Pillar II

Introduction

Common misunderstandings

Misunderstanding			Reality	
We have no presence in tax havens so Pillar 2 will not have an impact		**1**	**ETR calculation required for all countries & and for domestic groups**	
We prepare a Country-by-Country Report so we are prepared for Pillar 2		**2**	**Calculations based new set of Rules unrelated to CbCR**	
We can handle this with the tax department		**3**	**Input from finance and modification of systems is required**	
We cannot assess the potential impact of Pillar 2 until next year		**4**	**Tooling is available to give insights based on current proposals**	

Agenda

1. Setting the scene
2. Pillar 2 rules
3. Filing obligations
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

Setting the scene

Where are we now and what to expect...

December 2021
Model Rules & Directive published

14 March 2022
OECD Commentary published

Q 3 2022
Directive adopted?

Q 3-4 2022
Implementation guidelines OECD

Q 1 2024
Financial reporting

Q 2 2026
Compliance

Impact

Organisation

Processes

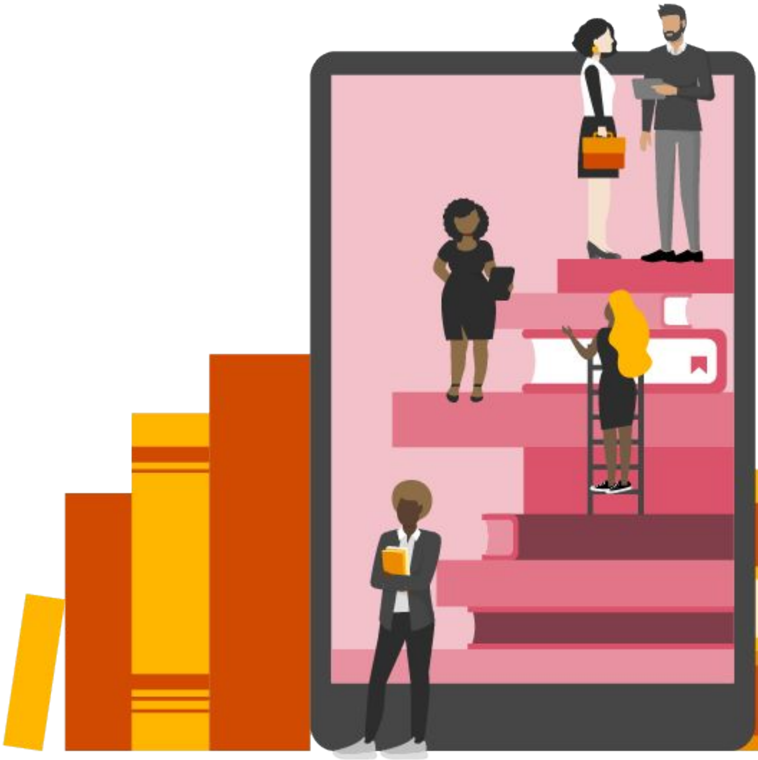
Data

The challenge

New rules

Compliance

Timeline



Agenda

1. Setting the scene
2. Pillar 2 rules
3. Filing obligations
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

Pillar 2: What, How, When

What	Global minimum tax of 15% in each jurisdiction
How	Top-up tax at parent level and/or other group entities Compute for all jurisdictions both > and < 15%
When	31 December 2023: Income Inclusion Rule (IIR) 31 December 2024: Undertaxed Payments Rule (UTPR)

Scope

Pillar 2 applies to:

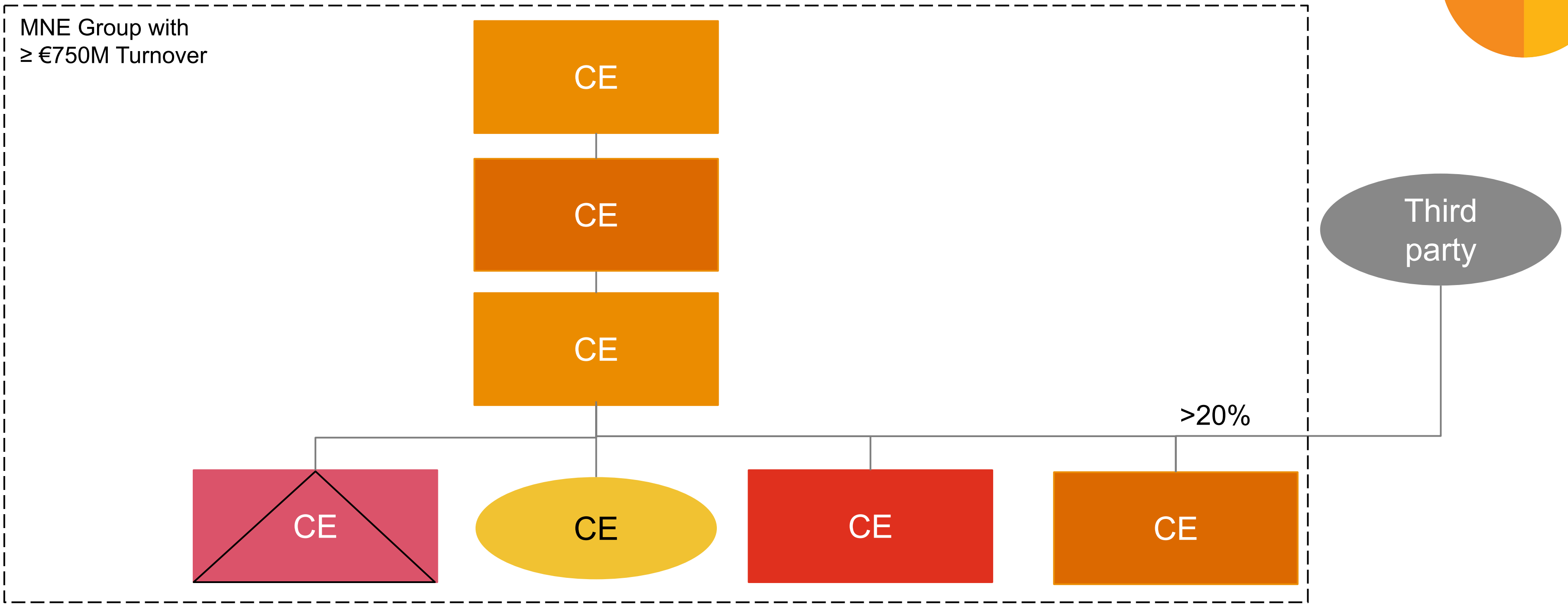
- MNE Group with Turnover of 750 mln Euro or more in 2 out of the last 4 years
  - Based on consolidated financial accounts (or deemed financial accounts)
  - Consolidated accounts to be adjusted to acceptable standard
  - Mergers & Demergers (not discussed here)

- MNE Group is all Constituent Entities and PEs (Constituent Entities) in at least 2 jurisdictions related through ownership or control as defined by the (acceptable) financial accounting standard (are included or should have been included in consolidation).

- Large-scale (Turnover > 750 mln Euro) Domestic Groups within the EU

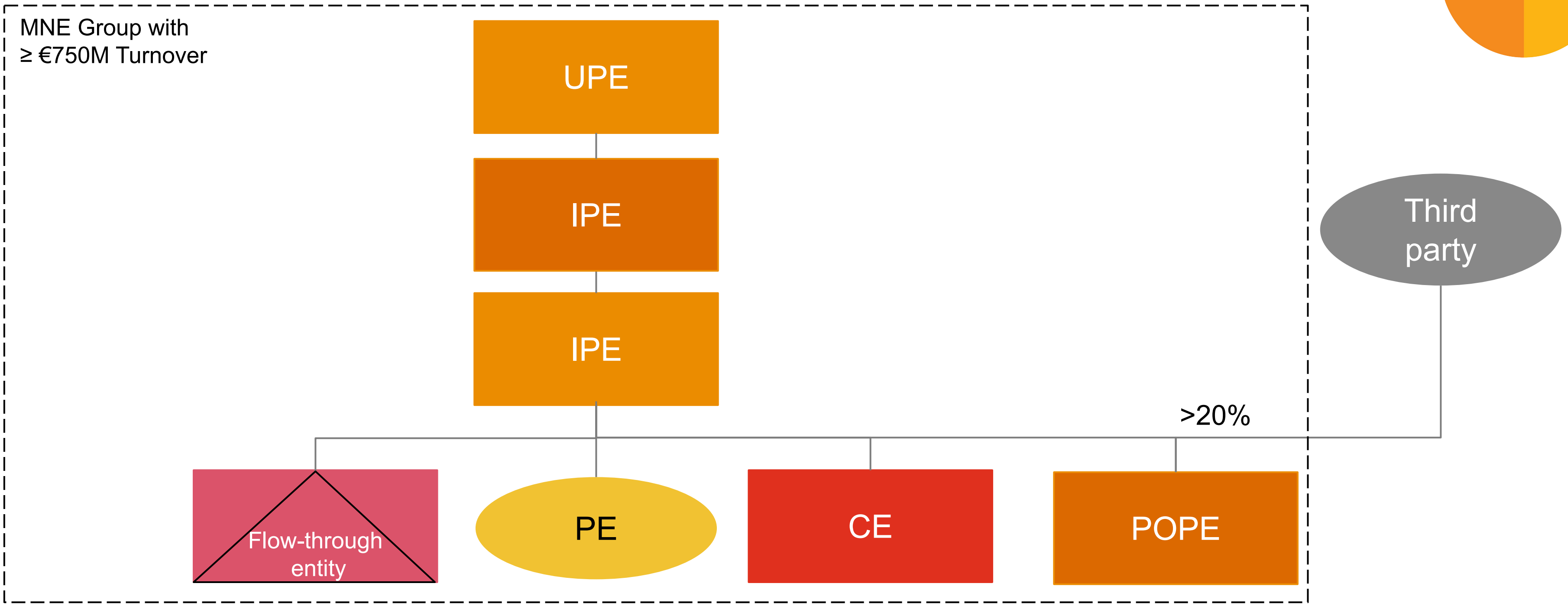
- Ultimate Parent Entity (UPE) (e.g. NL)
- Partially Owned Parent Entity (POPE) (e.g. NL) and not controlled by another POPE
- Intermediate Parent Entity (IPE) (e.g. NL) and no IIR at Ultimate Parent Entity (UPE) level

Key terms explained



CE = Constituent Entity

Key terms explained



UPE = Ultimate Parent Entity **POPE** = Partially-Owned Parent Entity **PE** = Permanent Establishment

IPE = Intermediate Parent Entity **CE** = Constituent Entity

Pillar 2 - methodology

1. **Determine Pillar 1 & STTR impact**
2. **Calculate jurisdictional ETR**
3. **Apply IIR allocation**
4. **Apply UTPR allocation**

Pillar 2 - methodology

1. Determine Pillar 1 & STTR impact
2. **Calculate jurisdictional ETR**
3. Apply IIR allocation
4. Apply UTPR allocation

Five step approach to calculate ETR and Top-Up Tax

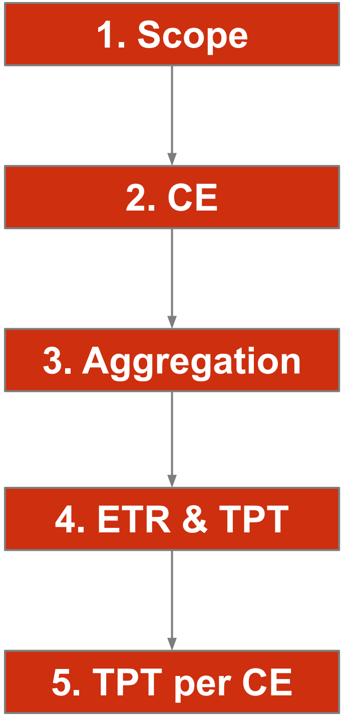
1. Identify all entities in scope for ETR calculation

2. Calculate the Qualifying Income or Loss and the Adjusted Covered Taxes for each entity.

3. Aggregate Qualifying Income or Loss per Jurisdiction as well as Adjusted Covered taxes per jurisdiction

4. Calculate the ETR and Top-up Tax (TPT) per Jurisdiction

5. Allocate each CE in the jurisdiction a part of the TPT



Scope

1. Identify all entities in scope for the ETR calculation, including:

- **Constituent Entities** (CEs): broadly speaking, a CE is located in the jurisdiction where it is tax resident.
- **Transparent entities**: generally treated as ‘stateless entities’.
- **Permanent establishments**: generally located in jurisdiction where they are treated as a PE and are subject to tax.
- **Minority interest**: special provisions for these entities where the UPE holds 30% or less of the ownership rights in a CE which holds a controlling interest in other CEs.
- **Joint Venture**: in scope if at least 50% owned by the MNE group, unless the Joint Venture is an excluded entity or is itself an MNE group in scope of P2.
- **Other exceptional rules**

1. Scope
2. CE
3. Aggregation
4. ETR & TPT
5. TPT per CE

Determine Qualifying Income or Loss for each CE

2a) Determine Qualifying Income or Loss for each CE

Qualifying income/loss = **Profit before Tax** in financial accounts

With adjustments

Standard adjustments

Such as:
- an **at arm's length** adjustment
- **dividends** and **capital gains** adjustments
- **asymmetric FX** adjustments.

Elected adjustments

Such as:
- the possibility to align with the tax treatment of **stock based compensation**
- the application of **consolidated accounting treatment** to transactions within a tax consolidation group

1. Scope
2. CE
3. Aggregation
4. ETR & TPT
5. TPT per CE

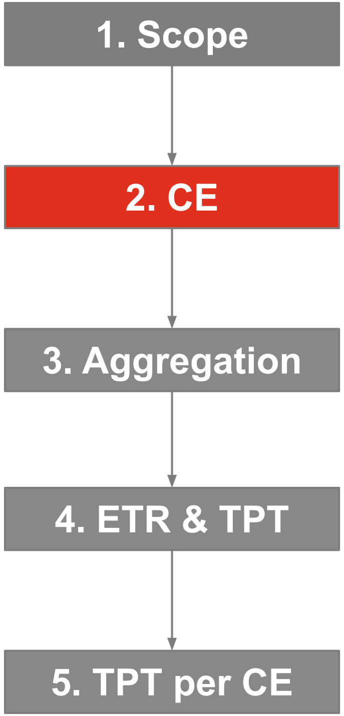
Compute adjusted covered taxes for each CE

2b) Compute adjusted covered taxes for each CE

- **Significantly deviates** from ETR calculation for accounting purposes: various new and complicated adjustments required.

- Deferred tax is taken into account, but **many exceptions** making the calculation even more complex.

- In total more than 30 adjustments to financial accounts may be required (per CE).

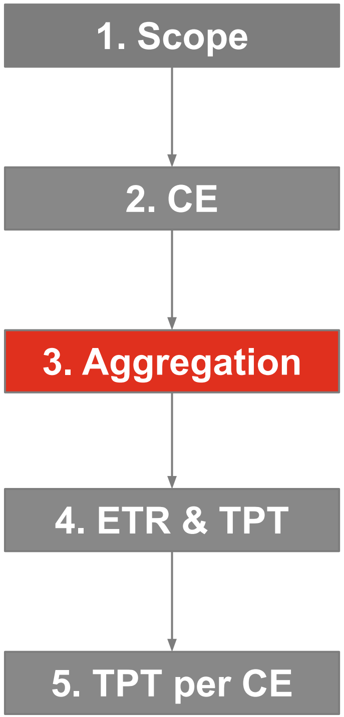


Aggregate per jurisdiction

3. Aggregate Qualifying Income (or Loss) per CE as well as Adjusted Covered Taxes per CE:

- In this step, the profits (or loss) and taxes found in Step 2a and Step 2b are aggregated.

- **De minimis exception**: applies if income in jurisdiction is below EUR 10m revenue <u>and</u> EUR 1m profit. The ETR does not need to be calculated for that jurisdiction.



Calculate ETR and TPT per Jurisdiction

4. Calculate the ETR and Top-up Tax (TPT) per Jurisdiction:

4a) ETR in jurisdiction = $\dfrac{\text{Aggregated } \textbf{Adj. Covered Taxes} \text{ in jurisdiction}}{\text{Aggregated } \textbf{Qualifying Income (or loss)} \text{ in jurisdiction}}$

ETR <15%?

4b) Calculate the group's 'top-up percentage' for the jurisdiction.

Top-up percentage = 15% less the jurisdictional ETR.

4c) Calculate the jurisdictional TPT:

Top-up percentage (step 4b) × Qualifying income jurisdiction -/- a [5%] return on the tangible assets and payroll expenses in that jurisdiction = **jurisdictional TPT**

1. Scope → 2. CE → 3. Aggregation → **4. ETR & TPT** → 5. TPT per CE

Allocate each CE a part of the TPT

5. Allocate each CE in the jurisdiction a part of the TPT

- Attribute jurisdictional TPT to the group’s individual entities in that jurisdiction based on their relative contribution to the Qualifying Income:

$$Top-up\ tax\ of\ a\ constituent\ entity = jurisdictional\ top-up\ tax$$
$$x\ \frac{qualifying\ income\ of\ the\ constituent\ entity}{total\ qualifying\ income\ of\ the\ constituent\ entities}$$

1. Scope

2. CE

3. Aggregation

4. ETR & TPT

5. TPT per CE

Pillar 2 - methodology

1 Determine Pillar 1 & STTR impact

2 Calculate jurisdictional ETR

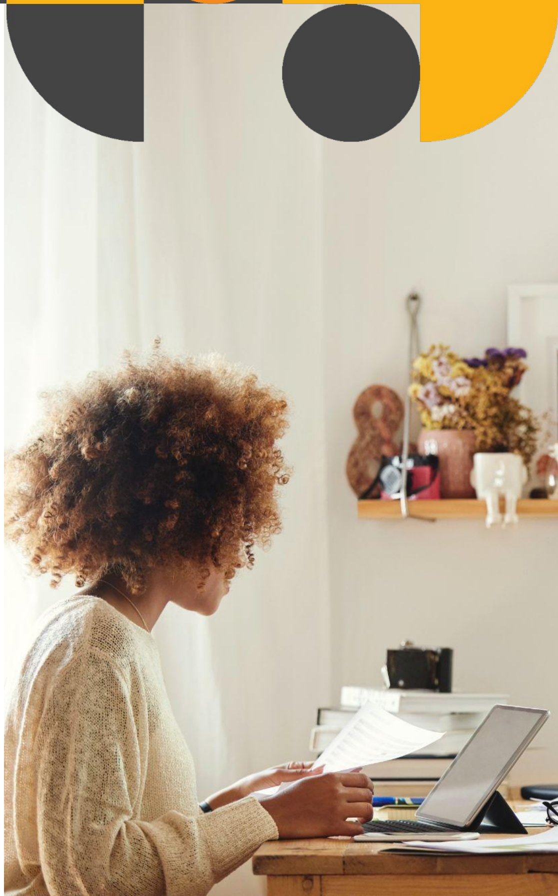
3 **Apply IIR allocation**

4 Apply UTPR allocation

Relevant steps

- Identify correct IIR taxpayer(s)
- Determine allocation percentage for each CE

Assess IIR entities and amounts

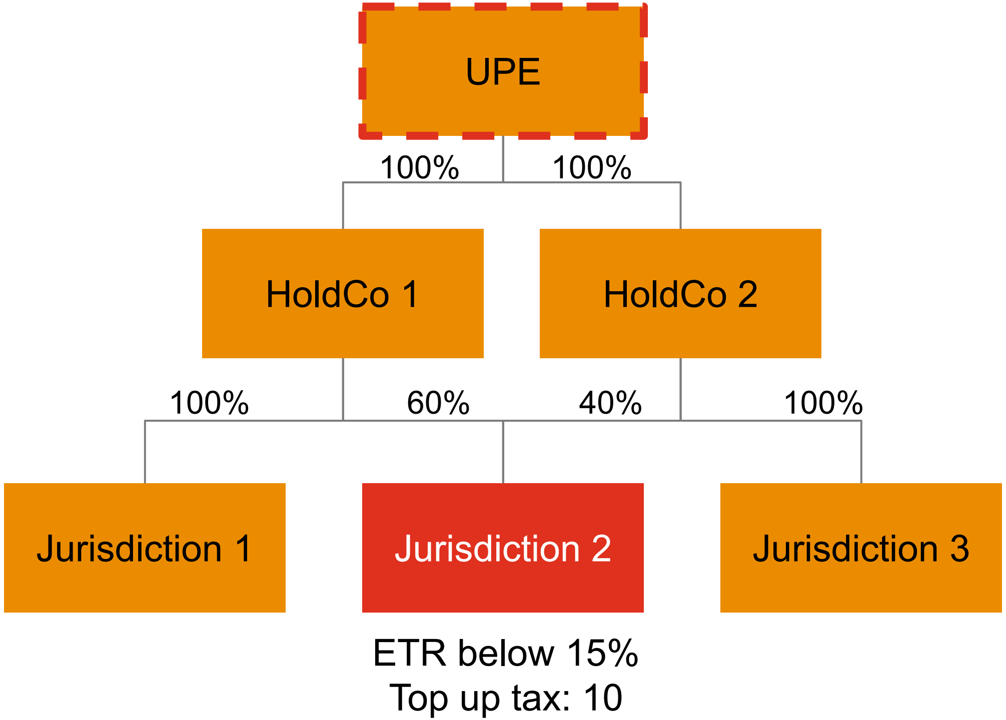


Income Inclusion Rule (IIR)

- Main rule: IIR at the level of ultimate parent entity
- OECD: Top-down approach - but within the EU:
  - The top up tax under the IIR may arise in the country of a CE rather than the country of the UPE*; and
  - The rules apply to both domestic and foreign entities in the EU, to be consistent with the requirements of the EU's freedom of establishment clause.
- Calculated on (total) percentage (in)direct ownership
  - Exception for split-ownership in chain of entities
- Where an IIR applies, IIR prioritizes over UTPR

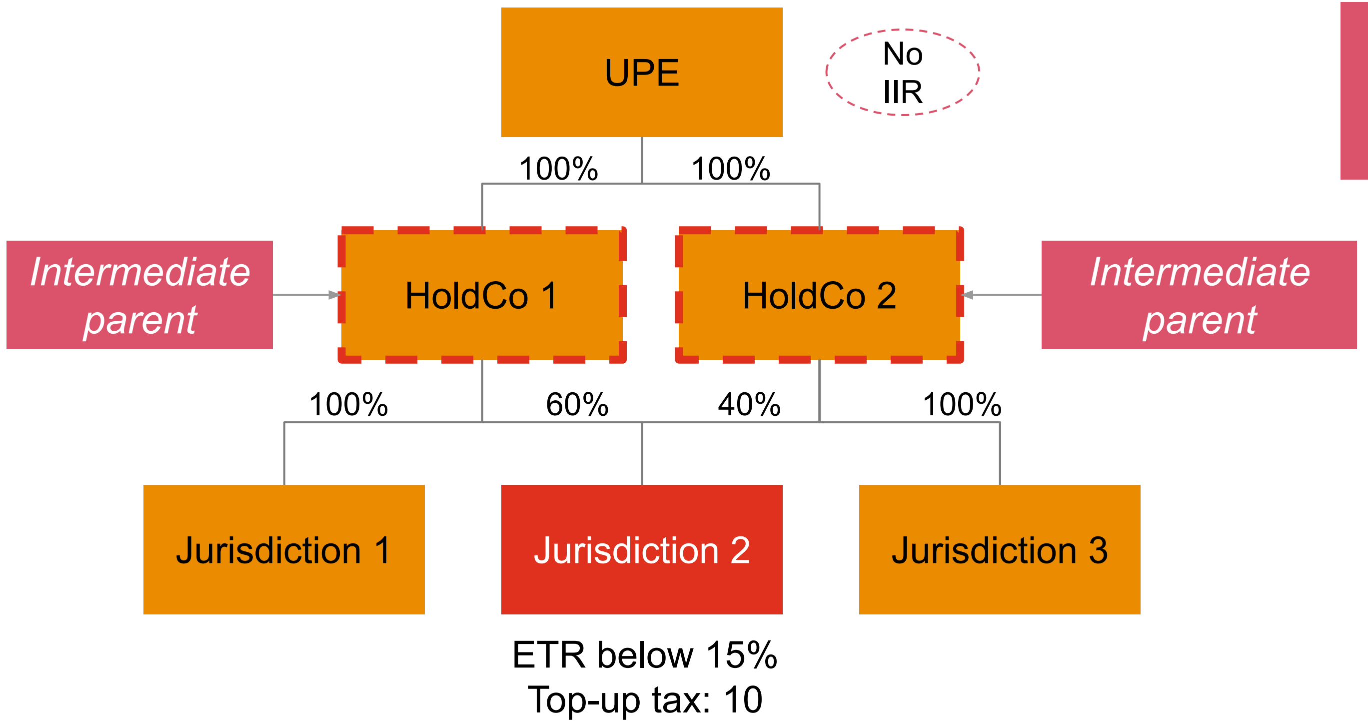
*** Some 3rd countries may introduce a domestic Top up tax as well**

Situation 1: IIR at UPE level



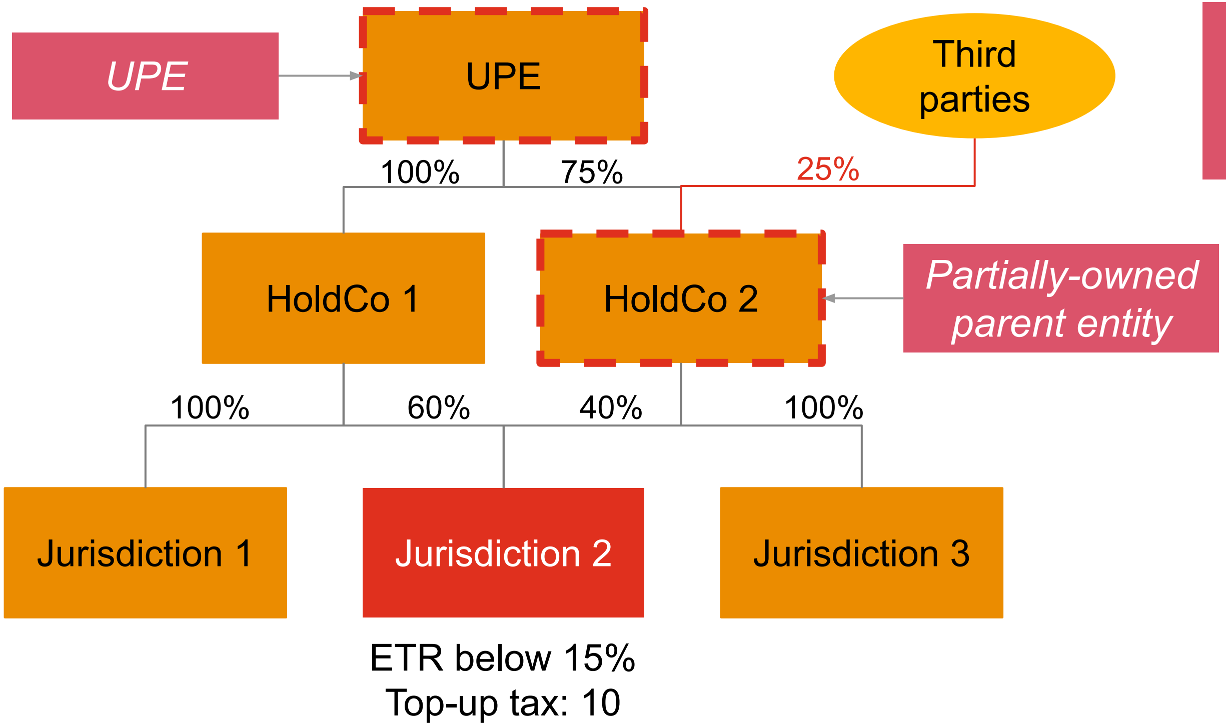
IIR top-up tax:
100% (10) @ UPE

Situation 2: No IIR at UPE level



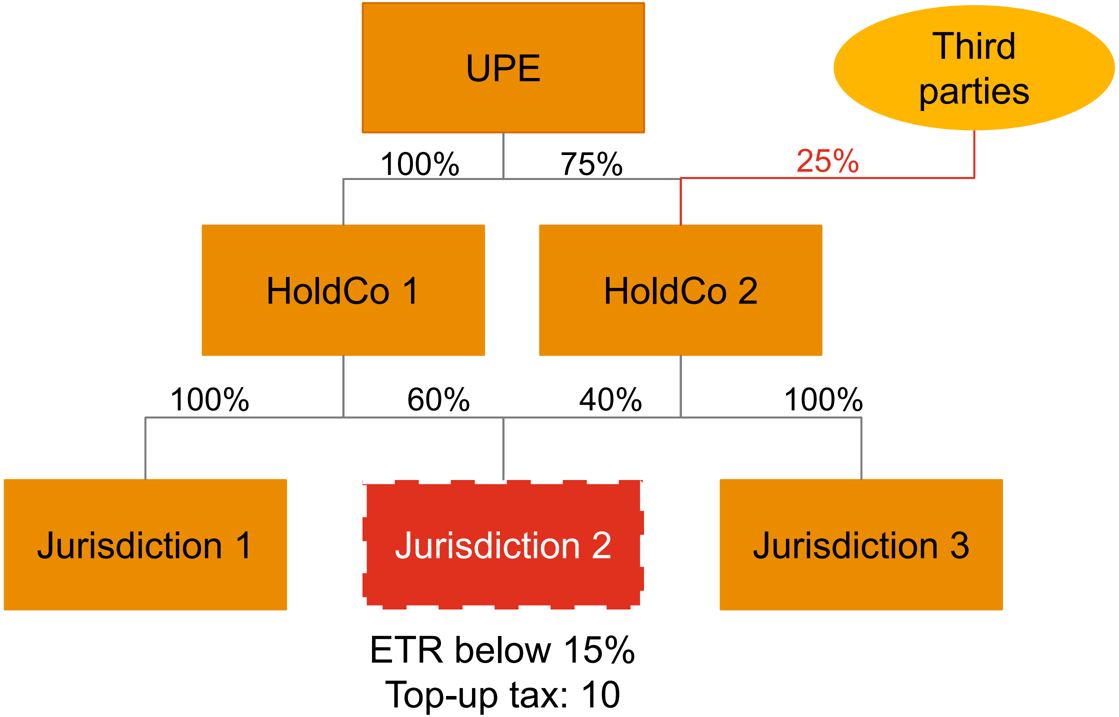
IIR top-up tax:
60% (6) @ HoldCo 1
40% (4) @ HoldCo 2

Situation 3: IIR at UPE & Third parties



IIR top-up tax:
60% (6) @ UPE
40% (4) IIR @ HoldCo 2

Situation 4: Domestic top-up tax



IIR top-up tax:
100% (10) @
Jurisdiction 2

Pillar 2 - methodology

1. Determine Pillar 1 & STTR impact
2. Calculate jurisdictional ETR
3. Apply IIR allocation
4. **Apply UTPR allocation**

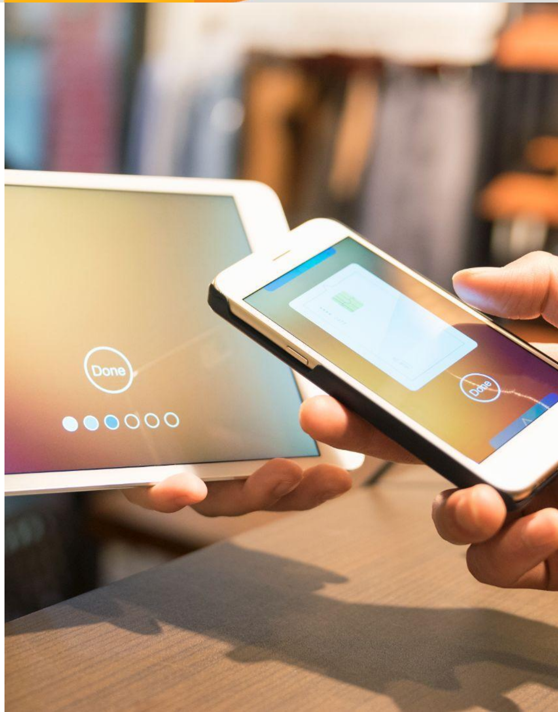
Relevant steps

- Calculate the UTPR tax to be allocated
- Identify the jurisdictions to which the tax will be allocated
- Calculate the Allocation per jurisdiction

Apply UTPR Allocation

Undertaxed Payments Rule (UTPR)

- Applies to all CEs (regardless of IIR)
- Applies to any TPT that is not wholly or partially subject to IIR
- Allocated to all Jurisdictions with P2 equivalent rules
- Allocation based on two formulas (“UTPR %”):
  - 50% of UTPR allocated based on FTEs
  - 50% of UTPR allocated based on Tangible Assets



Situation 4: UTPR

UPE

No IIR

100%

Jurisdiction 1

FTEs: 5
Tangibles: 100
UTPR%: 7.5%

Jurisdiction 2

ETR below 15%
Top-up tax: 10

Jurisdiction 3

FTEs: 10
Tangibles: 150
UTPR%: 12.5%

Jurisdiction 4

FTEs: 50
Tangibles: 450
UTPR%: 47.5%

Jurisdiction 5

FTEs: 35
Tangibles: 300
UTPR%: 32.5%

UTPR = 10

Total FTEs / tangibles in UTPR jurisdictions:
100 FTEs / 1000 tangibles

Allocation based on UTPR%

Example Jurisdiction 1:

5 / 100 * 50% * 10 =	2.5 %
100 / 1000 * 50% * 10 =	5 %
Total	7.5 %

Agenda

1. Setting the scene
2. Pillar 2 rules
3. Filing obligations
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

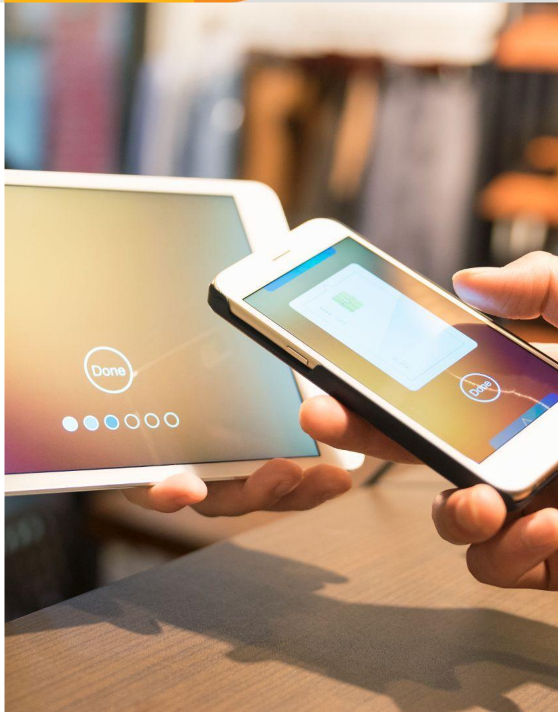
Filing obligations

Who?

In principle **all CEs** should file a **top-up tax information return**

However, a **single filing entity** can be designated (either the UPE or another CE) to file for the entire MNE group in one jurisdiction. Except for those jurisdictions that do not have a qualifying exchange of information agreement with that jurisdiction

CEs relying on a designed filing entity should **notify** their tax administration of the identity of the filing entity and the jurisdiction where it is located



Filing obligations

What?

The top-up tax information return contains:

a) identification of the constituent entities, including their tax identification numbers, if any, the jurisdiction in which they are located and their status under the rules of this Directive;

b) information on the overall corporate structure of the MNE group, including the controlling interests in the constituent entities held by other constituent entities;

Filing obligations

What? (cont'd)

c) the information that is necessary in order to compute:
   (i) the effective tax rate for each jurisdiction and the top-up tax of each constituent entity;
   (ii) the top-up tax of a member of a joint-venture group;
   (iii) the allocation of top-up tax under the income inclusion rule and the UTPR top-up tax amount to each jurisdiction; and

d) a record of the elections made in accordance with the relevant provisions of this Directive.

→ Note that these filing obligations do **not** relate to a tax return, but to an **information return**.

Agenda

1. Setting the scene
2. Pillar 2 rules
3. Filing obligations
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

US Tax Reform

Co-existence with US tax reform

- The Global Intangible Low-Taxed Income (GILTI) regime provides for a minimum level of tax on the consolidated foreign income of an MNE Group.
- The Base Erosion and Anti-abuse Tax (BEAT) regime operates as a minimum tax by disallowing deductions for certain payments made from domestic corporate entities to foreign affiliates.
- EU P2 Directive: for a regime to have 'equivalence' with Pillar 2 it must: "for the purpose of computing the minimum effective tax rate, [it] only allow[s] the blending of income of entities located within the same jurisdiction." → GILTI currently **not** equivalent?

US Tax Reform vs Pillar II

Main differences between GILTI/BEAT and Pillar 2

- **Threshold:**
  - GILTI/BEAT: no threshold.
  - Pillar 2: global turnover in excess of EUR 750M.
- **Foreign taxes:**
  - GILTI/BEAT: Expected credit of 95%.
  - Pillar 2: 100% credit for ‘covered taxes’.
- **Carve-out:**
  - GILTI/BEAT: Expected 5% on qualified business asset investments (QBAI).
  - Pillar 2: 8% of carrying value of tangible assets, and 10% of payroll expenses, both to be reduced to 5% over time.

AND THE ELEPHANT IN THE ROOM:

TAX BASE CALCULATION GILTI VS PILLAR II

Agenda

1. Setting the scene
2. Pillar 2 rules
3. Filing obligations
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

The next 12 months

Legislative Agenda

Q4 2021	Q 1 2022	Q 3-4 2022	Q 3-4 2022
Model Rules & Directive	OECD Commentary	Directive and per country legislation	Implementation guidelines OECD

Company Plan

Prepare

- Upskilling
- Awareness
- Stakeholders
- Plan

Impact

- Cash Tax, ETR
- Resource requirement?
- Data & Systems requirements?

Reporting

- Reporting process
- Forecast process

Compliance

- Compliance process
- Documentation
- Controversy

Agenda

1. Setting the scene
2. Pillar 2 rules
3. Filing obligations
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

Pillar 2 - Pilot phase

Pillar 2 (P2) establishes a minimum tax system with a minimum effective tax rate (ETR) of 15% at the jurisdictional level.

For many companies the financial impact may be limited. However, for all companies P2 will result in a major compliance and reporting effort which is more complex than DAC 6 and CbRC together.

Furthermore, there is a very short timeframe. This means that you have limited time to understand the impact of the new rules on your company, teams, processes and systems in order to be ready to deal with the reporting and compliance.

Week 1

Deepdive session (4 hours)

- A deepdive on P2 accounting rules with PwC experts
- Agree on the most efficient scope for the pilot calculations based on our data catalogue
- Jointly develop a workplan for the pilot calculations.

Week 2 & 3

Pilot calculations

- Calculations performed by the client
- P2 accounting experts are available to answer all the questions related to the pilot calculations
- 4 progress calls to answer queries and address any issues.

Week 4

Closing session (4 hours)

- Jointly validate the financial impact and analyse the causes
- Jointly perform the data gap analysis
- Discuss possible fixes for the data gaps identified
- Collectively define your output requirements.

BENEFITS

Efficient investment; next steps build on the output without any duplication of effort.
Relevant for tax engine (inhouse or otherwise), which is based on the data catalogue.
Realistic initial assessment of financial and compliance impact.
Fact based output for internal stakeholder communication
4 weeks timeframe, but can be extended.

DELIVERABLES

Deep **insight** in P2 rules and how they apply to your business
Financial impact assessment based on efficient scope pilot study.
Preliminary assessment of **Data-Gap** and complexity based on a representative sample .
Internal **business case** based on stakeholder presentation including use of P2 tool, visualisation and data-gap dashboard.

End-to-end Pillar 2 data management

P2 DATA Catalog

DATA CATALOG

REF	Description	Input constituent entity / country #1
	Constituent entities	
1	List of constituent entities (PE's separate from entity)	
2	List of permanent establishments	
3	Tax identificiation number for each constituent entity	
4	Constituent Entities in CFC regime (by UPE)	
5	Controlling interests in other constituent entities	
6	Location for each constituent entity	
7	Designated local entity for each member state	
8	Identification of flow-through entities	
9	tax qualification for all the constituent entities	
10	Identify Minority Entities in the jurisdiction	
11	Identify Insurance Entities in the Jurisdiction	
12	Ultimate / intermediate parent entity in the EU	
	Computation of GloBE Income or Loss	
13	**Financial Accounting Net Income or Loss (before any consolidation adjustments for intra-group transactions) . Profit After Tax as recorded in the legal entity accounts under group accounting standard.**	
14	**Financial Accounting Net Income or Loss of Constituent Entities that are Permanent Establishments**	
15	PE income is the income that is allocated under the treaty or under the domestic rules if there is no treaty	
16	If there is no treaty and there is no domestic corporate tax, the PE income is the income that would have been attributable under Article 7 of the Model Tax Convention	
17	If the above doesn't apply, the PE income is the income that is exempted in the main entity	
18	If the PE has incurred a loss in the current year	
19	If the PE has incurred a loss in a prior year	
20	**FMV adjustment for (asset) transactions between group**	
21	Adjustment to cross-border transactions between Constituent entities	
22	Adjustment to domestic sales or transfers of assets between Constituen Entities if the sale or transfer results in a loss that is part of Qualifying income	
23	Adjustments to cross-border and domestic transactions between Constituent Entities and Minority Owned entities and / or Investment Entities	
24	**(a) Net Taxes Expense**	
25	(i)a covered taxes accrued as an expense (above the tax line);	
26	(i)b CT and DT included in income tax expense	

Which data is relevant?

Company data model

DATA CATALOG

REF	Description	Input constituent entity / country #1
3	Tax identification number for each constituent entity	
4	Constituent Entities in CFC regime (by UPE)	
5	Controlling interests in other constituent entities	
8	Identification of flow-through entities	
9	tax qualification for all the constituent entities	
10	Identify Minority Entities in the jurisdiction	
13	**Financial Accounting Net Income or Loss (before any consolidation adjustments for intra-group transactions) . Profit After Tax as recorded in the legal entity accounts under group**	
	the domestic rules if there is no treaty	
16	If there is no treaty and there is no domestic corporate tax, the PE income is the income that would have been attributable under Article	
	exempted in the main entity	
	entities	
22	Adjustment to domestic sales or transfers of assets between	
	Investment Entities	
26	(i)b CT and DT included in income tax expense	

Where is the relevant data?

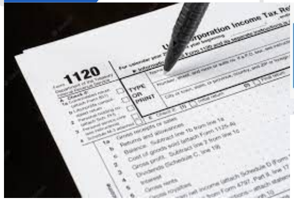
Azure Data lake

symmetry taxENGINE2 payroll calculations made simple

ORACLE HYPERION

SAP HANA

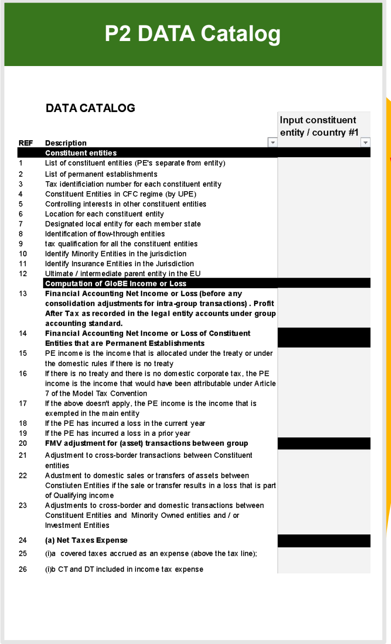
CLOUD DATABASE



Outlook

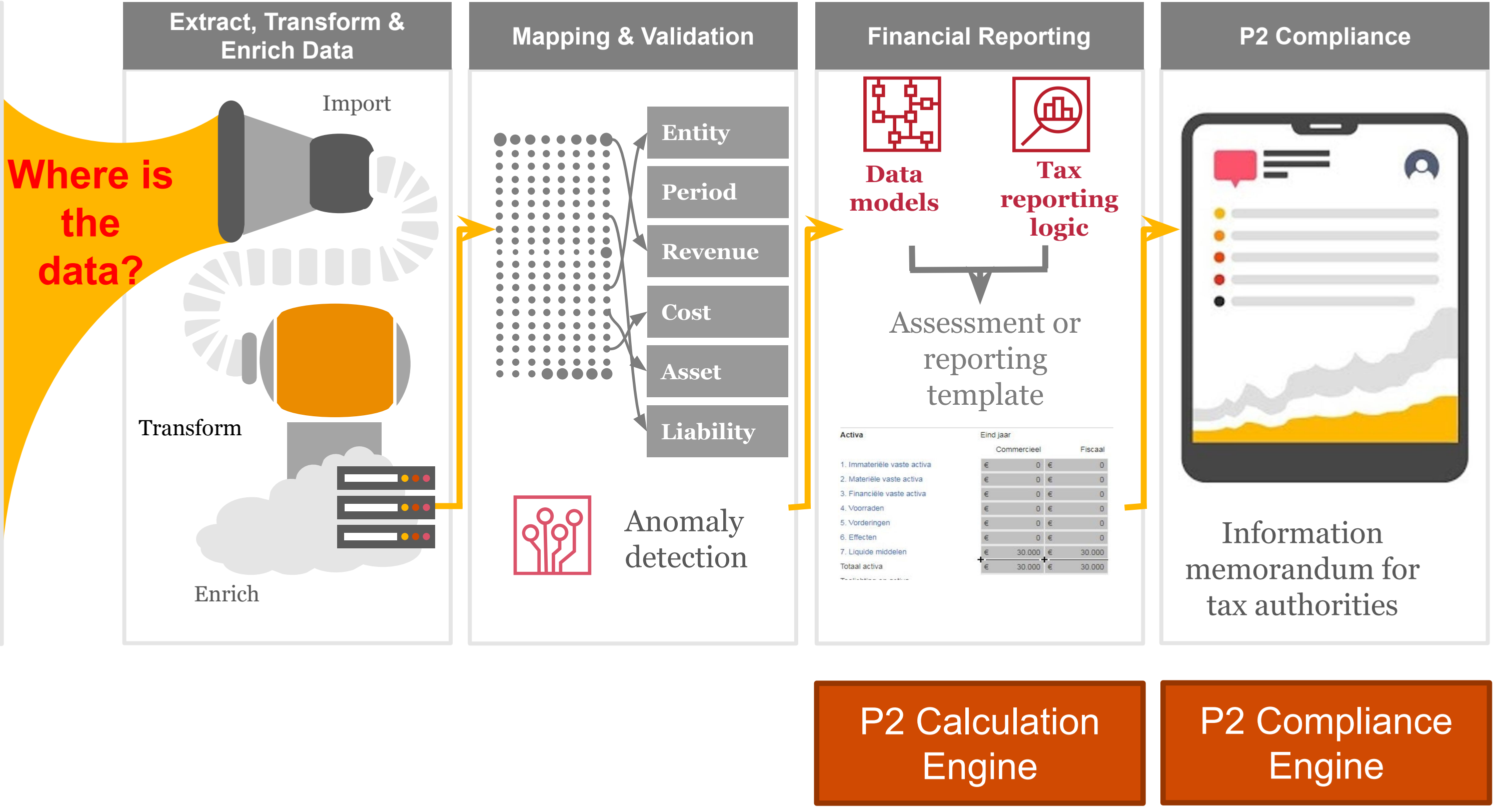
Tagetik

End-to-end Pillar 2 data management



DATA CATALOG

REF	Description	Input constituent entity / country #1
	Constituent entities	
1	List of constituent entities (PE's separate from entity)	
2	List of permanent establishments	
3	Tax identificiation number for each constituent entity	
4	Constituent Entities in CFC regime (by UPE)	
5	Controlling interests in other constituent entities	
6	Location for each constituent entity	
7	Designated local entity for each member state	
8	Identification of flow-through entities	
9	tax qualification for all the constituent entities	
10	Identify Minority Entities in the jurisdiction	
11	Identify Insurance Entities in the Jurisdiction	
12	Ultimate / intermediate parent entity in the EU	
	Computation of GloBE Income or Loss	
13	**Financial Accounting Net Income or Loss (before any consolidation adjustments for intra-group transactions) . Profit After Tax as recorded in the legal entity accounts under group accounting standard.**	
14	**Financial Accounting Net Income or Loss of Constituent Entities that are Permanent Establishments**	
15	PE income is the income that is allocated under the treaty or under the domestic rules if there is no treaty	
16	If there is no treaty and there is no domestic corporate tax, the PE income is the income that would have been attributable under Article 7 of the Model Tax Convention	
17	If the above doesn't apply, the PE income is the income that is exempted in the main entity	
18	If the PE has incurred a loss in the current year	
19	If the PE has incurred a loss in a prior year	
20	**FMV adjustment for (asset) transactions between group**	
21	Adjustment to cross-border transactions between Constituent entities	
22	Adustment to domestic sales or transfers of assets between Constiuten Entities if the sale or transfer results in a loss that is part of Qualifying income	
23	Adjustments to cross-border and domestic transactions between Constituent Entities and Minority Owned entities and / or Investment Entities	
24	**(a) Net Taxes Expense**	
25	(i)a covered taxes accrued as an expense (above the tax line);	
26	(i)b CT and DT included in income tax expense	



Thank you!