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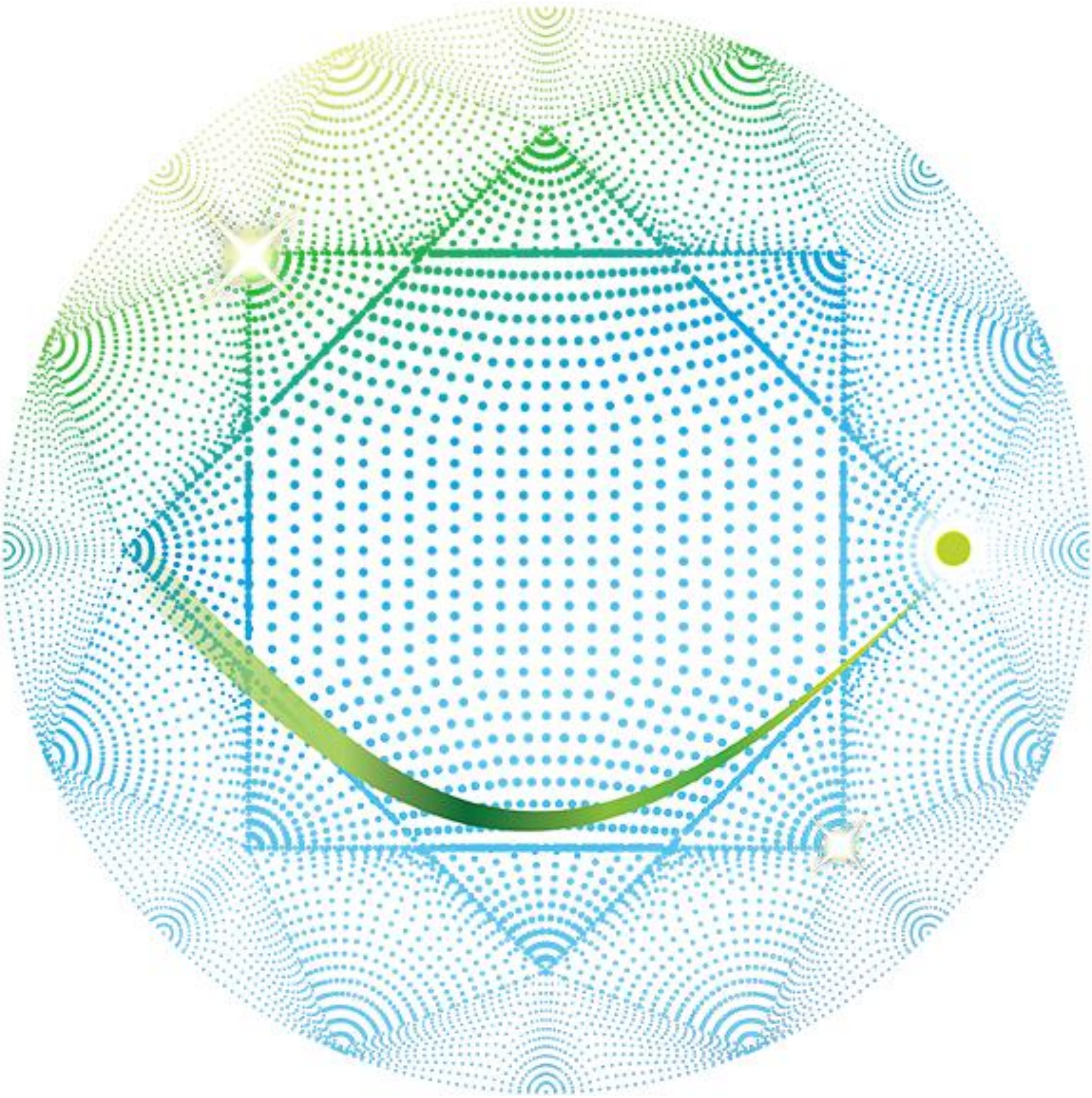

Pillar Two Transformation in the Middle East

Key Strategies for Effective Compliance and Competitive Advantage

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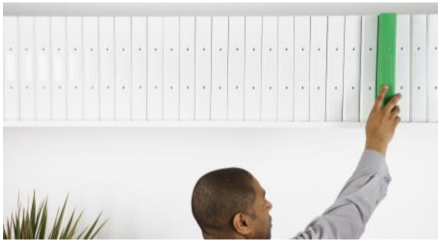
MAKING AN IMPACT THAT MATTERS since 1845

The Pillar Two legislative framework introduces complex rules and calculations for determining effective tax rates and top-up taxes across jurisdictions. These requirements create significant challenges for large multinational groups[1], including the collection, consolidation and reporting of financial and tax data from various regions. Real-time monitoring of tax positions and transactions has become crucial, necessitating proactive responses to any changes. Additionally, keeping up with dynamic tax regulations across jurisdictions adds to the complexity.

The Middle East perspective

In the Middle East, many companies are currently in the early stages of their Pillar Two journey. They are beginning to assess the impact of the Pillar Two requirements. While some are still in the process of understanding these implications, others are considering how best to align their future processes. There is growing awareness of the need to explore existing systems, and many are starting to think about developing strategies for implementing new solutions or enhancing current systems to meet the upcoming demands.



While some GCC countries have finalized their local legislation and others are still in the process, businesses should avoid a wait-and-see approach; moreover, other jurisdictions could already trigger compliance requirements; hence, the absence of immediate legislation prompts companies to accelerate their strategic planning and cross-border compliance. The global commitment to adopting the OECD framework indicates that these regulations are inevitable, and early preparation will be key to staying ahead and meeting local requirements such as GloBe notifications and returns.

With the global tax environment changing so quickly, acting fast is essential. Businesses that proactively adapt to these new standards will not only ensure compliance but will also position themselves for a competitive advantage. Delaying until legislation is finalized in the GCC may result in missed opportunities, non-compliance with foreign requirements and increased risks. Therefore, it is essential for companies to act now, taking the necessary steps to align with international expectations and secure their place in the evolving global market.

Why Acting Now is Crucial

1 Data challenge

Pillar Two presents significant challenges, particularly in managing and integrating data. Organizations must collect over 200 core data points per constituent entity, many of which may not be readily available in central systems. Data will likely be sourced from various systems, involving inputs from multiple stakeholders, including accounting data (both Group and local GAAP), tax workings data (in Group GAAP) and company-specific data. The process of adapting systems and group processes to meet Pillar Two obligations are time-consuming, making it essential to put a comprehensive plan in place as soon as possible.

Many organizations we have worked with have struggled to map out their available data, identify its source, determine responsibility/ownership and address gaps in readiness (including version control, manual data collection, and ensuring data is in the correct format and level of detail - all of which can delay reporting). These challenges are made even harder by the different impacts these changes have on companies, depending on their size or location.

Conducting an early data impact assessment can provide greater visibility into the data required for Pillar Two compliance. It allows organizations to understand their current systems better and establish a solid foundation for future actions. Leveraging technology in this process can automate data collection and streamline the consolidation of tax data from various sources. This ensures that businesses have confidence in their data sources, can identify data gaps and understand the next steps and priorities for remediation or process redesign.

2 Technology

Many departments, such as Finance and Tax, continue to rely heavily on spreadsheets for their daily operations. However, with the introduction of Pillar Two regulations, which require handling complex calculations and extensive data, manual spreadsheets are no longer practical. The real challenge is transitioning from these traditional methods to automated systems that can efficiently handle the data requirements.

Integrating the new Pillar Two requirements into existing systems is essential for maintaining compliance with international tax standards. Companies need to ensure their infrastructure can accommodate these regulatory changes to avoid potential disruptions. The strategic use of advanced technology to manage and transform tax-related data is becoming increasingly important in responding effectively to these developments.

A comprehensive evaluation of existing systems and determining how they can be adapted or upgraded to support Pillar Two compliance is a good starting point. Essential steps include evaluating existing ERP systems and compliance tools, identifying any new technologies required to meet the gaps, and ensuring smooth integration between tax and non-tax systems.

Technology adoption reduces errors, minimizes manual oversight, saves time and enhances reliability. Furthermore, these technologies can automate complex calculations and update reporting requirements to reflect regulatory changes automatically. This ensures continuous compliance, avoids penalties and maintains adherence to international regulations, therefore protecting your reputation.

[1]Rules apply to MNEs with annual revenue over €750 million in at least two of the four fiscal years immediately preceding the tested fiscal year.

3 Process and Governance

The Pillar Two journey involves collecting and managing vast amounts of data across multiple entities and jurisdictions, while also engaging various stakeholders beyond the tax department. This complexity necessitates a well-structured and clearly defined tax governance framework. Effective governance ensures that all stakeholders understand their roles and responsibilities, allowing for efficient data collection, accurate reporting and filing procedures. Without robust governance, there is a heightened risk of inconsistencies, errors, and delays in compliance, which can lead to significant financial and reputational consequences.

A solid tax governance model enables integration of people, processes, technology and data strategies, minimizing the potential for errors. As regulations evolve, having a scalable process and governance model allows businesses to adopt quickly and effectively keeping pace with the new compliance requirements.

4 People and Organization

Pillar Two extends well beyond a mere tax concern; it represents a complex challenge that impacts multiple stakeholders within organizations. A key challenge that businesses will face is the potential shortfall in resources needed to carry out essential calculations, quantify the impact, and develop proactive planning strategies. It is imperative for organizations to evaluate whether they have the right resources positioned in the appropriate locations to effectively meet these regulatory demands.

Navigating the transition: Preparing for upcoming challenges

Even though the initial deadlines are just around the corner, Pillar Two is still very much a work in progress. Companies, governments, and advisors are still navigating the evolving updates, requirements and implications of the new regulations. Here are some critical steps businesses can take now to prepare effectively:

1. Pillar Two impact assessment: Assess and evaluate the tax implications of Pillar Two on the business across its global operations. This includes scenario modelling to estimate the tax liability, analyzing how changes will affect financial performance, and identifying necessary adjustments in processes, technology and governance.
2. Develop a Pillar Two Data Strategy: Identify the data requirements and develop data strategy aligned with your systems and processes that can support with future compliance.
3. Develop Technology Strategy: Explore the technology solutions available to support Pillar Two calculations and compliance. This includes assessing how current tools and systems can be adapted or if new technologies are needed to streamline data collection, processing and reporting.
4. Design tax operating model: Decide whether to outsource, insource or co-source compliance activities. This decision will impact how you manage the resources and expertise needed for Pillar Two, influencing cost, control and flexibility.
5. Design target processes and Governance model: Design target processes and develop comprehensive tax governance documentation, providing clear guidance on the overall Pillar Two process.

While Pillar Two undeniably poses challenges, such as stringent compliance requirements and the complexity of implementation, it also offers significant opportunities. Pillar Two can act as a powerful catalyst for revisiting and refining existing processes, driving efficiency and innovation. By addressing Pillar Two requirements, organizations can reduce manual interventions, streamline operations, and ultimately foster a culture of harnessing technology and data to enhance tax decision-making processes. This proactive approach not only ensures compliance but also enhances overall adaptability to the shifting global tax landscape.

In navigating the complexities of Pillar Two, our dedicated team is here to guide you through every challenge, from data management to compliance. Let us partner with you on this journey – do not hesitate to reach out so we can work together to develop a tailored strategy to tackle the upcoming requirements.

Contacts:

Tax Technology and Consulting team

Marjolein Van Delft

Partner
Deloitte Middle east
marvandelft@deloitte.com

Doukje De Haan

Partner
Deloitte Middle east
dodehaan@deloitte.com

Elizabeth Livke

Director
Deloitte Middle east
ellivke@deloitte.com

Kaushal Parekh

Manager
Deloitte Middle east
kaparekh@deloitte.com

Amrin Pathan

Manager
Deloitte Middle east
ampathan@deloitte.com