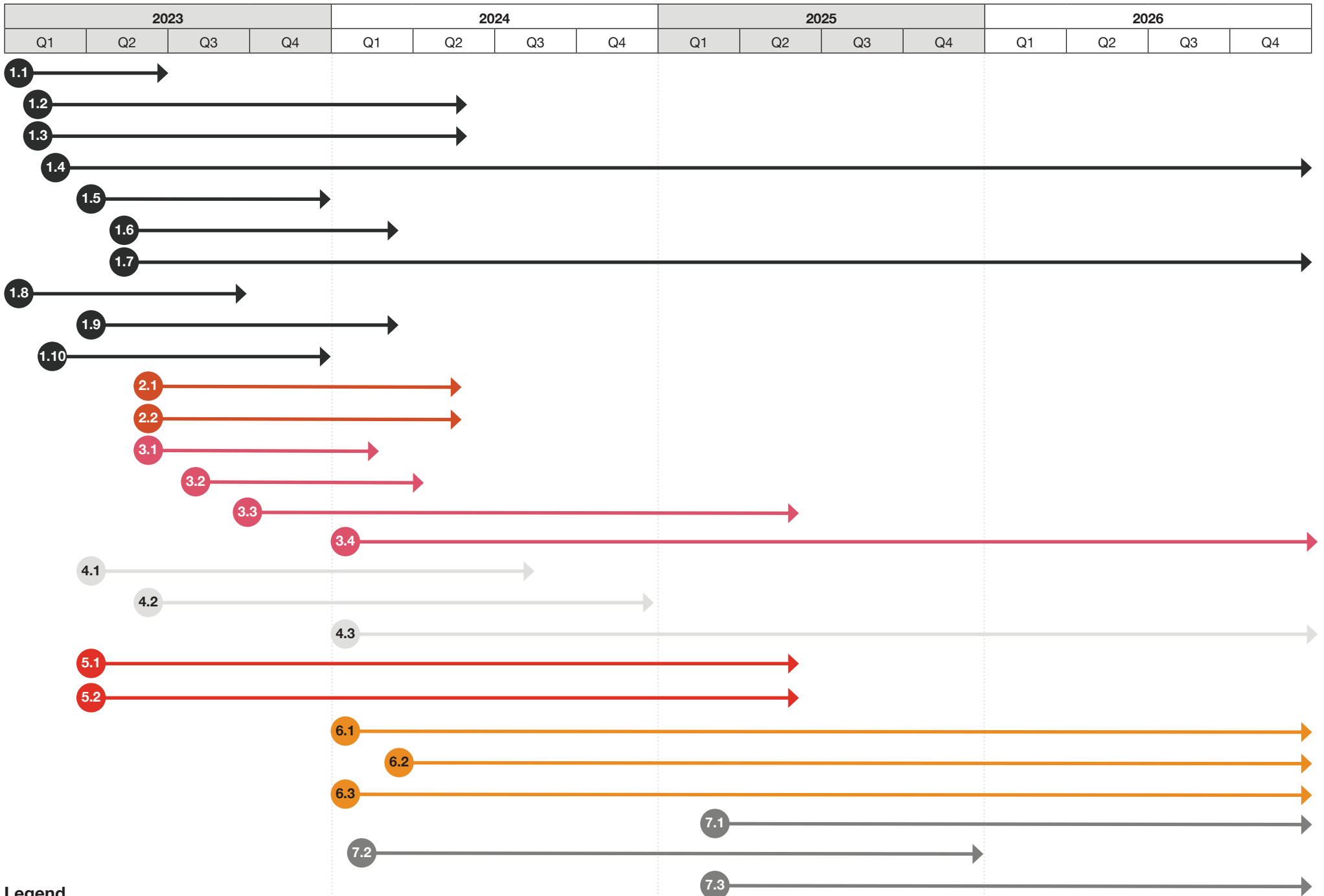
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## 1.0 Operational Transformation

### Guardrails for success: stakeholder management, governance and controls, development tracking

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#### 1.1

Educate key stakeholders about the broad reaching effects of Pillar Two adoption and ongoing compliance

Pillar Two adoption will take significant cross-functional teaming and coordination as there are several key stakeholder groups within the organisation that will be impacted – on a global scale. These stakeholder groups include Tax, Controllership, Financial Planning and Analysis (FP&A), Legal, Corporate Secretary, Treasury, Information Technology, and other relevant organisational functions (including sector or business unit controllers, if decentralised).

A global network of specialists comprised of resources from each of the key stakeholder groups identified should be established to help drive adoption and deliver ongoing reporting and compliance. Members of this group should be educated as to:

- The core objectives and principles, data requirements, new reporting and compliance obligations (enacted and anticipated) impacting their teams
- The potential impact adoption will have on current processes, internal controls, and financial statements, as well as any expected ETR impact
- The estimated timeline for implementation and level of resources expected to be required

Given the magnitude and complexity, consider whether a dedicated project management resource or supplemental outside resources are needed to help the implementation effort and early years of reporting and compliance.

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#### 1.2

Establish clear lines of communication and responsibility

Effective communication, education, and coordination among these groups will help stakeholders and employees understand the need for change and how it will affect them. It will also help provide insights needed to develop a well-informed Pillar Two strategy to guide the consistent application of processes, policies, and procedures across the organisation (and geographies).

We recommend that the Lead Team:

- Establish responsibilities for communicating potential impacts and relevant information to those responsible for analysing and assessing the impacts of Pillar Two
- Educate relevant individuals across the organisation about the requirements in their jurisdiction and what is expected of them
- Keep key stakeholder groups engaged and informed throughout the implementation effort and beyond

## 1.0 Operational Transformation

### Guardrails for success: stakeholder management, governance and controls, development tracking

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#### 1.3

Establish governance, oversight, and internal controls to help manage risk

The cross-functional nature, dynamic environment and anticipated divergence in local rules leads to additional complexity and risk associated with Pillar Two. Governance and internal controls are critical to help reduce risk, improve completeness and accuracy, promote operational efficiency and encourage adherence to policies, rules, regulations, and laws. Specifically, an enterprise should:

- Establish a governance framework that clearly defines the objectives, policies, processes, role delegations and risk oversight required to help effectively support and deliver on the company's Pillar Two strategy
- Set up a cross-functional steering committee to provide project governance and oversight, promoting stakeholder accountability and strategy execution
- Develop an internal controls structure over the end-to-end Pillar Two process.

Consider where enhancing existing governance and internal controls may occur versus establishing new processes and internal controls. An enterprise's strategy and approach are likely to evolve as new developments unfold. As such, it is important to continuously review and update your governance framework and internal controls to properly adapt and sustain these structures.

Additionally, companies should consider developing a risk management plan that outlines risk ownership and establishes a risk mitigation and escalation plan. The steering committee and other key stakeholders should monitor risks on an ongoing basis associated with stand up, readiness, timing and sequencing and specific local country developments along with changes to the business or existing tax positions that need to be evaluated under the Pillar Two lens.

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#### 1.4

Monitor new developments and keep stakeholder groups informed

Designated teams should continually monitor new developments related to Pillar Two including legislative, regulatory, tax technical, and accounting developments as well as financial reporting and disclosure implications. Ongoing communication to the broader stakeholder group is essential to avoid wasted effort and actions taken on stale information.

Examples of resources available include:

- Subscribe to PwC publications that provide updates on new tax law and tax developments
- Attend technical training sessions and webinars
- Reference Pillar Two development trackers, such as [PwC's Pillar Two Country Tracker](#), for details on the implementation status and related requirements by country or region.

## 1.0 Operational Transformation

### Cultivate your team: resource planning, defined roles and responsibilities, timeline, training

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#### 1.5

Determine the level of resources required to comply with Pillar Two and identify teams and resources

Pillar Two is truly a cross-functional endeavour requiring technical knowledge and resources from across all areas of tax as well as the broader business. It is critical to understand who needs to be involved as well as their role in the development and long-term sustainability of the Pillar Two planning, reporting and compliance environment. Steps to consider include:

- Determine the expected level of resources needed to comply – e.g., key stakeholder groups (previously identified), data and process owners, financial statement / consolidations teams, etc.
- Establish a dedicated, cross-functional team composed of global resources responsible for preparing, reporting and complying with Pillar Two.

This assessment should include whether the enterprise should employ project management resources or supplemental outside professionals to help on an interim or permanent basis.

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#### 1.6

Define roles, responsibilities and timeline

After identifying teams and resources:

- Clearly define roles and responsibilities for each stakeholder group or resource
- Develop milestones and expectations around roles, responsibilities, and timeline.

Companies will need to include the impacts of Pillar Two in the financial reporting period when the legislation is effective (for calendar-year companies, generally beginning in the first quarter of 2024). For companies with interim reporting requirements, these impacts will need to be estimated under the income tax accounting model of the applicable accounting standard.

Compliance with new annual tax filings will be necessary at year-end 2024. Filing of Pillar Two tax returns is expected to be extended to 2026 for calendar-year taxpayers. As a result, companies should prioritise near-term requirements.

## 1.0 Operational Transformation

### Cultivate your team: resource planning, defined roles and responsibilities, timeline, training

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#### 1.7

Provide education and training to designated resources

Educating your dedicated, cross-functional team and other key stakeholders is critical to the adoption and sustainability of Pillar Two processes and solutions. There are many existing training resources, however, we have found company specific training to be the most effective approach given the application will be different based on your operating footprint, materiality and other factors. As a general rule:

- All tax personnel should be trained on the technical aspects of Pillar Two and how it impacts their company
- Non-tax resources should receive training as part of the readiness assessment, so that you can level-set on baseline reporting and data requirements.

Tailor your education and training approach based on your specific operating model, facts and circumstances and regularly update training as new guidance is issued and local adoption occurs. We have found that for many clients, being supported in the Pillar Two journey offers learning experiences for the entire team, therefore, it is an opportunity to identify and involve the right people from your organisation.

### Formulate an implementation plan: operating model, high-level readiness assessment

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#### 1.8

Consider whether your operating model is fit-for-purpose

Assess whether your current operating model (insource, outsource or co-source) is fit-for-purpose given the pervasive impact Pillar Two will have on your operations:

- Establish short, medium and long-term plans to fulfil reporting and compliance obligations for Pillar Two
- Consider how the scope and complexity of these plans impact your ability to comply with existing requirements, including bandwidth, technical knowledge, technology enablement, data accessibility and reliability, etc.

Give additional attention to how your provision and long-term compliance processes will differ. Depending on scope, you may decide to align to your existing operating model or revisit your operating model related to a variety of tax areas such as global tax compliance.

Change may also be driven and objectively measured by the following key performance indicators (KPIs):

- Cost
- Risk (financial and reputational)
- Efficiency and effectiveness
- Sustainability.

Keep in mind that enhancing your existing operating model to meet the needs of the business may involve changes to the tax ecosystem including technology, processes and resources.

## 1.0 Operational Transformation

### Formulate an implementation plan: operating model, high-level readiness assessment

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#### 1.9

Assess operational readiness for near-term and longer term adoption

Pillar Two reporting and disclosure requirements will impact certain MNEs beginning in the first quarter of 2024, or sooner for budgeting and forecasting purposes. Time to respond is limited and companies need to start understanding the scope and complexity required to comply with near-term adoption requirements, while planning for the development and implementation of long-term, sustainable solutions and processes.

An initial high-level readiness assessment can help your company better understand what is required as well as where a deeper dive assessment may be necessary based on risk. This high-level assessment could be completed in a four-week sprint or less depending on other resource priorities.

Initial steps to consider:

- Understand your business needs
- Identify gap areas related to people, process, data and technology
- Risk assess where a deeper dive assessment may be required
- Develop an implementation plan and roadmap
- Consider the impact on existing process and internal controls as well as the need to establish new ones
- Evaluate whether a near-term and long-term sustainable approach for adoption may be needed (based on scope and complexity).

# 1.0 Operational Transformation

## Budget and investment management

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### 1.10

#### Develop and manage your budget

Develop and secure budget and funding necessary to comply with Pillar Two - e.g., acquisition of additional resources, adaptation of technology and processes, required system updates/implementations, etc.

Sample budget considerations may include:

- Near-term provision and reporting requirements based on high-level and deeper-dive assessments – e.g., remediate gaps, stand-up processes and systems, establish governance and internal controls, satisfy additional resource needs, etc.
- Solidify long-term reporting and compliance processes via the design and implementation of systematic changes including technology enhancements and implementations, additional resources (if necessary), etc.
- Identify costs associated with source data and system enhancements required, including ERP, consolidation and legal entity management system changes.
- Secure training resources for designated resources.

Factor in near-term and long-term reporting and compliance requirements as you establish and manage your budget.

## 2.0 Legal Entities

### 2.1

#### Constituent entity analysis

First determine which financial consolidation groups are subject to Pillar Two rules, or whether there is a main entity and a permanent establishment (which could also constitute a Pillar Two group, if they meet the revenue threshold). For corporate MNEs, this may seem straightforward. However, this may be a bigger undertaking for private equity and financial services firms, as identifying financial reporting consolidations may require IFRS, GAAP or other accounting knowledge to supplement tax knowledge. Once the consolidation groups have been identified, you then must analyse which entities will be considered constituent entities for Pillar Two purposes. Special attention could be devoted to joint ventures (JV). In addition there are several nuances related to, flow-through entities (that are generally stateless and can be distinguished in tax transparent or reverse hybrid entities) permanent establishments, investment entities and minority owned constituent entities that may cause operational challenges.

Once identified and confirmed:

- Analyse your current legal entity (LE) structure based on the definition of a constituent entity (and JV)
- Reconcile sources of LE master data for constituent entities to help improve completeness and accuracy, and develop a source of truth
- Collaborate with the relevant stakeholder groups to obtain real-time LE information.



## 2.0 Legal Entities

### 2.2

#### Stand-alone financial statement analysis

After the constituent entities (and JVs) have been identified, companies should evaluate the financial statement preparation and process including the recording of consolidation, eliminations, intercompany transactions and conversion in the presentation currency. It is critical to understand the allocation of these adjustments to the underlying legal entities and the conversion in order to arrive at the appropriate starting point of financials required for Pillar Two.

This can be a challenging task as consolidated financial statements are designed for external and management reporting, and, in whole or in part, could be not prepared at a true legal entity level. It may also be particularly challenging in the case of mergers and acquisitions, as often different accounting and consolidation systems are brought together, containing information in different formats and levels of detail. As a result, this exercise will require a deep understanding of Group's (and JVs') accounting procedures under the relevant utilised accounting principles (e.g. IFRS or other authorised or acceptable accounting standards) .

For jurisdictions implementing safe harbour QDMTTs on the basis of local statutory GAAP accounting, analysis is required to understand whether the company can apply such safe harbour regulations and therefore rely on local statutory financial data for the calculations.

If applicable, consider whether this information is already available for the relevant period as a result of:

- Carve-out financials: Enterprises that have recently prepared carve-out financials may have already addressed the allocation of these and other adjustments as part of that analysis
- Allocation of these and other adjustments may have already been assessed during the ordinary tax compliance process for informational purposes and existing processes may exist to adjust financial results
- Note however, the time in which these historic exercises have occurred may not align to required timing for Pillar Two calculations

## 3.0 Safe Harbours

### 3.1

#### Evaluate your current Country by Country Reporting (CbCR) process, data and output

The transitional CbCR safe harbour potentially excludes a group's operations in lower-risk jurisdictions in the initial years as the full rule sets are adopted and implemented, thereby potentially providing operational relief. Companies will be able to use data on revenues and income before tax available from an MNE's qualified CbCR and income tax expenses information contained in qualified financial statements to determine whether its operations in a country meet one of the safe harbour criteria. Under the excess profit test the amount of Substance base income exclusion (SBIE) shall be computed under a full compliance approach.

MNEs considering a transitional safe harbour should perform a detailed review of current CbCR processes to determine whether the 'as is' data can be deemed qualifying. This can be challenging as there is limited guidance as to what 'qualifying' means. CbCR data has historically been used for informational reporting versus the determination of taxes paid and safe harbour rules. Given this new application, we anticipate that tax authorities and external auditors will apply additional scrutiny on data integrity and the processes used to develop CbCR data. As a result, companies may need to update their processes to meet the new standards and identify possible different localization of constituent entities under CbCR as opposed to under Pillar Two.

This may especially be relevant in the case of the GAAP basis of the CbCR (where the CbCR rules allow for choosing e.g. between local GAAP and consolidation GAAP). Such historic decisions may need to be reconsidered in light of the Pillar Two transitional safe harbour rules, especially if the local GAAP does not apply the deferred tax accounting concept to address temporary GAAP to tax differences or does not classify otherwise eligible local covered taxes as income taxes, that can form part of the ETR calculation under the temporary safe harbour rules. Both of these outcomes may adversely affect the ability to qualify for the temporary safe harbour under a local GAAP CbCR.

During evaluation, companies should carefully consider historic decisions made on where and how to source data for this process consistently with data used in the rest of the tax-reporting process. Timing may also be a factor as companies may not be able to execute required process changes in time for the appropriate reporting period. Any changes made to historical CbCR processes or positions should be evaluated from a risk perspective as well as certain changes may require disclosure in existing annual CbCR filings.

Companies may consider shifting ownership of CbCR processes within their tax department and should also evaluate pending and upcoming public CbCR requirements to determine whether readiness programs should be combined.

## 3.0 Safe Harbours

### 3.2

Analyse which jurisdictions may qualify for CbCR safe harbour and the benefits of opting in

It may be the case that not all jurisdictions benefit from the safe harbour such that a full data set is required. In this case, MNEs should consider whether it is more efficient to undertake a data gap analysis and compliance assessment for all jurisdictions rather than undertake the exercise twice.

In addition, the safe harbour provisions feature the 'once out, always out' rule, whereby a jurisdiction not applying any of the safe harbour provisions in one period cannot benefit from any of the safe harbours in a subsequent period. Further, one-off transactions or anomalies have the potential to push a territory outside the safe harbour conditions. In the same way, the increasing rates (from 15% in 2024 to 17% in 2026) could exclude a jurisdiction from the safe harbour. This could mean that at the last minute, an MNE group has to engage in a disjointed and fragmented data-gathering exercise that will include having to build the compliance infrastructure for different jurisdictions in different periods rather than approaching it on a holistic basis.

We recommend that you:

- Determine where the transitional CbCR safe harbour rules may apply to your group
- Evaluate the potential benefits and risks of opting in (as there may be downsides also to opting in the transitional CbCR safe harbour rules). This [PwC document](#) summarizes the primary differences between the Transitional CbCR Safe Harbor and Pillar Two
- Perform a risk assessment on jurisdictions that are within an acceptable range (as determined by company) to the safe harbour percentage to decide whether to run the full calculation side-by-side with the safe harbour.
- Consider introducing intermediary/quarterly CbCR testing in the year.
- Consider the broader impact of public country-by-country reporting connected to the revision of the CbCR report.

## 3.0 Safe Harbours

### 3.3

Develop processes for CbCR safe harbour jurisdictions

Develop process and calculations on a go-forward basis for application of the CbCR safe harbour (if applicable). Steps to consider:

- Evaluate and identify the changes and enhancements to the CbCR process required to achieve 'qualifying' data needed to perform the safe harbour calculation
- Assess what data will be available and which enabling technology will be used to run the safe harbour calculation for provision purposes, including particular consideration for how the safe harbour analysis could be prepared utilising forecasted information
- Define roles and responsibilities related to the CbCR and safe harbour processes, respectively
- Determine what internal controls and governance procedures are needed.

### 3.4

Application of the UTPR and QDMTT safe harbours

A so-called UTPR safe harbour is available in the UPE jurisdiction in the initial period where this jurisdiction has at least a 20% nominal rate of tax. Consider the accessibility of this simplification carefully as it disqualifies out the relevant jurisdiction from the CbCR safe harbour option (once out, always out).

Many jurisdictions will consider applying a QDMTT using their local statutory accounting figures as a starting point for the calculation. Moreover such a QDMTT could qualify for a permanent safe harbour when it meets further conditions, meaning that the top up tax for the relevant jurisdiction is going to be zero once the QDMTT applies locally. This basically makes the top up tax a local levy in this country. Also MNEs located in jurisdictions which implement such QDMTT safe harbour rules should consider impacts of local statutory GAAP particularities on their expected ETR. This could be particularly relevant for jurisdictions where local GAAP accounting does not use the notion of deferred tax accounting to address temporary GAAP to tax differences.

## 4.0 Data and Systems

### 4.1

Perform an assessment of your data and systems structures

Data and systems are critical components of Pillar Two operational readiness. Companies should assess current systems, data structure and data sources to determine how to collect the data required for Pillar Two and QDMTT (if any) calculations.

Steps to consider:

- Understand comprehensive data requirements applicable to your organisation and how those requirements are met in the current state.
  - [PwC's Pillar Two Data Input Catalog](#) is an ideal inventory to begin your analysis. The Data Input Catalog defines the data requirements for Pillar Two (and mostly for QDMTT), giving MNEs a thorough understanding of the amount of work that lies ahead of them and can help MNEs anticipate the unique challenges they will face.
- Understand broader, enterprise-wide initiatives where Pillar Two can serve as a catalyst for much needed tax data modernization such as ERP system upgrades and broader digital transformation efforts.
- Identify where data can be sourced and who owns the controls over that data
  - It is expected that 40-60% of data will be available directly in a company's ERP or financial consolidation systems. The remaining 40-60% is expected to be sourced from a variety of sub-ledger systems, tax provisions systems, employee benefits systems and offline schedules and files.
- Collaborate with cross-functional data and system owners to educate them on what will be required under Pillar Two, why it's important, and how it may impact them going forward to obtain buy-in

## 4.0 Data and Systems

### 4.2

Identify and remediate data and system gaps

Performing a data and system gap analysis can enable tax to identify areas of deficiency or areas in need of improvement, which can lead to greater efficiencies and modernization.

As part of this effort:

- Analyse the current state
- Highlight current state gaps such as lack of data availability and reliability issues as well as any manual processes used to obtain data needed today
- Determine potential solutions to help remediate the gaps identified
- Designate solutions as short-term versus long-term
- Develop a remediation plan including risk assessment and prioritisation. Focus on what is needed to execute near-term reporting requirements beginning in the first quarter of 2024.

### 4.3

Develop and implement a data strategy rooted in systems and processes

Companies should consider developing a comprehensive data strategy rooted in systems and processes that can sustain reporting and compliance requirements upon enactment.

- Identify data requirements
- Understand the data sources and owners
- Design solutions and implement specific processes and enabling technology
- Integrate solutions with overall Pillar Two roadmap
- Embed internal controls in the process.

Regardless of the source, data needs to be extracted and transformed, ideally in an automated manner in order to then drive the calculation process. At the core of the data transformation, we recommend centralising your data using a common data model (or similar solution), which defines all of the data points needed, the level of granularity at which they are needed and then the format to drive the calculation. This will look slightly different for each company, but the goal is to have a data set that has been vetted for completeness and accuracy, that can seamlessly integrate into the downstream Pillar Two calculation solution.

Apply a holistic approach to solutions and integrate into existing processes to help improve results and lead to sustained outcomes.

## 5.0 Impact Assessment

### 5.1

Perform an initial impact analysis and model the potential impact to the enterprise

Leverage data obtained from the data and systems assessment and CbCR safe harbour analysis to perform calculations to help determine the preliminary impact of Pillar Two on your organisation. Companies should view this impact assessment and process as fully integrated with existing processes.

- Create a data map using data obtained from assessments performed
- Perform full Pillar Two calculations with available data to understand the potential impact and identify jurisdictions with exposure
  - Where relevant, run a calculation that accounts for CFC (or GILTI) overlay for jurisdictions that do not meet the safe harbour tests
- Review impact analysis results to:
  - Prioritise your operational readiness focus
  - Understand jurisdictions or specific adjustments that require additional due diligence
  - Identify and evaluate potential restructuring, supply chain transformation, IP location and financing opportunities
  - Make data-driven decisions regarding elections.

We recommend you start modelling the impacts of Pillar Two using data available early on. Potential benefits include:

- Tactical and iterative modelling can help you refine calculations with enhanced data sets. As you remediate data and systems gaps, continue to iterate on the impact analysis as a checkpoint of test.
- Scenario planning can offer insights into projected impacts and risk areas, and help model restructuring options, election impacts, and technical interpretations.

### 5.2

Perform impact assessment for the various tax benefits available locally

Perform an impact assessment of whether various tax benefits would affect the Pillar Two ETR calculation, potentially involving the following items:

- Relevant deferred tax asset adjustments and the transition rules (e.g., 4.4.1 (e); 9.1.1 and 9.1.2)
- Permanent differences
- Whether part or all of the benefit is taken as an income for the purposes of the underlying GAAP / GloBE rules
- Qualified Refundable Tax Credits rules
- Marketable Transferable Tax Credits rules

## 6.0 Disclosures and Provisioning

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<p><b>6.1</b> Understand Pillar Two disclosures</p>	<p>Groups should review the IASB, FASB or other applicable accounting standard setter guidance related to Pillar Two (and QDMTT) reporting and disclosure requirements to understand the expected impact on their consolidated and stand-alone financial statements. There will be quantitative and qualitative disclosures required so consider whether that information is available today or will need to be established.</p> <p>This evaluation should be made for all global and local filing requirements for financial statements being prepared today. There may be disclosures required before the first quarter of 2024. For example, some groups may be required to capture Pillar Two disclosures in stand-alone or consolidating filings in quarter three and quarter four of 2023. Make sure you understand these requirements as they relate to your business and have communicated with your accounting policy and investor relations group as necessary.</p>
<p><b>6.2</b> ETR forecasting and provisioning</p>	<p>Groups will need to begin calculating the impact of Pillar Two on their forecasted ETR and annual ETR build-up beginning with the 2024 budget cycle. The data required to execute likely will not be at the right level of granularity for Pillar Two without coordination with the appropriate stakeholders including FP&amp;A. We recommend that the data and systems analysis described above include both actuals and forecasts.</p> <p>We recommend early stakeholder engagement to help achieve sufficient reliable data in time to meet the reporting requirements. Buy-in from external auditors on approach and data reliability will likely also be required.</p>
<p><b>6.3</b> Technical interpretation</p>	<p>Groups should review the technical nuances of the Pillar Two rules and consider how the changing landscape and local country enactment will impact their organisation. Additionally, they should assess the impact on financial reporting processes including disclosures in terms of materiality and completeness.</p>

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## 7.0 Compliance

Pillar Two compliance obligations will likely be onerous, but the extended timeline proposed in the Model Rules provides some additional time to consider and prepare. Below we have laid out a number of longer-term compliance related considerations as companies focus on near-term priorities.

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<b>7.1</b> Deferred tax liability (DTL) recapture and elections	<p>Groups will need to establish a separate process and mechanism to track deferred tax liability (DTL) recaptures and DTA, DTL remeasurements as well as <a href="#">elections</a>. Some organisations may need to develop a process for provision, and many will need to focus on developing granular calculations for the compliance process.</p> <p>Remember that this compliance process relies on accounting rules. As such, groups should consider whether the data available at provision time is granular enough to execute a detailed calculation. Therefore, groups should closely evaluate this requirement as they prepare for their first year of Pillar Two provisioning.</p>
<b>7.2</b> Implement a Pillar Two calculation engine	<p>A Pillar Two calculation engine can help provide audit-ready detail, clearly outlining all of the adjustments that were factored into the calculation, the ability to integrate results into tax provision and compliance processes and visualisations in order to facilitate review and analysis of the results.</p> <p>A Group should consider how it will maintain the global set of rules and logic on a jurisdictional basis, especially in light of the possibility around local country deviations from the Model Rules and varying compliance requirements. Developing, maintaining and updating the evolving Pillar Two rules, including the intricacies of rule ordering and interaction, will require a global network of international tax experts and advanced technology.</p> <p><a href="#">PwC's Pillar Two Engine</a> is a centralised, cloud-based calculation engine for quantifying the impact of OECD Pillar Two, including provision, compliance and modelling. The Pillar Two Engine is configured to support the inconsistent and unique adoption of Pillar Two rules around the world and allow for flexibility as those rules continue to evolve. Jurisdiction-specific calculations are swiftly incorporated into a centralised rules library after a thorough governance process, ensuring each user runs up-to-date calculations, something that is incredibly challenging in a spreadsheet environment or with a basic technology tool.</p> <p>Decisions related to enabling calculation engine technology should also be considered in the context of the overall operating model assessment. Licensing a fully configured and perpetually maintained rules engine, like PwC's Pillar Two Engine, could lead to a reduction in internal resources required and facilitate a leaner, more strategically focused internal tax function. On the other hand, building an internal calculation engine will likely lead to additional resources required in the long term to maintain the global set of rules.</p> <p>During implementation, we recommend focusing on integrating your Pillar Two process and enabling technology with existing solutions for more sustainable outcomes.</p>

## 7.0 Compliance

### 7.3

#### Comply with filing obligations

Pillar Two compliance requirements will be significant especially when considering the global scale at which companies will need to respond. Additionally, an MNE Group will have to comply with the different filing requirements for each applicable rule.

Compliance with new annual tax filings will be necessary at year-end 2024. Filing of the GloBE Information Return (GIR) is required starting 30 June 2026 for calendar year taxpayers and a QDMTT or other local tax return filings will likely also be needed and may need to be filed earlier than 2026. Taxpayers will need to monitor developments to identify specific compliance obligations.

Given the magnitude and complexity required, companies should consider whether they align Pillar Two compliance to their existing global compliance model or whether Pillar Two requires them to revisit their current operating model.

We will issue additional guidance as compliance obligations become more clear.

# 4 Key contacts

## Key contributors

### Monica Cohen-Dumani

EMEA International Tax Services Leader  
monica.cohen.dumani@pwc.ch

### Dario Sencar

PwC Italy  
dario.sencar@pwc.com

### Pieter Deré

PwC Belgium  
pieter.dere@pwc.com

### Gergely Juhasz

CEE ITS Leader  
gergely.juhasz@pwc.com

### Edwin Visser

Deputy Global Tax Policy Leader  
edwin.visser@pwc.com

### Clayton Stanfield

PwC Switzerland  
clayton.stanfield@pwc.ch

## International Tax Services leaders

### Christof Woerndl

PwC Austria  
christof.woerndl@pwc.com

### Evi Geerts

PwC Belgium  
e.geerts@pwc.com

### Stelios Violaris

PwC Cyprus  
stelios.violaris@pwc.com

### Lars Ellegård Holst

PwC Denmark  
lars.gram.ellegaard@pwc.com

### Mirva Laaksonen

PwC Finland  
mirva.laaksonen@pwc.com

### Guilhem Calzas

PwC France  
guilhem.calzas@avocats.pwc.com

### Thomas Loose

PwC Germany  
thomas.loose@pwc.com

### Edgar Lavarello

PwC Gibraltar  
edgar.lavarello@pwc.com

### Stavroula Marousaki

PwC Greece  
stavroula.marousaki@pwc.com

### Jón Ingibergsson

PwC Iceland  
jon.i.ingibergsson@pwc.com

### Harry Harrison

PwC Ireland  
harry.harrison@pwc.com

### Vered Kirshner

PwC Israel  
vered.kirshner@pwc.com

### Alessandro Di Stefano

PwC Italy  
alessandro.di.stefano@pwc.com

### Lilia Samai

PwC Luxembourg  
lilia.samai@pwc.lu

### Neville Gatt

PwC Malta  
neville.gatt@pwc.com

### Hanan Abboud

PwC Middle East  
hanan.abboud@pwc.com

### Bart van der Gulik

PwC Netherlands  
bart.van.der.gulik@pwc.com

### Ståle Wangen

PwC Norway  
staale.wangen@pwc.com

### Jorge Figueiredo

PwC Portugal  
jorge.figueiredo@pwc.com

### William Eastwood

PwC South Africa  
william.j.eastwood@pwc.com

### Marcos More

PwC Spain  
marcos.more@pwc.com

### Håkan Danmyr

PwC Sweden  
hakan.danmyr@pwc.com

### Stefan Schmid

PwC Switzerland  
stefan.schmid@pwc.ch

### Rob Hines

PwC United Kingdom  
rob.hines@pwc.com





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