BEPS 2.0
Global Minimum Tax

Key considerations for CFOs

February 2024

BEPS 2.0 is a significant OECD-led reform of the international tax system, with the biggest change being the introduction of a global minimum tax of 15 percent for large multinational groups. This is a new paradigm in global taxation, requiring a pro-active approach to evaluate and prepare for its impacts. Many jurisdictions, including Australia, will apply these changes from 2024.

What it means for your business

01 Impact on global effective tax rate (ETR)

- The impact on the global group's ETR should be assessed and monitored, as additional taxes may arise worldwide, even in locations with high headline tax rates or accounting ETRs above 15 percent.
- If top-up tax impacts are expected, consider review of existing global structures, value chains, location of activities and the effectiveness of existing tax concession claims.
- Communicate impacts with Board, A&RC, and other key stakeholders, including ESG reporting for tax transparency and governance.

02 New financial statement disclosures

- Changes to the accounting standards include new targeted pre-regime disclosures in connection with exposure to top-up taxes.
- Changes apply to annual periods from 1 January 2023. Further information is available **here** and **here**.

03 Increased compliance costs and co-ordination

- The calculation of the ETR under these rules (different to the accounting computation of ETR) is complex with potentially hundreds of data points required across multiple countries. Close co-ordination between finance, tax and other parts of the business is needed.
- Transition and ongoing compliance costs can be significant even if no top-up tax ultimately arises. Planning and budgets should factor in multi-stakeholder complexities and resourcing needs to manage potential system changes over a multi-year period.

Why start projects now

- Impact on forecast ETRs
- Annual Report disclosures
- Optimise settings for ERP upgrades
- Resource planning & budgets
- Identify and fix data gaps
- Pre-regime actions
- Business planning (including global structures and M&A)
- Stakeholder management

PILLAR TWO

Overview of Pillar Two

The **Pillar Two Global Anti-Base Erosion (GloBE) rules** subject multinational groups to a global minimum tax of 15 percent in the jurisdictions in which they operate.

The OECD has released GloBE model rules. Australia has announced it will implement these, with application from 2024. Many foreign jurisdictions have now enacted legislation.

Who does it affect?

Multinational groups with **revenue of EUR 750m or more** (approx. AUD 1.2b) in two of the last four years

When does it apply from?

It is expected to apply in most jurisdictions for **accounting periods starting on or after 1 January 2024**.

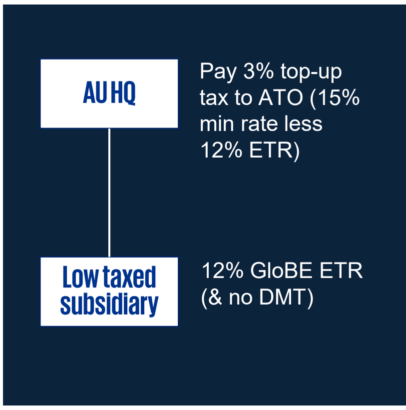
What is required?

Ultimate parent companies will typically bear the obligation to calculate and pay any top-up tax for onshore and offshore jurisdictions with an ETR below 15 percent. However, reporting and payment obligations may be spread across many countries in some circumstances, so planning is needed to understand the expected impacts.

Some relief is given for low taxed entities with “substance” (based on tangible assets and payroll). A transitional safe harbour may also be available.

In addition, many jurisdictions are expected to reform their tax incentive regimes or introduce a **Domestic Minimum Tax (DMT)** of 15 percent to collect any top-up tax locally rather than cede taxing rights to the parent company jurisdiction. Australia has announced the introduction of a DMT from 2024, which will result in the DMT obligation falling to local subsidiaries and branches of foreign owned groups.

For both outbound and inbound groups, this means new filing obligations in Australia and in many other jurisdictions around the world.



Case study

KPMG has worked with a number of large multinationals to help them understand the impact of Pillar Two. In the case study below, we conducted an impact assessment and data gap analysis and will provide continued assistance in advance of key Pillar Two milestones.

KPMG Approach

Our multidisciplinary team worked alongside a client's team to combine industry expertise, BEPS specialists and data experts to provide a holistic integrated approach.

The impact assessment was conducted with our market leading KPMG BEPS Pillar Two tool.

From a collaborative workshop process, significant risks were identified and recommendations developed on how to address them.

We conducted a data gap analysis with a focus on material requirements.

Finally, we developed an action plan with the client for next steps in relation to key project milestones.

Benefits for Organisations

Management of potentially adverse outcomes, and optimisation of business planning, through:

- Identification of the cash tax impacts based on historical and forecast data.
- Issue identification to raise in OECD and local consultations, leading to real change.
- Identification of material data gaps for resolution, and to factor into settings for ERP upgrades and tax technology implementations.
- Outcomes informing a multi-year project plan to identify resource needs and project budgets.

ACTION PLAN AND TIMELINE FOR MULTINATIONAL GROUPS

Next 6 months

1 Impact Assessment ☑

- Identify and categorise in-scope entities
- Assess eligibility for transitional safe harbours to reduce compliance in early years
- Model preliminary cash tax impacts and determine “at risk” jurisdictions through high-level ETR and top-up tax calculations including impact on future forecasts
- Prepare for new financial statement disclosures

2 Data Gap Analysis ☑

- Identify data gaps, match to existing sources and prepare data gap resolution plan
- Optimise tax engine implementations and ERP upgrades

3 Implementation Roadmap ☑

- Develop initial project plan, resourcing, operating model and multi-year budget for building new processes
- Build multi-phase data roadmap with a focus on critical data feeds
- Review country-by-country data quality and processes for use in safe harbours
- Impact of changes on new business and M&A

4 Pre-regime Actions ☑

- Consider opportunity or need for group restructuring / relocation of activities
- Manage internal and external stakeholders, including any market disclosure obligations
- Track and communicate impact of OECD and jurisdictional developments and participate in consultations

Next 6-18 months

5 Implementation Year ☑

- Detailed ETR and top-up tax calculations to determine top-up tax obligation and financial statement disclosures
- Determine which elections to make (over 21 per jurisdiction or entity) and reflect in obligations in financial statements
- Execution of data strategy, including opportunities for broader tax transformation
- Review and update governance and controls to ensure risks are appropriately managed

6 Reporting and Compliance ☑

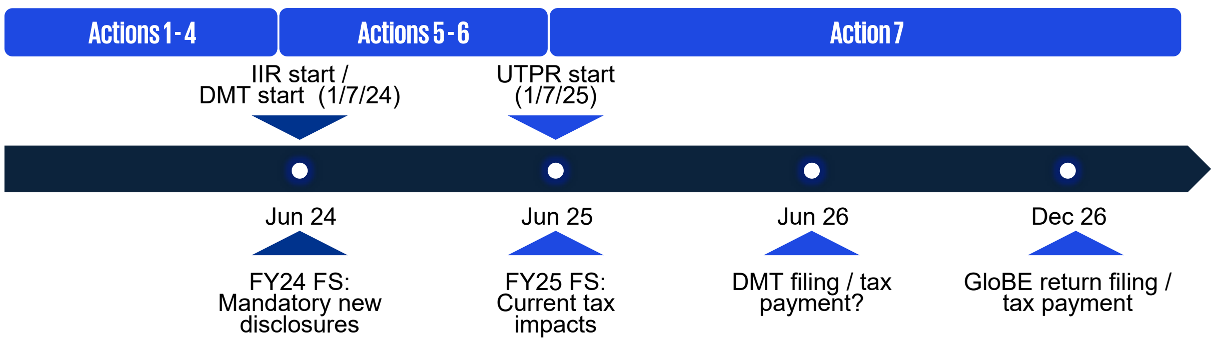
- Prepare current tax disclosures for implementation year financial reporting
- Prepare GloBE and DMT payment and filings

18+ months

7 Audit Readiness & Post-Regime Improvements ☑

- Undertake ongoing process improvements including governance and data automation enhancements
- Prepare audit defence documentation

An example timeline, using expected dates, for an Aus HQ group with a 30 June year end is set out below.



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