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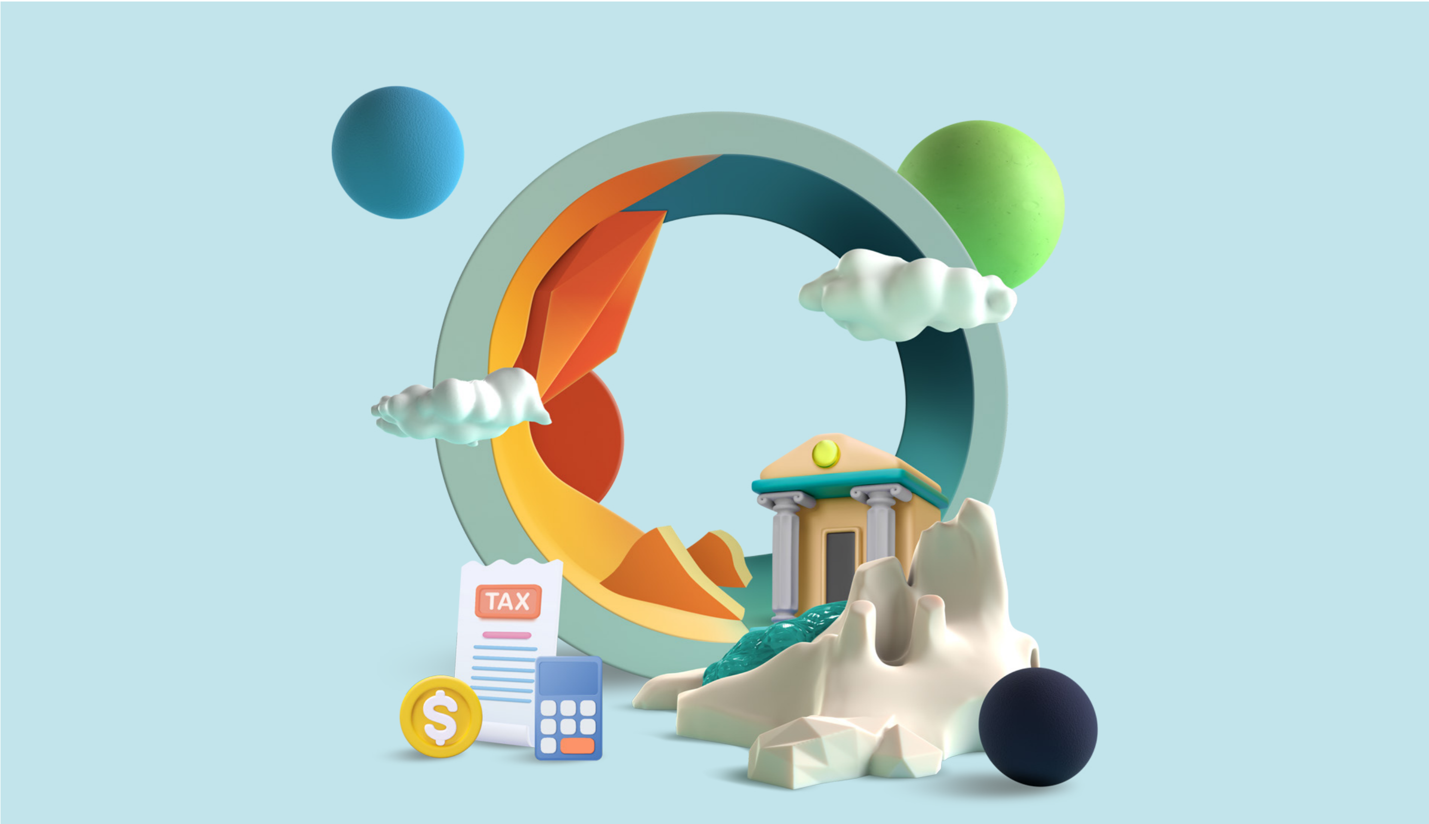

Unleashing the Power of Technology: Automation's Critical Role in the Global Minimum Tax

A More Streamlined Way to Manage a Key Pillar in International Taxation

The Global Minimum Tax, also referred to as Pillar Two or GloBE, is a framework of common rules designed by the OECD/G20 Inclusive Framework on BEPS to ensure that large multinational groups pay a minimum level of tax in the jurisdictions in which they operate.

Pursuant to the Global Minimum Tax, a multinational group must calculate an effective tax rate (ETR) for all jurisdictions in which it has presence. If the ETR in a particular jurisdiction is below 15%, a "top-up tax amount" will be applied. The top-up tax amount is then allocated to one or more countries using an elaborate set of ordering rules.

The Global Minimum Tax is a remarkable equalizer, since it requires multinationals to compute their ETR based on a common global tax base, which reduces the ability of countries to engage in tax competition – i.e., measures that governments adopt to make a country more attractive to businesses.

A distinct challenge for multinationals

The introduction of Pillar Two is a watershed moment in international taxation and an unprecedented leap forward in the global coordination of direct tax policy. However, the sheer complexity and global reach of the Pillar Two rules present a distinct challenge for multinational groups.

Much has been said about the complexity of the GloBE Model Rules. They are intricate, comprehensive, and well-articulated. Much less has been said about the associated operational challenges that multinationals must now confront.

One challenge is the range of data. The ETR computation relies on a multitude of data sources, including:

- Financial accounting data
- Corporate income tax filings
- Country-by-country reports
- Other relevant tax workpapers

In some instances, the GloBE Model Rules require multinationals to originate completely new GloBE-specific data, such as a parallel system for determining, tracking, and recapturing deferred tax.

The number of data points required for a GloBE computation totals more than 160. Of these, approximately 110 can be considered core information that should be collected by each Constituent Entity. The remaining may vary based on elections, restructurings, and industry-specific information. Moreover, this volume of data points is expected to grow as the Inclusive Framework continues to supplement and develop the GloBE Model Rules with administrative guidance.

Based on experience, although some data is likely to be stored in central ERP systems in a structured manner, much of it will not be. Several of the data sources are unique to GloBE and not required for any other purpose, which creates a measurable risk that even sophisticated ERP systems may be not relevant. Thus, the adaptation of the systems to the new rules becomes necessary.

The first step is answering fundamental questions:

- How readily available is this data?
- Assuming the data is available, is it structured sufficiently to be used for GloBE purposes?
- Has the organization budgeted adequate time and resources to address this issue?
- Does the organization have a dedicated Pillar Two team to keep the engine running periodically and systematically?

Technology's transformative role

Technology will play a key and transformative role in implementing the Global Minimum Tax framework, harnessing digital transformation to improve tax administration capacity, efficiency, and speed. By automating the implementation, multinationals will gain several benefits:

- Simplification of complex calculations
- Streamlined data processing and reporting
- Improved compliance monitoring
- Enhanced efficiency
- Adaptability to future regulatory changes

Automation lets multinationals take on the distinct challenge that is the Global Minimum Tax framework – and simultaneously reduce errors, save time and costs, and ensure compliance with the minimum tax rules and profit allocation mechanisms.

A one-size-fits-all approach is suboptimal. Designers of the new technology solutions need to tailor the solution to the realities individual multinationals and consider such factors as size, geographical reach, and the limitations of existing ERP systems.

In addition, the new solution must be purpose-built to distill large, complex, and varied data sources.

The role of the tax professional will be transformed and elevated by the implementation of a technology solution. While they will continue to support compliance with the Global Minimum Tax framework, their role will be less about number-crunching and more about strategic planning and quality assurance.

Greater auditability and traceability with SAP

From all different solutions in the market we have asked SAP how they address Pillar Two

Corporate income tax is far less automated than financial accounting or management accounting. Its requirements vary by country and change frequently, making it a real challenge for software providers to automate. However, the Global Minimum Tax is an exception – it is very similar from country to country.

SAP provides a solution for direct tax that aims to significantly improve automation of the E2E process for better auditability and traceability, but is also sufficiently flexible to address country-specific requirements. SAP achieves this by enabling business users to influence the calculation process via their own configuration. The benefits are multifaceted: the global tax department's ability to define the operational process avoids country-specific silos and provides greater transparency and change management, and the configuration environment empowers business users while lessening their dependence on the IT department.

This solution is the Profitability and Performance Management solution (PaPM). While not developed originally for the Global Minimum Tax, it provides multiple out-of-the-box interfaces that can automate common tasks. Examples of these include reading balances or postings from the general ledger or group ledger, reading the hierarchy of financial statement items, and generating posting documents. This application can also be used with older ERP versions and non-SAP systems, ensuring that any multinational company can meet the Pillar Two requirement without needing to upgrade to a higher ERP release.

This seamless integration with SAP S/4HANA, combined with the flexibility to configure calculations, makes PaPM the ideal solution to meet the complexity of complying with the Global Minimum Tax framework.

How Deloitte can help

Deloitte OECD Pillar Two Tax Advisory services bring together the deep expertise of Deloitte tax practitioners and the analytical power of data and technology solutions to help multinational businesses assess and evaluate the tax implications of Pillar Two. Deloitte's technology consultants have the skills to help you operationalize new reporting requirements across your ecosystem and business process, helping you assess your ability to support new data, analysis, and reporting requirements; identify gaps; and design, deliver, and even help operate a new or expanded architecture that supports both current and projected Pillar Two requirements.

Deloitte helps clients unlock the capabilities of SAP solutions to drive business outcomes when it comes to tax. In addition to being SAP's largest global partner overall, Deloitte is SAP's leading partner for tax—with 84,000 global tax professionals and 2,000 tax technology practitioners focused on SAP. We have guided thousands of SAP tax implementations, including the largest ever for SAP S/4HANA. Our services for tax and SAP solutions are based on our built-to-evolve Kinetic Enterprise™ approach, which centers on a clean core, cloud, and edge innovation with intelligent solutions.

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