KPMG

BEPS 2.0: Global minimum tax

Key considerations for CFOs

The Base Erosion and Profit Shifting (BEPS) 2.0 initiative is a significant OECD-led reform of the international tax system, with the biggest change being the introduction of a global minimum tax of 15 percent for large multinational groups. This is a new paradigm in global taxation, requiring a proactive approach to evaluate and prepare for its impacts. The EU and a number of other jurisdictions intend to introduce Pillar Two as of 2024, while other countries have indicated they will introduce Pillar Two as of 2025.

What it means for your business

01 Impact on global effective tax rate (ETR)

- The impact on a large multinational group's ETR should be assessed and monitored, as additional taxes may arise worldwide, even in locations with high headline tax rates or accounting ETRs above 15 percent.
- If top-up tax impacts are expected, consider a review of existing global structures, value chains, the location of activities and the effectiveness of existing tax concession claims.
- Communicate impacts with the Board, A&RC, and other key stakeholders, including ESG reporting for tax transparency and governance.

02 New financial statement disclosures

- Proposed changes to the accounting standards will include new pre-regime disclosures in relation to operations with indicators of a potential exposure to top-up tax.
- These changes will be effective once finalized in 2023. Further information is available here and here.

03 Increased compliance costs and coordination

- The calculation of the ETR under these rules (different to the accounting computation of ETR) is complex with potentially hundreds of data points required across multiple countries. Close coordination between finance, tax and other parts of the business is needed.
- Transition and ongoing compliance costs can be significant even if no top-up tax ultimately arises. Planning and budgets should factor in multi-stakeholder complexities and resourcing needs to manage potential system changes over a multi-year period.

Why start projects now

Impact on forecast ETRs	**Annual report disclosures**	**Enhance settings for enterprise resource planning upgrades**	**Resource planning & budgets**
Identify & fix data gaps	**Pre-regime actions**	**Business planning (including global structures and M&A)**	**Stakeholder management**

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Pillar Two

Overview of Pillar Two

The **Pillar Two Global Anti-Base Erosion (GloBE) rules** subject multinational groups to a global minimum tax of 15 percent in the jurisdictions in which they operate.

The OECD has released GloBE model rules. The Pillar Two Subject To Tax Rule (**STTR**) will permit top-up withholding on certain payments taxed at less than 9 percent. The STTR is still under negotiation at the OECD level.

Who does it affect?

Multinational groups with **revenue of EUR750 million or more** in two of the last four years.

When does it apply from?

It is expected to apply in most jurisdictions for **accounting periods starting on or after 1 January 2024**.

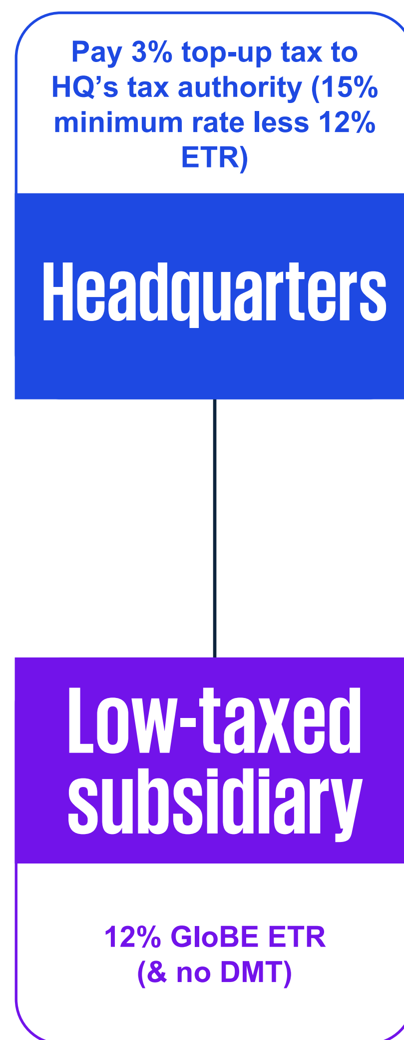
What is required?

Ultimate parent companies will typically bear the obligation to calculate and pay any top-up tax for onshore and offshore jurisdictions with an ETR below 15 percent. However, reporting and payment obligations may be spread across many jurisdictions in some circumstances, so early planning is recommended to understand the expected impacts.

Some relief is given for low-taxed entities with “substance” (based on tangible assets and payroll). Safe harbors may also be available.

In addition, many jurisdictions are expected to reform their tax incentive regimes or introduce a **Domestic Minimum Tax (DMT)** of 15 percent to collect any top-up tax locally, rather than cede taxing rights to the parent company jurisdiction. If a country introduces a DMT, the obligation to pay top-up tax will fall to local subsidiaries and branches of foreign-owned groups.

For both outbound and inbound groups, this means new filing obligations in the headquartered country/territory and in many other jurisdictions around the world.



Case study

KPMG firms have worked with a number of large multinationals to help them understand the impact of Pillar Two. In the case study below, we conducted an impact assessment and data gap analysis and will provide continued assistance ahead of key Pillar Two milestones.

KPMG’s Approach

Our multidisciplinary team worked alongside a client's team to combine industry expertise, BEPS specialists and data experts to provide a holistic coordinated approach.

The impact assessment was conducted with our market leading KPMG BEPS 2.0 Model.

From a collaborative workshop process, significant risks were identified and recommendations developed on how to help address them.

KPMG professionals conducted a data gap analysis with a focus on material requirements.

Finally, KPMG professionals developed an action plan with the client for next steps in relation to key project milestones.

How can organizations benefit?

Overseeing potentially adverse outcomes and enhancing business planning by:

- Identifying the cash tax impacts based on historical and forecast data.
- Identifying issues to raise in OECD and local consultations, which can help lead to real change.
- Identifying material data gaps for resolution, and factoring them into settings for ERP upgrades and tax technology implementations.
- Informing the outcomes of a multi-year project plan to identify resource needs and project budgets.

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Action plan and timeline for multinational groups

Next six–12 months

01

Impact assessment

- Identify and categorize in-scope entities
- Assess eligibility for safe harbors to reduce compliance in early years
- Model preliminary cash tax impacts and determine "at-risk" jurisdictions through high-level ETR and top-up tax calculations, including the impact on future forecasts
- Prepare for new financial statement disclosures

02

Data gap analysis

- Identify data gaps, match them to existing sources and prepare data gap resolution plan
- Optimize tax engine implementations and ERP upgrades

03

Implementation roadmap

- Develop an initial project plan, resourcing, operating model and multi-year budget for building new processes
- Build a multi-phase data roadmap with a focus on critical data feeds
- Review country-by-country data quality and processes for use in safe harbors
- Asses the impact of changes on new business and M&A

04

Pre-regime actions

- Consider the opportunity or need for group restructuring/relocation of activities
- Manage internal and external stakeholders, including any market disclosure obligations
- Track and communicate the impact of OECD and jurisdictional developments and participate in consultations

Next 12–18 months

05

Implementation year

- Perform detailed ETR and top-up tax calculations to determine top-up tax obligation and financial statement disclosures
- Determine which elections to make (21 per jurisdiction) and reflect them in obligations in financial statements
- Execute a data strategy, including opportunities for broader tax transformation
- Review and update governance and controls to ensure risks are appropriately managed

06

Reporting & compliance

- Prepare current tax disclosures for implementation year financial reporting
- Prepare GloBE and DMT payments and filings

18+ months

07

Audit readiness & post-regime improvements

- Undertake ongoing process improvements, including governance and data automation enhancements
- Prepare audit defense documentation

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Contacts

Grant Wardell-Johnson

Global Tax Policy Leader
KPMG International
E: grant.wardelljohnson@kpmg.co.uk

Danielle Rolfes

Co-Partner in Charge, Washington National Tax, International Tax KPMG in the US
E: drolfes@kpmg.com

Conrad Turley

ASPAC Regional Tax Policy Leader
KPMG China
E: conrad.turley@kpmg.com

Vinod Kalloe

EMA Regional Tax Policy Leader
KPMG in the Netherlands
E: kalloe.vinod@kpmg.com

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