

Pillar 2 compliance roadmap – Overview of Pillar 2

Transcript

00:00:09:03 - 00:00:28:21

MONIQUE PISTERS:

This video will be the first in a series in which I will discuss the Pillar 2 proposal and our seven-step approach. This roadmap helps you to prepare to comply with these regulations. In this first video, I will start with an overview of the scope of Pillar 2.

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Pillar 2 is a new tax system that will be implemented in the European Union for January 1st, 2024. It aims to ensure a global minimum effective tax rate of 15%, and it targets large groups with a turnover of at least €750 million. To calculate for every jurisdiction whether the entities in these countries are effectively taxed against at least 15%, Pillar 2 introduces its own calculations. And if not, Pillar 2 introduces three main rules to achieve this. These are the Domestic Top-up tax, the Income Inclusion Rule, and the Undertaxed Payment Rule. By means of these rules, countries will impose additional taxation to achieve the 15% minimum tax.

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With the Domestic Top-up tax, Pillar 2 countries levy an additional tax, if group entities in this country are subject to an effective tax rate, lower than 15%. The Income Inclusion Rule means an additional tax which will be imposed on the

ultimate parent company of the group, in case of foreign subsidiary of the group is effectively taxed at a rate lower than 15%. This top-up tax in the country of the parent company ensures that group enterprises cannot have an effective tax rate under 15% in any jurisdiction they operate.

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But what happens if the ultimate parent company of a large multinational is located in a jurisdiction that has not implemented Pillar 2? Well, in that case, the undertaxed payment rule acts as a backup. This rule allocates the right to impose a top-up tax to the different jurisdictions in which subsidiaries are located, and that have implemented Pillar 2. And this is done in accordance with two indicators, namely the number of employees and the number of tangible assets of the group in those jurisdictions.

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So now you hopefully understand a bit more about Pillar 2 and the accompanying obligations. In the next video, I will discuss the exemptions which could be applicable to entities who fall into scope of Pillar 2. So please check out our website where we maintain a block with all Pillar 2 updates. Meanwhile, if you have any questions, please feel free to contact me or one of my colleagues.