

# 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.

# 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

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