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Hong Kong Tax Newsflash

Pillar Two in Practice: Navigating Compliance Challenges

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Overview

The first wave of global Pillar Two filings has now been completed[1], and with it comes a steep learning curve for many multinational enterprise (MNE) groups. In supporting a wide range of inbound and outbound clients through their local and overseas compliance journeys, we have seen firsthand the common challenges that arise when navigating new rules, varying interpretations, complex administrative requirements, and tight deadlines.

Now, as attention turns to Hong Kong's upcoming Top-up Tax return filings[2], we are sharing the most frequently asked questions (FAQs) we have received, along with practical insights and actionable steps, to help you better prepare for the path ahead. Below, we have compiled some key FAQs and succinct answers to guide your next move.

Pillar Two First Filing: Key Takeaways

Q1. If only a few jurisdictions in my group are subject to the GloBE Rules in the first year, is my group still required to report full group information in the initial GloBE Information Return[3] (GIR)?

Yes. Even in the first year, when only a limited number of jurisdictions are subject to the GloBE Rules, your group is still required to disclose information about the entire MNE group in the initial GIR.

The GIR has a two-part structure: a general section that applies to the MNE group as a whole, and jurisdictional sections for each jurisdiction where the group operates. In the general section, the MNE group provides general information about the MNE group as a whole, identifies the filing Constituent Entity (CE), and outlines its corporate structure. The jurisdictional sections then reflect either the application of safe harbours or exclusions, or detailed GloBE calculations for those jurisdictions where the group operates.

[1] For jurisdictions that implemented the GloBE Rules from the year beginning on 1 January 2024, the first batch of Pillar Two filings were completed on 30 June 2026.
[2] The GloBE Rules apply in Hong Kong from the fiscal year beginning on 1 January 2025. The first batch of Top-up Tax return filings in Hong Kong will be due on 31 March 2027.
[3] MNE groups subject to the GloBE Rules are required to file a GIR, which is a standardized template form that provides a tax administration with the information it needs to evaluate the correctness of tax liability under the GloBE Rules.

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Q2. Can my group file a centralised GIR, or should my group submit separate GIRs in each Pillar Two jurisdiction to limit the amount of information disclosed to local tax authorities?

Yes, your group may generally file a centralised GIR in most jurisdictions that have implemented the GloBE Rules, including Hong Kong.

Under the GloBE Rules, an MNE group can satisfy its filing obligations by having the Ultimate Parent Entity (UPE) or a Designated Filing Entity (DFE) file a single, centralised GIR with the tax authority in the jurisdiction where it is located. This central filing relieves other CEs in different jurisdictions from the obligation to file locally, provided that a Qualifying Competent Authority Agreement (QCAA) (e.g., Multilateral Competent Authority Agreement on the Exchange of GloBE Information (GIR MCAA)) is in effect between the filing jurisdiction and the local jurisdiction. Please refer to the OECD's website for the latest list of activated bilateral exchange relationships under the GIR MCAA.

This centralised filing and exchange mechanism ensures that local tax authorities receive GIR information through automatic exchange. However, each jurisdiction (except the UPE's jurisdiction) will receive only the information relevant to it, not the entire GIR. This "selective" sharing is governed by the Dissemination Approach, which ensures jurisdictions receive only the data necessary for administering the GloBE Rules within their territory. It is expected that the same information will be provided to the tax authorities regardless of whether the GIR is filed centrally and subsequently exchanged or filed locally.

However, if no activated QCAA exists between the filing and local jurisdictions, a separate local GIR will be required.

Q3. In Hong Kong, a Pillar Two notification must be filed within six months of the year-end, requiring early disclosure of where the group intends to file its GIR. What should my group do if the filing location has not yet been decided by the notification deadline, or if the chosen jurisdiction changes before the GIR is submitted?

Under Hong Kong's Pillar Two framework, each Hong Kong CE of an in-scope MNE group is required to file a Top-up Tax notification within six months after the end of the reporting fiscal year. This notification must include the intended GIR filing jurisdiction and the identity of the DFE.

However, if the final filing location is not yet determined by the notification deadline, the group may file based on its best available intention. Should the intended filing jurisdiction differ from what was notified, the group should update the Inland Revenue Department (IRD) as soon as the decision is finalised. While current guidance does not explicitly outline a formal amendment process for revised notifications, the IRD generally expects accurate and up-to-date reporting, and any changes to the initial notification should be proactively communicated.

Q4. The Pillar Two filing deadline for the Transition Year is extended to 18 months after the end of the fiscal year. How is the "Transition Year" defined in Hong Kong?

The "Transition Year" in Hong Kong is defined as the earliest fiscal year in which a CE, Joint Venture (JV), or JV Subsidiary of the MNE group becomes subject to a qualified Income Inclusion Rule (IIR) or qualified Undertaxed Profits Rule (UTPR) in Hong Kong or another jurisdiction, or the Hong Kong Minimum Top-up Tax (HKMTT).

Therefore, if none of the CEs, JVs or JV Subsidiaries were subject to a qualified IIR, UTPR or HKMTT in the prior year but become subject in the current year, the current year is the " Transition Year". For the Transition Year, the filing deadline for the HKMTT return is extended to 18 months after the last day of the reporting fiscal year.

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For example, if Hong Kong is part of a broader MNE group where the GloBE Rules were in effect for the fiscal year ended 31 December 2024, but none of the CEs, JVs or JV Subsidiaries were subject to a qualified IIR or UTPR in that year, then the fiscal year ended 31 December 2025 would still be considered the "Transition Year" for Hong Kong.

Q5. If my group qualifies for the Transitional CbCR Safe Harbour[4] ("TCSH") in a jurisdiction, does my group still need to file a local notification or return?

The TCSH operates by deeming the Top-up Tax liability to be zero in a jurisdiction, thereby relieving the MNE group from performing detailed GloBE calculations. However, this does not exempt the group from local tax filing obligations. If a jurisdiction has implemented the GloBE Rules and requires local tax returns or notifications to be filed, the MNE group may remain obligated to comply with those local requirements, even if the TCSH applies.

For example, Hong Kong CEs and JVs must submit Top-up Tax returns no later than 15 months after the end of the reporting fiscal year (or 18 months for the Transition Year), even if Hong Kong qualifies for the TCSH. In contrast, some jurisdictions provide exceptions. For example, in Luxembourg, a Top-up Tax return is not automatically required when no tax is due. Therefore, if Luxembourg qualifies for the TCSH and there are no IIR- or UTPR-related taxing rights over low-taxed CEs, no local Top-up Tax return needs to be filed in Luxembourg.

Businesses should refer to the specific local requirements.

Q6. If my group has a Top-up Tax liability, does this disqualify my group from the TCSH under the "once-out, always-out" rule[5]?

Yes. If an MNE group does not elect or does not qualify for the TCSH in a given fiscal year (regardless of whether a Top-up Tax liability actually arises), it is permanently barred from using the TCSH for that jurisdiction for future years.

The Side-by-Side Package[6] strengthens the transition framework by extending the TCSH's applicability[7] and introducing a permanent Simplified ETR Safe Harbour[8]. Unlike the TCSH, there is no "once-out, always-out" rule under the Simplified ETR Safe Harbour. If a jurisdiction has no Top-up Tax liability in each of the two preceding fiscal years, the Simplified ETR Safe Harbour may apply, provided all other conditions are met.

Q7. Some entities have dual residency status. Can my group report two jurisdictions for Pillar Two purposes?

No. Your group cannot report a CE in two jurisdictions for Pillar Two purposes, even if the CE has dual residency status. Under the GloBE Rules, a CE must be attributed to only one jurisdiction for calculating the Effective Tax Rate (ETR) and Top-up Tax.

For dual-resident entities, the Pillar Two location should generally be determined as follows:

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[4] TCSH is a short-term measure that allows an MNE group to avoid undertaking detailed GloBE calculations. It uses information taken from the qualified Country-by-Country Report (CbCR) and qualified financial statements to determine whether certain bright-line tests are met. Where the TCSH applies, the Top-up Tax in a jurisdiction will be deemed to be zero.
[5] TCSH adopts a "once-out, always-out" approach. If a business has not applied TCSH to a jurisdiction in one year, it cannot use it for that jurisdiction in a subsequent year.
[6] The Side-by-Side Package is a document published by the OECD which provides certain safe harbours to simplify the GloBE Rules.
[7] The TCSH's applicability has been extended to fiscal years beginning on or before 31 December 2027 but not including a fiscal year that ends after 30 June 2029.
[8] The permanent Simplified ETR Safe Harbour seeks to reduce the compliance burden by including a smaller number of mandatory adjustments in the simplified ETR calculation. Where the simplified ETR is at least 15%, the Top-up Tax will be zero.

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- If a tax treaty applies and resolves the dual residency, the entity is located in the jurisdiction designated by the treaty.
- If no tax treaty applies, or the treaty does not resolve the issue, the entity's location is determined based on a cascading rule:
  - Jurisdiction with higher Covered Taxes (excluding Controlled Foreign Company taxes);
  - If the Covered Taxes are equal or zero: jurisdiction with greater Substance-based Income Exclusion[9];
  - If still unresolved: the entity is considered stateless[10] (unless it is the UPE, in which case it is located where it was created).

Q8. What period should the GloBE computations for JVs within my group cover if they have different fiscal year-ends?

For GloBE purposes, the GloBE computations for JVs must be based on the financial accounting period that ends during the UPE's fiscal year.

For example, if the UPE has a fiscal year ended 31 March 2025, and a JV in the group has a fiscal year ended 31 December 2024, the GloBE computation for that JV should be based on its financial statements for the period ended 31 December 2024.

Q9. What if the accounting standard used by a JV differs from that of the UPE?

For JVs within your MNE group that use a different accounting standard from the UPE, the GloBE Rules allow the use of the JV's own accounting standard for its GloBE computations, subject to local implementation rules.

Q10. Can my group appoint different service providers for Corporate Income Tax and Pillar Two?

Yes, it is generally acceptable to appoint separate service providers for Corporate Income Tax and Pillar Two matters.

However, in some jurisdictions, local submission processes and logistical arrangements are still pending finalisation. Therefore, it is advisable to coordinate closely with your local service provider to ensure compliance with administrative requirements.

Q11. Can service providers handle the final "last-mile" submission, or must the company file it directly?

Service providers are generally able to manage most aspects of the final "last-mile" submission for Pillar Two notifications and returns.

However, in several jurisdictions, the company must first register or formally appoint the service provider before they can act on its behalf. As such, close coordination with your local service provider is essential to ensure all administrative requirements are met.

Q12. In what format should the GIR be submitted?

The GIR is typically submitted in Extensible Markup Language (XML) format, consistent with the automatic exchange of information between tax administrations.

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[9] The Substance-based Income Exclusion is the sum of 5% of eligible payroll costs and 5% of the carrying value of the eligible tangible assets, subject to transitional relief.
[10] A Stateless CE shall be treated as a single CE located in a separate jurisdiction.

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However, requirements vary by jurisdiction. Some, like Vietnam, may only accept manual submissions, while others, such as the UK, have more advanced systems (e.g., Application Programming Interface) that enable MNEs and service providers to automate their Pillar Two filings.

To ensure compliance, tax administrations in various jurisdictions have implemented validation rules within their portals that automatically detect errors in XML submissions and reject filings that do not meet requirements. Therefore, it is advisable to allow sufficient time for validation and, where applicable, manual submission prior to the submission deadline.

Our observation

The first wave of global Pillar Two filings has highlighted the complexity and rapid pace of compliance in this evolving regulatory landscape. For many MNEs, it has been a steep learning curve in managing new rules, varying interpretations, tight deadlines, and shifting administrative requirements across jurisdictions.

As the first batch of Hong Kong's Top-up Tax return filings will be due starting 31 March 2027, now is the time to act. Start your compliance process early and maintain close coordination with your service provider. Proactive planning and clear communication are critical to ensuring compliance is met and avoiding last-minute hurdles or disruptions.

The revised version of the GIR was released on 11 September 2026 and applies to GIR filings for fiscal years commencing on or after 31 December 2025 (normally refers to FY26 GIR filing). This version includes new guidance notes that provide further clarifications on how some existing data points should be completed. Businesses are encouraged to follow these notes when completing the GIR, including GIRs for a fiscal year commencing before 31 December 2025. Businesses should also get well prepared for the revolving updates and seek professional support when required.

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