# The New Pillar 2 Global Minimum Tax Regime:

## How tax departments can "get ahead of the curve" and build a global compliance and reporting infrastructure

White paper

THOMSON REUTERS®

## Introduction

Expanding regulations, transparency, and fairness in the tax system are nothing new. Tax and finance professionals must keep up with an ever-growing list of stringent requirements around disclosure designed to boost the amount of tax that companies pay. Global Minimum Tax (GMT) regulations are exponentially adding to the implications for companies operating internationally. At a time when tax teams are trying to move beyond simply being a compliance center to adding value and supporting the financial needs of the business, these new rules will only make that task more difficult.

The new regime requires gathering expansive amounts of data including information about employee roles and corporate structure.

Enforceable in early 2024, 140 countries covering 90% of the global economy are signed up[1]. The Organization for Economic Co-operation and Development's (OECD) Global Minimum Tax rules make it harder for big companies to avoid tax by shifting profits to lower-tax jurisdictions. Under the regulation, companies are required to pay a "top-up tax" to meet a global minimum tax rate of 15% if income is generated in a jurisdiction where taxes for multinational business are below the global minimum tax rate.

For tax departments in global companies, the impact is significant. The clock for implementation is already running down. The regime is disruptive. It accelerates the urgency with which tax and finance departments must drive digital transformation, automating both functions to allow for more time to develop scenarios, benchmarks, and predictive analytics. There is no doubt that the tax burden is increasing, necessitating more calculations to be carried out and imposing greater compliance and reporting requirements. However, that's just one aspect of the new regime that is putting pressure on organizations. Even more challenging are the data collection requirements. The new regime requires gathering expansive amounts of data including information about employee roles and corporate structure.

It is vital to prepare for the new regime now. Companies that haven't started preparing yet run the risk of not being ready. Use this white paper to get ahead of GMT, explore the key requirements of the GMT regime, and test your organization's readiness to meet the compliance challenges it is creating. In it, we offer practical ways to leverage data and enhance current tax workflows efficiently and with minimal resources to meet the reporting requirements GMT poses.

This is essential insight CFOs, tax directors, and their teams can use to get ahead of GMT.

## GMT compounds concerns about regulatory oversight

According to the *2022 State of the Corporate Tax Department* report from the Thomson Reuters® Institute, tax reform is the number one strategic challenge facing corporate tax departments today. Overall, three-quarters (73%) of senior tax professionals say they expect to face significant changes to government tax requirements in the jurisdictions in which they operate in the next year or two, up 16% from last year. GMT is a prominent concern. At the same time, improving tax department effectiveness and safeguarding against risk are top of the list of strategic priorities[2].

The goal with GMT is for major economies to discourage global companies from shifting profits, and tax revenues, to low-tax countries, regardless of where their sales are made. It is an issue that has been exacerbated by the digitalization and globalization of the world economy. Magnifying the focus on data, it intensifies pressures on already burdened tax teams to supply governments (as well as internal company departments) with critical tax information faster and more accurately.

[1]Sources: OECD OECD sees revenue gains from new tax pact reaching $250 billion | Reuters and The World Economic Forum New global minimum tax rate signed by over 136 countries. Here's what it means | World Economic Forum (weforum.org)

[2]Source: *The 2022 State of the Corporate Tax Department,* Thomson Reuters Institute

Global alignment of corporate taxation is likely to result in higher effective tax rates for global companies.

**What is Global Minimum Tax (GMT)?**

Global Minimum Tax is a two-part response developed and approved by 140 countries to address perceived global profit shifting by MNEs. The two Pillars include:

Pillar 1: Potentially changes where multinationals pay taxes, by reallocating a share of profits above a 10% profit margin. It applies to companies with more than €20 billion in revenues.

Pillar 2: Puts a minimum tax on in-scope cross-border transactions equal to 9% (under Subject-To-Tax Rules or STTR) and imposes a minimum tax on jurisdictions equal to 15% (under Global Anti-Base Erosion or GloBE rules). Applying to companies with revenues in excess of €750 million, it requires them to pay a top-up tax to meet the global minimum tax threshold.

While Pillar 1 will affect around 100 global companies, Pillar 2 will impact around 10,000 worldwide. The new rules are expected to raise significant amounts in additional taxation. It is estimated that Pillar 1 will raise between $13 and $36 billion in new annual tax revenues, and Pillar 2 will raise $225 billion in new annual tax revenue[3].

***Why act now?***

2023 is the transition period, where countries are still formalizing their rules ahead of the date the regime comes into effect in January 2024. Uncertainties remain about the timing in which countries will apply the new regime, but most are racing to do so to ensure they quickly capture additional annual tax revenues. It is critical to determine the impact, if any, on a company now, so that it can properly prepare for what is known now and leave time to address new country regulations as they are implemented.

GMT isn't just about getting ready to comply, it can impact the timing of some transactions or asset transfers. For instance, it could affect the ROI of planned deals, or have implications for cross-jurisdictional joint ventures (as agreements may need to be adjusted to ensure fair distribution of the tax liability between partners). Management may also want tax teams to start reporting the scale of the "top-up taxes" they face sooner rather than later.

This global alignment of corporate taxation is likely to result in higher effective tax rates for global companies. It brings in unprecedented transparency and reporting requirements that touch a wide variety of tax rules, book tax, cash tax, as well as cross-border and local country rules. The impact on international tax planning for affected companies is a rise in complexity for both determining and reporting country taxes.

Overall, more taxes are likely to need to be paid to more jurisdictions. It is unclear as yet whether an effective system of disclosure sharing will be established among all countries so that companies only need to disclose once in a 'parent' jurisdiction, or whether multiple disclosures will need to be made to different jurisdictions.

Either way, the disclosure requirements for GMT comprise a GloBE Information Return (GIR) which needs to be filed by either the Constituent Entity in a jurisdiction or a Designated Local Entity acting on its behalf. There is an alternative whereby the UPE or a Designated Filing Entity can lodge a return if they are located in a jurisdiction that has a Qualifying Competent Authority Agreement in place for that Reporting Fiscal Year. The GloBE Information Return needs to be lodged within 15 months of the GloBE Reporting Year (extended to 18 months in the first fiscal year that the MNE Group is within scope).

[3]Source: OECD oecd.org/newsroom/revenue-impact-of-international-tax-reform-better-than-expected.htm

To date the OECD has issued a public consultation document on the data points that may be required to populate the GIR. The document indicates that an MNE will need to collect hundreds of data points for each entity and jurisdiction to populate the GIR.

Data now needs to be gathered more frequently and quickly, and tax calculations and filings carried out more regularly (quarterly or even sooner in some cases). The granularity of data also increases: for instance, corporates' tax calculations may need to include data for inter-company transactions, or all transactions. Data gathering spans across corporate functions, to bring tax data together with data from finance, corporate structure, HR, and other areas of the business. As an example, data such as intragroup financing arrangements and the location and purpose of tangible assets are required to calculate GMT. This requires collecting a huge amount of detailed data.

## Key Data Requirements

**Pillar Two Data**

**Corporate data**

- Corporate structure details
- Entity classifications
- Joint venture information

**Financial data**

- Net financial income or losses
- Fair value adjustments
- Consolidated revenue

**Tax data**

- Deferred taxes
- Qualified/non-qualified refundable tax credits
- Accrued account expenses

**HR data**

- Number of employees by jurisdiction
- Pension expenses
- Eligible payroll costs

**Other data**

- Intragroup asset transfers
- International shipping data
- Purpose of tangible assets

GMT and its data requirements are raising the burden on corporate tax teams, at a time when they are already grappling with significant — and sometimes competing — pressures. A department that continues to be asked to do more with less will want to look for ways to simplify the highly complex challenge of meeting GMT requirements. It is a challenge that will take both advisory and technology support to address. Armed with guidance on both these fronts, tax professionals can help the organization manage risk by adapting more quickly to the continuously evolving regulatory requirements and by delivering business intelligence that can be used for strategic planning.

Keeping in mind their goal of improving tax department effectiveness and safeguarding against risk, senior tax professionals need to act now by:

- Analyzing what data gathering and reporting requirements they will need to meet
- Modelling to identify key areas their organization will need to focus on under the new regime
- Conducting risk assessments to identify entities, transactions, and other business operations impacted by the rules
- Deciding how to refine existing processes to build a suitable global compliance infrastructure

Inevitably, this will need to be supported by the right technology and experts that understand the nuances of a business.

**Data must be accessible, reliable, and meaningful so that it can be leveraged to meet reporting requirements in a straightforward and effective way.**

## Why augment your workflows with technology?

Against this backdrop of growing complexity, good governance of data is critical. Data must be accessible, reliable, and meaningful so that it can be leveraged to meet reporting requirements in a straightforward and effective way. The first step is to carry out a data gap analysis to better understand what data is missing, and whether the data you have is provided at the requisite level and in the right format. With this analysis in hand, a tax department working together with internal resources like finance, IT and HR, and external experts (e.g., advisory firms) can decide how to fix any gaps. For example, by changing the data source or how data is captured.

Ultimately, there should be a "single source of truth" for all data, with all forms of data (e.g., legal entity data, trial balance data, provision data) contained within one dataset. Data must be consistent across all country reports and internal and public disclosures. Moreover, efforts to embed compliance into data gathering, calculation, and reporting processes must be stringently evaluated. GMT presents both the need and an opportunity to modify tax processes.

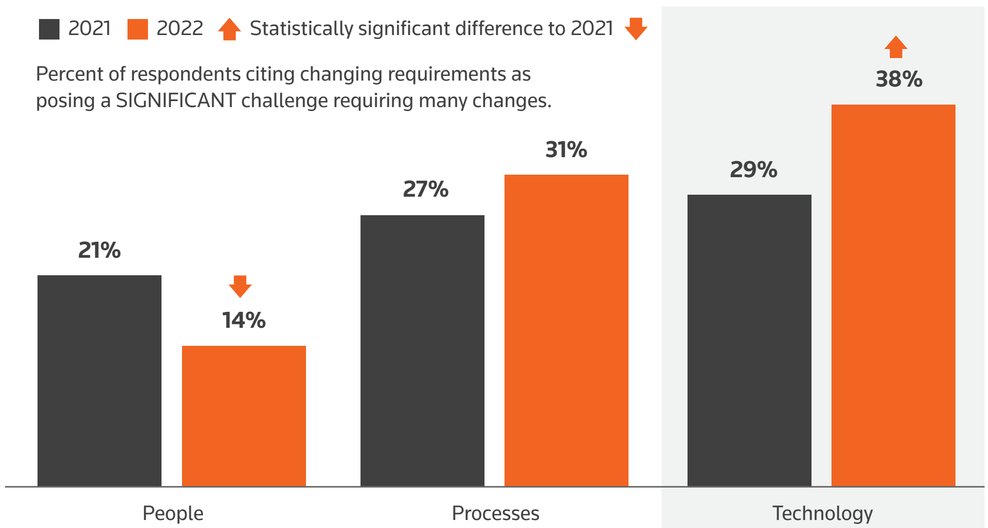
Since data is critical to meeting the challenge of GMT, it follows then that workflows must be fit-for-purpose. GMT workflows follow the same four basic stages as other tax workflows: loading data, applying tax rules, creating reports, and compliance (i.e., both information reporting and filing). Companies that are already following best practice principles, for example by loading separate legal entity trial balances into their tax provision and country-by-country reporting workflows, may find that they already have a good starting point for the data they need for Pillar 2 calculations. Others may need to revisit their workflows to see where process improvements are necessary to ensure that compliance requirements can be met with minimum disruption or difficulty. Whether standardized practices are already in place or need to be started afresh, tax workflows are an important area of focus.

All of this can — and should be — anchored in sophisticated technology that automates processes, bringing the tax department the necessary efficiency, consistency, and accuracy to de-mystify the complexities of GMT and make them more relevant for the business. Look for technology designed to automatically collate data and identify gaps. It should support performing complex risk assessments and impact analyses. Ensure it can carry out calculations and produce reports at the touch of a button, track compliance dates, and automatically update in real time when there is a rule change. GMT requires being predictive: technologies should help to forecast the impact of new regulations and provide a way to plan when considering business-specific scenarios. Central to the work is team collaboration across internal and external resources globally. With technology stacks that can be very different, look for vendors that offer APIs (application program interfaces) and connectors that minimize the human time and effort required to meet GMT regime requirements.

Carefully evaluate whether current corporate technological capabilities can efficiently support GMT requirements. Around four in ten (38%) tax respondents to the Thomson Reuters Institute *2022 State of the Corporate Tax Department* survey reported that technology is going to be their biggest challenge when it comes to preparing for upcoming governmental changes, up from three in ten (29%) last year. More than a third (35%) said they would need more efficient automation technology and streamlined processes to keep up with regulatory changes such as GMT.

## Indirect tax significant challenges

**Q. Given the people, processes and technologies you already have in place, to what extent do you feel these changing requirements will pose a significant challenge to your department and the changes you will need to make to get ready?**




Number of responses (2021, 2022): People (392, 319); Processes (395, 319); Technology (395, 316) *Source: Thomson Reuters 2022*

Orbitax Global Minimum Tax (Orbitax GMT) addresses all the Pillar 2 rules, continuously updating regulations in real-time for 190 countries.

## Orbitax Global Minimum Tax can help

Orbitax Global Minimum Tax (Orbitax GMT) addresses all the Pillar 2 rules, continuously updating regulations in real-time for 190 countries. It automates data collection, tax calculations, reporting, and tax form generation (when they are available). Most importantly, in this time of implementation, when companies are working to determine how the regulations will impact them, Orbitax Global Minimum Tax simplifies the management of data, performs risk assessments, and facilitates forecasting. Teams collaborating globally can build out custom workflows to ensure compliance.

Orbitax Global Minimum Tax integrates with existing systems, preserving existing investments in technology, including ONESOURCE® Tax Provision (OTP) from Thomson Reuters, where, as a customer, a significant proportion of the data required for GMT may already exist.

In addition to integrating with OTP, Orbitax Global Minimum Tax is integrated with the Orbitax International Tax Calculator (ITC) allowing for the seamless transfer of calculated subpart F and GILTI amounts from ITC as an input in GMT. Covered taxes as well as the calculated qualified domestic top-up taxes (QDMTT) from GMT can be included as a credit in the GILTI calculations in ITC. Orbitax BEPS Action Manager provides the relevant CbC data to be used in the GMT Safe Harbor calculations.

## How it works

### Step 1: Importing data

Data can be imported in a number of ways, e.g., via APIs, Microsoft® Excel® templates, or by uploading PDFs or data surveys. This data is then converted from its disparate forms and formats into a common (.QNR) format. Once consistent, the data can be used across calculation templates in the Global Tax Calculator. If needed, additional custom data fields can be added.

### Step 2: Applying tax rules

Tax rules are then applied. Orbitax GMT automatically updates every day with the most up-to-date rules (such as withholding rates) and filing due dates for 190 countries. Custom tax rules can also be created and applied.

Orbitax Global Minimum Tax is designed to accommodate any nuances in local country implementation of the Pillar 2 rules including tracking and calculating any rule differences, supporting currency conversions, and maintaining different data sets to accommodate inputs made using different data sources (e.g., global accounting rules vs. local accounting rules). It also supports the filing of the Globe Information Return (GIR) in multiple countries. Both Orbitax and Thomson Reuters have a long history of filing in multiple jurisdictions, including e-filings (e.g., country by country), DAC6, and MDR filings.

### Step 3: Creating reports

Reports are then automatically created and can be distributed to designated stakeholders at set required times. Based on pre-set permissions, next-generation workflow technology also enables collaboration among internal and external stakeholders worldwide.

### Step 4: Form filing

Forms can be manually or auto-filed with the relevant tax authorities and can be tracked once filed to provide stats to other stakeholders. Orbitax Global Minimum Tax connects with 90+ ERP and tax authority systems.

### Bonus: Tools and templates

All calculation tools and templates are provided. A planning tool is included to carry out risk assessments that identify entities, transactions, and other business operations impacted by the rules. The planning tool is unique in that it gives a business the ability to calculate growth assumptions, create multi-year forecasts, and plan for ‘what-if’ scenarios, law changes, and other impacts. These assumptions and ‘what-ifs’ can then be compared against real scenarios, to monitor the impact of GMT. Robust data visualization charts help bring the analysis to life, which is especially helpful with audiences less familiar with tax regulations, but need to understand how GMT will impact the business.

Smart, automated technology is key to ensuring that tax departments can do more — far more — with the resources they have.

## Conclusion

With the introduction of GMT, the burden of expectations on tax teams is set to become more complex. As we count down to January 1, 2024, the time to prepare wanes away.

This 'sea change' in global taxation forces multinational businesses to assess where the impact will hit. It requires more data to be gathered, processed, and disclosed, in more detail, more quickly, more often, and to more tax authorities (as well as internal stakeholders), in order for more tax to be paid.

Workflows may need to be redesigned or significantly overhauled to give confidence that risks are being mitigated and that compliance obligations are being met. This could represent as much an opportunity as a threat, as processes are re-evaluated and made more efficient and consistent.

Smart, automated technology is key to ensuring that tax departments can do more — far more — with the resources they have, so that they can stay ahead of the game in terms of compliance and minimize disruption to the business.

By streamlining data gathering, automatically applying tax rules, alerting tax professionals to jurisdictional rule changes and key dates, facilitating reporting and information sharing, enabling collaboration, and making risk assessments and forecasting easier, Orbitax Global Minimum Tax has it covered.

Thomson Reuters is the only third-party distributor of Orbitax Global Minimum Tax.

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