

Pillar 2 Update

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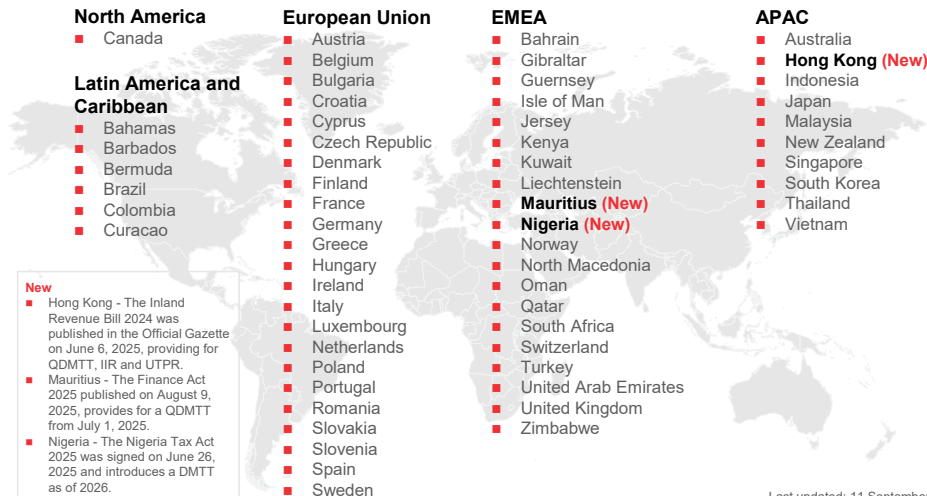
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Pillar Two Implementation

Jurisdictions across the globe that have enacted Pillar Two rules



Road to a Possible Global Minimum Tax Deal

○ January 20, 2025	President Trump issued a White House Memorandum providing that Biden Administration commitments “on behalf of the United States with respect to the “[OECD] Global Tax Deal have no force or effect within the United States absent an act by the Congress adopting the relevant provisions of the Global Tax Deal.”
○ April 11, 2025	At the OECD Inclusive Framework (“IF”) meeting in Capetown, South Africa, Deputy Assistant Secretary (International Tax Affairs) stated that at “a high level, we are seeking agreement that the US system stands side by side with the pillar 2 system.”
○ May 22, 2025	The House passed its version of the One Big Beautiful Bill Act (the “O3B Act”) including a new Section 899 (also known as the “Revenge Tax”).
○ June 16, 2025	The Senate Finance Committee released its version of the O3B Act with a somewhat less-burdensome version of Section 899 as well as other material changes to international tax provisions.
○ June 26, 2025	In a joint statement, Chairmen Crapo and Smith provided that “[a]t the request of Secretary Bessent and in light of this joint understanding to preserve US tax sovereignty and allow US tax laws to co-exist with the Pillar 2 regime, we will remove proposed [Section 899], and we look forward to active engagement with Treasury on these important issues.”
○ June 27, 2025	The Senate released an updated version of the O3B Act no longer containing Section 899.
○ June 28, 2025	Canada, on behalf of the Group of Seven (“G7”), issued a joint statement (the “Joint Statement”) expressing an “understanding” to work towards a “side-by-side” system. While the OECD Secretary General, Mathias Cormann, issued a statement welcoming the G7’s “breakthrough statement” and broader engagement with IF members, the director of the OECD’s Centre for Tax Policy and Administration, Manal Corwin, stated that the Joint Statement is only “a starting point for further talks in the inclusive framework.”
○ July 4, 2025	President Trump signs the O3B Act into law. The final version of the O3B Act includes changes to the US international tax rules but without Section 899.
○ August 2025	Bloomberg reports that leaked OECD documents that they reviewed demonstrate significant opposition within the IF membership to a proposed “side-by-side system” as outlined in the Joint Statement.

The G7 Joint Statement



- The Joint Statement provides that the United States and the other IF members will work on a proposed “side-by-side” solution based on the following principles:
 - Fully exclude US-parented groups from the UTPR and the IIR in respect of both their domestic and foreign profits.
 - Include a commitment to ensure any substantial risks that may be identified with respect to the level playing field, or risks of base erosion and profit shifting, are addressed to preserve the common policy objectives of the side-by-side system.
 - Work would be undertaken to ensure material simplifications are delivered to the overall Pillar Two administration and compliance framework.
 - Work would also be undertaken to address the Pillar Two treatment of substance-based non-refundable tax credits that would ensure greater alignment with the treatment of refundable tax credits.
- The G7 is made up of seven countries including Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.*

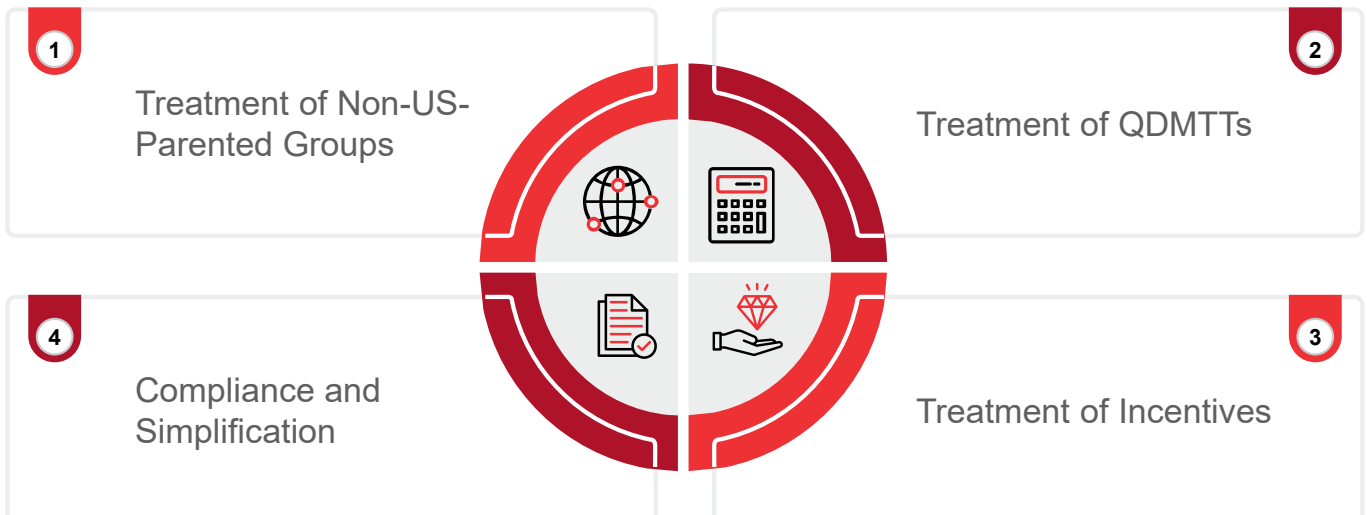
* N.B. The Presidents of the European Council (António Costa of Portugal) and the European Commission (Ursula Gertrud von der Leyen of Germany) represent the EU at G7 summits.

The G20 Weighs In



- At its October 15-16 meeting in South Africa, the G20 indicated its commitment to addressing ***“concerns regarding Pillar Two minimum taxes with the shared goal of finding a balanced and practical solution that is acceptable to all as soon as possible.”***
- “Delivery of a solution will need to include a commitment to ...the “level playing field”
- “[i]ncluding a discussion of the fair treatment of substance-based tax incentives.”
- In other words:
 - We need to move quickly
 - We get that the R&D credit is important
 - We need to figure out how the US is both “out” and “in”

The Joint Statement Raises Four Key Open Issues





Treatment of Non-US-Parented Groups

- The Joint Statement provides that “[a] side-by-side system would fully exclude US-parented groups from the UTPR and the IIR in respect of both their domestic and foreign profits.”
- This would appear to exclude the application of:
 - The **UTPR** by any other jurisdiction against a US parent’s earnings, and
 - The **intermediate IIR** and the **UTPR** against the earnings of domestic and foreign subsidiaries of a US parent.
- With respect to a **non-US-parented group**, does either the UTPR or the IIR apply to the earnings of its US subsidiaries (and the earnings of the US subsidiaries’ foreign subsidiaries)?
 - Would the US domestic tax system be treated as a QDMTT?
 - If so, would the United States become a popular holding company jurisdiction?
 - Consider the impact of the US anti-inversion and exit-tax regimes.
- Would a side-by-side system create a competitive disadvantage for Non-US-parented companies? Or is the US system sufficiently robust?
- Would such an exclusion be limited to US-parented groups or would other jurisdictions also be eligible if their systems were deemed sufficiently “robust”?



Treatment of QDMTTs

- In the Joint Statement, the G7 members commit “to ensure any substantial risks that may be identified with respect to the level playing field, or risks of base erosion and profit shifting, are addressed to preserve the common policy objectives of the side-by-side system.”
- The Joint Statement also provides that an analysis of the two systems took into “consideration [●] the success of [QDMTT] implementation and its impact...”.
- The above quoted language raises several issues that go to the heart of the Pillar Two system’s viability.
 - Does such language suggest that jurisdictions with enacted QDMTTs must retain them?
 - Will a side-by-side system require that incentives remain for jurisdictions to retain their QDMTTs?
 - Might some jurisdictions collectively resort to acting outside the Pillar Two system to further reduce the likelihood of jurisdictions repealing their QDMTTs?
 - Does it open the door to hybrid QDMTTs, such as where a jurisdiction’s otherwise qualifying DMTT would only apply to local subsidiaries of non-US-parented groups?
- Do the references to a “level playing field” and “common policy objectives” suggest that the blending permitted under the United States’ NCTI system is not inconsistent with Pillar Two and does not result in a “substantial risk” that US MNEs have an advantage over foreign MNEs taking the US tax system in its totality?



Treatment of Incentives

- The Joint Statement provides that “**considering** changes to the Pillar [Two] treatment of substance-based non-refundable tax credits that would ensure greater alignment with the treatment of refundable tax credits” will accompany work on the side-by-side system. (Emphasis added).
- Of the four principles in the Joint Statement, this is the only principle that uses the word “considering.”
 - This appears to be a tacit acknowledgement that the development of new rules to govern the treatment of incentives under Pillar Two may be a significant challenge upon which to regain consensus among the IF members.
 - A side-by-side system where the United States has no restrictions on the terms of any of its tax incentives while each of the 146 other IF members must ensure that each of its incentives is consistent with the Qualified Refundable Tax Credit (“QRTC”) definition in Article 10 of the Model Rules may be hard for the IF to accept.
 - However, if Administrative Guidance can be adopted that provides safe harbors for “good” incentives and anti-abuse rules for “bad” incentives, any advantage US-based MNEs may enjoy may be quite limited.
- Issues that will need to be addressed include whether refundable/nonrefundable distinction should be replaced with (or augmented by) a set of rules focused on incentives requiring **substance/activity** in the relevant jurisdiction as opposed to incentives aiming to attract income to that jurisdiction.



Compliance and Simplification

- The Joint Statement would “[w]ork to deliver... material simplifications... to the overall Pillar [Two] administration and compliance framework.”
- Suggests that the G7 is committed to a permanent safe harbor designed to minimize compliance burdens associated with filing GloBE information returns while maintaining the integrity of the Pillar Two system.
- We note that under a side-by-side system, US-parented groups may not have to file a GloBE information return. See next slide for more detail.
 - Some non-US MNEs have publicly raised concerns that a side-by-side system would further disadvantage them vis-a-vis US MNEs.
 - US MNEs have argued that the US tax compliance requirements on US-parented groups are the most burdensome in the world and still do not relieve those groups of their obligations to file returns in most of the local jurisdictions in which they operate.
- It is not clear whether a dispute resolution solution will be part of the OECD/IF efforts to arrive at a side-by-side system. If the United States is no longer part of the Pillar Two system, might it be more realistic for the IF to develop a mandatory dispute resolution instrument—at least with most of the largest remaining economies that have enacted Pillar Two rules?



Compliance and Simplification (cont'd)

- If US-parented groups are not required to file a GIR, additional issues will need to be addressed.
 - How to allow necessary QDMTT compliance without the GIR?
 - As currently designed, many jurisdictions have drafted bare-bones QDMTT forms and, instead, are relying on the sharing of information to be provided by an in-scope MNE on its GIR to determine the MNE's jurisdictional QDMTT liability.
 - Depending on the effective date of a "side-by-side" system, how groups with US UPEs report their 2024 - 2026 IIR and UTPR liabilities due to the limited scope and availability of the UTPR safe harbor (only available to protect US earnings from UTPR in 2024 and 2025)?
 - How to implement retroactively if foreign domestic law needs to change to remove GIR requirement?



G7 Statement Adoption – Possible Scenarios

		✓ Applicable ✗ Not Applicable	US HQ MNEs				Non-US HQ MNEs			
			GIR *	QDMTT	IIR	UTPR	GIR *	QDMTT	IIR	UTPR
Enacted in 2025/2026 with retroactive effects to 2024	FY24		✓	✓	✗	✗	✓	✓	✓	✗
	FY25		✓	✓	✗	✗	✓	✓	✓	✓
	FY26		✓	✓	✗	✗	✓	✓	✓	✓
Enacted in 2025/2026 with retroactive effects to 2025	FY24		✓	✓	✓	✗	✓	✓	✓	✗
	FY25		✓	✓	✗	✗	✓	✓	✓	✓
	FY26		✓	✓	✗	✗	✓	✓	✓	✓
Enacted in 2025/2026 with effects to 2026	FY24		✓	✓	✓	✗	✓	✓	✓	✗
	FY25		✓	✓	✓	✓(**)	✓	✓	✓	✓
	FY26		✓	✓	✗	✗	✓	✓	✓	✓
Not enacted by all countries (e.g., one country with IIR and UTPR does not adopt the solution)	FY24		✓	✓	✓	✗	✓	✓	✓	✗
	FY25		✓	✓	✓	✓(**)	✓	✓	✓	✓
	FY26 (onwards)		✓	✓	✓	✓	✓	✓	✓	✓
Other Consequences			US Section 899? US MNEs subject to Pillar Two (***)							
The agreement is not enacted for political reasons (e.g., tariffs)	FY24		✓	✓	✓	✓	✓	✓	✓	✓
	(and onwards)					(** FY25)				
			US Section 899? US MNEs subject to Pillar Two (***)							

(*) The GIR will likely still need to be filed in all scenarios outlined above. MNEs should be prepared to collect all necessary information, including MNE Group Information, Jurisdictional safe harbours and exclusions, GloBE computations, QDMTT specific data, etc.

(**) UTPR applicable to foreign subsidiaries of US HQ MNEs. Also, the UTPR SH must be elected; if not, the UTPR applies to US MNEs.

(***) To the extent that a jurisdiction does not enact agreed upon Administrative Guidance implementing the G7 deal (a "Non-Enacting Jurisdiction"), it is expected that only the Non-Enacting Jurisdiction's IIR could apply (i.e., no "cliff effect" that would trigger IIRs and UTPRs of other jurisdictions that enacted the guidance).



Tax Accounting Considerations

- Financial statement reporting is based on the enacted law in the relevant period
- Pillar Two legislative enactment considerations
 - Modifications to Pillar Two Model Rules in jurisdiction-specific legislation (intentional or inadvertent)
 - Jurisdictional implementation that requires interpretation consistent with OECD Administrative Guidance
 - Whether applicable only to guidance available at time of enactment or inclusive of new guidance
 - Whether new OECD Administrative Guidance is a matter of interpretation vs. introducing new rules
 - Publicly available information regarding a jurisdiction's intent to applying Pillar Two rules
- Financial statement disclosure considerations



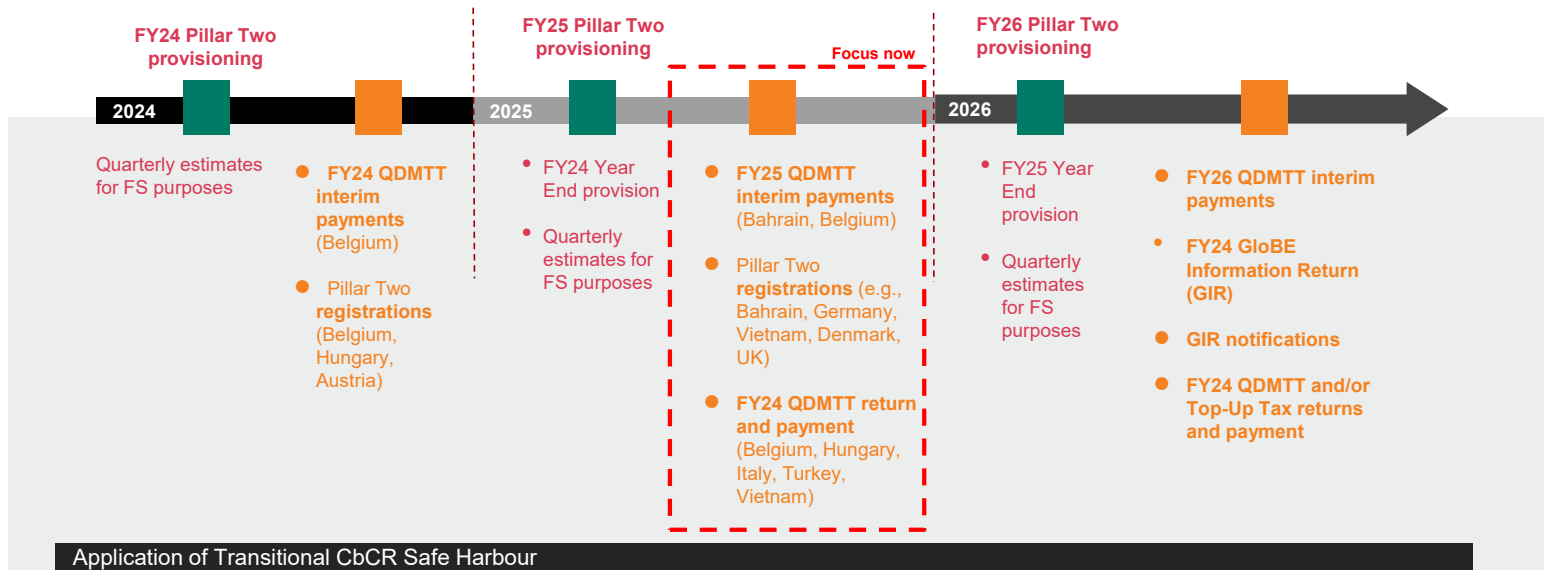
Other “Side-by-Side System” Issues

- How will a side-by-side system address differences between the US CFC definition and the GloBE rules relating to, for example, Joint Ventures/Subgroups and Minority-Owned Constituent Entities/Subgroups?
- How will such a side-by-side system address Partially-Owned Parent Entities (or POPEs) where under the GloBE system all the profits of a POPE are subject to potential top-up tax while, under the US system, only 10% US shareholders of a CFC are subject to US tax on their pro rata share of the CFC's earnings?
- Will a side-by-side system require the US to provide a foreign tax credit for QDMTTs and, if so, will the US be permitted to limit those credits consistent with the US system's historical limitations (e.g., the foreign tax credit limitation and the separate basket limitations under Section 904)?
- How will a side-by-side system address transactions between a QDMTT jurisdiction and a jurisdiction that has that has Constituent Entities that are not subject to the GloBE rules (e.g., transactions between a QDMTT jurisdiction and a US entity where the UPE is also a US entity)?
- How will a side-by-side system address tax attributes of entities under a US UPE when that US UPE is acquired by a Constituent Entity of a UPE that is subject to the GloBE rules?

Pillar Two Timeline to consider by taxpayers

Subject to the new measures after the G7 statement.

The likelihood that all in-scope MNEs will have full Pillar Two compliance for 2024 remains high



Impact on M&A – Open Questions

- Modeling Pillar 2 exposure in an uncertain environment
- How do we price tax attributes that may or may not be affected by Pillar 2
- Will transaction bring group into Pillar 2 – do we care? – should we care? – do we need to price risk into the deal?
- Due diligence – do we still need to diligence Pillar 2 risk?
- Transition rules – do we still need to care?
- Transaction documents – do (can) we build flexibility to cover potential risks depending on implementation of side-by-side solution

Compliance Requirements for FYE 2024# (as of Oct 2025)



Sr. No.	Tax Jurisdiction	Timelines for Registration			Timelines for Top-up Tax Returns			Timelines for GIR Notification
		Standard Timeline	No. of Filings	Due Date for Group	Transition Yr Timelines	No. of Filings	Due Date for Group	
1	Australia	-	-	-	18 months from Fiscal Year End (FYE)	1	30-Jun-26	30-Jun-26
2	Belgium ^	30 days after the start of the first fiscal year of the MNE being subject to Pillar Two	(Past)	16-Sep-24 *	11 months from FYE	1	30-Nov-25	-
3	Bulgaria	-	-	-	18 months from FYE	1	30-Jun-26	30-Jun-26
4	Canada	-	-	-	18 months from FYE	1	30-Jun-26	30-Jun-26
5	Croatia	-	-	-	18 months from FYE	1	30-Jun-26	-
6	Czech Republic	18 months from FYE (QDMTT information return notification)	1	30-Jun-26	18 months from FYE	1	30-Jun-26	30-Jun-26
7	Denmark	Notification in the CIT return: 6 months from fiscal year end	(Past)	30-Jun-25	18 months from FYE	1	30-Jun-26	30-Jun-26
8	Finland	-	-	-	18 months from FYE	1	30-Jun-26	30-Jun-26
9	France	Notification in the CIT return: 3 months from fiscal year end	(Past)	20-May-25	18 months from FYE	1	30-Jun-26	30-Jun-26
10	Germany	2 months from the calendar year end, in which the fiscal year of the MNE Group ends	(Past)	28-Feb-25	18 months from FYE	1	30-Jun-26	-
11	Greece	-	-	-	19 months from FYE	1	31-Jul-26	30-Jun-26
12	Hungary	Last day of the second month following the end of the tax year	(Past)	28-Feb-25	18 months from FYE	1	30-Jun-26	30-Jun-26
13	Ireland	12 months from FYE	1	31-Dec-25	18 months from FYE	1	30-Jun-26	30-Jun-26
14	Italy ^	-	-	-	18 months from FYE	1	30-Jun-26	30-Jun-26
15	Japan	-	-	-	18 months from FYE	1	30-Jun-26	30-Jun-26

Sourced from PwC Pillar Two Country Tracker/inputs from PwC Network Firms. The sample table includes information on only those countries of operations of Group where Pillar Two has been implemented for FYE 2024.

* Extended due date mentioned.

Note-Timelines considering 31st December as Fiscal Year End (FYE)

Compliance Requirements for FYE 2024# (as of Oct 2025)



Sr. No.	Tax Jurisdiction	Timelines for Registration			Timelines for Top-up Tax Returns			Timelines for GIR Notification
		Standard Timeline	No. of Filings	Due Date for Group	Transition Yr Timelines	No. of Filings	Due Date for Group	
16	Liechtenstein	12 months from FYE	1	31-Dec-25	18 months from FYE	1	30-Jun-26	-
17	Luxembourg	18 months from FYE	1	30-Jun-26	18 months from FYE	1	30-Jun-26	30-Jun-26
18	Mauritius	6 months from FYE	(Past)	30-Jun-26	15 months from FYE	1	30-Mar-26	-
19	Netherlands	-	-	-	20 months from FYE	1	30-Aug-26	30-Jun-26
20	Norway	-	-	-	19 months from FYE	1	31-Jul-26	30-Jun-26
21	Portugal	12 months from the transitional year end	1	31-Dec-25	18 months from FYE	1	30-Jun-26	30-Jun-26
22	Romania	6 months from FYE	(Past)	30-Jun-25	18 months from FYE	1	30-Jun-26	-
23	Slovakia	-	-	-	18 months from FYE	1	30-Jun-26	30-Jun-26
24	South Africa	6 months prior to the submission date (GIR Deadline)	1	31-Dec-25	18 months from FYE	1	30-Jun-26	-
25	South Korea	-	-	-	18 months from FYE	1	30-Jun-26	30-Jun-26
26	Spain	-	-	-	Within 25 calendar days following the 18th month after the end of the tax period	2	25-Jul-26	30-Jun-26
27	Sweden	15 months from FYE	2	31-Mar-26	19 months from FYE	1	31-Jul-26	30-Jun-26
28	Switzerland	18 months from FYE	1	30-Jun-26	18 months from FYE	1	30-Jun-26	30-Jun-26
29	Turkey	-	-	-	12 months from FYE	1	31-Dec-25	30-Jun-26
30	United Kingdom	6 months from FYE	(Past)	30-Jun-25	18 months from FYE	1	30-Jun-26	30-Jun-26
Total			17			31		23

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Note-Timelines considering 31st December as Fiscal Year End (FYE)

QDMTT Implications & Possible Strategic Responses

- **If QDMTTs remain relevant** – what does it mean for US MNEs despite the side-by-side deal?
 - Jurisdictional exits – Will US MNEs explore exiting QDMTT jurisdictions?
 - Will there be a jurisdictional shift of financing hubs?
 - Are mitigation strategies still viable where exit isn't feasible?
 - Are anti-avoidance concerns easier to manage in a side-by-side world?
- **Asset values** - Uncertainties in the side-by-side deal
 - How will US assets be valued for Pillar Two purposes?
 - Is US asset value still relevant for MNEs?

