

State of Tax, Legal & People

Pillar 2 - From theory to practice

Thursday 9 February 2023



Welcome

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- With the button '[Ask a question]' you can ask your questions directly
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- Webcast and presentation will be made available afterwards
- Evaluation form afterwards

Agenda

1. Recap
2. Legislative process and Implementation Framework
3. Business perspective & Data requirements
4. Observations and considerations
5. Next steps



01

Recap

Pillar 2



Where are we now and what to expect...



Pillar 2 Basics (1/2)



What?

Global minimum tax of **15%** in each jurisdiction



How?

- Top-up tax at (ultimate) parent level (and/or other group entities)
- Compute **Pillar 2 ETR** for all jurisdictions both > and < 15%, unless **Safe Harbour** rules apply



When?

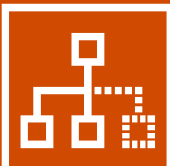
31 December 2023

Pillar 2 Basics (2/2)



Revenue

MNE Group with consolidated annual revenue of at least **EUR 750M** in at least 2 out of the last 4 years



Groups

Constituent Entities related through ownership or control (are included or should have been included in consolidation)



Location

- Constituent Entities or PEs in at least 2 jurisdictions
- Domestic Groups within the EU

Poll

Where are you with respect to Pillar 2?

1. Starting to understand what Pillar 2 is.
2. I did some high level analysis.
3. Did analysis and working on roadmap.
4. Already working on implementation.



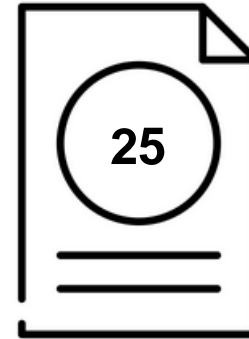
02

Legislative process

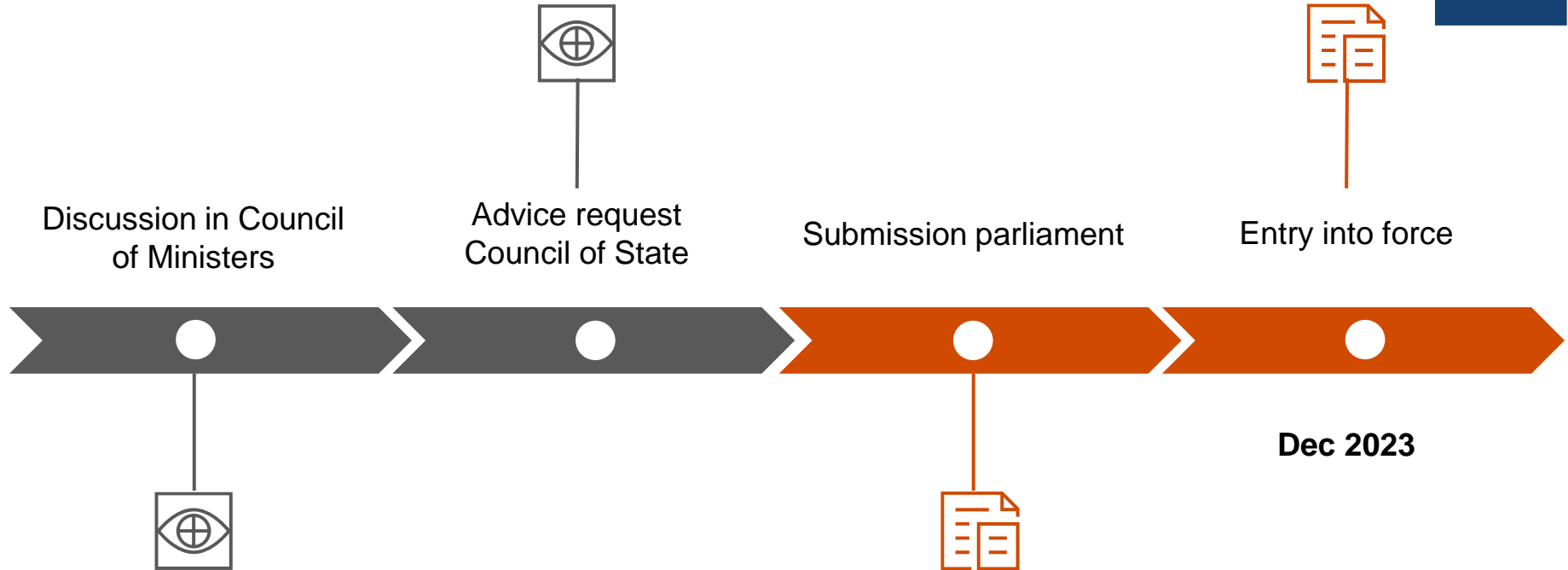
& Implementation
framework



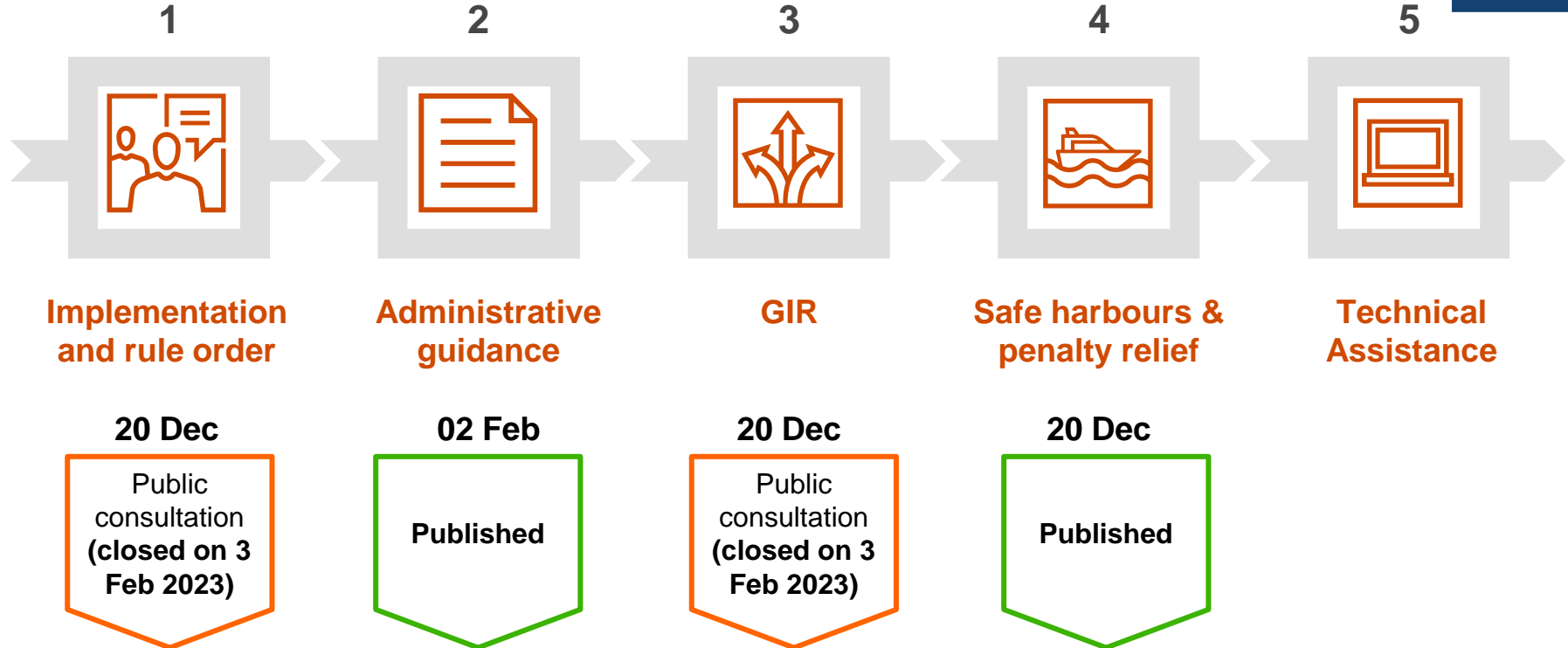
Legislative process: Internet consultation



Legislative process in 2023



Implementation framework



Implementation framework



- **Workflow 3: GloBE Information Return (GIR)**

- Coordination
- GloBE return
- Exchange of information

Public
Consultation
(concluded)



- **Workflow 4: Safe Harbours**

- Agreed safe harbours:
 - Transitional CbC-safe harbor
 - Permanent Simplified Calculations Safe Harbour
 - Transitional Penalty Relief Regime

Published

Transitional CbCR Safe Harbour - general



What?

A **temporary relief** of the Pillar 2 compliance burden: **no detailed Pillar 2 calculations** for a jurisdiction is required if the Transitional CbCR Safe Harbour Rules apply. **The Top-Up Tax** for that jurisdiction is then assumed to be **zero**.



How?

The Safe Harbour Rules apply if at least **one** of the following tests is met:

- **De Minimis Test**
- **Simplified ETR Test**
- **Routine Profits Test**

These tests can be determined based on readily available data as recorded in **“Qualified” CbC Reports** and **Financial Statements**.



When?

All fiscal years beginning on or before **31-12-2026** (not including a fiscal year that ends after 30-6-2028). In essence, this means three fiscal years of compliance relief for the IIR and two fiscal years for the UTPR.

Transitional CbCR Safe Harbour - general

Top Up Tax = 0,
if one of the
following tests
is met.

De Minimis Test

The respective test is met for a fiscal year, if for such fiscal year:

1. The total **CbCR Revenue*** of the Constituent Entities located in that jurisdiction is **less than EUR 10 000 000**; and
2. the total **CbCR Profit (Loss) before Income Tax**** of that jurisdiction is **less than EUR 1 000 000**.

Simplified ETR Test

The total **Income Tax Expense***** divided by the total **CbCR Profit (Loss) before Income Tax*** gives a jurisdictional ETR higher than the **Transition Rate** (15% in 2023 and 2024, 16% in 2025 and 17% in 2026).

Routine Profit Tests

The total **Substance Based Income Exclusion** is higher than the total **CbCR Profit (loss) before Income Tax*** of that jurisdiction.

This test will be always met if the tested jurisdiction has a loss or zero profits.

*Taken from Qualified CbC Report

**Taken from Qualified CbC Report, after eliminating Net Unrealised Fair Value Losses if those losses exceed EUR 50M in a jurisdiction

***Taken from Qualified Financial Statements, after eliminating non-Covered Taxes and Uncertain Tax Positions

Implementation framework



- **Workflow 1: Implementation & rule order:**

- Dispute prevention
- Dispute resolution

Public
Consultation
(concluded)



- **Workflow 2: Administrative Guidance:**

- Additional guidance to ensure coordination and greater certainty for businesses
- Guidance supplements, replaces or simplifies existing commentary
- Guidance on 26 topics
- Regular publication of updated version(s) planned

Published

Agreed Administrative Guidance - general



Why?

Since the publication of the P2 Model Rules and Commentary, **a wide range of issues** has been identified that required immediate clarification and simplification for stakeholders. The Administrative Guidance aims to address these issues by providing further guidance and examples



How?

The basis lies in **article 8.3 Model Rules**: “The tax administration of [...] shall, subject to any requirements of domestic law, apply the GloBE Rules in accordance with any Agreed Administrative Guidance”.



What's next?

The Administrative Guidance will be incorporated **into a revised version of the P2 Commentary** to be released later this year (and replaces the original version dated March 2022). Idem for the examples.

Administrative guidance - key takeaways

- **Key takeaways** of the **Administrative guidance** that has been published
 - Initial tranche, to be followed with further guidance in future.
 - **Clarifications** with respect to e.g.: excluded entity definition, insurance companies, transitional rules and Article 4.1.5 Model Rules.
 - Further guidance with respect to **transfer of assets** in transitional period.
 - Trying to resolve some unintended effects due to **mismatches** between accounting treatments and GloBE rules.
 - Flexibility in **design QDMTT**.
 - More clarity with respect to allocation of **CFC taxes**.
 - **QDMTT Safe Harbour**

03

Business perspective

& Data requirements



Interview Hans van der Kroon - randstad

- What did Randstad do to prepare for Pillar 2?



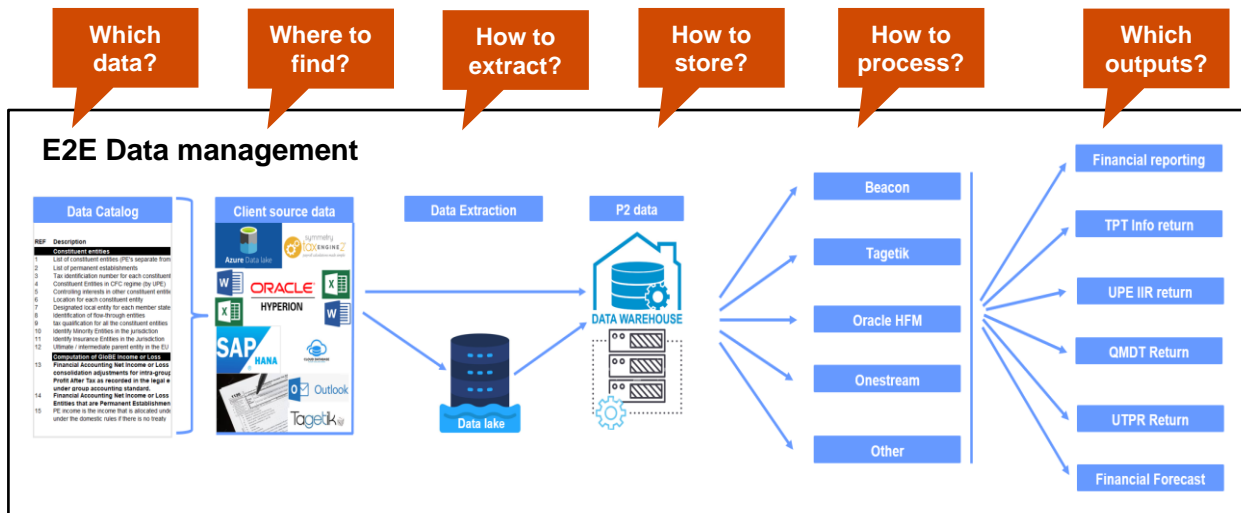
Poll

How much data required for the detailed Pillar 2 calculation do you have readily available?

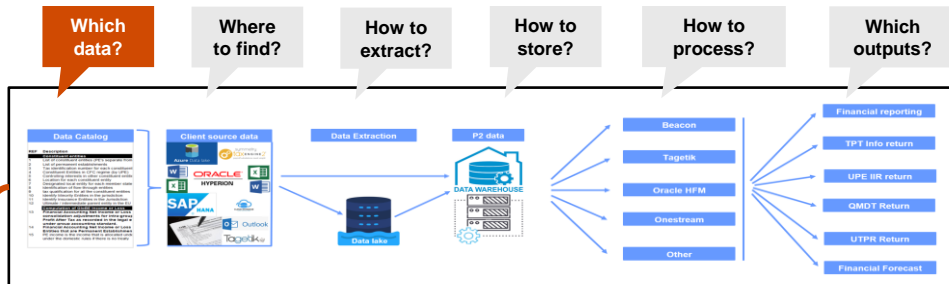
1. 80 - 100%
2. 50 - 80%
3. Less than 50%
4. No idea yet



Pillar 2 is mostly a data challenge (1/2)



Pillar 2 is mostly a data challenge (2/2)



214		applies; the Tot Def Tax Adj amount doesn't a
215	3.77	Additional Top-up Tax Calculation (per jurisdic
	3.77(a)	Additional TPT regarding recomputation of a prior
216		a Tax Rate change
	3.77(b)	Additional TPT regarding recomputation of a prior
217		a Post-Filing adjustment
	3.77(c)	Tax loss in excess of P&L loss. Negative Adjusted i
218		excess of 15% of the Globe Profit/Loss
219	4.00	Substance-based income exclusion
	4.01	The Substance-based income exclusion (payr
		asset carve-out) applies by default, but can b
220		per year/per jurisdiction by election.
221	4.02	Eligible employees
222	4.03	Eligible payroll costs

Over 200 potential datapoints per legal entity; Financial and non-financial data

3 Categories

1. Qualifying Income
2. Adj Covered Taxes
3. Other Datapoints

Findings from pilot projects

1. Data availability from ERP / EPM is limited
2. Or sometimes not available by entity
3. Identifying relevant accounting entries
4. Consolidation per jurisdiction
5. Consolidation adjustments in parent
6. Eliminations of intra-group transactions

2nd part Interview Hans van der Kroon - randstad

- What challenges did Randstad face?
- What is Randstad's take on the Safe Harbours?
- What do you expect from Dutch Tax authorities?



Poll

What is your take of the temporary safe harbours?

1. Very welcome relief since we do not need to do all detailed calculations in the next three years
2. The relief is nice, but we still need to do a substantial amount of work on detailed calculations
3. Only very limited relief, we still need to do most of the detailed calculations.



04

Observations &

Considerations



PwC's observations - temporary Safe Harbour

- The application of the **Transitional CbCR Safe Harbour** for a fiscal year will also mean that:
 - a) **no Pillar 2 calculation** will have to be made for Safe Harbour jurisdictions;
 - a) the **transition period** is in principle **extended** by the duration of the Transitional CbCR Safe Harbour;
 - b) the MNE Group would still need to prepare and file the **GloBE Information Return**, including the information concerning the application of the Transitional CbCR Safe Harbour



PwC's observations - temporary Safe Harbours

- **“Once out, always out”** approach. If a jurisdiction fails the safe harbour test either in a year or **upon audit**, the Transitional Safe Harbour rules are found not applicable and the GloBE Rules would apply fully for that and any subsequent Fiscal Year.
- **Timing:** Can CbCR reporting be accelerated to meet 2024 financial reporting deadlines?
- **Quality:** Does the CbCR meet the stringent requirements of the tax return and what will the auditor expect?
- **Differences:** Beware that there are differences between the ETR calculation under the Safe Harbour rules, the P2 rules and the regular calculation. Note also that CbCR rules differ from each other depending on the jurisdiction.

PwC's observations - Administrative Guidance

- Some helpful guidance including:
 - The treatment of consolidated Deferred Tax Amounts
 - Allocation of CFC taxes to the CFCs themselves to avoid double tax
 - Step-up allowed during period 30/11/21-31/12/23 to the extent the transition has been taxed
 - Carry forward of pre-Pillar 2 tax credits
 - Treatment of excluded equity hedges
- But note that
 - Some of these do not apply to the Safe Harbour calculation
 - There are still many questions outstanding; i.e. more guidance to come?

05

Next steps



What are the next steps for the Dutch Tax authorities?



DTA Implementation



Last part Interview Hans van der Kroon - randstad

- Some final thoughts to share with the audience.



Phase 1: Safe Harbour analysis

1. Assess whether the CbCR report meets the requirements for a **Qualified CbCR report**.
2. Risk assessment by performing **Safe Harbour ETR calculations** based on '19-'21 CbCR reports
 - a. Requires delineation of the jurisdictions for CbCR vs Pillar 2
 - b. Requires making the appropriate adjustments to PBT and Covered Taxes
1. Assessment of the **maturity of Process & Quality**:
 - a. Can it be accelerated to meet financial reporting deadlines (including extra info)?
 - b. Is it audit proof?
4. Analysis of the **outcomes** and **potential mitigation**
 - a. How many jurisdictions fail the test and what is needed for P2 calculations?
 - b. What is possible in terms of mitigation?
5. Analyse **intra-group transactions** done between 30/11/21 and 31/12/24
6. Assess whether the **requirements of the TPT Information Return** can be met

Phase 2: Assessment & Business Case

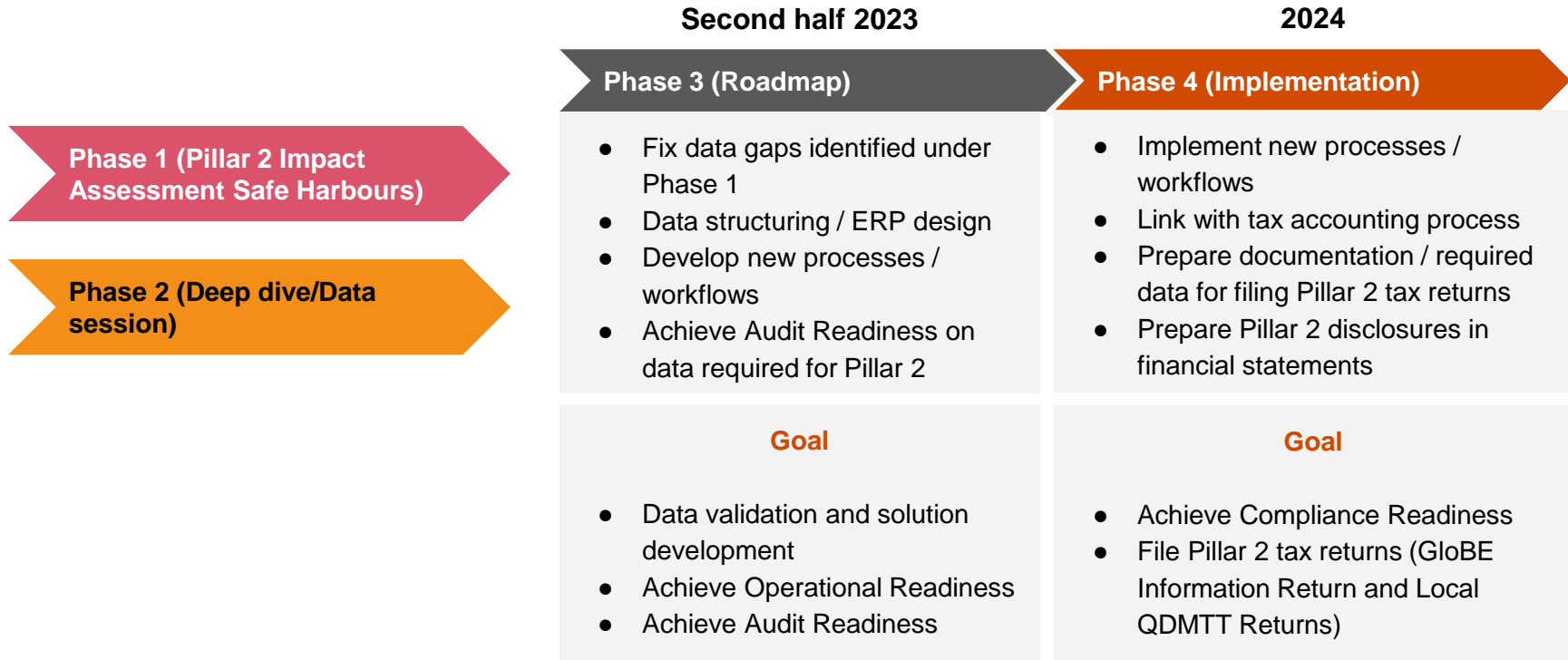
- 1. Mapping & Scoping**
 - a. Map P2 data requirements
 - b. Analyse data requirements and scope the P2 Pilot
- 1. Perform pilot calculations in a couple of jurisdictions**
- 1. X-functional workshop to discuss outcome of Pilot:**
 - a. Financial outcomes and causes
 - b. Data gap analysis
 - c. Complexity analysis

Output:

- Financial Impact assessment based on efficient scope pilot study
- Preliminary assessment of Data-Gap and complexity
- Internal business case based on stakeholder presentation including use of P2 Tool, visualisation and data-gap dashboard.



Roadmap to Pillar 2 readiness



Three key messages to take away



If you haven't started yet. Start now and make a plan!



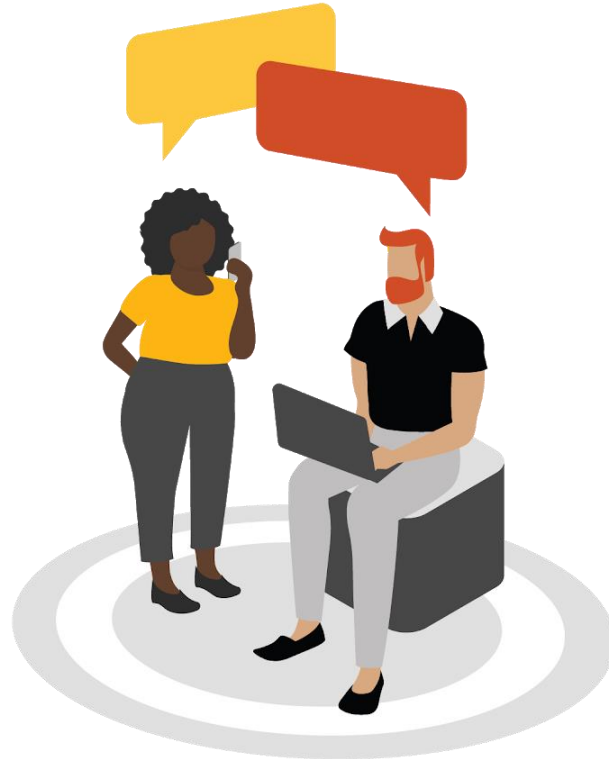
Do not underestimate the complexity and need for upskilling your finance teams



Take it step by step



Questions?



Closing

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- Please fill in the evaluation form

Evaluation

- How would you rate this webinar on a scale from 1 to 10?
- The content was relevant. (Totally agree/Agree/Neutral/Disagree/Totally agree)
- Do you have any suggestions and/or comments?
- Do you have specific questions and would you like us to contact you?

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