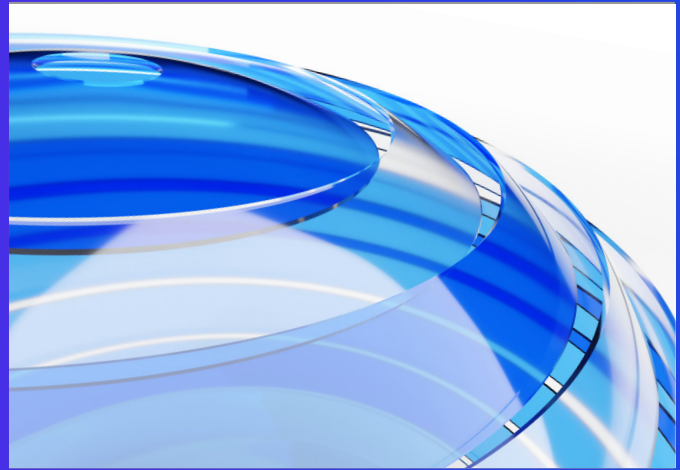




BEPS 2.0 – Initial assessment

Effective tax rate assessment, data gap analysis, and scenario planning

KPMG BEPS 2.0 Model integrated with KPMG Digital Gateway



The Organisation for Economic Co-operation and Development’s (OECD) “BEPS 2.0” initiative with the OECD/G20 Inclusive Framework agreement seeks to modernize the global tax system. With the OECD’s release of new consulting documents on profit reallocation (known as Amount A under Pillar One) and the model rules and commentary on the global minimum tax measures (known as Top-up Tax under Pillar Two), changes in the global tax landscape may be inevitable.

The outcome of these impending changes may present you with a new set of pressures and priorities. KPMG LLP (KPMG) International Tax professionals, working with professionals across the global organization of KPMG member firms, can help you address these challenges using the **KPMG BEPS 2.0 Model**, a proprietary modeling tool integrated with the [KPMG Digital Gateway](#).

Getting started – Initial assessment

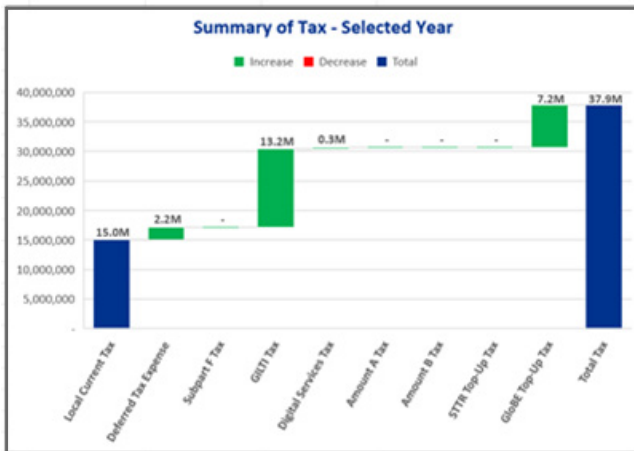
Key to determining your organization’s approach to BEPS 2.0 challenges is understanding the potential impact of the proposals. The effect on your organization can be assessed in two primary ways:

- **First, understanding the cash tax impact on your organization over time:**
The application of the Pillars One and Two policy and rules often yields unexpected and nonintuitive results and having no Amount A or Top-up Tax in any given year is not a clear indication that an Amount A or Top-up Tax liability may not be possible in another year. It is also important to consider current and future transactions as well as any in-flight business or tax plans.
- **Second, identifying the data and process gaps that need to be addressed to reach provision and compliance-level readiness:**
Pillar Two proposals target an effective date of December 31, 2023. If enacted, then tax provisions in 2024 would have to account for the impact of the new rules and a substantial information return under Pillar Two would need to be filed by 2026. Tax authorities of local jurisdictions may also introduce new local filing requirements to deal with the requirements of any new legislation and collect any tax due.

Using the KPMG BEPS 2.0 Model, KPMG professionals can support you in addressing both impacts by doing an initial assessment of three to five of your most material jurisdictions. The results of this initial assessment can support a robust estimate of any Amount A or Top-up Tax liability should Pillar One or Pillar Two be enacted and identify data and process gaps for provision and compliance.

Sample initial assessment outputs

The output from an initial assessment will provide a high-level analysis that can enable conversations with other stakeholders and facilitate preparation for BEPS 2.0 developments.

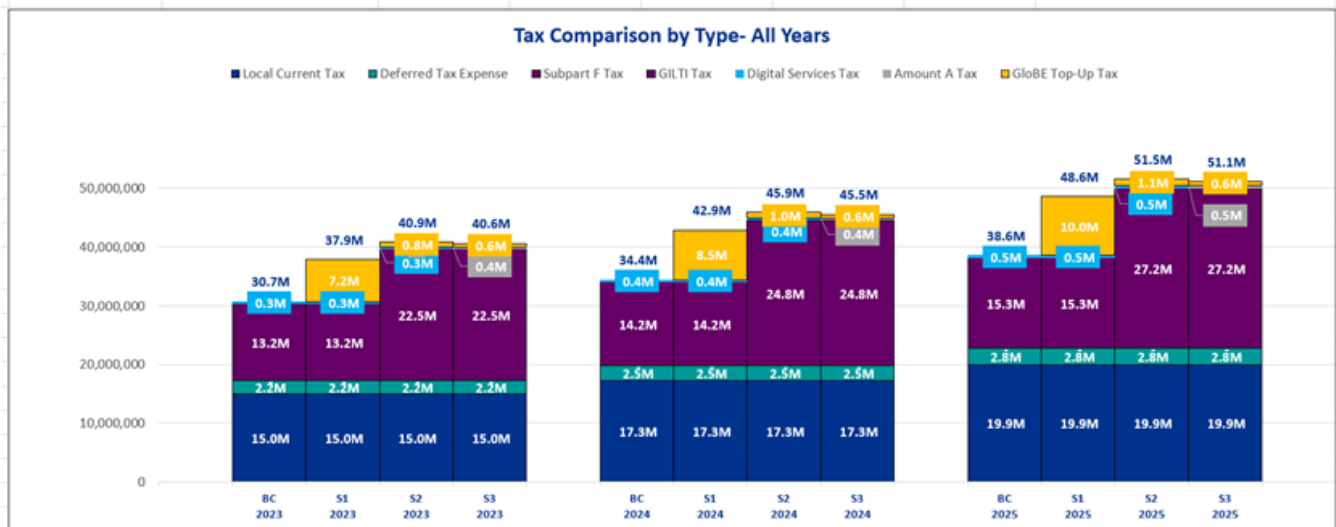


Sample single-year tax waterfall chart

R1-Single Year Summary
KPMG Detailed BEPS 2.0 Model

Selected Scenario	Selected Year	Consolidated	By Jurisdiction			
			United States	United Kingdom	High Tax	Low Tax
Pillar Two Breakdown						
Net Global Income or Loss		250,000,000	42,500,000	25,000,000	12,500,000	150,000,000
Breakdown of Covered Taxes						
Adjusted Covered Taxes Before Deferred		26,206,543	26,206,543	4,275,000	3,375,000	-
Total Deferred Tax Adjustment Amount		1,500,000	937,500	375,000	587,500	-
Re-Allocated Taxes Not Related to Passive Income		-	(13,175,750)	-	-	13,175,750
Re-Allocated Taxes Related to Passive Income		-	-	-	-	-
Total Adjusted Covered Taxes		29,706,543	8,500,000	4,650,000	3,962,500	13,175,750
Global ETR						
Global Minimum Rate			15.11%	18.00%	28.50%	8.78%
Top-Up Tax Percentage		15.00%	1.60%	0.00%	0.00%	6.27%
Allocation of GloBE Top-Up Tax						
GloBE Top-Up Tax		7,345,000	843,750	-	-	6,501,250
Qualified Domestic Minimum Top-Up Tax		-	-	-	-	-
Income Inclusion Rule		(8,341,800)	-	(8,341,800)	-	-
POPI Rule		-	-	-	-	-
Underlined Payment Rule		(843,750)	-	(843,750)	(40,540)	(773,110)
Unallocated GloBE Top-Up Tax		-	-	-	-	-

Sample single-year Pillar Two summary



Sample multiyear, multiscenario tax comparison

Case study

A large multinational with operations in many countries contacted its KPMG advisers to understand the potential impact of BEPS 2.0. Two significant areas of concern were identified: (1) material deferred tax assets would become worthless and (2) the extent of the Pillar Two impact on the existing operating model was unknown. Through scenario analyses, the company was able to identify the “tipping point” of the profit reallocation formula that would cause significant tax attributes to expire unutilized. Further, intragroup payments were identified as subject to a “top-up” tax, which could apply even if BEPS 2.0 fails as a globally coordinated measure. Such outcomes would lead to a significantly higher effective tax rate and raise questions of how to value existing deferred tax assets.

Armed with these insights, the company was able to communicate to its Board and executive teams the financial risks these proposals could entail, the likelihood of these risks materializing, and high-level insights on the necessary evolutions to their structure to be fully compliant with a future BEPS 2.0 regime.

KPMG BEPS 2.0 Model

The KPMG BEPS 2.0 Model is designed to support planning, provision, and compliance. The model is maintained and updated by a global team and expects to include features such as client access, pro-forma Pillar Two Global Anti-Abuse Erosion (GloBE) information returns, and integration with the KPMG international tax reform analyzer (ITRA). The model also supports custom reporting and high-impact visualizations on KPMG Digital Gateway, a single platform solution that gives you access to the full suite of KPMG tax technologies you use.

KPMG BEPS 2.0 Model benefits include:

Evaluates cash tax and effective tax rate. The model calculates multiyear cash tax and effective tax rate impacts of both pillars, considering various possible combinations of different proposals.

Includes toggle functionality. A toggle dashboard allows flexible modeling based on different tax rules, allocation keys, and other parameters of the constantly evolving proposals.

Is a scalable solution for both initial adde assessment and in-depth modeling. The model is scalable with available time and data and is able to deliver both high-level and detailed results.

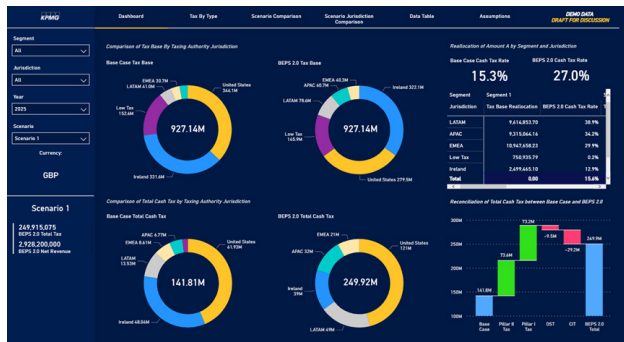
Provides summaries of quantitative results. Detailed quantitative results assist in understanding the effects of the proposals on business operations at all levels.

Provides summary reports and visualizations. The model delivers online visualizations, including the ability to view and compare scenarios for multiple years and jurisdictions, accessible directly by client end users through KPMG Digital Gateway that allows tax teams to glean insights and better communicate with C-suite executives, audit committees, and other stakeholders.

Helps identify necessary restructuring work. The modeling results and analytics identify potential, proactive responses to tax changes from the proposals' new rules.

Helps inform policy advocacy. Scenario comparison capabilities identify the key components of the proposed rules that may most significantly affect your business and inform an effective strategy to respond to policymakers.

Supports critical data and process gap analysis. With every data point needed for compliance reporting captured in the model, an accurate assessment of open data and process gaps is possible.



Sample KPMG Digital Gateway Dashboard

Checklist data input	Criticality	Availability in systems
Computation of GloBE Income or Loss (Chapter 3)	High	not available
Financial Net Income or Loss by Constituent Entity (Earnings after Tax)	High	available
Specific adjustments to align entity-based financial accounts with rules relevant for preparation of Consolidated Financial Accounts of Adjustments to determine GloBE Income or Loss (Art 3.2)	High	not available
Net Taxes Expense (Covered Taxes, QADDT and other GloBE Taxes, DTA, Disqualified Refundable Imputation Tax)	High	to be checked
Excluded Dividends (not those on Short-term Portfolio Shareholding or Ownership in Investment Entity; no patronage dividends Art. 7.2.4)	High	to be checked
Excluded Equity Gain or Loss (on any Ownership Interest excluding Portfolio Shareholding)	High	to be checked
Included Revaluation Method Gain or Loss (relating to revaluation of assets/liabilities)	High	available
Asymmetric Foreign Currency Gain or Loss (resulting from different account/tax functional currency of one entity)	High	not available
Policy Disallowed Expenses (illegal payments, fines/penalties 50,000 or greater)	High	to be checked
Inter Period Errors and Changes in Accounting Principles	High	to be checked
Accrued Pension Expense (difference between expense and actual contribution to Pension Fund)	High	not available
Arm's Length Principle Adjustments (Art 3.2.3)	High	not available
Qualified Refundable Tax Credits Adjustments (Art 3.2.4 - part of tax credit to be repaid within four years)	High	not available
Expenses Not Recognized by Domestic Net Taxable Income (Art 3.2.7 - hybrid financing situations)	High	not available
Banking sector: Additional Tier One Capital adjustments (Art 3.2.10 - relating to prudential regulatory requirements)	High	to be checked
Insurance companies: Exclude Taxes charged to Policy Holders (Art 3.2.9)	High	to be checked
Headlines (Art 3.3)	High	not available
CE Election: Stock-Based Compensation Adjustment (Art 3.2.2)	High	not available
CE Election: Realization Method for Gains and Losses (Art 3.2.5 - relevant for CEs for which fair value accounting applies)	High	not available
CE Election: Pro-Rate Gain from Disposition of Property (Art 3.2.6 - spreading of Aggregate Asset Gain)	High	not available
CE Election: UPE consolidation rules (Art 3.2.8 - adjustment relating to transactions below CEs in the same country)	High	not available

Sample Pillar Two data gap assessment

Next steps

Every organization is unique. Every tax function is, too. With the help of KPMG BEPS 2.0 Model, KPMG professionals are here to support you in accomplishing your organization's goals. Continue the conversation by contacting us for an initial assessment today and get started in just an hour.

Together, let's prepare for the future of tax.

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