



## 5x5 series: Insights and actions

# Pillar Two Provision Readiness

Multinational enterprises (MNEs) should perform a “readiness assessment” prior to reporting Pillar Two tax amounts, including evaluating potential cash taxes and assessing existing tax provision processes and income tax internal controls as part of financial reporting. Early identification may help mitigate financial statement risk.



### 5 insights know

- For SEC registrants, if the impact of Pillar Two is a material event or uncertainty that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition, MNEs may need to consider disclosure in 2023 financial statement filings pursuant to SEC Regulation S-K, Item 303(a).
- Properly analyzing technical issues, calculating and accounting in accordance with the Pillar Two framework (i.e., Global Anti-Base Erosion (GloBE) Rules) may require data, processes and income tax controls as part of financial reporting that are significantly different from what is currently collected and/or exists in the current environment.
- MNEs relying on Transitional Safe Harbor in some or all jurisdictions, as applicable, will need to consider what data is available that can support management's estimates and conclusions reflected in the 2024 financial statements.
- Many MNEs may have certain jurisdictions that fail Safe Harbor and thus require full Pillar Two calculations. These Top-up Tax amounts would be included in reported tax expense for 2024.
- MNEs that are required to file interim financial statements in 2024 will need forecasted Safe Harbor and Pillar Two data to estimate the impact of Pillar Two on the annualized effective tax rate (AETR).

### 5 actions to take now

- 1 **Estimate the Impact of Pillar Two on the organization** – Model Safe Harbor and potential Pillar Two Top-up Tax liabilities. Identify jurisdictions that may be eligible for Safe Harbor and those that may need more detailed GloBE calculations. Determine if 2023 disclosures are needed.
- 2 **Perform a data diagnostic to assess and mitigate data gaps** - Identify new data elements required for Safe Harbor and Pillar Two calculations. Perform an assessment of the CbCR to determine the “qualified” nature of the report. Determine if 2024 calculations will be based on prior year, forecasted, current year actuals or a mix of available data.
- 3 **Assess impact of Pillar Two on income tax internal controls** - Perform a gap analysis to determine if modifications to the existing income tax internal controls framework may be necessary.
- 4 **Align with key stakeholders and external auditors** – In advance of Q1 2024, discuss overall approach with key stakeholders and external auditors. Attain alignment on data, process, calculations, internal controls and disclosures to limit surprises.
- 5 **Prepare draft interim and year end provision calculations** – Prepare draft provision calculations to mitigate financial statement risk and confirm audit-ready deliverables.

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