Pillar Two: Global Minimum Taxation

Strategic Corporates: International Tax

> **Pillar Two establishes a global minimum taxation regime through a series of interlocking rules.**

Further reading & resources

[KPMG Report: OECD/G20 Inclusive Framework Agreement on BEPS 2.0 (July 2, 2021)]

[Inclusive Framework's Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (July 1, 2021)]

[KPMG Report: Summary and Initial Analysis of Pillar Two Blueprint (October 12, 2020)]

Leveling the playing field

On July 1, 2021, the IF released a statement setting forth the key components for an agreement on a two-pillar solution to address tax challenges arising from the digitalization of the economy.

Pillar Two has **three new rules** granting jurisdictions **additional taxing rights:**

— Two interlocking domestic rules: (i) an **Income Inclusion Rule (IIR)**, which imposes top-up tax on a parent entity in respect of subsidiaries' income (including permanent establishments) that is taxed at less than a minimum effective rate (**at least 15 percent**), and (ii) a supporting **Undertaxed Payment Rule (UTPR)**, which denies deductions or requires an equivalent adjustment to the extent the low-tax income of a constituent entity is not subject to tax under IIR.

— A treaty-based **Subject to Tax Rule (STTR)** which applies a minimum effective rate of between 7.5 percent and 9 percent at source to certain related party payments. The STTR will be creditable as a covered tax under the IIR and UTPR (i.e., the STTR applies first).

Exclusions and simplifications

— The rules will apply to MNE Groups with a total consolidated group **revenue above €750 million**. However, countries may apply a lower revenue threshold for the IIR in respect of groups headquartered in their country.

— There will be a "**carve-out**" from the IIR and UTPR for an amount equal to at least 5 percent (7.5 percent for a 5 year transition period) of the carrying value of tangible assets and payroll costs. International shipping income and *de minimis* profits are also excluded. So too may MNEs "in the initial phase of their international activity". Details are awaited.

— **Coexistence with the global intangible low-taxed income (GILTI) regime is under consideration.**

— "Safe harbors and/or other mechanisms" for avoiding disproportionate compliance costs will be introduced.

What businesses need to know

— The Pillar Two rules are anticipated to be brought into law in 2022 and take effect beginning in 2023. IF members are not obliged to adopt the IIR and UTPR (the Global Anti-Base Erosion (GloBE) rules) but must accept the application of the rules by other IF member.

— **A detailed implementation plan is expected in October 2021.** This will include model legislation for the GloBE rules. A multilateral convention may also be drafted.

— The plan will also include an STTR model provision together with an implementing multilateral convention, and possible transitional rules (possibly a deferral of the UTPR).

— **A number of uncertainties remain** but Pillar Two is likely to be a radical shift in the tax landscape.

Future of Tax

Contacts

Melissa Geiger
Global Leader,
Strategic Corporates Tax & Legal
KPMG International

Rodney Lawrence
Head of International Tax
KPMG International

Grant Wardell-Johnson
Global Tax Policy Leader
KPMG International

Manal Corwin
Principal in Charge,
Washington National Tax
KPMG in the US

Aroen Rambhadjan
Head of International Tax — EMA
KPMG in the Netherlands

Dean Rolfe
Head of International Tax — ASPAC
KPMG in Singapore

Armando Lara
Head of International Tax — Central America
KPMG in Mexico

Ericson Amaral
Head of International Tax — South America
KPMG in Brazil

Natasha Vaidanis
Head of International Tax — Africa
KPMG in South Africa

Matthew Herrington
Partner,
International Tax
KPMG in the UK

Brett Weaver
Partner,
International Tax
KPMG in the US

Jesse Eggert
Principal,
Washington National Tax
KPMG in the US

Michael Plowgian
Principal,
Washington National Tax
KPMG in the US

Marcus Heyland
Managing Director,
Washington National Tax
KPMG in the US

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

home.kpmg/socialmedia

Designed by Evalueserve.

Publication name: Pillar Two: Global Minimum Taxation
Publication number: 137665D-G
Publication date: September 2021