Run-up to Belanjawan 2026 MALAYSIA MADANI

BEPS pillar two: What lies ahead for MNEs?

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TO date, over 50 countries implement the Organisation for Economic Cooperation and Development's (OECD) base erosion and profit shifting (BEPS) pillar two rules, which ensure that multinational enterprises (MNEs) pay a global minimum tax of 15%.

However, major economies such as the United States, China, and India have yet to adopt it.

Following president Trump's announcement of the United States withdrawal from the BEPS pillar two rules and the Group of Seven or G7's June 2025 statement indicating that the income inclusion rule and the undertaxed profits rule or UTPR (both collection mechanisms under the BEPS pillar two rules), will not apply to US-headquartered multinational enterprises, questions have been raised regarding the effectiveness of future implementation of BEPS pillar two.

The G7's June 2025 statement also outlined a side-by-side approach for the coexistence of the US tax regime and the BEPS pillar two rules.

Furthermore, there are also several global developments:

> Vietnam has issued an official decree to implement BEPS pillar two,

> Indonesia implements BEPS pillar two effective FY25,

> South Korea plans to introduce the qualified domestic minimum top-up tax (QDMTT) starting in 2026, and

> Belgium has released an updated version of the QDMTT return.

The above demonstrates that BEPS pillar two is here and will continue to evolve.

For MNEs, being agile in preparing for BEPS pillar two is key to navigating the changing global tax landscape.

Malaysia's position

In Malaysia, the BEPS pillar two rules have been incorporated into local tax legislation, with the multinational top-up tax (MTT, applicable to Malaysian parent entities for its low-tax foreign entities) and the domestic top-up tax (DTT, applicable to MNEs' low-tax Malaysian entities) effective from financial year beginning on Jan 1, 2025.

There is no announcement on UTPR in Malaysia to date, and it seems unlikely that it will be introduced soon in Malaysia given the recent US, G7 and global pillar two developments.

During Budget 2025, the government announced intentions to streamline existing tax incentives and evaluate the feasibility of introducing a strategic investment tax credit (SITC), which is similar to the qualified refundable tax credit (QRTC) under the BEPS pillar two rules.

A QRTC offers refundable tax credits and is considered as a BEPS-compliant incentive, subject to certain conditions.

While refundable tax credit might be a new concept for many in this part of the world, it is an existing tax incentive in the United Kingdom and the European Union (EU) countries.

Singapore and Thailand have indicated plans to introduce QRTC in their tax regimes.

MNEs should also begin preparing their compliance strategies for agility is key to adapting to global tax changes.

In Malaysia, the Finance Ministry and the relevant investment promotion agencies have conducted global minimum tax surveys and started renegotiating existing tax incentives with affected MNEs, offering extension to tax incentive period, different tax rates, and other alternatives.

With Budget 2026 set to be tabled on Oct 10, we await potential updates on further developments to the current tax incentive framework and announcements on SITC.

In addition, the recently published e-Form C template for the year of assessment 2025 now includes two new disclosure fields related to BEPS pillar two:

> Whether the company is subject to DTT or MTT, and

> The name and jurisdiction of the ultimate parent entity.

This is in line with the forthcoming BEPS pillar two implementation in Malaysia. Hence MNEs in Malaysia should evaluate their compliance status and prepare accordingly.

Looking ahead – anticipating future developments

To ensure BEPS pillar two compliance, MNEs should prioritise the following key areas:

> Monitoring BEPS pillar two compliance obligations globally: Given the different rules regarding registration and notification in different jurisdictions, it is important to stay updated on these requirements, track and monitor these requirements closely.

> Tax provisioning and financial disclosures: MNEs should consider BEPS pillar two tax provisions and relevant disclosures in financial statements namely documenting the basis and approach for the provisioning and financial reporting disclosures.

> Preparation for BEPS pillar two first filings: While Malaysia's BEPS pillar two rules are effective from financial year beginning Jan 1, 2025, countries like Australia, Japan, South Korea, the United Kingdom, and most EU countries have implemented BEPS pillar two rules from FY24, with first filings due in 2026. MNEs with operations in these countries should prepare for these filings.

> Data and systems readiness: Having an agile system to capture and extract the required pillar two data is key for managing compliance obligations effectively.

> Continuous monitoring of OECD clarifications: MNEs should stay updated on BEPS pillar two developments to ensure compliance. The OECD is expected to release further announcements and guidance on areas such as joint ventures, the side-by-side approach, and permanent safe harbour in the future.

The transition: From awareness to action

Despite continued debate and varied national responses, BEPS pillar two is progressing. In light of the adoption of BEPS pillar two rules in Malaysia and recent regional developments, it is imperative for MNEs to transition from mere awareness to concrete steps towards compliance.

While the BEPS pillar two implementation poses challenges to MNEs, it also offers opportunities for MNEs to streamline tax strategies and ensure compliance with new global tax standards. Staying up-to-date and early preparation will be key.

With Budget 2026 approaching, attention will be on the government's strategy in maintaining Malaysia's competitiveness for investments while operationalising BEPS pillar two in preparation for the BEPS pillar two filings.

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