State of Tax Legal & People

Webcast series

Pillar II

9 December 2021

pwc

Welcome

- Watched live, this webcast qualifies for 1 PE point
- The button '[Ask a question]' allows you to ask a live question via chat
- Any other questions via your PwC advisor or fill in the form on pwc.nl
- View this webcast or presentation at a later stage
- Slides will become available afterwards
- Please complete the evaluation form

Agenda

1. Setting the scene
2. Pillar 2 rules
3. The ‘known unknowns’
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

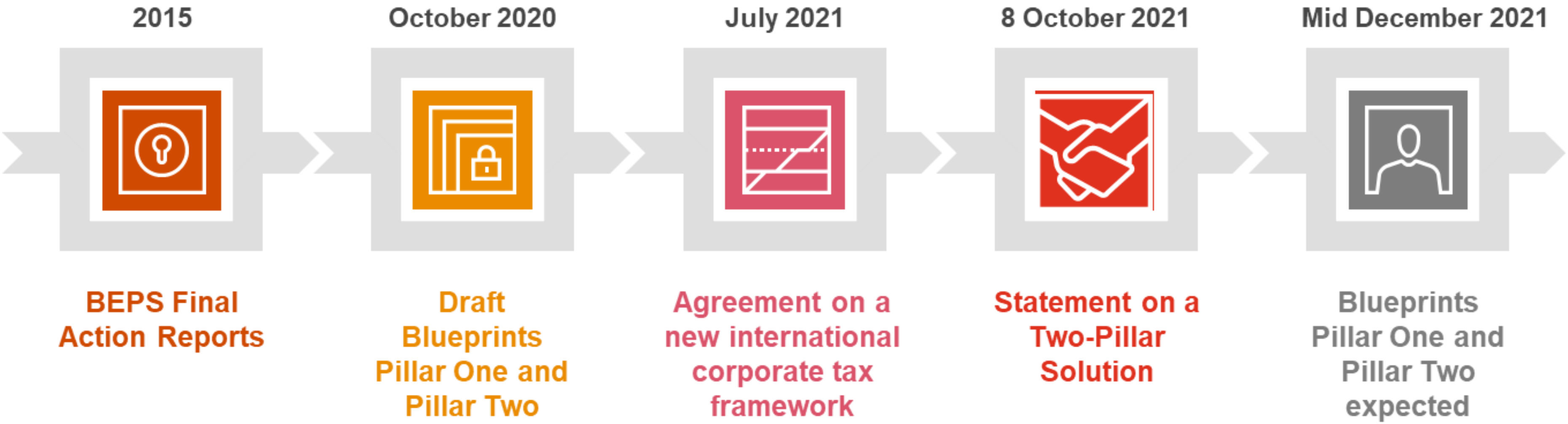
Poll

What will be the impact of Pillar on my company

A) No impact
B) Limited impact
C) High impact
D) Not sure (yet)

Setting the scene

What happened over the last years...



Setting the scene

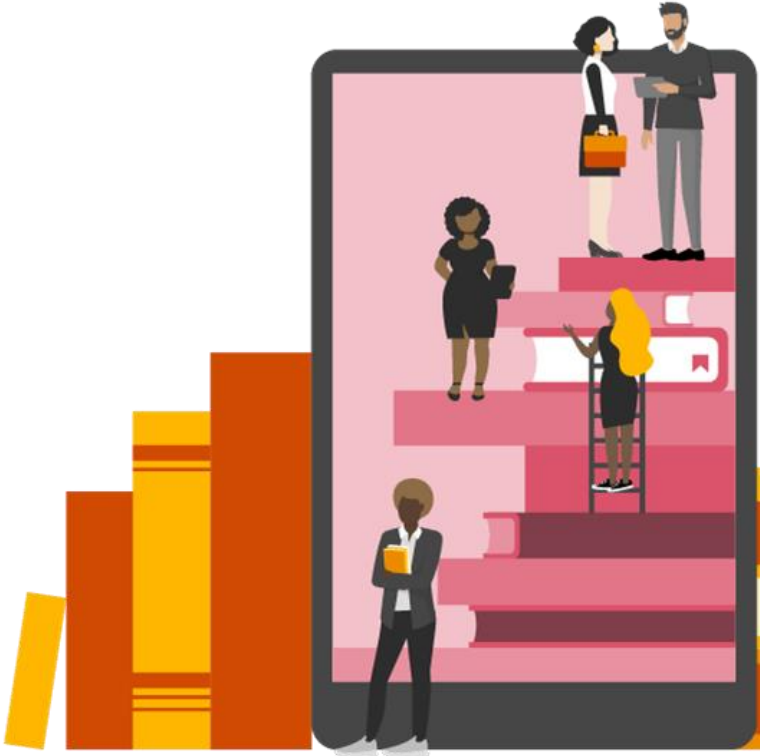
Where are we now and what to expect...

The challenge

New rules

Compliance

Timeline



Agenda

1. Setting the scene
2. Pillar 2 rules
3. The ‘known unknowns’
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 Top-up tax on intra-group transactions
When	2023: Income Inclusion Rule 2024: Undertaxed Payments Rule

Key terms explained

- EUR 750 mln threshold
- $$\text{GloBE ETR} = \frac{\text{Covered taxes}}{\text{GloBE tax base}}$$

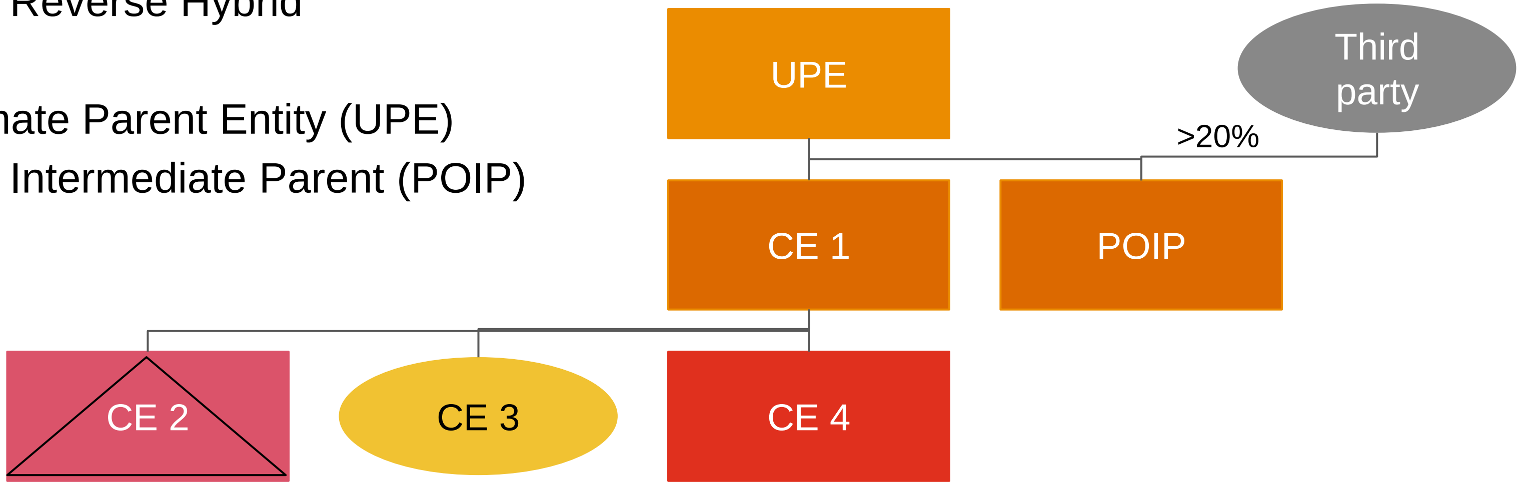
- Pillar 1
- WHT
- CIT

Financial accounting PBT consolidated per (tax) jurisdiction

- 15% minimum tax -/- GloBE ETR = Top-up tax
- Income Inclusion Rule (IIR): top-up tax at parent level
- Undertaxed Payments Rule (UTPR): top-up tax on intra-group payments

Key terms explained

- Constituent Entity (CE)
  - Permanent establishment
  - Hybrid
  - Reverse Hybrid
- Ultimate Parent Entity (UPE)
  - Intermediate Parent (POIP)



Pillar 2 - methodology

1. Determine STTR impact
2. Calculate jurisdictional GloBE ETR
3. Apply IIR allocation
4. Apply UTPR allocation

Pillar 2 - methodology

1 **Determine STTR impact**

2 Calculate jurisdictional GloBE ETR

3 Apply IIR allocation

4 Apply UTPR allocation

Determine STTR impact

Subject to Tax Rule

- Treaty-based rule (for developing countries)
- Limited source taxation for certain intra-group payments
- Interest, royalties and a defined set of other payments
- Minimum rate will be 9% (Corporate tax and withholding tax)
- Per-entity approach

Pillar 2 - methodology

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

Poll

The Pillar Two rules do not apply if the ETR as included in the financial statements is above 15%.

A) True
B) False
C) It depends

Pillar 2 - methodology

1 Determine STTR impact

2 **Calculate jurisdictional GloBE ETR**

3 Apply IIR allocation

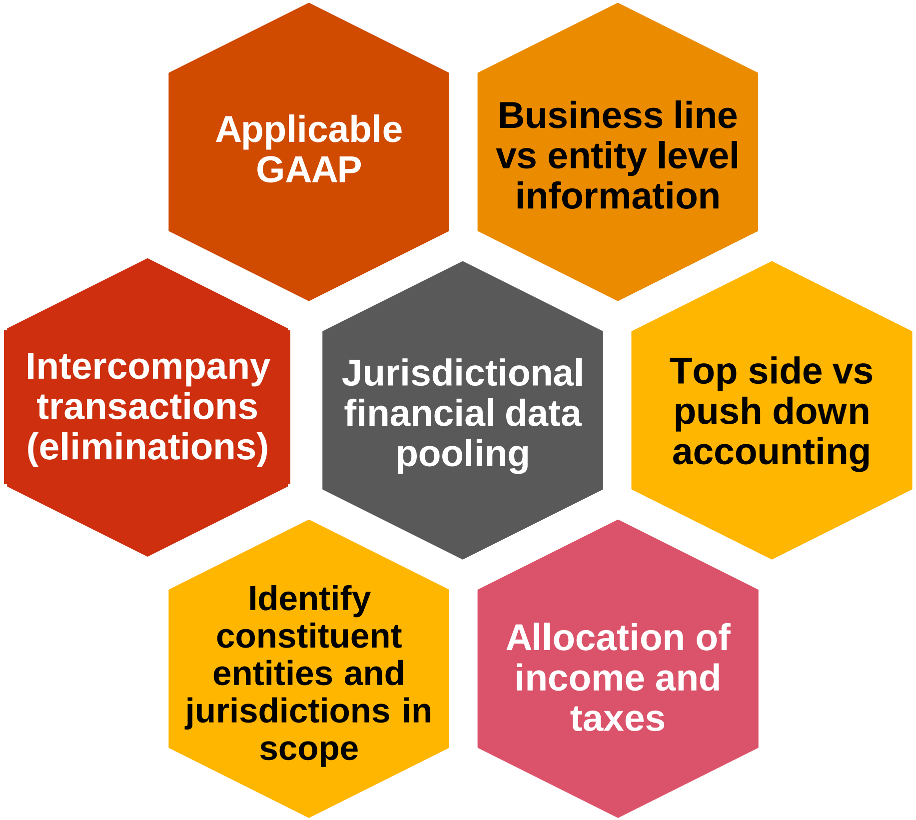
4 Apply UTPR allocation

Relevant steps

- Data collection
- Calculate jurisdictional GloBE ETR
- If GloBE ETR <15%, compute top-up tax due

Calculate jurisdictional GloBE ETR

Step 2.1: Data collection



Calculate Jurisdictional GloBE ETR

Step 2.2: Calculate Jurisdictional GloBE ETR (1)

$$\text{(Adjusted) GloBE ETR in jurisdiction A} = \frac{\text{(Adj.) Covered Taxes in jurisdiction A}}{\text{(Adj.) GloBE Income in jurisdiction A}}$$

Calculate Jurisdictional GloBE ETR

Step 2.2: Calculate Jurisdictional GloBE ETR (2)

$$\text{(Adjusted) GloBE ETR in jurisdiction A} = \frac{\text{(Adj.) Covered Taxes in jurisdiction A}}{\underbrace{\text{(Adj.) GloBE Income in jurisdiction A}}}$$

Starting point Profit before Tax + **Adjustment 1** Permanent & Temporary differences = **GloBE Income** + **Adjustment 2** Loss carry-forward (not local loss regime!) + **Adjustment 3** Substance-based Carve Out = **Adjusted GloBE Income**

Calculate Jurisdictional GloBE ETR

Step 2.2: Calculate Jurisdictional GloBE ETR (3)

General rule
Current year taxes

Excluding accrued taxes
- Uncertain Tax Positions
- Deferred taxes*

Excluding prior year taxes
- Return to Accruals

Including other taxes, such as
- Pillar One Tax
- STTR Tax
- Covered taxes booked above the tax line

Withholding taxes
- Dividend distributions
- Interest and royalty

Specific rules for distribution tax systems

Local Tax Carry Forward credits*

$$\text{(Adjusted) GloBE ETR in jurisdiction A} = \frac{\text{(Adj.) Covered Taxes in jurisdiction A}}{\text{(Adj.) GloBE Income in jurisdiction A}}$$

Calculate Jurisdictional GloBE ETR

Taxes (Financial accounting)	**Covered taxes** (Pillar 2 Oct. 2020 blueprint)	
✓	✓	Current (corporate) taxes for current year
✓	✗	Current (corporate) taxes for prior year(s)
✓	✗	Deferred taxes*
✓	✗	Uncertain tax positions
✗	✓	Withholding tax on dividends distributed
✓	✗	Withholding tax on dividends received
✗	✗	Withholding tax on interest & royalties paid
⚠	✓	Withholding tax on interest & royalties received
✗	✗	Indirect taxes (VAT, customs, environmental, etc).
✗	✗	Payroll taxes

Calculate Jurisdictional GloBE ETR

Step 2.3: Calculate Top-Up Tax due (if any)

(Adjusted) GloBE ETR in jurisdiction A =

$$\frac{\text{(Adj.) Covered Taxes in jurisdiction A}}{\text{(Adj.) GloBE Income in jurisdiction A}}$$

Adj. GloBE ETR >15?

No Top-up Tax due for jurisdiction A

Adj. GloBE ETR < 15?

Top-up Tax due

- Compute Top-up Tax %
- Compute Top-up Tax due amount
- Allocate Top-up Tax due amount

Poll (recap)

Answer

A) True
B) False
C) It depends

Pillar 2 - methodology

1 Determine STTR impact

2 Calculate jurisdictional GloBE ETR

3 **Apply IIR allocation**

4 Apply UTPR allocation

Relevant steps

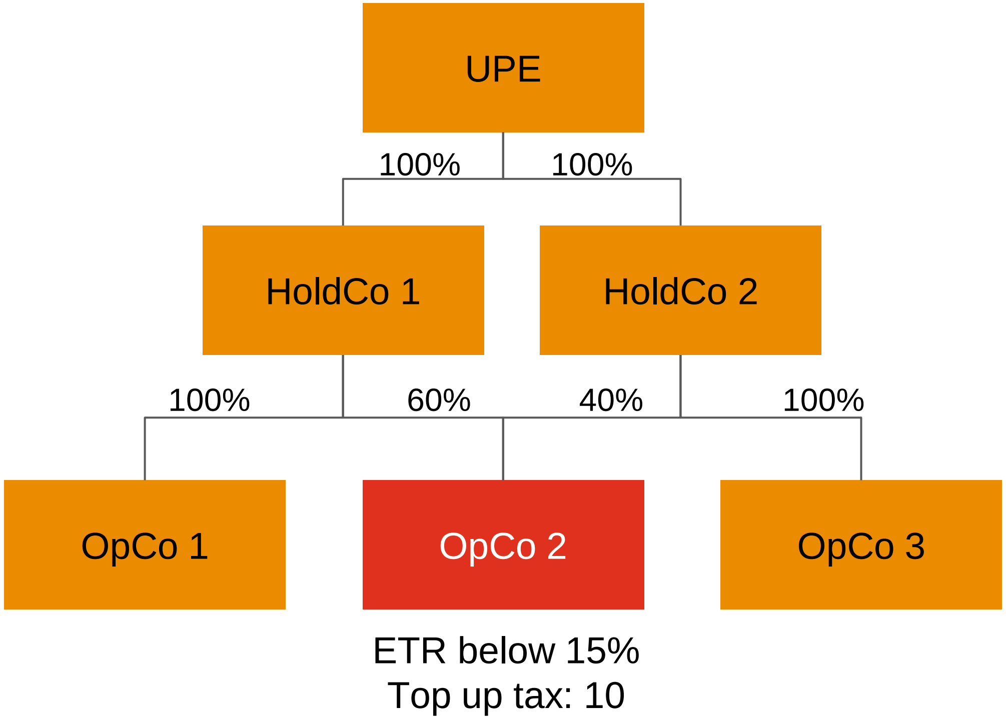
- Identify correct IIR taxpayer(s)
- Determine allocation percentage
- Consider IIR credits

Assess IIR entities and amounts

Income Inclusion Rule (IIR)

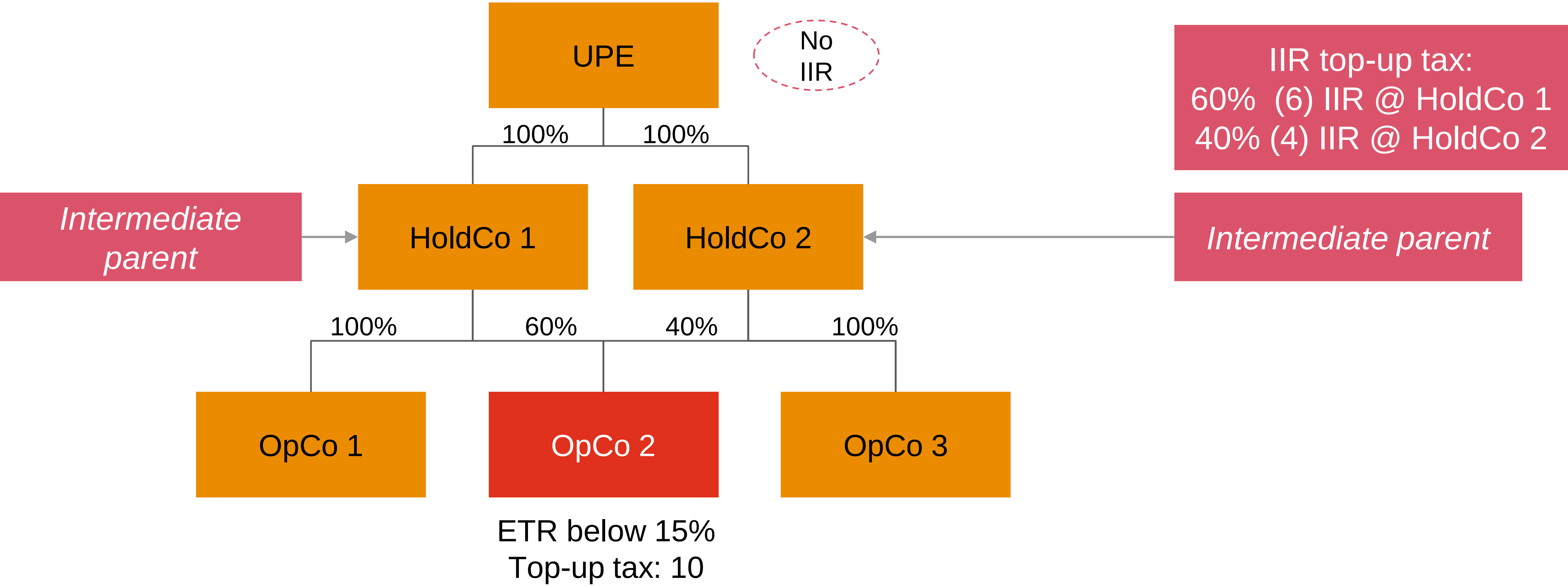
- Main rule: IIR at the level of ultimate parent entity
- Top-down approach
- Calculated on (total) percentage (in)direct ownership
  - Exception for split-ownership in chain of entities
- Where an IIR applies, IIR prioritizes over UTPR

Situation 1: IIR at UPE level

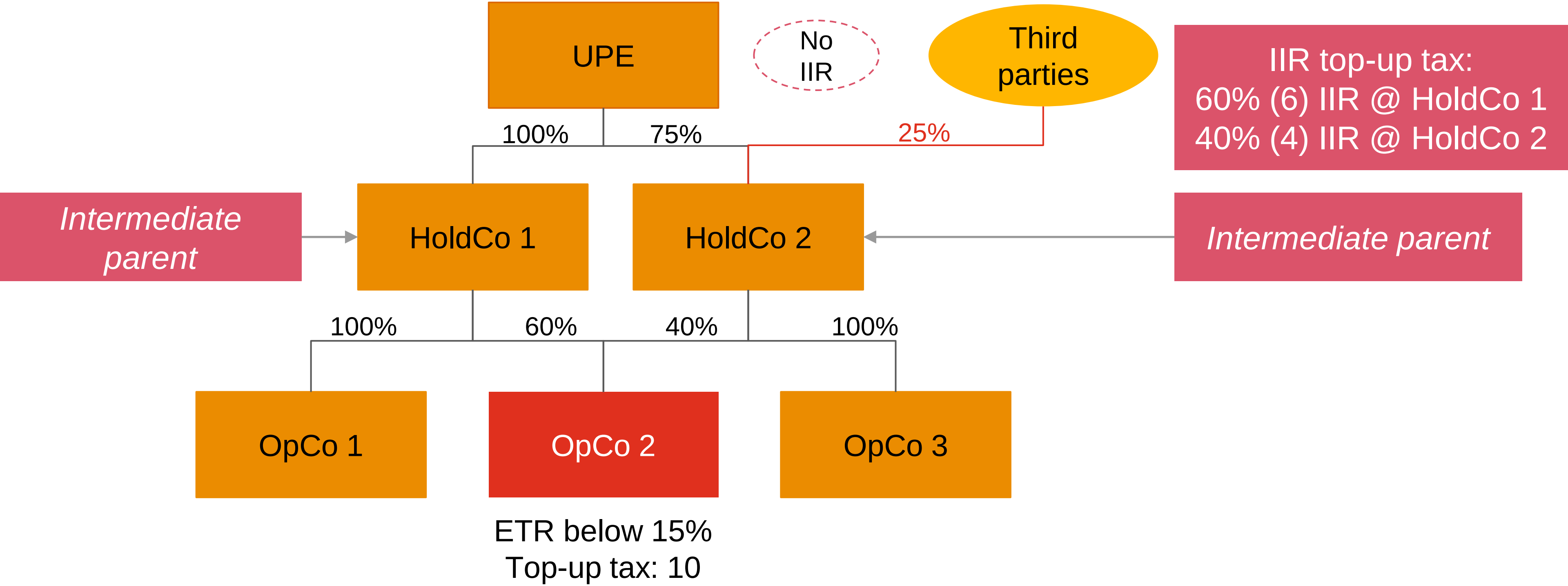


IIR top-up tax:
100% (10) @ UPE

Situation 2: No IIR at UPE level



Situation 3: No IIR at UPE & Third parties



Pillar 2 - methodology

1 Determine STTR impact

2 Calculate jurisdictional GloBE ETR

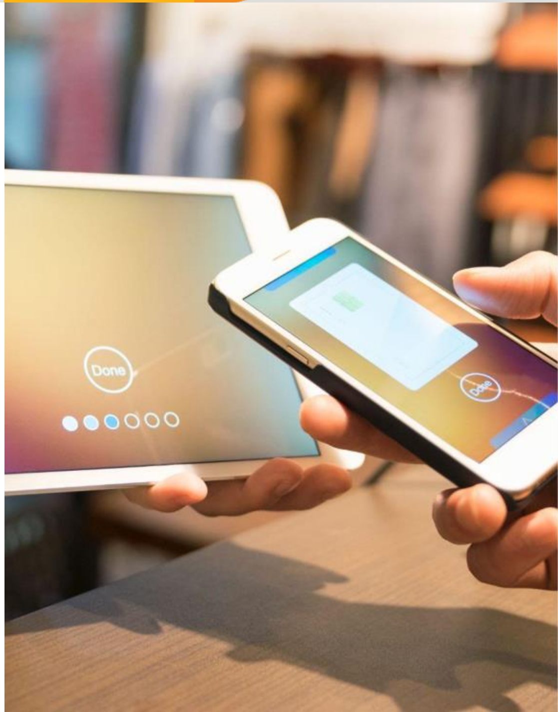
3 Apply IIR allocation

4 **Apply UTPR allocation**

Relevant steps

- Identify top-up tax (per jurisdiction)
- Calculate the UTPR tax to be allocated

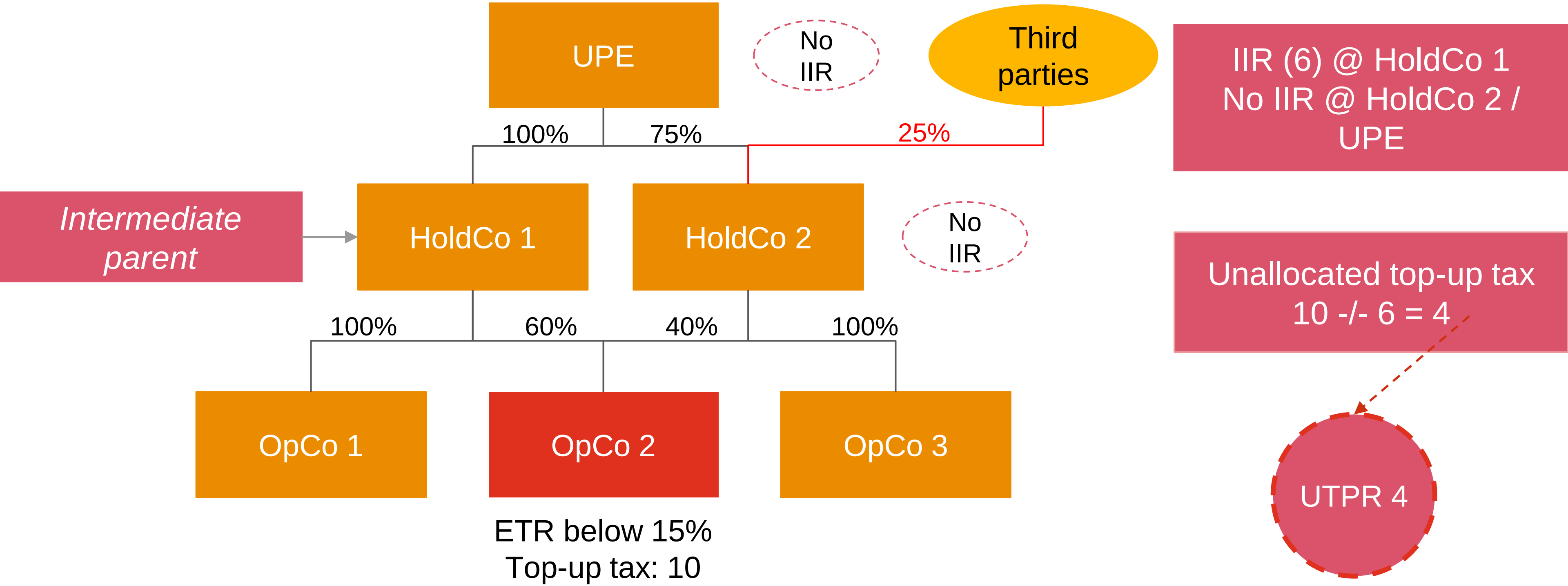
Apply UTPR Allocation



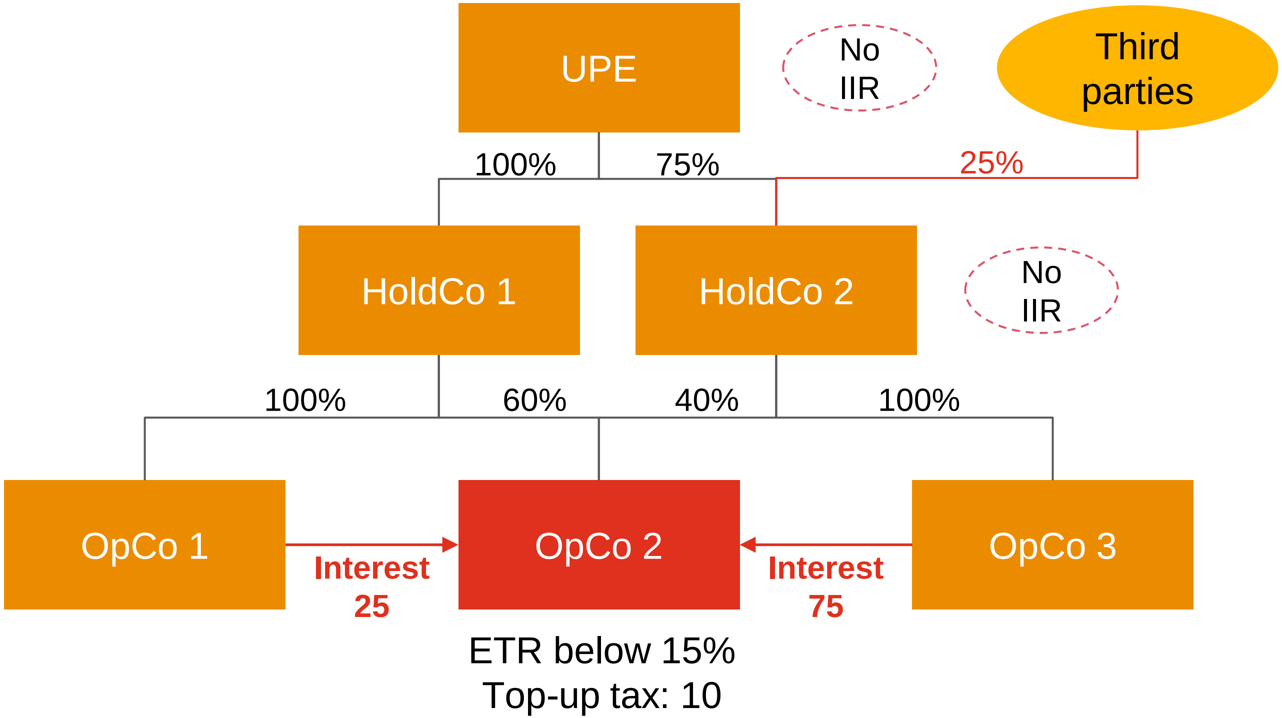
Undertaxed Payments Rule (UTPR)

- Identify UTPR taxpayers
- Intended to serve as a backstop to the IIR
- Addresses base-erosion through deductible intra-group payments
- Allocation mechanism (CE payment/total payments)

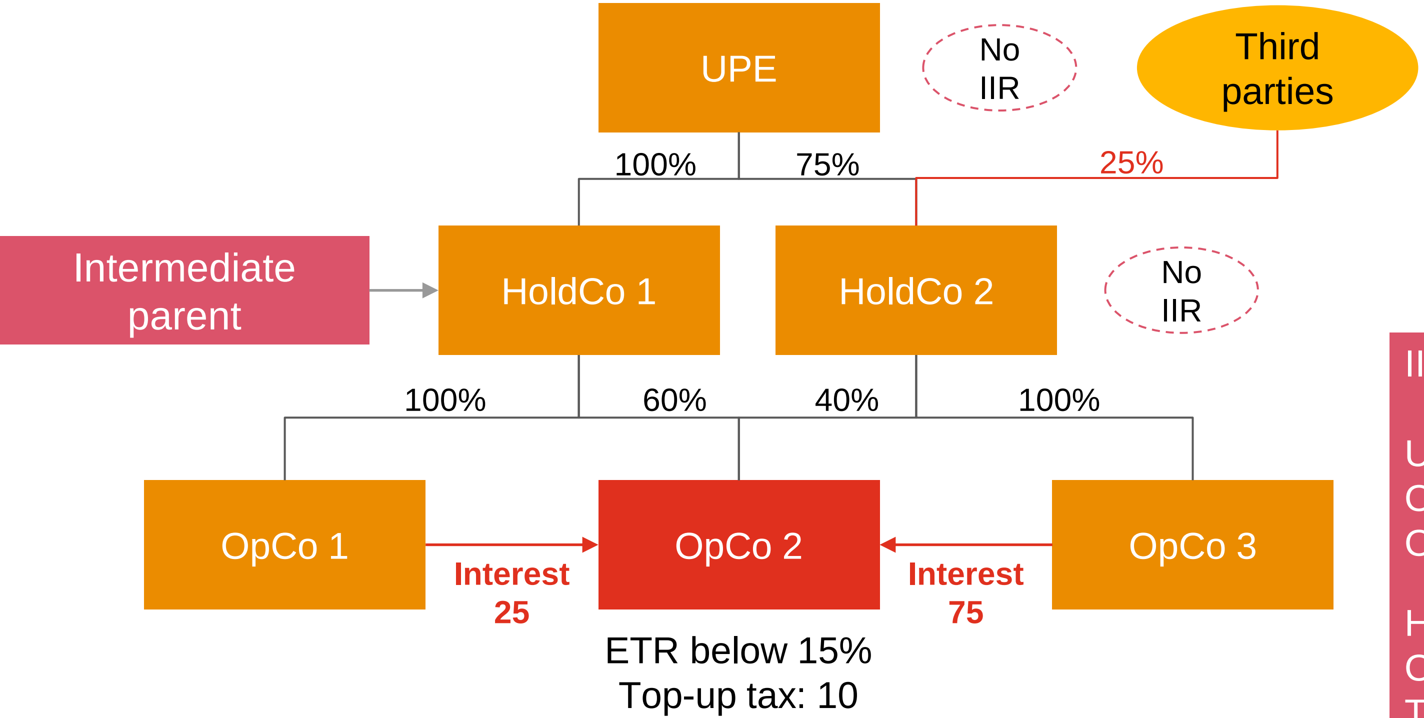
Situation 4: UTPR



Situation 4: UTPR



Situation 4: UTPR



IIR = 6 to HoldCo 1 (POIP)

UTPR = 4
OpCo1: 25 / 100 x 4 = 1
OpCo3: 75 / 100 x 4 = 3

HoldCo 1 = 6
OpCo 1 = 1
Total: 7 > ANSWER D

Agenda

1. Setting the scene
2. Pillar 2 rules
3. The ‘known unknowns’
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

The ‘known unknowns’

Much is still unclear

- Rules and terms
  - Dividends received
- Accounting
  - Deferred tax accounting vs carry forward
- Compliance
  - Implementation guidelines?
- Other / Simplifications
  - EU Directive

Agenda

1. Setting the scene
2. Pillar 2 rules
3. The ‘known unknowns’
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.
- GILTI and BEAT are expected to be considered a Pillar 2 equivalent regime, yet differences remain.

US Tax Reform

Main differences between GILTI/BEAT and Pillar 2

- **Threshold:**
  - GILTI/BEAT: no threshold.
  - Pillar 2: global turnover in excess of EUR 750.
- **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.

Agenda

1. Setting the scene
2. Pillar 2 rules
3. The ‘known unknowns’
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

The next 12 months

Q 4 2021 / Q1 2022	Q1 2022	Q2 2022	Q 3-4 2022
Model Rules	Directive and per country legislation	Implementation guidelines OECD	Compliance guidelines (?)

Prepare

- Upskilling
- Awareness
- Stakeholders
- Plan

Impact

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

Reporting

- Reporting process
- Forecast process

Compliance

- Compliance process
- Controversy

Poll

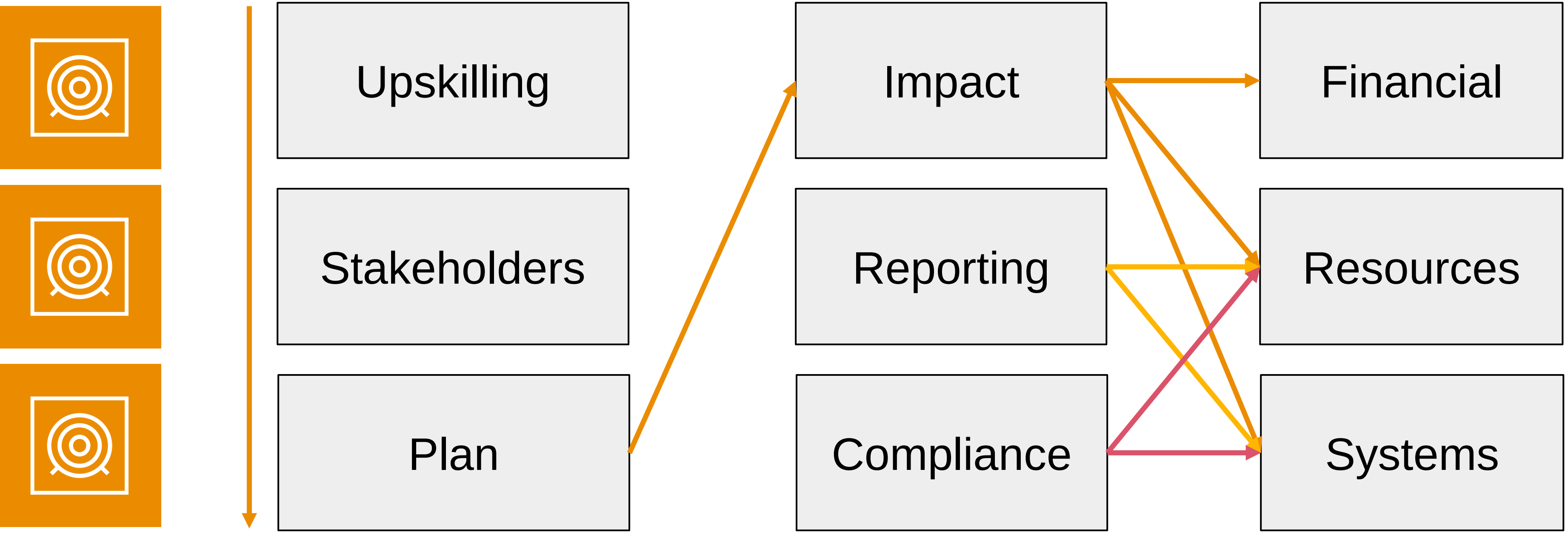
What will be the impact of Pillar on my company

A) No impact
B) Limited impact
C) High impact
D) Not sure (yet)

Agenda

1. Setting the scene
2. Pillar 2 rules
3. The ‘known unknowns’
4. Co-existence with US tax reform
5. Next steps
6. Wrap up & take aways

Three key actions to take away



Closing slide

- Questions? Please contact your PwC advisor
  or let us know in the evaluation of this webcast.
- View this webcast or presentation at a later stage
- Stay up to date: register for our PwC Tax Newsletter on pwc.nl
- 'State of Tax Legal & People' webcast series continues on pwc.nl/evenementen
- 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 disagree)
- Do you have any suggestions and/or comments?
- Do you have specific questions and would you like us to contact you?

Contact

Reinout van Gelder
Partner - ITS, PwC Netherlands
T: +31 88 792 6472
E: reinout.van.gelder@pwc.com

Maarten de Wilde
Director
T: +31 6 34196789
E: maarten.floris.de.wilde@pwc.com

Marcel Kriek
Director
T: +31 6 22650194
E: marcel.kriek@pwc.com

Laura den Ridder
Associate Corporate Tax
T:
E: laura.den.ridder@pwc.com

Thank you!

pwc