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How Pillar Two raises the bar for M&A integration and tax compliance

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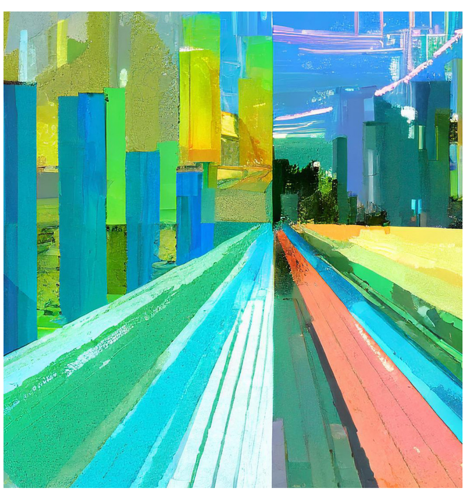
Deloitte's Erin DeHaven, Brad Ford, Bart Janssen and Tom Picton-Turbervill offer guidance for tax leaders on the data, process, technology, and people challenges that arise when organizations go through mergers and acquisitions (M&A) and explain how Pillar Two compliance raises the stakes.

When a company undertakes an acquisition, tax leaders must manage an exceptional set of hurdles. Imagine grappling with disparate tax data scattered across incompatible systems in two distinct organizations. Factor in divergent processes, technology choices, and the looming uncertainty surrounding compliance postures–particularly those of the acquired entity, which might not resonate with the acquirer's perspective. This intricate web of complexities demands meticulous attention and strategic foresight from tax leaders.

Still, the acquiring organization needs to be ready to meet compliance obligations and complete provisioning tasks almost immediately post-close. Developing a plan for tax from the moment the transaction is agreed and making good use of the period from announcement to deal-close will be vital for success.

Now, consider the added complexities of Pillar Two compliance and the new data requirements these rules create. Tax teams may already be straining as they try to ensure they have the granular data and the systems they need to make accurate tax calculations at the entity and jurisdiction level, as Pillar Two demands. New global minimum tax requirements clearly add complexity and urgency to the tax team's mandate, locally and centrally, in any merger integration process.



Pillar Two raises the bar

Some acquisition accounting practices, which were common in the past, may no longer be sufficient, particularly when it comes to the handling of purchase price accounting. Accounting adjustments such as goodwill amortization may not be recognized for minimum tax calculations, so these need to be organized and allocated carefully post-merger to allow for accurate effective tax rate (ETR) calculation under Pillar Two rules. Similarly, deferred tax assets and liabilities in a merger need to be assessed to see how they might interact with, or change, top-up tax obligations.

All of this creates additional systems requirements for the combined organization. Finance and tax need to be able to separate certain values for book and tax purposes. If legacy systems from one side of the merger or the other don't make this easy, the tax team may, at least initially, be using cumbersome manual processes, which add to the extra work that already comes with an acquisition and subsequent integration.

Through 2026, many companies intend to rely on the transitional safe harbor provisions of Pillar Two. But a merger can affect the ability of a company to meet the safe harbor requirements in a given jurisdiction. It could put a company above minimum revenue or income thresholds, for example, or merger-related adjustments could impact the simplified ETR calculation for the transitional safe harbor.

The big picture is that you can no longer simply take tax calculations from an acquired entity and add them to what was already being paid in the same jurisdiction. The calculation of the acquired company's corporate income tax could affect the top-up tax. If you have a French entity in the acquired company and a French entity in the existing company, now you need a new calculation for France as a whole. Having the appropriate data readily available is vitally important to accurately assess Pillar Two obligations.

Principles for merger success

In Deloitte's work with multinationals that are going through mergers, several principles have emerged that can help tax leaders to organize their approach:

- First, it's important to gain visibility into the organization you are acquiring, and to do so as soon as possible.
- Second, the tax team should build smart, preparing for Pillar Two as new systems and processes are established for the combined organization.
- And finally, tax leaders should seize the moment and recognize that mergers offer a prime opportunity to upgrade systems, enhance technology, and pursue changes. These upgrades are even more critical now due to the demands of Pillar Two compliance.

Gain visibility

Pre-close tax due diligence often fails to address all tax-related questions. The deal decision is rarely a tax decision: Tax is the tail unlikely to wag the dog. When a deal is announced, though, it becomes urgent to gather information.

Integration planning requires proactive collaboration with key stakeholders, including IT and finance, to effectively address tax requirements. Tax leaders should move quickly to engage with them. Tax will want visibility into how processes are organized in the entities being acquired, what the reporting structure looks like, where data resides in their systems, and which bolt-on software modules they use. The goal is to build knowledge but also to advocate for what tax needs and to explain how tax can benefit the organization by, for instance, mitigating cash taxes and resource demands. The period from deal-signing to deal-close is valuable.

Despite limitations on data sharing and system integration before a merger closes, it's crucial to start the learning process. Tax leaders should prioritize understanding the structure of the acquired company's tax function and leverage any permissible data requests strategically to gain valuable insights. They can have conversations about the acquired organization's tax positions, assessing how they align with internal views and how they may impact compliance risk. Priority topics should be identified—some may in fact emerge from the diligence process. A key concern for Pillar Two is likely to be the quality and availability of granular tax data, at the entity and jurisdiction levels.

It's worth pointing out that companies actively moving forward with their Pillar Two transition – addressing data needs and pursuing standardization – will be better positioned to integrate acquisitions. Companies that only do occasional deals or smaller transactions might be able to get through the merger, even if their own Pillar Two compliance preparations are lagging. But, companies that are a serial acquirers will likely benefit from having their own preparations for global minimum tax compliance well-mapped and making progress to quickly absorb the additional burden that may come their way.

Build smart

The more extensive data requirements ushered in by global minimum tax initiatives should inform the choices made by tax leadership during M&A planning and execution. Centralized insight and control over tax processes and decisions become more important as Pillar Two compliance requirements arrive. The value of data and process standardization goes up.

Tax has historically been a receiver of data, not its owner. As new processes are created during a merger, there's an opportunity to more fully map key sources of data and redesign their organization. Enforcing full documentation of the processes that are being established or preserved for the combined organization will likely pay future dividends. To prevent critical knowledge gaps, especially during potential post-merger staff transitions, tax leaders should proactively identify and document key data sources and processes, ensuring no single individual holds exclusive knowledge.

Tax leadership should look on both sides of their deal to identify the leading practices that either company has implemented, and these should be embraced by the tax team for the combined organization. An acquirer doesn't have a monopoly on good ideas. Wherever tax systems are more robust, they should be preserved and shared. One side may be further along in its Pillar Two transition. If the acquired tax team has more robust systems or data or processes for Pillar Two compliance, those should be built into the new combined tax function.

Seize the merger moment

Mergers are not just about adapting to change, but about seizing the opportunity to innovate, implement new approaches, and reshape the tax function for the better as new people come in and others take on new roles. Budget constraints may be loosened for a time as an acquisition is completed and integration moves forward. System upgrades or technology additions that had been delayed might now get fast-tracked.

Tax leaders should seize the moment and advocate for changes to make the integration smoother for the combined organization and create the more robust capabilities demanded by Pillar Two. As the merger attracts cross-functional stakeholders to plan the deal execution, there may be potential opportunities to explain what the tax team needs–and how advancing tax capabilities can benefit the business and foster long-run efficiencies.

Mergers represent a pivotal juncture in a company's evolution, demanding careful navigation of the complexities and the ability to capitalize on strategic opportunities. Engaging external expertise can provide invaluable support and a broader perspective, effectively enhancing the tax team's capabilities during this demanding period. Early in the timeline, after gaining some insight during the pre-close period into the challenges that are coming, tax leadership would do well to assess where they have strengths in-house and where outside assistance is going to be most useful.

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