

Pillar 2 under the EU Directive:

*What does it mean for LATAM
MNEs?*

May 2023



Agenda

1. Pillar 2 in a nutshell: “the new global tax system”
2. How does Pillar 2 impact LATAM MNEs?
3. Overview of key Pillar 2 rules
4. Transitional CbCR Safe Harbours and Transition Rules
5. Next steps

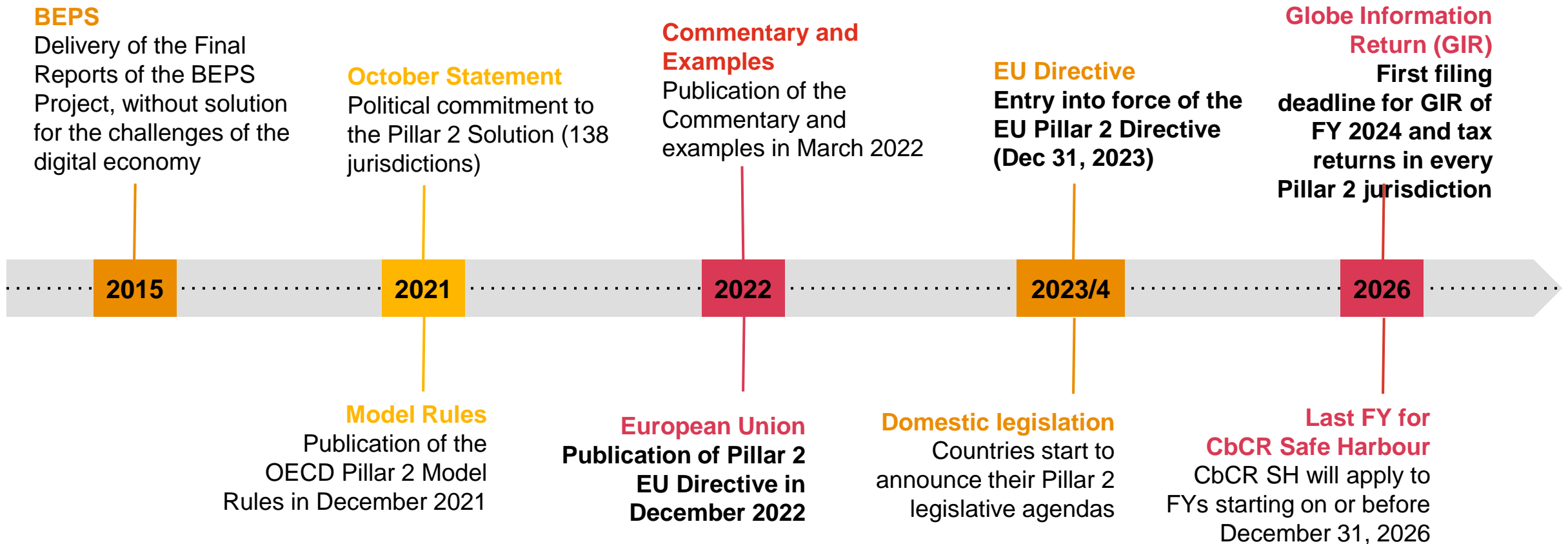




Pillar 2 in a nutshell:
“the new global tax
system”

How did we get here and where are we going?

The development of Pillar 2



Pillar 2 in a nutshell: the tip of the iceberg

What?

Minimum effective tax rate (ETR) of 15% in each jurisdiction.

Who?

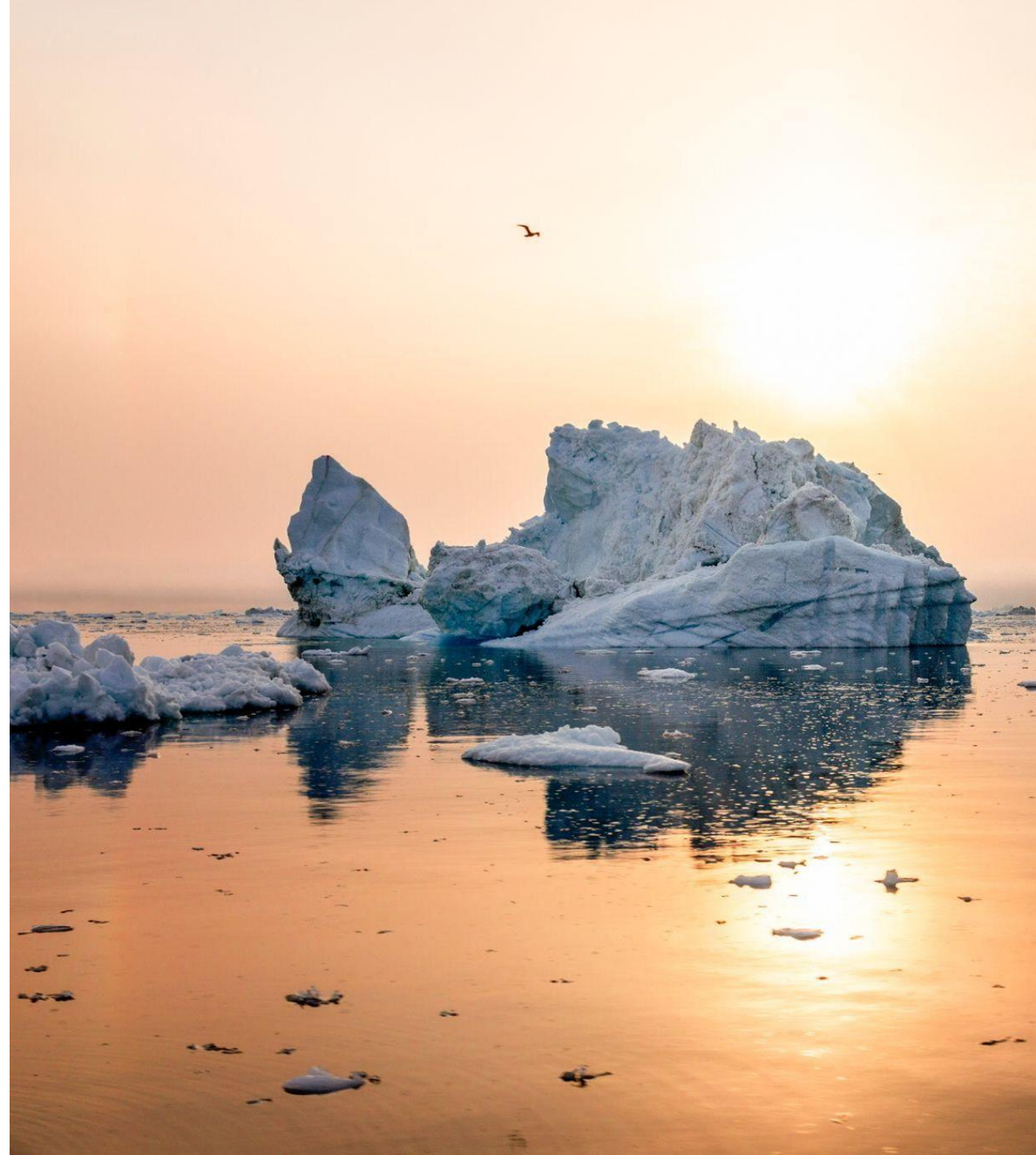
MNE Group with annual revenue of EUR 750 million or more.

How?

Top-up tax at (ultimate) parent level (or other group entities).

When?

31 December 2023 (per Pillar 2 EU Directive).



State of Pillar 2 around the World

US

Fiscal Year 2024 Budget proposes to replace the BEAT with a UTPR and a domestic minimum top-up tax. Republican control of the House of Representatives will prevent action.

EU

The IIR shall be effective from December 31, 2023 and the UTPR from December 31, 2024.

Canada

As per the budget, the IIR and QDMTT will apply for FYs beginning on or after Dec 31 2023 and UTPR for FYs beginning on or after December 31, 2024 (March 28, 2023).

United Kingdom

The Spring Finance Bill 2023 includes the OECD Pillar Two Global Minimum Tax rules in the UK, for FYs starting on Dec 31, 2023 (March 2023)

Switzerland

Released draft ordinance to be effective January 1, 2024

Liechtenstein

Draft legislation for the implementation of the Pillar Two GloBE Rules open for consultation (March 2023)

See PwC's Pillar 2 Country Tracker

Norway

As per the 2023 Budget, rules in development with the goal to be in force from 2024

Mauritius

Currently drafting the primary legislation for Pillar Two

South Africa

A draft position on the implementation of Pillar Two for public comment to be published in 2023 and draft legislation to be included in 2024 Taxation Laws Amendment Bill

Bermuda

Working on the Global Minimum Tax as per the 2023-2024 Budget

Qatar

Commitment to introduce Global Minimum Tax (Law 11/2022) although details covered in Regs (Feb 2023)

UAE

The recent introduction of a CIT regime helps to provide the UAE with a framework to adopt the Pillar Two rules. A different tax rate (to be specified) will apply for large MNCs that meet specific Pillar Two criteria

Kenya

Commitment to align its tax regime with OECD two-pillar solution (March 23)

India

No information announced by the government yet.

Indonesia

Indonesia is considering implementing the Pillar Two GloBE Rules from 2024 and is preparing QDMTT legislation. Government Regulation No 55 that stipulates the legal basis for the implementation of Pillar Two published on December 2022

China

No official guidance from the government. China State Taxation Authority set up a taskforce to collect data

Japan

Japan's 2023 Tax Reform legislation (that includes the IIR) was finalized on 31 March. IIR with effects for FYs on or after 1 April 2024

South Korea

2023 budget bill approved by Parliament on December 23, 2022. It includes the Korea-adopted version of GloBE Rules

Hong Kong

Hong Kong plans to apply the global minimum effective tax rate and implement the domestic minimum top-up tax starting from 2025 onwards (as per the 2023 - 2024 Budget)

Vietnam

Authorities proactively studying Pillar Two and bringing it into the country's law (Feb 2023)

Australia

Exposure Draft legislation expected early-mid 2023

New Zealand

Indicated verbally that NZ to adopt Pillar Two rules with effect for FYs beginning on or after 01/01/25 for both IIR and UTPR (March 2023)

Singapore

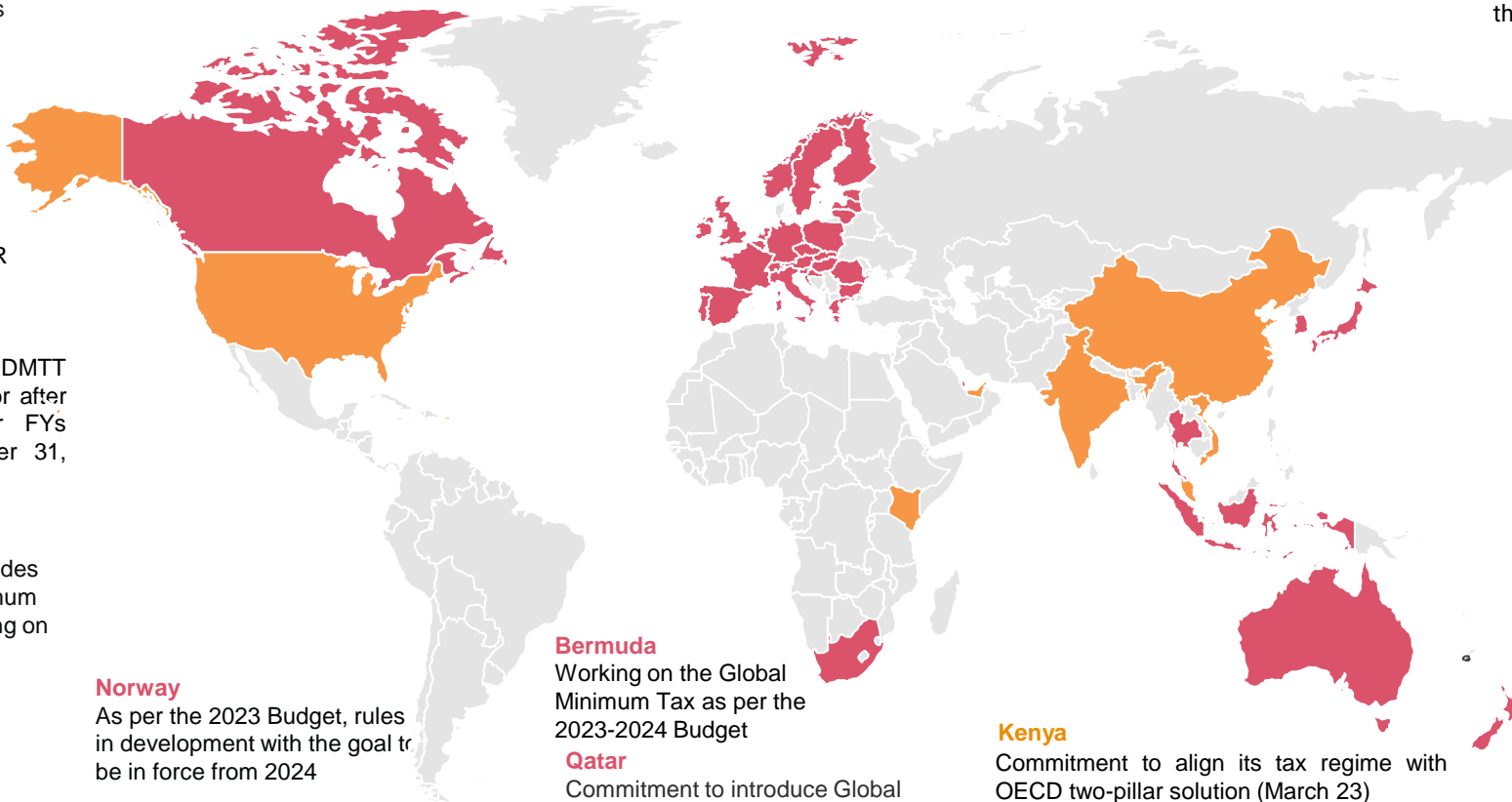
Singapore's 2023 Budget was presented before Parliament and GloBE rules would be implemented from January 1, 2025

Thailand

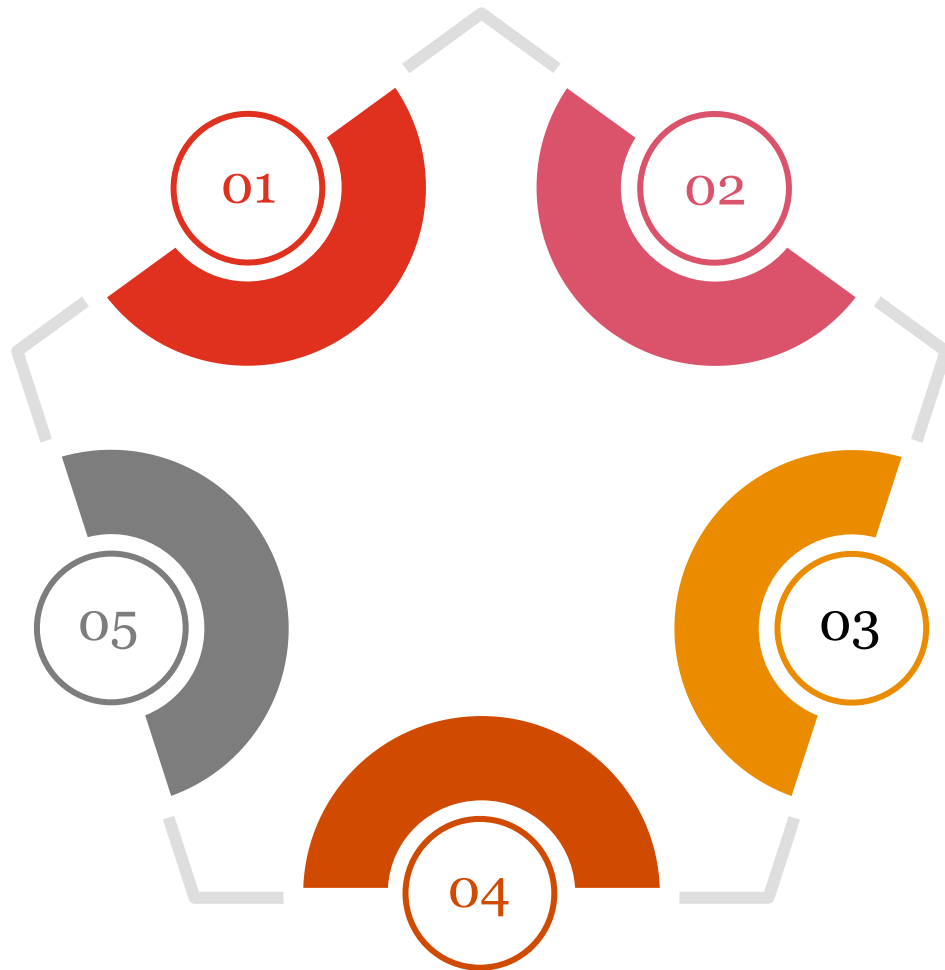
Thailand is working on enacting laws and guidelines to collect top-up taxes that follow GloBERules (March 2023)

Malaysia

As per the 2023 Budget, Malaysia plans to introduce the global minimum effective tax rate under Pillar 2 and implement the Qualified Domestic Minimum Top-up Tax (Feb 2023).



Steps to assess Pillar 2



01 Scope of GloBE Rules

MNE Group with an annual revenue of EUR 750 million or more in the Consolidated Financial Statements.

- In at least two of the four FYs immediately preceding the tested Fiscal Year.
- First Fiscal Year tested: 2024.

02 Computation of GloBE Income or Loss

Adjustments to determine GloBE Income or Loss.

- The GloBE income or Loss of each Constituent Entity is the Financial Accounting Net Income or Loss determined for the Constituent Entity for the FY as adjusted by GloBE Rules.

03 Adjusted Covered Taxes

Determine taxes attributable to Income of a Constituent Entity.

- Pillar 2 introduces its own tax classification system.
- The starting point for Covered Taxes is the current year tax expense subject to a large number of adjustments.

04 Computation Effective Tax Rate and Top-up Tax

Determination of the Top-up Tax of each Low-Taxed jurisdiction.

- The resulting Top-up Tax of each Low Tax Constituent Entity is charged to a Parent Entity or to Constituent Entities located in a UTPR Jurisdiction.

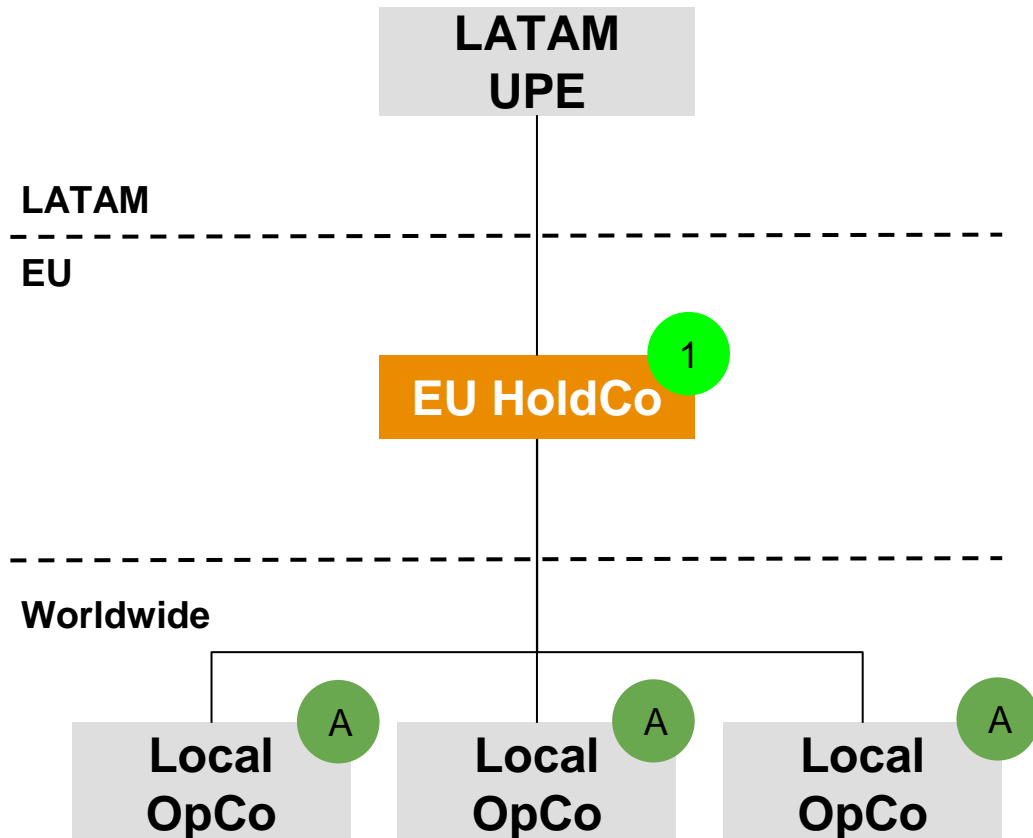
05 Income Inclusion Rule (IIR) and Undertaxed Profit Rule (UTPR)

- The IIR imposes top-up tax on a parent entity in respect of the low taxed income of a constituent entity.
- The UTPR denies deductions or requires an equivalent adjustment to the extent the low tax income of a constituent entity is not subject to tax under an IIR.

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How does Pillar 2
impact LATAM
MNEs?

Income Inclusion Rule (IIR)



LATAM UPE

- No implementation of Pillar 2 in LATAM yet.
- No Pillar 2 compliance requirements in LATAM.
- No levy of a Pillar 2 top-up tax.

EU HoldCo

- Implementation of Pillar 2 in the EU from 2024.
- Pillar 2 compliance.
- Levy of top-up tax in case of jurisdictional ETR below 15%.

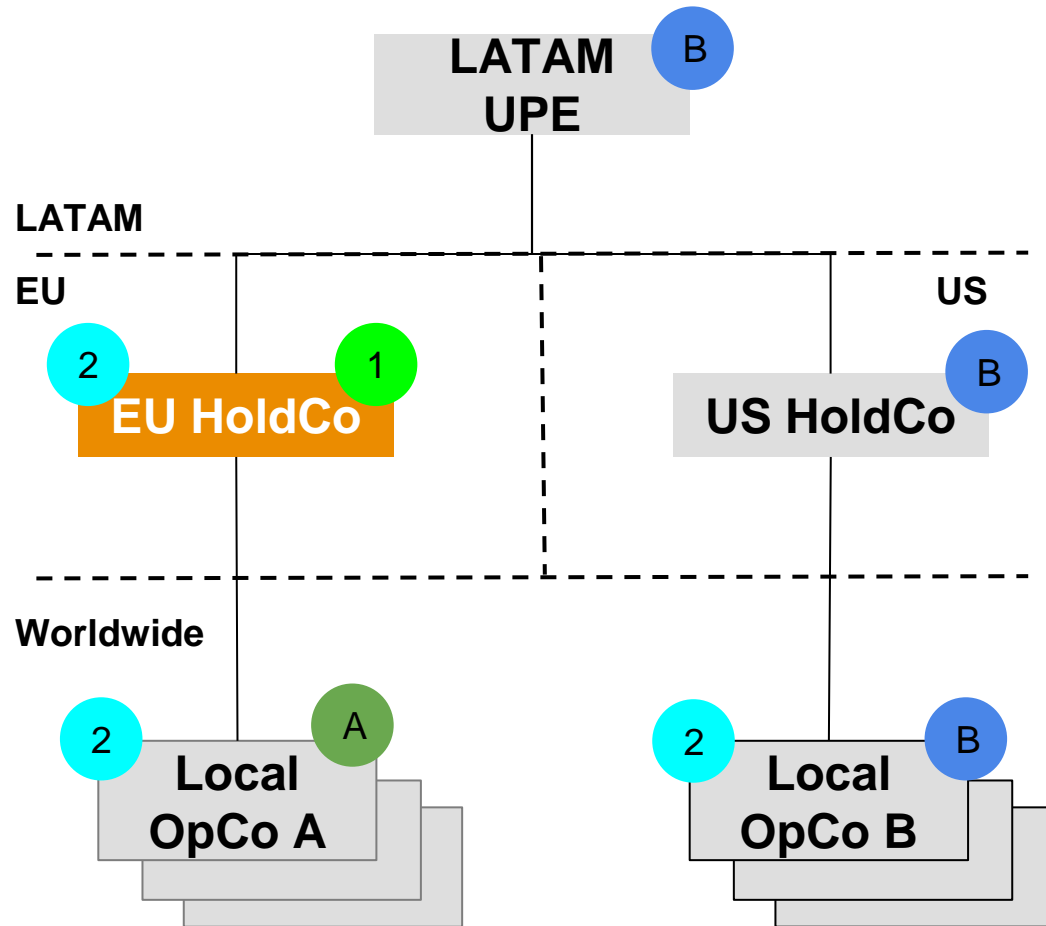
Local OpCo

- Top-up taxation in the EU in case of jurisdictional ETR below 15%.
- Pillar 2 compliance.

1. Potentially subject to EU IIR

A. Potentially Low-Taxed Constituent Entity

Undertaxed Profit Rule (UTPR)



EU HoldCo

- Pillar 2 compliance.
- Application of the IIR to Local OpCo A.
- Application of **UTPR** to US HoldCo, Local OpCo B, LATAM UPE.

US HoldCo

- No implementation of Pillar 2 in the US.
- No Pillar 2 tax payable in the US.
- Potentially Low-Taxed entity for UTPR purposes.

Local OpCo A

- Potential application of UTPR to US HoldCo, Local OpCo B, LATAM UPE.
- Potentially to provide relevant information to EU HoldCo for the purposes of Pillar 2 compliance.

Local OpCo B

- Potential application of UTPR to US HoldCo, LATAM UPE, and other Local OpCo B.
- Potentially to provide relevant information to EU HoldCo for the purposes of Pillar 2 compliance.

1. Potentially subject to EU IIR

A. Potentially Low-Taxed Constituent Entity

2. Potentially subject to UTPR

B. Potentially Low-Taxed Constituent Entity

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Overview of key
Pillar 2 rules

Top-up tax

1

**Jurisdictional
Effective Tax
Rate (ETR)**

$$\frac{\text{Aggregated Adjusted Covered Taxes in jurisdiction}}{\text{Aggregated GloBE Income or Loss in jurisdiction}}$$

2

**Jurisdictional
Top-up Tax**

**Top-up tax
percentage**

15% (minimum
tax rate) **less**
ETR (in the
jurisdiction)



Excess Profit

(GloBE Income **less**
[5%]* return on the
tangible assets and
payroll expenses in
that jurisdiction)



**Qualified Domestic
Minimum Top-up Tax**

(Domestic minimum
tax consistent with
GloBE Rules)

Key information for the calculation: **GloBE Income or Loss** and **Adjusted Covered Taxes**

GloBE Income or Loss

Conceptually: *Financial Accounting Net Income or Loss*, which is the net income or loss determined for a Constituent Entity (before any consolidation adjustments eliminating intra-group transactions) in preparing *Consolidated Financial Statements of the Ultimate Parent Entity*

With Adjustments

Standard Adjustments:

- Transactions in FANIL must be consistent with arm's length;
 - (Non-portfolio) Dividends and Equity Gain/Loss are excluded;
 - Net tax expense is added back;
 - Gain/loss from intra-group disposition of assets may be included/excluded
 - Policy disallowed expenses are added back
- (...)

Elective Adjustments:

- Possibility to align with the tax treatment of stock based compensation
 - Use realization rather than Fair Value or Impairment accounting
 - Apply consolidated accounting treatment to transactions within a tax consolidation group
- (...)

Over 100 relevant data inputs - see [PwC data input catalog, Appendix B](#)

Adjusted Covered Taxes

Conceptually: *current tax expense accrued in its Financial Accounting Net Income or Loss with respect to Covered Taxes*

With Adjustments

Adjustment to include/exclude items from the tax line of the P&L:

- Add back accrued liability for Covered Taxes that was reported as an ordinary expense;
- Exclude tax expense related to an uncertain tax position (and add if/when paid);
- Exclude Qualified Refundable Tax Credit;
(...)

Allocation of Covered Taxes between Constituent Entities:

- Allocation from CE to PE;
- CFC taxes paid by CE-owners are allocated to the CE;
- Taxes on distributions (eg DWHT) are allocated from CE-owners to distributing CE;
(...)

Deferred tax accounting with adjustments:

- Covered taxes are adjusted by DTLs to prevent temporary differences;
- DTLs have to be recaptured if not paid in 5 years (and added back when paid);
- DTL to be recast at 15%
(...)

Around 80 relevant data inputs - see [PwC data input catalog, Appendix C](#)

GloBE Information Return (GIR)

General information about the MNE Group and the Filing Constituent Entity

ETR and Top-up Tax computation, including adjustments to GloBE Income or Loss and Adjusted Covered Taxes

Corporate structure information, including ownership structure and requirement of a CE to apply IIR and UTPR

Top-up Tax allocation and attribution, including jurisdictions where the top-up tax is payable (through IIR and UTPR)

Filing Obligations



IASB released, on May 23, 2023, amendments to **IAS 12** (Income Taxes). In short:

- Amendments provide a temporary exception to the accounting for deferred taxes arising from the implementation of Pillar 2 rules;
- Amendments also provide targeted disclosure requirements which include:
 - in periods in which Pillar 2 legislation is substantively enacted *but not yet in effect*, qualitative information such as relevant jurisdictions for Pillar 2 purposes and quantitative information such as estimate of profits subject to Pillar 2 and respective ETR;
 - in periods in which Pillar 2 legislation is in effect, separate disclosure of its current tax expense related to Pillar 2 taxation.

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Transitional CbCR
Safe Harbours and
Transition Rules

Transitional CbCR Safe Harbour (Zero Top-up Tax/ no detailed ETR calculation in the jurisdiction)

Temporary relief to MNE Groups during the initial years of the implementation of the GloBE compliance obligations

Conditions	Tests	Simplified ETR test rate
CbCR is prepared using Qualified Financial Statements (standard meant to test reliability of data)	De minimis test: The MNE Group has total CbCR revenue of less than €10 million, and the CbCR profit (loss) before income tax is less than €1 million (including a loss) in such jurisdiction; or	2024 (Transition Rate of 15%)
Jurisdiction is disqualified, in case it was not subject to the CbCR SH a FY in which the MNE Group was subject to Pillar 2 (once out, always out)	Simplified ETR test: The MNE Group has a Simplified ETR that is equal to or greater than the 'transition rate' in the jurisdiction for the fiscal year. The 'simplified ETR' is calculated by dividing the simplified covered taxes (income tax expense reported in the MNE's financial statements, adjusted for covered taxes and uncertain tax positions) by the profit or loss before tax reported in the MNE Group's CbCR; or	2025 (Transition Rate of 16%)
Comply with the GIR filing requirements that are specific to the SH (e.g. Substance Based Income Exclusion)	Routine profits test: The tested jurisdiction's profit or loss before income tax for the jurisdiction is smaller or equal to the substance-based income exclusion (SBIE) amount, calculated under the GloBE rules.	2026 (Transition Rate of 17%)

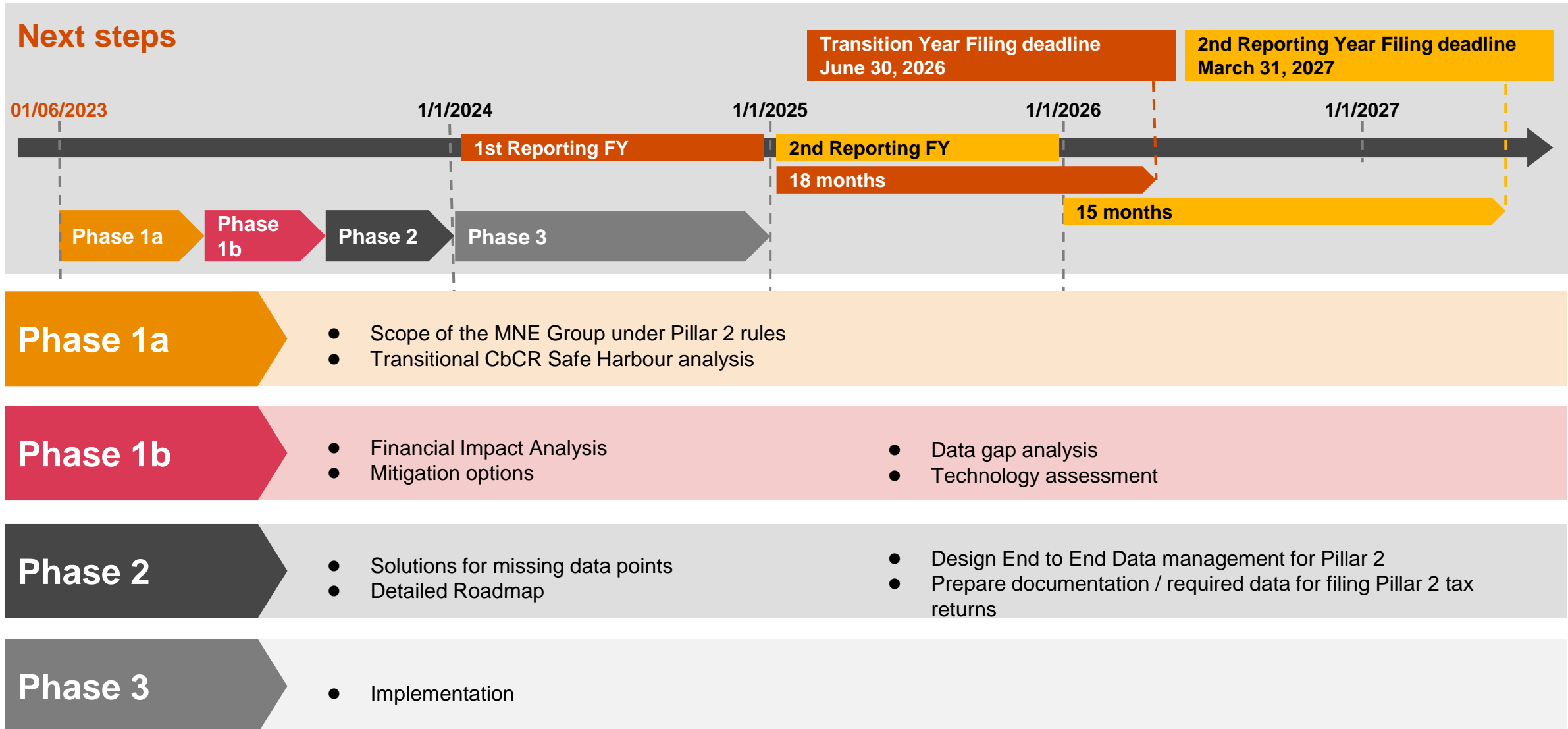
Transition Rules

Transition Rules apply since 30 November 2021

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Next steps

Pillar 2 Readiness



Main Takeaways

Impact of Pillar 2

- Pillar 2 is likely to have an impact on your effective tax rate.
- Pillar 2 is guaranteed to have an impact on your financial reporting and tax compliance.

Data challenge

- Current finance and compliance processes were not designed with Pillar 2 in mind.
- Make sure you assess how much data is missing.

Take actions

- Assess the impact of pillar 2 and safe harbour on the financials.

Are you #PillarTwoReady?



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Thank you

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