Pillar Two: Global minimum taxation

Pillar Two establishes a global minimum taxation regime through a series of interlocking rules.

Leveling the playing field

On July 1, 2021, the Inclusive Framework (IF) released a statement setting forth the key components for an agreement on a two-pillar solution to address the tax challenges arising from the digitalization of the economy.

Pillar Two has three new rules granting jurisdictions additional taxing rights:

- Two interlocking domestic rules: (i) an Income Inclusion Rule (IIR), which imposes top-up tax on a parent entity in respect of subsidiaries’ income (including permanent establishments) that is taxed at less than a minimum effective rate (at least 15 percent), and (ii) a supporting Undertaxed Payment Rule (UTPR), which 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.

- A treaty-based Subject to Tax Rule (STTR), which applies a minimum effective rate of between 7.5 percent and 9 percent at source to certain related-party payments. The STTR will be creditable as a covered tax under the IIR and UTPR, i.e., the STTR applies first.

Exclusions and simplifications

- The rules will apply to multinational enterprise (MNE) groups with a total consolidated group revenue above €750 million. However, countries may apply a lower revenue threshold for the IIR in respect of groups headquartered in their country.

- There will be a carve-out from the IIR and UTPR for an amount equal to at least 5 percent (7.5 percent for a five-year transition period) of the carrying value of tangible assets and payroll costs. International shipping income and de minimis profits are also excluded. So too may be MNEs “in the initial phase of their international activity.” Details are awaited.

- Coexistence with the U.S. global intangible low-taxed income (GILTI) regime is under consideration.

- Safe harbors and/or other mechanisms for avoiding disproportionate compliance costs will be introduced.

What businesses need to know

- The Pillar Two rules are anticipated to be brought into law in 2022 and take effect beginning in 2023. IF members are not obliged to adopt the IIR and UTPR (the Global Anti-Base Erosion (GloBE) rules) but must accept the application of the rules by other IF members.

- A detailed implementation plan is expected in October 2021. This will include model legislation for the GloBE rules. A multilateral convention may also be drafted.

- The plan will also include an STTR model provision together with an implementing multilateral convention, and possible transitional rules (possibly a deferral of the UTPR).

- A number of uncertainties remain, but Pillar Two is likely to be a radical shift in the tax landscape.

More insights

KPMG Report: OECD/G20 Inclusive Framework Agreement on BEPS 2.0 (July 2, 2021)
Inclusive Framework’s Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (July 1, 2021)
KPMG Report: Summary and Initial Analysis of Pillar Two Blueprint (October 12, 2020)
The information contained herein is not intended to be “written advice concerning one or more Federal tax matters” subject to the requirements of section 10.37(a)(2) of U.S. Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP140102-1B