



International tax updates:

Practical considerations of Transfer Pricing and Pillar 2

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The journey so far...



P2 is happening - Two IIR implementation waves

Per OECD, 55 jurisdictions have started to implement the rules

2024

| | |
|-----------------------------|----------------------------|
| Australia | Liechtenstein [^] |
| Canada [^] | NZ [^] |
| EU (22 of 27) ^{^*} | Norway [^] |
| Japan ⁺ | Switzerland [^] |
| Korea ⁺ | UK ⁺ |

2025

| | |
|-----------|----------|
| Singapore | Vietnam |
| HK SAR | Jersey |
| Thailand | Guernsey |
| Malaysia | IOM |

From 2024 – 27 QDMTTs (+12 in 2025)

From 2024 – 31 IIRs (+8 in 2025)

From 2025 – 34 UTPRs (at least)

+ Legislation passed

[^] Draft legislation released

* In EU, 22 countries will bring in IIR (2024) and UTPR (2025). 5 EU countries defer IIR/UTPR to 2029

Some jurisdictions indicated P2 plans but with no confirmed timing (Indonesia, Mexico, South Africa, Mauritius, UAE, Qatar)

Pillar 1: Amount A and Amount B

Amount A

1. Scope: MNEs with Revenue > EUR20 billion and profitability > 10%
2. Reallocates 25% of MNE's profit in excess of 10% of its Revenue to eligible market jurisdictions (MNE derives > EUR 1 million (in Revenue) or EUR 250,000 if jurisdiction's GDP < EUR 40 billion)
3. The Amount A profit allocated to the eligible market jurisdiction is adjusted and reduced by Marketing and Distribution Profits Safe Harbour.

Amount B

1. Simplified and streamlined approach to the application of the arm's length principle to in-country baseline marketing and distribution activities
2. Primary focus: wholesale distribution of goods, including commissionaires and sales agents (need to be "baseline" to fall in scope of Amount B).
3. Exclude performance of services and distribution of commodities
4. Transactions in scope are priced by reference to a pricing matrix

Pillar 1 – Amount B

Policy objective

Amount B is intended to streamline the application of the ALP for “baseline marketing and distribution activities,” thereby enhancing tax certainty

1.5%-5.5%

Standardized return

Return varies from 1.5% to 5.5% (with a +/- 0.5% range) depending on the operating asset intensity, operating expense intensity, and industry, with further adjustments for an undefined set of jurisdictions

01

Apply scope criteria

Limited to the wholesale distribution of tangible goods, with the distribution of services / commodities specifically excluded. An entity must demonstrate it is qualitatively appropriate to apply a one-side pricing method and apply a quantitative test.

02

Determine standardized return

There is a pricing matrix varying by industry and operating asset / operating expense intensity. Modified or substituted matrices may apply for certain jurisdictions and there will be a risk adjustment for other jurisdictions.

03

Other issues

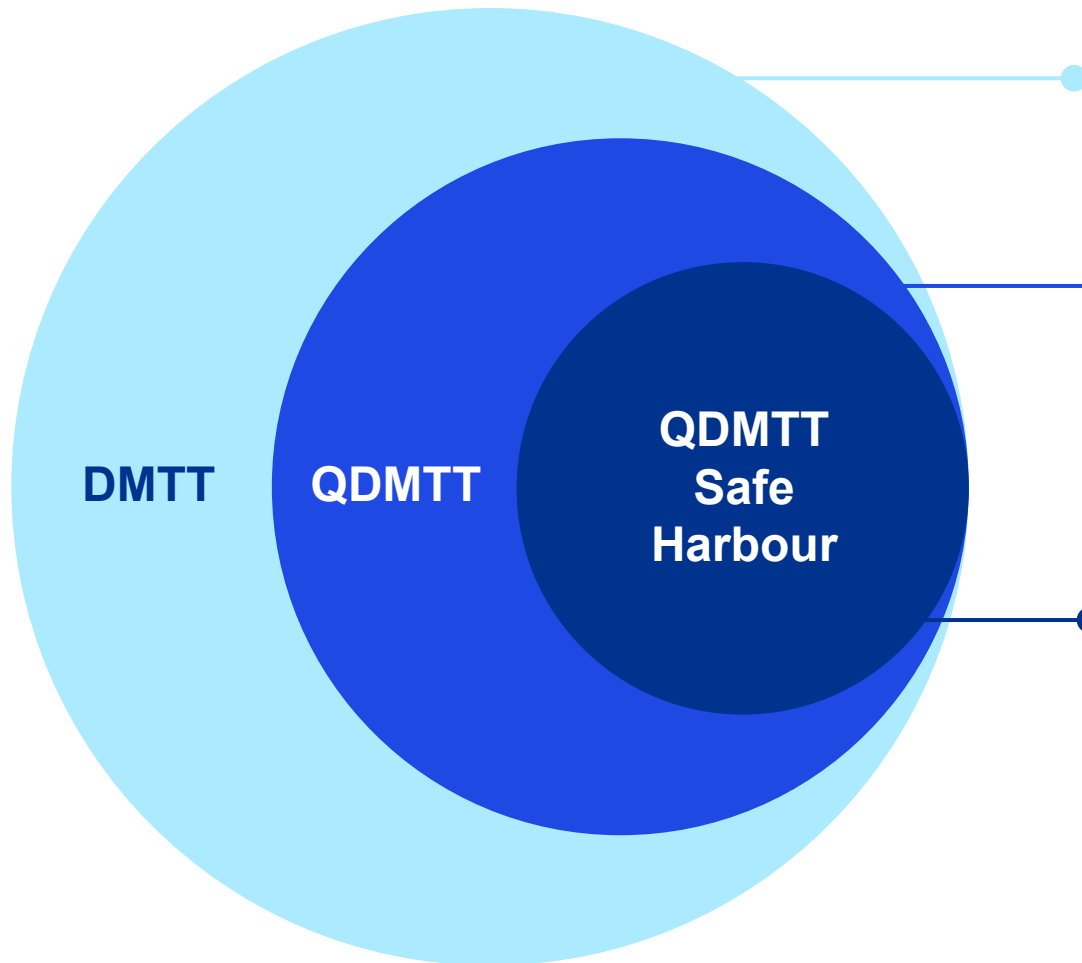
It is not yet determined whether Amount B will be a safe harbour or a prescribed return. Existing APAs will be respected. There is no proposal to reduce transfer pricing documentation requirements or to restrict Amount B-related restructurings.

04

What next?

Consultation responses completed. To think about modelling the impact of Amount B to understand its potential effect and inform their possible response.

Pillar 2: Domestic Minimum Top-up Tax



Domestic Minimum Top-up Tax (“DMTT”)

- Treated as covered tax
- Positive impact on jurisdictional ETR
- Top-up tax is levied under IIR and UTPR if ETR < 15%
- No administrative relief

Qualified Domestic Minimum Top-up Tax (“QDMTT”)

- DMTT that has “qualified” status
- Not covered taxes, but credited against GloBE Top-up tax liability (balance to be paid under IIR or UTPR) (i.e. credit mechanism)
- Separate Top-up Tax calculation required, i.e. 1 for QDMTT purposes and 1 for GloBE purposes

QDMTT Safe Harbour

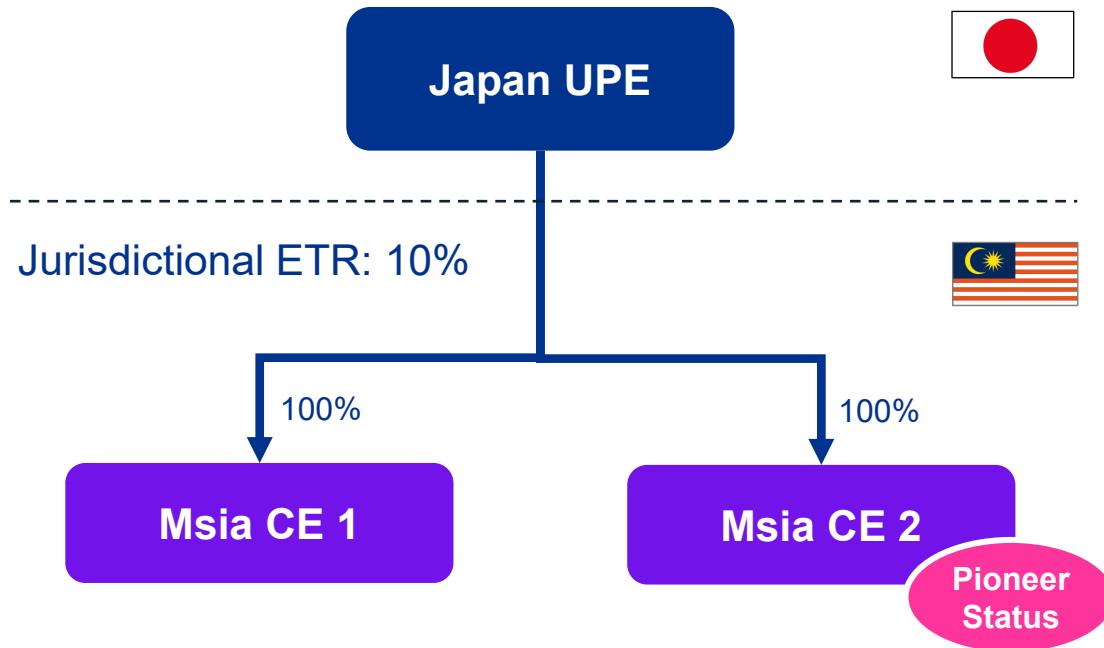
- DMTT that has “qualified” status and meets certain additional standards
- IIR and UTPR Top-up Tax liability deemed zero (i.e. exemption mechanism)
- Only 1 Top-up Tax calculation required (for QDMTT purposes)



Malaysia will be implementing Global Minimum Tax and Domestic Top-up Tax in 2025. The qualification of QDMTT and QDMTT Safe Harbour is subject to Peer Review Process.

Domestic Top-up Tax: Illustrative example

Scenario



Assumptions:-

- Japan UPE wholly owns two entities in Malaysia. Msia CE 2 enjoys pioneer status incentive.
- Covered Taxes: 10; GloBE Income: 100; No SBIE
- Jurisdictional ETR in Malaysia is 10%.

Case 1: DMTT in Malaysia

- If no DMTT, Top-up Tax of 5 [$100 \times (15\% - 10\%)$] will be paid at Japan UPE Level.
- If there is DMTT, Group liable to pay DMTT in Malaysia on the shortfall of 5. Malaysia's DMTT amount treated as a "Covered Tax" for ETR.
- Japan UPE liable to Top-up Tax under IIR if Malaysia ETR is less than 15%.

Case 2: QDMTT in Malaysia

- Group liable to pay QDMTT in Malaysia on the shortfall of 5.
- Malaysia's QDMTT amount credited against GloBE Top-up tax liability at Japan UPE level.
- Any balance paid at UPE level in Japan under IIR.
- 2 separate Top-up Tax calculations required, i.e. 1 in Malaysia (for QDMTT) and 1 in Japan (for IIR)

Case 3: QDMTT Safe Harbour in Malaysia

- Group liable to pay QDMTT in Malaysia on the shortfall of 5.
- IIR and UTPR for Malaysia at UPE level will be deemed to be zero (i.e. exemption mechanism)
- Only 1 Top-up Tax calculations required, i.e. 1 in Malaysia (for QDMTT)

General Requirements for QDMTT



Policy objective:

Designed to allow each jurisdiction to enact a local QDMTT to achieve the Pillar 2 minimum tax requirements.

Qualified Domestic Minimum Top-up Tax (QDMTT)

A qualified QDMTT must adhere to two guiding principles:-

- 1) the first principle is that the minimum tax should align with the Global Anti-Base Erosion (GloBE) rules;
- 2) the second principle is that the minimum tax should lead to outcomes that are also consistent with the GloBE rules.
 - A QDMTT may be based on a jurisdiction's local accounting standard (if certain requirements are met),
 - A QDMTT should contain all safe harbors (including the transitional CbCR safe harbors) as well as the same transition rules and elections provided under the Model Rules and related guidance.

Transitional CbCR safe harbor

Jurisdictional Top-up Tax deemed to be ZERO, if one of the 3 tests is met:-

De minimis test

CbCR Revenue < EUR 10million
and PBT < EUR 1million

1

Routine Profit Test

Substance-based Income
Exclusion > PBT

3

Simplified ETR test

Simplified ETR (i.e. Simplified Covered
Tax / PBT) are at least:-

- 15% (2023 and 2024)
- 16% (2025)
- 17% (FY beginning 2026)

!

Once out, always out

!

Use of Qualified CbC Report

- 1) Qualified CbC Report means CbC Report prepared and filed using Qualified Financial Statements
- 2) Qualified Financial Statements:-
 - Accounts used to prepare UPE's Consolidated Financial Statements ("CFS"); or
 - Separate FS of CE in accordance with Acceptable Financial Accounting Standard

!

Computations required

- To compute Simplified Covered Taxes (i.e. income tax expense from the CFS, then adjusted to remove non-Covered Taxes and uncertain tax positions).
- To compute substance-based income exclusion under GloBE Rules (no simplification)

Change in tax incentive landscape



What to expect moving forward ?

- Incentives move to more expenditure-based incentive that ties with the substance (i.e. manpower and tangible asset) in Malaysia
- Non-corporate tax incentives (e.g. indirect tax incentives and exemptions, lower tax rates for expats, etc.)
- Government Grants
- Qualified Refundable Tax Credits (“QRTC”)?
- Other corporate tax considerations (e.g. extended Group Relief scope, etc.)



What are other countries doing?

IAS 12 - Accounting disclosures

(Substantively) enacted but before effective



Disclosure objective - allowing the use of available Pillar Two-based information



Qualitative information (e.g., where the top-up tax is triggered and where it will need to be paid)



Quantitative information (proportion of profits that may be subject to Top-up Tax and the average ETR applicable to those profits, or how the average ETR would have changed if Pillar 2 legislation had been effective).



Exceptions apply where information is not known or cannot be reasonably estimated at the reporting date

After tax law is effective



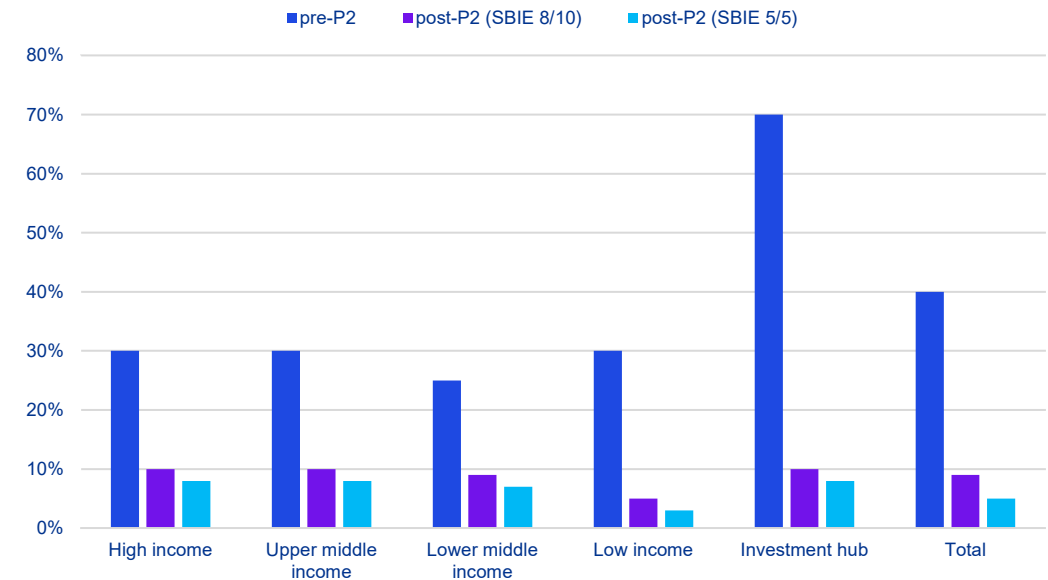
Current tax expense related to top-up tax

GloBE – OECD estimates of P2 tax revenue impacts

OECD 2023 estimates

- 1) Annual global P2 tax revenue gains of USD 220 billion (9% of global CIT revenue)
 - UK - USD2.5bn
 - Ireland – USD2bn
 - Switzerland – USD1.8bn
 - Germany – USD1bn
 - France – USD1bn
 - Belgium – USD0.8bn
- 2) Reduce global low-taxed (<15% ETR) profit by 70%
- 3) 70% of low tax profit in investment hubs, e.g., Singapore, Ireland, Switzerland, HK SAR
- 4) 30% of low tax profit in non-investment hubs, i.e., a result of **Incentives**

% of global profits subject to ETR less than 15%
By jurisdiction group



Malaysia is expected to collect tax revenue of RM1 billion from Global Minimum Tax when it is introduced in Malaysia.



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