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Pillar Two Guide

for EMEA Multinational

Enterprises

March 2025

www.pwc.com/gx/en/services/tax/pillar-two-readiness.html

1 Implementation

roadmap

Introduction

The window to start preparing and adopting an action plan for Pillar Two¹, the new global minimum tax framework, is closing rapidly. Based upon existing organisational structures and supply chains, in-scope multinational enterprises (MNEs²) which at a European Union (EU) level also includes domestic groups, could face increases in their global effective tax rate (ETR), cash tax outlays, and compliance burden. Earnings in jurisdictions where the MNE's ETR (as determined under the Pillar Two rules) is below the 15% minimum rate will be subject to an additional top-up tax. Due to the design of its charging provisions, the Pillar Two rules are likely to also apply to those operations of MNE groups which are located in jurisdictions that do not implement or are in delay with the implementation of the new rules. In addition, other countries that enact Pillar Two may be able in the future to impose additional tax on foreign-headquartered MNEs if the tax imposed by the foreign jurisdiction on the profits in such jurisdiction of these MNEs is less than 15%. In this regard, although the foreign nominal corporate income tax rate may be above 15%, certain credits (including the R&D tax credit), as well as other deductions and incentives, could cause the effective tax rate on these foreign operations to fall below 15% for Pillar Two

Notably, the European Union has adopted the minimum tax Directive (2022/2523 of 14 December 2022) that in general imposes on all member states the adoption of Pillar Two rules by 31 December 2023 in a way that is consistent with the common approach, but provides for some additions to the OECD Pillar Two model rules (e.g. the application to large scale domestic group and the charging through the domestic Income Inclusion Rule).

The Pillar Two rules contemplate three different mechanisms for assessing tax on a MNE's income, and MNEs will have to comply with the filing requirements for each applicable rule:

There is a (Qualified) Domestic Minimum Top-up Tax ((Q)DMTT) which is a tax that a country imposes on income earned within its own borders to ensure that such income is taxed at a rate of 15% for Pillar Two purposes. The key features of a (Q)DMTT are included in the GloBE Model Rules. Differences and inconsistencies in the application of (Q)DMTT rules are evident among countries that have introduced these rules in 2024.



¹Pillar Two refers to the OECD Model Global Anti-Base Erosion (GloBE) Rules, as published on 20 December 2021, and the subsequent Administrative Guidance published by the Inclusive Framework

- The so-called "primary" rule is the Income Inclusion Rule (IIR), which generally imposes tax on the parent entity of an MNE group to the extent that the foreign subsidiaries of the MNE are taxed at a rate less than 15% as determined for Pillar Two purposes.
- The IIR is accompanied by a "backstop" rule, known as the Undertaxed Profits Rule (UTPR, formerly known as the Undertaxed Payments Rule), which permits a country to impose additional tax on an entity if that entity has any affiliated entities in other jurisdictions that are taxed at less than the 15% Pillar Two rate.

A common peer review process established by the OECD ensures the conditions to obtain the qualified status of the DMTT, IIR and UTPR. Also, as an interim solution, a simplified procedure can be followed to recognize the qualified status on a temporary basis, There are countries that have already introduced DMTTs that are not qualified (e.g., Cyprus).³

Further, as part of the various filing requirements for each of these taxing mechanisms, MNEs will need to track elections and various Pillar Two attributes, effectively requiring MNEs to maintain potentially multiple new set of books and establish all the processes and technologies needed to maintain those books.

Adding to the complexity of Pillar Two is the interplay with other existing domestic legislation e.g. tax legislation, local accounting rules, CbCR, etc. For US taxpayers this includes the tax imposed on Global Intangible Low-Taxed Income (GILTI), which is imposed on a 'blended' basis, taking into account income earned by all foreign affiliates of such MNE in one computation. Because Pillar Two requires a computation of a MNE's ETR on a jurisdictionby-jurisdiction basis, the US MNE's GILTI must be allocated among the MNE's foreign jurisdictions in order to determine the Pillar Two ETR in each jurisdiction. Similarly, EMEA MNEs with US subsidiaries subject to the Corporate Alternative Minimum Tax (CAMT) must consider the interaction of the CAMT liability with their Pillar Two computations. Additionally, EMEA MNEs must consider the treatment of foreign permanent establishments (PEs) (both taxable and exempt) where GMT(P2) rules are based on the assumption of proper accounting, including current and deferred tax accounting, for the PE - both from the head office and the PE's points of view.

Pillar Two is more than just a tax issue. Responsibility for complying with this new regime will require resources beyond the traditional tax function, including financial reporting controllers, IT/systems, human resources, and other corporate stakeholders. A multi-functional team is needed from the outset to identify an implementation plan that includes operational readiness, data strategy, and quantitative analysis.

The rules are effective starting for fiscal years beginning on or after 31 December 2023 (for (Q)DMTT and for IIR) for EU member states and certain third country jurisdictions. Compliance with new annual tax filings will start as early as 2025 (e.g. Belgium (Q)DMTT is due by 30 November 2025 for financial years ending 31 December 2024) but will generally be due in 2026, with some jurisdictions imposing notification requirements and/or estimated payments that started in 2024 or 2025. Hence, developing the framework for data, technology and process foundation for global and statutory compliance should already be well underway.

This Pillar Two Guide for EMEA Multinational Enterprises is intended to provide EMEA taxpavers with an illustrative step-by-step approach to prepare for Pillar Two, including ongoing financial statement reporting and tax compliance requirements. Creating and adopting a plan for Pillar Two readiness will require agility and flexibility, and any plan should be viewed dynamically with many interconnected activities requiring coordination across the entire organisation. This guide should be adjusted, customised, and prioritised based on current-state Pillar Two readiness and unique organisational challenges. The Pillar Two Readiness Guide can be used in parallel by MNEs to evaluate preparedness for Pillar Two, navigate unique complexities, identify any actions to undertake to sustain compliance requirements, and understand possible financial and operational implications of Pillar Two on existing business models. The Pillar Two Readiness Guide outlines technical areas that will help MNEs refine their strategies for the 2024 full-year reporting and, ultimately, prepare for (Q)DMTT filings starting in 2025, and the first GloBE return filings in 2026.

³The recognition of the "qualified" status is important for determining the order in which the global minimum tax rules apply. If a DMTT is considered a QDMTT, the QDMTT amount can be offset against the top-up tax to be paid following the application of the IIR. If additional conditions are met, the QDMTT can benefit from a safe harbour rule, meaning that no IIR calculation will need to be performed for that jurisdiction. In case of a DMTT (i.e., not "qualified"), in principle such tax would be considered as a covered tax for the calculation of the top-up tax under the IIR.



General Financial Statement Considerations

For IFRS purposes, on May 23, 2023, the International Accounting Standards Board (IASB) released its final standard with amendments to IAS 12 Income Taxes. Such new guidance provides temporary relief for companies from having to account for deferred taxes arising from the implementation of Pillar Two along with requiring disclosures that should help users of their financial statements understand their exposure to Pillar Two. The amendments became effective as of the date the guidance was released; however, for local country purposes a ratification process was generally necessary. The disclosure requirements apply to annual periods that began on or after January 1, 2023. Similar approaches could be taken by local EMEA accounting standard setters.

While many countries' Pillar Two IIR legislation became effective in 2024, other countries are in the process of enacting legislation and the UTPRs in general have also become effective in most of the implementing jurisdictions. As a result of the legislative developments, companies should consider any related disclosures as part of their financial reporting process. For financial statements under IFRS, preparers should consider the disclosure requirements included in the amendments to IAS 12, as noted above. Other local statutory accounting standards should also be considered.

Additionally, companies will need to consider what new processes and internal controls should be established to determine any incremental Pillar Two tax liabilities, as well as to support any determinations that no liabilities exist. Such reporting and disclosure, that requires new data based on new rules, could put pressure on fast closing and related existing processes and systems.

Filing Considerations

For many MNEs, compliance with new annual tax filings will be necessary for 2024 tax years. Filing of Pillar Two tax returns, including the GloBE Information Return (GIR) by each Constituent Entity or a designated Filing Entity, is required starting June 30, 2026 for calendar-year taxpayers. A (Q)DMTT local tax return filing and/or payment before June 30, 2026 will likely also be needed in certain jurisdictions where a (Q)DMTT is in place (e.g. Belgium (Q)DMTT filing due 30 November 2025 for calendar year taxpayers).

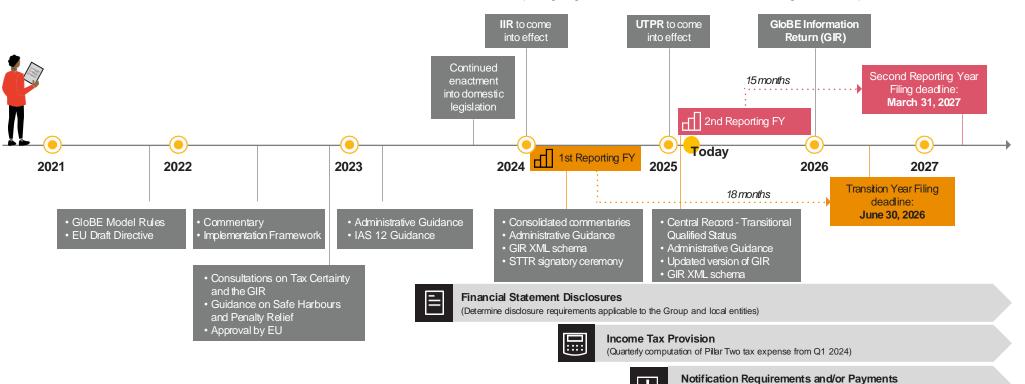
MNEs should monitor the European Commission's proposed amendments to the EU Directive on administrative cooperation in taxation (i.e., the DAC9), which aims to facilitate the exchange of topup tax information between Member States by allowing MNEs to file a single Top-up tax information return in one EU Member State (instead of multiple filings across different Member States).

Implementation of Pillar Two

* Illustrative timeline reflects a calendar-year taxpa yer

** Anticipated based on guidance released as of publish date

Transitional Safe Harbour (FY beginning on or before 31/12/2026, does not indude FY ending after 30/6/2028)





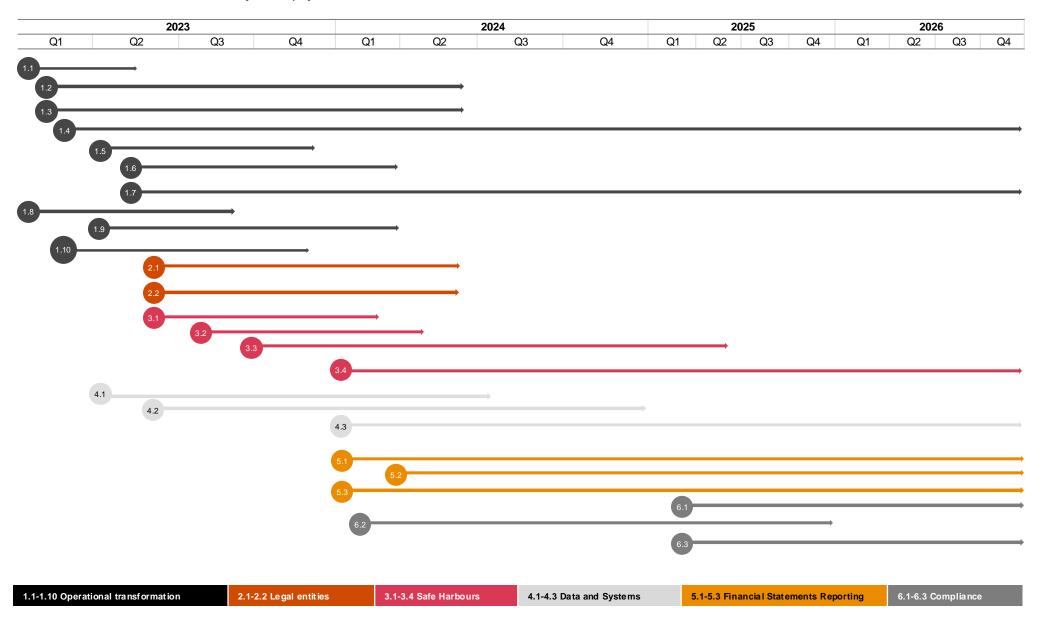
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2 Client action plan

summary and roadmap

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*Illustrative timeline reflects a calendar-year taxpayer



Guardrails for success: stakeholder management, governance and controls, development tracking

- 1.1 Educate key stakeholders about the broad reaching effects of Pillar Two adoption and ongoing compliance
- 1.2 Establish clear lines of communication and responsibility
- 1.3 Establish governance, oversight, and internal controls to help manage risk
- 1.4 Monitor new developments and keep stakeholder groups informed

Cultivate your team: resource planning, defined roles and responsibilities, timeline, training

- **1.5** Determine the level of resources required to comply with Pillar Two and identify teams and resources
- 1.6 Define roles, responsibilities and timeline
- 1.7 Provide education and training to designated resources

Formulate an implementation plan: operating model, high-level readiness assessment

- 1.8 Consider whether your operating model is fit-for-purpose
- 1.9 Assess operational readiness for near-term and longer term adoption

Budget and investment management

1.10 Develop and manage your budget

2.0 Legal Entities

- 2.1 Constituent entity analysis
- 2.2 Stand-alone financial statement analysis

3.0 Safe Harbours

- 3.1 Evaluate your current Country by Country Reporting (CbCR) process, data and output
- 3.2 Analyse which jurisdictions may qualify for safe harbour and the benefits of opting in
- 3.3 Develop processes for safe harbour jurisdictions
- 3.4 Assess your Transitional UTPR Safe Harbour position

4.0 Data and Systems

- 4.1 Perform an assessment of your data and systems structures
- 4.2 Identify and remediate data and system gaps
- 4.3 Develop and implement a data strategy rooted in systems and processes

5.0 Financial Statement Reporting

- 5.1 Understand Pillar Two disclosures
- 5.2 Determine the income tax provision impacts
- 5.3 Technical interpretation

6.0 Compliance

- 6.1 Deferred tax liability (DTL) recapture and elections
- 6.2 Implement a Pillar Two calculation engine
- 6.3 Comply with filing obligations

3 Detailed client

action plan

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Guardrails for success: stakeholder management, governance and controls, development tracking

1.1	Pillar Two adoption will take significant cross-functional teaming and coordination as there are several key stakeholder groups within the organisation that will be impacted – on a global scale. These stakeholder groups include Tax,
Educate key stakeholders about the broad reaching effects of Pillar Two adoption and	Controllership, Financial Planning and Analysis (FP&A), Legal, Corporate Secretary, Treasury, Information Technology, and other relevant organisational functions (including sector or business unit controllers, if decentralised).
ongoing compliance	A global network of specialists comprised of resources from each of the key stakeholder groups identified should be established to help drive adoption and deliver ongoing reporting and compliance. Members of this group should be educated as to:
	 The core objectives and principles, data requirements, new reporting and compliance obligations (enacted and anticipated) impacting their teams
	• The potential impact that Pillar Two reporting and compliance will have on current processes, internal controls, and financial statements, as well as any expected ETR impact
	• The estimated timeline for any remaining implementation efforts, as well as any additional resource requests to complete implementation
	Given the magnitude and complexity, consider whether a dedicated project management resource or supplemental outside resources are needed to complete any remaining implementation efforts and early years of reporting and compliance.
1.2	Effective communication, education, and coordination among these groups will help stakeholders and employees
Establish clear lines of communication and responsibility	understand the need for change and how it will affect them. It will also help provide insights needed to develop a well- informed Pillar Two strategy to guide the consistent application of processes, policies, and procedures across the organisation (and geographies).
	We recommend that the Lead Team:
	Establish responsibilities for communicating potential impacts and relevant information to those responsible
	 Educate relevant individuals across the organisation about the requirements in their jurisdiction and what is expected of them
	Keep key stakeholder groups engaged and informed throughout the implementation effort and beyond

Guardrails for success: stakeholder management, governance and controls, development tracking

1.3 Establish governance, oversight, and internal controls to help manage risk	The cross-functional nature, dynamic environment and anticipated divergence in local rules leads to additional complexity and risk associated with Pillar Two. Governance and internal controls are critical to help reduce risk, improve completeness and accuracy, promote operational efficiency and encourage adherence to policies, rules, regulations, and laws. Specifically, an enterprise should:
	 Establish a governance framework that clearly defines the objectives, policies, processes, role delegations and risk oversight required to help effectively support and deliver on the company's Pillar Two strategy
	 Set up a cross-functional steering committee to provide project governance and oversight, promoting stakeholder accountability and strategy execution
	Develop an internal controls structure over the end-to-end Pillar Two process.
	Consider where enhancing existing governance and internal controls may occur versus establishing new processes and internal controls. An enterprise's strategy and approach is likely to evolve as new developments unfold. As such, it is important to continuously review and update your governance framework and internal controls to properly adapt and sustain these structures.
	Additionally, companies should consider developing a risk management plan that outlines risk ownership and establishes a risk mitigation and escalation plan. The steering committee and other key stakeholders should monitor risks on an ongoing basis associated with stand up, readiness, timing and sequencing and specific local country developments along with changes to the business or existing tax positions that need to be evaluated under the Pillar Two lens.
1.4 Monitor new developments and keep stakeholder	Designated teams should continually monitor new developments related to Pillar Two including legislative, regulatory, tax technical, and financial reporting implications. Ongoing communication to the broader stakeholder group is essential to avoid wasted effort and actions taken on stale information.
groups informed	Examples of resources available include:
	Subscribe to <u>PwC publications</u> that provide updates on new developments
	Attend technical training sessions and webinars
	 Reference Pillar Two development trackers, such as <u>PwC's Pillar Two Country Tracker</u>, for details on the implementation status and related requirements by country or region.

Cultivate your team: resource planning, defined roles and responsibilities, timeline, training

1.5 Determine the level of resources required to comply with Pillar Two and identify teams and resources	Pillar Two is truly a cross-functional endeavour requiring technical knowledge and resources from across all areas of tax as well as the broader business. It is critical to understand who needs to be involved as well as their role in the development and long-term sustainability of the Pillar Two planning, reporting and compliance environment. Steps to consider include:
	 Determine the expected level of resources needed to comply – e.g., key stakeholder groups (previously identified), data and process owners, financial statement / consolidations teams, etc.
	 Establish a dedicated, cross-functional team composed of global resources responsible for preparing, reporting and complying with Pillar Two.
	This assessment should include whether the enterprise should employ project management resources or supplemental outside professionals to help on an interim or permanent basis.
1.6	After identifying teams and resources:
Define roles, responsibilities and timeline	Clearly define roles and responsibilities for each stakeholder group or resource
	 Develop milestones and expectations around roles, responsibilities, and timeline.
	Each reporting period, companies will need to assess the impacts of the rapidly changing tax law to determine the impacts for financial statement purposes.
	Compliance with new annual tax filings will be necessary at year-end 2024. Filing of GloBE returns will start in 2026 for calendar-year taxpayers, with some local (Q)DMTT tax returns and/or payments due starting in 2025. As a result,

companies should prioritise near-term requirements.

Cultivate your team: resource planning, defined roles and responsibilities, timeline, training

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1	7

Provide education and training to designated resources

Educating your dedicated, cross-functional team and other key stakeholders is critical to the adoption and sustainability of Pillar Two processes and solutions. There are many existing training resources, however, we have found company specific training to be the most effective approach given the application will be different given your operating footprint, materiality and other factors. As a general rule:

- All tax personnel should be trained on the technical aspects of Pillar Two and how it impacts their company
- Non-tax resources should receive training as part of the readiness assessment, so that you can level-set on baseline reporting and data requirements.

Tailor your education and training approach based on your specific operating model, facts and circumstances and regularly update training as new guidance is issued and local adoption occurs.

Refine and evolve an implementation plan: operating model, readiness assessment

1.8	Assess whether your current operating model (insource, outsource or co-source) is fit-for-purpose given the pervasive
Consider whether your operating model is fit-for-purpose	 impact Pillar Two will have on your operations: Establish short, medium and long-term plans to fulfil reporting and compliance obligations for Pillar Two Consider how the scope and complexity of these plans impact your ability to comply with existing requirements, including bandwidth, technical knowledge, technology enablement, data accessibility and reliability, etc.
	Give additional attention to how your provision and long-term compliance processes will differ. Depending on scope, you may decide to align to your existing operating model or revisit your operating model related to a variety of tax areas such as global tax compliance.
	Change may also be driven and objectively measured by the following key performance indicators (KPIs):
	• Cost
	Risk (financial and reputational)
	Efficiency and effectiveness
	Sustainability.
	Keep in mind that enhancing your existing operating model to meet the needs of the business may involve changes to

the tax ecosystem including technology, processes and resources.

Refine and evolve an implementation plan: operating model, readiness assessment

1.9

Assess operational readiness for nearterm and longer term adoption Pillar Two reporting and disclosure requirements will impact certain MNEs beginning since the first quarter of 2024, or sooner for budgeting and forecasting purposes. Companies need to understand the scope and complexity required to comply with ongoing adoption requirements, while planning for the development and implementation of long-term, sustainable solutions and processes.

A readiness assessment can help your company initially understand what is required as well as where a deeper dive assessment may be necessary based on risk. This assessment should be iterative, enabling your company to adjust and refine its approach as Pillar Two requirements evolve.

Consider:

- Understand your business needs
- · Identify gap areas related to people, process, data and technology
- · Risk assess where a deeper dive assessment may be required
- Develop an implementation plan and roadmap
- · Consider the impact on existing process and internal controls as well as the need to establish new ones
- Evaluate whether a near-term and long-term sustainable approach for adoption may be needed (based on scope and complexity).
- · Continuously assessing and refining to maintain an adaptive approach.

Budget and investment management

1.10	Develop and secure budget and funding necessary to comply with Pillar Two - e.g., acquisition of additional resources,
Develop and manage your budget	adaptation of technology and processes, required system updates/implementations, etc.
	Sample budget considerations may include:
	Near term provision and reporting requirements based on the readings and deeper dive appagaments of a

- Near-term provision and reporting requirements based on the readiness and deeper-dive assessments e.g., remediate gaps, stand-up processes and systems, establish governance and internal controls, satisfy additional resource needs, etc.
- Solidify long-term reporting and compliance processes via the design and implementation of systematic changes including technology enhancements and implementations, additional resources (if necessary), etc.
- Identify costs associated with source data and system enhancements required, including ERP, consolidation and legal entity management system changes.
- Secure training resources for designated resources.

Factor in near-term and long-term reporting and compliance requirements as you establish and manage your budget.

2.0 Legal Entities

2.1

Constituent entity analysis

First determine which financial consolidation groups are subject to Pillar Two rules. For corporate MNEs, this may seem straightforward. However, this may be a bigger undertaking for private equity and financial services firms, as identifying financial reporting consolidations may require IFRS, a local GAAP or other accounting knowledge to supplement tax knowledge. Once the consolidation groups have been identified, you then must analyse which entities will be considered constituent entities for Pillar Two purposes. There are several nuances related to Joint Venture entities, branches, transparent and flow-through entities and permanent establishments that may cause operational challenges.

Once identified and confirmed:

- Analyse your current legal entity (LE) structure based on the definition of a constituent entity
- Reconcile sources of LE master data for constituent entities to help improve completeness and accuracy, and develop a source of truth
- Collaborate with the relevant stakeholder groups to obtain real-time LE information.

Stand-alone financial statement analysis

2.2

After the constituent entities have been identified, companies should evaluate the correspondent GAAP and/or IFRS financial statement preparation process including the recording of consolidation, eliminations and intercompany transactions. It is critical to understand the allocation of these adjustments to the underlying legal entities in order to arrive at the starting point required for Pillar Two.

This can be a challenging task as consolidated financial statements are designed for external and management reporting, and are often not prepared at a true legal entity level. As a result, this exercise will require a deep understanding of the correspondent GAAP or IFRS accounting principles.

3.0 Safe Harbours

3.1

Evaluate your current Country by Country Reporting (CbCR) process, data and output

The transitional safe harbour potentially excludes a group's operations in lower-risk jurisdictions in the initial years as the full rule sets are adopted and implemented, thereby potentially providing operational relief. Companies will be able to use data available from an MNE's qualified CbCR and jurisdictional revenue and income information in qualified financial statements to determine whether its operations in a country meet one of the safe harbour criteria.

MNEs considering a transitional safe harbour should perform a detailed review of current CbCR processes to determine whether the 'as is' data can be deemed qualifying. This can be challenging as there is limited guidance as to what 'qualifying' means. CbCR data has historically been used for informational reporting versus the determination of taxes paid and safe harbour rules. Given this new application, we anticipate that tax authorities and external auditors will apply additional scrutiny on data integrity and the processes used to develop CbCR data. As a result, companies may need to update their processes to meet the new standards.

During evaluation, companies should carefully consider historic decisions made on where and how to source data for this process consistently with data used in the rest of the tax-reporting process. Timing may also be a factor as companies may not be able to execute required process changes in time for the appropriate reporting period. Any changes made to historical CbCR processes or positions should be evaluated from a risk perspective as well as certain changes may require disclosure in existing annual CbCR filings.

Companies may consider shifting ownership of CbCR processes within their tax department and should also evaluate pending and upcoming public CbCR requirements to determine whether readiness programs should be combined.

3.0 Safe Harbours

3.2

Analyse which jurisdictions may qualify for safe harbour and the benefits of opting in

It may be the case that not all jurisdictions benefit from the safe harbour such that a full data set is required. In this case, MNEs should consider whether it is more efficient to undertake a data gap analysis and compliance assessment for all jurisdictions rather than undertake the exercise twice.

In addition, the safe harbour provisions feature the 'once out, always out' rule, whereby a jurisdiction not applying any of the safe harbour provisions in one period cannot benefit from any of the safe harbours in a subsequent period. Further, one-off transactions or anomalies have the potential to push a territory outside the safe harbour conditions. In the same way, the increasing rates (from 15% in 2024 to 17% in 2026) could exclude a jurisdiction from the safe harbour. This could mean that at the last minute, an MNE group has to engage in a disjointed and fragmented data-gathering exercise that will include having to build the compliance infrastructure for different jurisdictions in different periods rather than approaching it on a holistic basis.

We recommend that you:

- Determine where the safe harbour rules may apply to your group
- · Evaluate the potential benefits and risks of opting in
- Perform a risk assessment on jurisdictions that are within an acceptable range (as determined by company) to the safe harbour percentage to decide whether to run the full calculation side-by-side with the safe harbour.

3.3

Develop processes for safe harbour jurisdictions

- It Develop process and calculations on a go-forward basis for application of the safe harbour (if applicable). Steps to consider:
- Evaluate and identify the changes and enhancements to the CbCR process required to achieve 'qualifying' data needed to perform the safe harbour calculation
- Assess what data will be available and which enabling technology will be used to run the safe harbour calculation for provision purposes, including particular consideration for how the safe harbour analysis could be prepared utilising forecasted information
- Define roles and responsibilities related to the CbCR and safe harbour processes, respectfully
- Determine what internal controls and governance procedures are needed and whether the process will now be subject to SOX controls.

3.0 Safe Harbours

3.4

Assess your transitional UTPR safe harbours position

The Transitional UTPR Safe Harbour generally provides relief from the UTPR in the UPE jurisdiction during the first two years in which the GloBE rules come into effect. Under this Transitional UTPR Safe Harbour, the UTPR Top-up Tax amount calculated for the UPE jurisdiction shall be deemed to be zero for each fiscal year during the transition period if the UPE jurisdiction has a corporate income tax rate of at least 20% based on the nominal statutory rate.

The transition period refers to the fiscal years which run no longer than 12 months that begin on or before 31 December 2025 and end before 31 December 2026.

MNEs that qualify for more than one transitional safe harbour may choose which safe harbour to apply for that jurisdiction.

Note if the Transitional UTPR Safe Harbour is used, such only provides that the UTPR Top-up Tax amount is deemed to be zero and other Constituent Entities may still be subject to Pillar Two taxes (e.g., a US corporation held by a foreign entity with an IIR).

4.0 Data and Systems

4.1

Perform an assessment of your data and systems structures

Data and systems are critical components of Pillar Two operational readiness. Companies should assess current systems, data structure and data sources to determine how to collect the data required for Pillar Two calculations.

Steps to consider:

- Understand comprehensive data requirements applicable to your organisation and how those requirements are met in the current state.
 - <u>PwC's Pillar Two Data Input Catalog</u> is an ideal inventory to begin your analysis. The Data Input Catalog defines the data requirements for Pillar Two, giving MNEs a thorough understanding of the amount of work that lies ahead of them and can help MNEs anticipate the unique challenges they will face.
- Understand broader, enterprise-wide initiatives where Pillar Two can serve as a catalyst for much needed tax data modernization such as ERP system upgrades and broader digital transformation efforts.
- Identify where data can be sourced and who owns the controls over that data
 - It is expected that 40-60% of data will be available directly in a company's ERP or financial consolidation systems. The remaining 40-60% is expected to be sourced from a variety of sub-ledger systems, tax provisions systems, employee benefits systems and offline schedules and files.

Collaborate with cross-functional data and system owners to educate them on what will be required under Pillar Two, why it's important, and how it may impact them going forward to obtain buy-in

4.0 Data and Systems

4.2	Performing a data and system gap analysis can enable tax to identify areas of deficiency or areas in need of improvement, which can lead to greater efficiencies and modernization.
Identify and remediate data and system gaps	As part of this effort:
	Analyse the current state
	 Highlight current state gaps such as lack of data availability and reliability issues as well as any manual processes used to obtain data needed today
	Determine potential solutions to help remediate the gaps identified
	Designate solutions as short-term versus long-term
	Develop a remediation plan including risk assessment and prioritisation.
4.3	Companies should consider developing a comprehensive data strategy rooted in systems and processes that can sustain reporting and compliance requirements upon enactment.
Develop and implement a data strategy rooted in systems and processes	Identify data requirements
	Understand the data sources and owners
	 Design solutions and implement specific processes and enabling technology
	Integrate solutions with overall Pillar Two roadmap
	Embed internal controls in the process.
	Regardless of the source, data needs to be extracted and transformed, ideally in an automated manner in order to then drive the calculation process. At the core of the data transformation, we recommend centralising your data using a common data model (or similar solution), which defines all of the data points needed, the level of granularity at which they are needed and then the format to drive the calculation. This will look slightly different for each company, but the goal is to have a data set that has been vetted for completeness and accuracy, that can seamlessly integrate into the downstream Pillar Two calculation solution.
	PwC has created a suite of data solutions tailored to integrate seamlessly with your existing technology infrastructure, built to adapt and evolve in line with Pillar Two requirements. These data solutions can be customized into existing EPM/Consolidation systems or leveraged through PwC's proprietary Sightline technology. The data accelerators streamline the identification of relevant data for Pillar Two reporting and compliance, efficiently collecting and preparing it for use in PwC's Pillar Two Engine or other calculation models, providing a truly unified experience. Apply a holistic approach to solutions and integrate into existing processes to help improve results and lead to sustained outcomes.

5.0 Financial Statement Reporting

5.1

Understand Pillar Two disclosures

Companies should review the IASB and FASB guidance related to Pillar Two reporting and disclosure requirements to understand the expected impact on their financial statements. There will be quantitative and qualitative disclosures required so consider whether that information is available today or will need to be established as further legislative developments occur.

This evaluation should be made for all global and local filing requirements for financial statements being prepared today. Make sure you understand these requirements as they relate to your business and communicate with your accounting and investor relations group as necessary.

5.2

Determine the income tax provision impacts

Many companies were required to calculate the impact of Pillar Two on their forecasted ETR and are soon required to determine the annual ETR impacts for the 2024 tax provision. The data required to execute likely will not be at the right level of granularity for Pillar Two requires coordination with the appropriate stakeholders including FP&A. Looking ahead, as more countries come online and as the UTPR takes effect, this coordination will be imperative. We recommend that the data and systems analysis described above include both actuals and forecasts.

We recommend early stakeholder engagement to help achieve sufficient reliable data in time to meet the reporting requirements. Buy-in from external auditors on approach and data reliability will likely also be required.

5.3

MNEs should review the technical nuances of the Pillar Two rules and consider how the changing landscape and local country enactment will impact their organisation.

Technical interpretation

6.0 Compliance

Pillar Two compliance obligations will likely be onerous, but the extended timeline proposed in the model rules provides some additional time to consider and prepare. Below we have laid out a number of longer-term compliance related considerations as companies focus on near-term priorities.

6.1 Deferred tax liability (DTL) recapture and elections	MNEs will need to establish a separate process and mechanism to track deferred tax liability (DTL) recaptures and remeasurements as well as <u>elections</u> . Some organisations may need to develop a process for provision, and many will need to focus on developing granular calculations for the compliance process.
	Remember that this compliance process relies on accounting principles. As such, companies should consider whether the data available at provision time is granular enough to execute a detailed calculation. Therefore, companies should closely evaluate this requirement as they prepare for their first year of Pillar Two impacts for purposes of the provision.
6.2 Implement a Pillar Two calculation engine	A Pillar Two calculation engine can help provide audit-ready detail, clearly outlining all of the <u>adjustments</u> that were factored into the calculation, the ability to integrate results into tax provision and compliance processes and visualisations in order to facilitate review and analysis of the results.
	An enterprise should consider how it will maintain the global set of rules and logic on a jurisdictional basis, especially in light of the possibility around local country deviations from the model rules and varying compliance requirements. Developing, maintaining and updating the evolving Pillar Two rules, including the intricacies of rule ordering and interaction, will require a global network of international tax experts and advanced technology.
	<u>PwC's Pillar Two Engine</u> is a centralised, cloud-based calculation engine for quantifying the impact of OECD Pillar Two, including provision, compliance and modelling. The Pillar Two Engine is configured to support the inconsistent and unique adoption of Pillar Two rules around the world and allow for flexibility as those rules continue to evolve. Jurisdiction-specific calculations are swiftly incorporated into a centralised rules library after a thorough governance process, ensuring each user runs up-to-date calculations, something that is incredibly challenging in a spreadsheet environment or with a basic technology tool.
	Decisions related to enabling calculation engine technology should also be considered in the context of the overall operating model assessment. Licensing a fully configured and perpetually maintained rules engine, like PwC's Pillar Two Engine, could lead to a reduction in internal resources required and facilitate a leaner, more strategically focused internal tax function. On the other hand, building an internal calculation engine will likely lead to additional resources required in the long term to maintain the global set of rules.
	During implementation, we recommend focusing on integrating your Pillar Two process and enabling technology with existing solutions for more sustainable outcomes.

6.0 Compliance

6.3

Comply with filing obligations

Pillar Two compliance requirements are onerous, especially when considering the global scale at which companies will need to respond. Additionally, a MNE will have to comply with the different filing requirements for each applicable local rule. For instance, in January the OECD released updated administrative guidance on how to complete certain sections of the GloBE Information Return (GIR). The guidance includes an explicit requirement for MNE groups to complete the GIR based on the GloBE Model Rules and Commentary and, if there are differences in the local legislation and the Model Rules, the guidance requires MNE groups to report the impact of those differences in the GIR.

Compliance with new annual tax filings will be necessary at year-end 2024. Filing of the GIR is required starting June 30, 2026 for calendar year taxpayers and a (Q)DMTT or other local tax return filings or registrations will likely also be needed and may need to be filed in 2024 or 2025. Taxpayers will need to monitor developments to identify specific compliance obligations.

Given the magnitude and complexity required, companies should consider whether they align Pillar Two compliance to their existing global compliance model or whether Pillar Two requires them to revisit their current operating model.

We will issue additional guidance as compliance obligations become more clear.

4 Key

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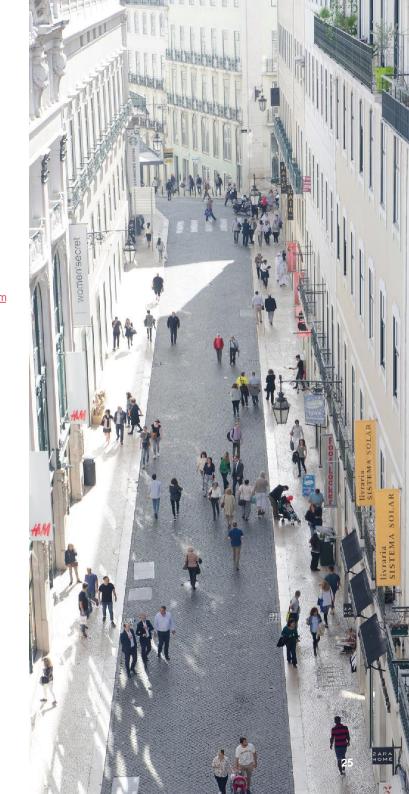
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