How can Pillar Two compliance offer new business opportunities?

Fit for Pillar Two series

Featuring Christian Athanasoulas, Tax Practice Leader – Services, KPMG LLP, and Global Head of International Tax and M&A Tax, KPMG International; Kelly Raftice, Partner, KPMG US; Jay Aryton, Partner, EMA Head of Global Compliance & Transformation, KPMG UK; and Kazushige Koide, Partner, KPMG Japan.

Musical intro

Host

With Pillar Two compliance deadlines approaching fast, business leaders can turn a new legal obligation into a competitive advantage by reimagining their approach to tax governance and refining or redesigning their target operating model. To meet Pillar Two requirements, companies must generate, gather and manage more data than ever before.

The ability to leverage these expanded data sets can become a business advantage, transforming a regulatory burden into an opportunity for short and long-term planning and strategic business restructuring.

I'm joined today by Christian Athanasoulas, Tax Practice Leader — Services at KPMG US and Global Head of International Tax and Mergers-Acquisition Tax at KPMG International; Kelly Raftice, Partner at KPMG US; Jay Aryton, Partner, EMA Head of Global Compliance & Transformation at KPMG UK; Kazushige Koide, Partner at KPMG Japan.

In today's episode, we will discuss how business leaders can turn Pillar Two compliance into a competitive advantage by innovating their tax governance frameworks and utilizing expanded data sets for strategic planning and restructuring efforts.

Christian, with Pillar Two reporting requirements fast approaching, how can business leaders turn a new compliance obligation into a competitive advantage by reimagining their approach?

Christian Athanasoulas

Thank you very much for that question. I think there are several ways that businesses can use the new Pillar Two compliance obligations to gain a competitive advantage. First and foremost, compliance is quite complicated. There's a need for technology solutions in process. And to the extent that a business can find ways to do this compliance in an efficient way from an operational perspective, they can streamline their financial reporting and tax management processes, which will allow them to reduce costs and improving resource allocation.

Additionally, to the extent that an organization can find ways to properly operationalize BEPs compliance, it will give them a competitive advantage as it relates to looking for adjacent opportunities. From a tax planning perspective, the data that's required from a compliance perspective is very much relevant to identifying those types of tax planning opportunities. And the third way is around risk management.

And certainly, with a new compliance regime like Pillar Two, there are instances where there's uncertainty as it relates to how to appropriately comply. But to the extent that an organization can take the appropriate measures to build systems, processes, technologies, it will reduce the risk of legal penalties and disputes. And being able to manage those risks is really important from a trust and transparency perspective, not just for the organization but for other stakeholders, including investors and customers.

Host

Thanks for those insights, Christian.

Kelly, what aspects of the new reporting requirements related to Pillar Two are proving to be the most challenging for MNE groups?

Kelly Raftice

The Pillar Two and local QDMTT compliance is creating a lot of extra burdens for tax functions where this is already on top of the already existing work, which requires augmenting existing processes, creating new processes, collecting a significant amount of data points, and also navigating the disparate requirements in each relevant jurisdiction.

So, I'll unpack each of those items. First, from a process perspective… The components of a Pillar Two calculation isn't just a simple adjustment from Corporate Income (CIT). It represents a separate tax system that results in a tax base that is a hybrid between financial statement principles and tax principles. Certain jurisdictions have implemented Pillar Two legislation where the computations of globe income start with group GAAP, and some where it starts with local GAAP. So, one of the things that we are seeing our clients want to be focusing on something that we're very much in tune with, is trying to integrate the processes that exist from a Pillar Two perspective, as well as from a from a local CIT perspective.

However, we need to make sure that the classification of entities is done properly, as well as the impact of certain adjustments, which might seem simple in principle, are actually dealt with in an appropriate manner. As a result, designing and implementing these processes is complex, often requiring a significant number of global stakeholders in the process and other colleagues to be involved in it.

The next point is associated with data. So, gathering the amount of data that's necessary to do these calculations is a tremendous challenge for our clients. And not only do the data points come from multiple sources, but some of the data points also required are not data points necessarily, but things that need to be calculated or things that are not typically used within accounting or tax and other processes.

The number of data points required to comply with QDMTT's or IIR's for jurisdictions, that fail to transitional country-by-country, safe harbors, as well as having a system in place that can efficiently collect this data, is something that is a large burden for most multinational corporations. Finally, local requirements. So, although jurisdictions have generally implemented local Pillar Two legislation to be consistent with OECD principles, the filing requirements are different in each jurisdiction. In some cases, the requirements are quite simple.

Example would be the UK, whereas in certain cases more full calculations are being required, for example Belgium. Some jurisdictions are also requiring simplified filings when the transitional country-by-country safe harbor are being elected, whereas some jurisdictions or not. Therefore, analyzing the filing requirements is a significant undertaking for all multinational companies.

Host

Jay, what best practices are you seeing organizations implement in preparation for compliance with the Pillar Two rules, and what common mistakes have you seen in the marketplace?

Jay Ayrton

Let me take the first part of the question first, which is around best practices. What I'm seeing is companies are at different levels of maturity, and a lot of this depends on where they've started their journey and how material BEPS is for them. But across the board I would kind of categorize it across three areas. Firstly, technology, how do you decide on what the right solution is for you.

The temptation is to use Excel to kind of use tools you already have. I think the real killer here is volume, especially when you get onto the size of data and transactions you need to deal with from a GRI perspective. And that's where the more specialized solutions are coming into play. But Kelly referenced data management as well. And to me that is the biggest challenge here. How do you deal with the myriad of data you need to deal with the different data points? And this is not just across Pillar Two, but all your compliance requirements. So, coming up with a technology solution is the first part of this.

The second part of this is your sourcing strategy. What are your options? Do you outsource it? Do you use in-house capability? Again, I think the challenge here is not just about capability, but it's also about capacity. Do you have the capacity to do this in a number of countries? So, I think merging those two areas together and thinking about the right solution for you from a sourcing perspective is really an important part of your best practice strategy.

And then lastly, it's integration. I've spent a year in Tokyo. I've spent some time with Kaz and we've talked about the overlap between the corporate tax return work and the Pillar Two work. Kelly mentioned it a couple of times. A starting point for a number of these jurisdictions is local GAAP, and there are a lot of synergies across that exist between local tax books and the tax differences for Pillar Two income tax calculations. So, the common areas include dividends, stock-based compensation, etc.. So again, looking at how we maximize those synergies are going to be really really critical.

So those are the three points I'd flag from a best practice perspective: Technology solution, sourcing strategy and maximizing integration with your wider compliance. Which then takes me on to the second part of your question. What are the learnings we are seeing, or what mistakes have we seen others make? And I'd like to almost reference these more as learnings from experience, which help us create opportunities. So, to me there are again three of those.

Firstly, it's the robustness of your Country-by-Country Reporting (CBCR). I think this is going to come into play more and more. And as companies move from a compliance exercise to something that impacts that cash tax, it's going to become much more relevant. So, this is kind of point one for me. Thinking about the robustness of your CBCR.

The second point, and Christian alluded to this when talking about the wider operating model. Don't think about this as a standalone exercise. This is how you revisit your overall operating model, the compliance and transformation. And my last point would be think about the wider business case.

Host

Thanks Jay. Kaz, due to the nature of the rules and the reporting requirements, Pillar Two is also changing the mindset of taxpayers in markets that have often been viewed as operating in a decentralized fashion. Can you share what you are seeing in Japan and other markets?

Kazushige Koide

Pillar Two is fundamentally shaping tax compliance. This is particularly the case in market traditionally characterized by their decentralized operations. In Japan and also for other regions, we are observing a significant shift among corporate groups that the lack of a strong tax governance framework. That's the reporting requirements necessitate data centralization. This is a significant administrative burden that could potentially double or triple the workload.

Historically, about how global Japanese and multinational corporate groups manage tax compliance internally. However, with the domestic implementation of Pillar Two, many companies are now adopting the KPMG Target Operating Model, which is a part of the KPMG Tax Reimagined concept. This involved outsourcing certain business functions and enhancing the reporting capabilities and establishing a robust tax governance framework. This trend is not confined to Japan. It applies across Asian countries and Western nations alike.

Host

Thanks, Kaz. Christian, any final observations?

Christian Athanasoulas

My colleagues Kelly and Jay and Kaz did a great job unpacking the complexities associated with Pillar Two compliance. The one thing that I would add is that the data needs as it relates to Pillar Two are quite broad and varied, while in most instances Pillar Two compliance is certainly the domain of the tax department to do Pillar Two compliance properly. It is going to require input from many stakeholders across an organization and making sure that those stakeholders are consulted with early in finance, in legal, in HR and elsewhere, is going to be critical to success.

Host

Thanks, Christian.

As we stand at this crossroads, the decisions made by tax leaders today will have a lasting impact. The transition to Pillar Two compliance is not just about meeting new legal requirements — it's about reimagining the tax function as a pivotal component of modern corporate strategy.

That’s all the time we have for today. Stay tuned for the next podcast in our next Fit for Pillar Two series that will delve deeper into data, transformation, and technology.

You can email us with any questions you have about today's episode at tax@kpmg.com. We’d also love to hear from you with any suggestions you have for future episodes.

Thanks for listening.

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