

# BEPS 2.0 implementation in Hong Kong (SAR): Practical insights for M&A activity



## Pre-acquisition Stage Common Pillar 2 issues to be considered

### Tax due diligence



In-scope MNE Group & constituent entities ("CE")

- Joint ventures / minority-owned CE
- Excluded entities

Transitional rules

Safe harbours

Key permanent adjustments leading to lower ETR

Recognition of deferred tax

- Any adjustments for Pillar 2 purposes? e.g. tax loss forecasted to be unusable in the future
- DTL recapture rules

Five-year elections made

Pillar 2 advice / planning done by management

Status of Pillar 2 compliance

- Access to pre-carve out information
- Obstacles in data gathering
- Time gap between upcoming Pillar 2 filings and year of acquisition

### Legal documentation



Pillar 2 tax liability insurance

Cooperation clauses for Pillar 2 matters

Indemnities / warranties for Pillar 2 issues

Whether these Pillar 2 tax exposures are covered?

- Arising from the buyer's / seller's tax profile (under a split-ownership scenario)
- Arising from pre-carve out structure
- Arising from re-assessment of historical Pillar 2 tax exposure, e.g. DTL recapture rules

### Modelling



Conventional cashflow modelling may not cover Pillar 2

Impact to group revenue

Jurisdictional blending under post-deal structure

Exit planning

- Excluded gain under share deal?
- Pillar 2 benefits > other benefits under asset deal?



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with KPMG



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## Pre-acquisition Stage

Common Pillar 2 issues to be considered

### Restructuring concerns



Special rules applicable to acquisition and disposal of entity

In case of split ownership with investment fund – any trigger of Pillar 2 exposure?

## Post-acquisition Stage

Potential planning opportunities

Are the existing claims / election still efficient?

### Standardization of financials

- Financial year-end date
- Presentation currency
- Accounting standard
- Accounting system

Location of GloBE Income Return filings

Possibility to replace permanent differences with temporary differences

### Investments with significant Pillar 2 exposure

- Cost and benefit analysis
- Possibility to deconsolidate

Possibility to restructure an investment to meet concessions, e.g. excluded dividends

## How KPMG can help?

- Scenario analysis
- Impact assessment and jurisdictional ETR calculation
- Pillar 2 compliance
- And more



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**Talk to us!**

