OECD Pillar Two

A Strategic Guide for Multinationals in Qatar

As the implementation of Pillar Two rules unfolds globally, multinational enterprises (MNEs) encounter a landscape marked by new compliance requirements and administrative intricacies. This guide aims to provide background information on these rules and offers guidance to MNEs navigating this terrain, especially within the context of Qatar.

Background

The Organisation for Economic Co-operation and Development (OECD)/G20's Inclusive Framework on Base Erosion and Profit Shifting (BEPS), initiated in 2020, comprises Pillar One and Pillar Two.

While Pillar One addresses the allocation of tax rights and profit distribution, Pillar Two, also known as the Global Anti-Base Erosion (GloBE) proposal, ensures the application of a minimum tax rate to the profits of MNEs.

As of today, over 145 countries, including Qatar, have ratified this framework, indicating a global shift towards standardized tax norms. Notably, the execution of Pillar Two varies internationally, with specific revenue thresholds playing a pivotal role in determining its applicability to MNEs.

The Essence of Pillar Two

At the core of Pillar Two lies the concept of a global minimum tax rate, set at 15 percent. The framework is underpinned by two main components:

Income Inclusion Rules

Targeting particular income streams and entities for additional multinational and domestic tax levies

Undertaxed Profits Rules

Identifying and potentially curtailing tax deductions for certain financial outflows.

An additional approach introduced is the Qualified Domestic Minimum Top-up Tax (QDMTT), referring to a minimum tax included in the domestic law of the jurisdiction.

The multifaceted nature of Pillar Two is amplified with the inclusion of various safe harbors and exceptions, influencing the application of these rules at both domestic and international levels.

Applicability to Businesses in Qatar

Pillar Two primarily targets large Qatari MNEs with annual revenues exceeding €750 million. Critically, each jurisdiction where the group operates must be assessed separately to determine if its effective tax rate falls below 15 percent. If so, a top-up tax calculation and payment become necessary.

Furthermore, specified payments made to related parties and taxed below 9 percent may be subject to new withholding taxes.

Potential Impacts and Decision Factors

Increase in cash tax cost and reduced Earnings Per Shared (EPS)

- BEPS 2.0's implications extend beyond companies with digital operations, potentially impacting a wide range of multinational groups.
- The potential tax impact could be significant, leading to increased cash tax costs and reduced earnings per share.

Increased compliance and administrative burden

- Gathering a considerable amount of data, including non-financial information, will be required, some of which may be challenging to obtain and analyze.
- Existing information systems may prove inadequate, and financial segmentation may not align with current financial statements.
- Interactions with other taxes, such as withholding taxes, may affect invoicing, cash flows, and reporting.

General considerations

- Managing the impacts of BEPS 2.0 is expected to be challenging, given the complexity and novelty of the proposed rules.
- Compliance requirements may be burdensome, necessitating the maintenance of new tax records and potentially requiring adjustments to existing trading models and value chains.
- Multinational groups, with solid ‘economic substance’, should be less impacted by Pillar Two rules being able to leverage on the relevant “exclusions” and/or “carve-outs”.

Conclusion and Next Steps

While the OECD offers some compliance relief, it is essential for Qatari MNEs to take proactive measures. We recommend the following steps:

01

Flow Mapping:
Understand the transactional flows within your organization and third-party entities, focusing on associated tax implications.

02

Information Gathering:
Identify the specific data requirements for Qatar and determine their source and availability.

03

Regulatory Review:
Conduct a thorough examination of both Qatar-specific and OECD tax norms related to Pillar Two, recognizing the independent application of these rules.

04

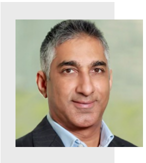
Expert Consultation:
Given the complexities of Qatar's regulations, seeking expert guidance can help mitigate costs and minimize risks associated with non-compliance.

In summary, as the global taxation landscape evolves, MNEs operating in Qatar must remain vigilant, informed, and proactive to navigate these changes successfully.

Contacts

Our diverse team of experts is dedicated to supporting your Pillar Two journey at every step. With proficiency in tax policy, compliance, accounting, and adherence to International Financial Reporting Standards (IFRS), we facilitate smooth progression through the nuances of the global minimum tax framework.

Qatar Tax Leaders



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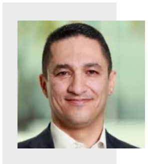

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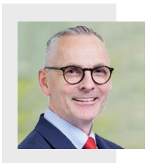

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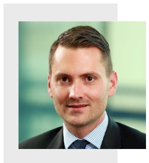

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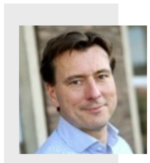

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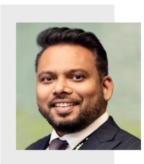

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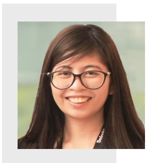

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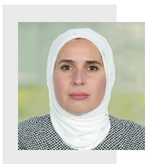

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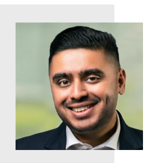

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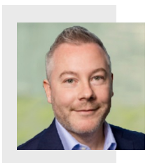

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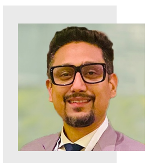

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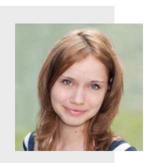

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