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Pillar Two: From First-Year Challenges to 2026 Readiness

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Carrie Falkenhayn: From Deloitte Tax, welcome to the Tax News and Views podcast. In this series, we talk to specialists from Deloitte about the latest business issues. I'm Carrie Falkenhayn, your host for Tax News and Views, and today we are going to be talking about Pillar 2 again, especially since the first filing deadlines have recently passed. Joining me today are two specialists from Deloitte who have been leading our approach to Pillar 2, in particular around compliance and process and data. We have Beth Mueller and Chad Hungerford, so welcome to the two of you. I'll just set the stage a little bit. We just closed out the first full Pillar 2 compliance cycle and that has been the global minimum tax's first real test, in the real world. I know for a lot of teams, this was the hardest busy season of their careers. Lots of new forms, new systems, new data, and for many companies, it was a deadline that landed just this past June 30th. Today, we're going to cover 3 things. First, we're going to talk about what year one actually taught us, and then we're going to move into why year two is arriving faster and harder than anybody expects or wants. And then finally, what to consider doing differently, starting now, especially as we're heading into Tax Year 26. Chad, I'm going to start you off on our year one takeaways, and maybe, you could share what surprised you the most about this first cycle, how it actually played out?

Chad Hungerford: As our global leader, trying to prepare the firm and our clients for the first year, I had a firm idea in my mind of what it was going to be like, and when it was going to happen, and how we were going to shape it. I was surprised time and again, and the surprises came from probably predictable areas that I should have thought of, and I should have expected, but didn't.

Obviously, it was first for everybody. It was first for us as tax advisors, it was the first time for our clients as taxpayers, and it was the first time for the government. Every rep that we went through in that June 30th deadline tended to be very new, and very hard, and very difficult. You know, I joke with our teams that in the United States, we often talk about, same as last year, or Sally being our guide on many of the things we end up doing, but there was no Sally to be found as we were going through all of the various different forms, and that created challenges. And a lot of those challenges manifest themselves in the complexity of organizing and bringing together this global effort. As we were getting into the June deadline, and we were just a month or two out, a lot of the forms still hadn't been released yet, or if they were released, changes were being made, schemas were being adjusted, technology portals were opening, and then closing, and then opening again, and you had to find a way to communicate with diverse teams all around the world in real time, and a lot of the systems that we normally use to manage that kind of thing don't work when you're in that unpredictable of an environment, and so a lot of our professionals were thrown back into the old days from the early part of my career, where you've got emails flying all over the place, and you know, every morning you're waking up in your inbox, and there's 400 emails, as your 30 teams on 7 different clients are all trying to figure out what they're doing. And what's changed, and where they're getting information. And so that complexity wasn't tax technical complexity, it was coordination complexity.

Technology didn't work as well as we hoped it would. A lot of that wasn't really on our side. It was the governments, as we said, this was their first time through. And a lot of the schemas, the portals, the tools that were developed to enable taxpayers to file their forms just weren't ready, hadn't been fully tested, you know, they went live with significant errors, and that created a tremendous amount of frustration and additional time and effort that went into the filings. I remember sitting with one of my clients that was trying to file their GIR in a specific country. And we went 30 times through to try to get the GIR to file, realized that the country had set their schema validation errors incorrectly, because you're supposed to validate whether the amount in each field is either a positive or a negative number, and they had their signs flipped on a number of different fields, and we were just kind of guessing checking to figure out where all of the errors were in the schema until we could finally get it to file. And so, it was a lot of that kind of stuff, that really created the difficulty. That said, transitional safe harbor was a lifesaver. I think we knew that coming in. It made it easier than it would have been otherwise. And so, yeah, I guess I was surprised by how difficult it was. On the one hand, I was surprised that the difficulty wasn't in the tax technical, it was really in the technology and in the coordination, but then I did appreciate that the safe harbors really kind of bailed us out in a way that I'm not sure we would have gotten through if we were trying to do the original globe rules that were released. I guess a lot of thoughts, Carrie, in terms of what's new and what's different.

Carrie Falkenhayn: Without a doubt, and so lots of challenges. Beth, let's get you in here. What were some things that maybe worked well in the first year?

Beth Mueller: For us, what really worked well was executing with a model that we call our hub-and-spoke model, and we carried that theme through all aspects of the project, including people, including processes, and technology. For example, from a technology perspective, it started by bringing everyone together on a single, global, centralized platform. One hub, every jurisdiction was working together instead of having separate versions. That's on the technology side. The people and process side, as Chad mentioned, was also super important. And so, structuring it such that the processes were driven by a team, the Hub, in the headquarter country. That team became the one-stop shop for collecting data, for managing the process, communicating with local teams, and doing the centralized analysis. Safe harbor calculations are a good example. You really don't want to run those separately in 25 different jurisdictions. Having the hub responsible for that was a really important part of the process. The spokes were still super important to the process, though. These are the people and the processes in all of the various jurisdictions. They handled review and sign-off and were involved in specific items that were unique to that country that only a local team would know how to flag or could help manage the process while there were certainly, you know, bumps being the first year, and all the coordination that Chad mentioned having that centralized hub-and-spoke model, was really important to the success of getting this done. And maybe I'll just preview that that centralized model is going to continue to grow in importance as we go into year two compliance, and I know we're going to get to that a little bit later, why it's going to be a little trickier in year two.

Chad Hungerford: Maybe piling on to what Beth said, as difficult as it was with technology challenges, and it being new for everyone. I was overall incredibly pleased by the performance of our teams globally, both the hub teams, the spoke teams, as well as our clients. You know, this is one of those where I was sitting a month out, and I was incredibly nervous. I didn't think we would get there. And in that last month, teams and people just rallied, including at the government side. You know, in a lot of those cases where we were dealing with technology errors, we had folks in the government go above and beyond to try to facilitate the filings and make sure that we could cross the finish line successfully. I did see the whole kind of global tax community rally around and performing far better than I expected, particularly as we got into those final weeks. So, nothing but congratulations all the way around.

Carrie Falkenhayn: Lots of learning in year one, but obviously year two is not going to be Sally either, right? To follow the Sally phrase, right? We have less time to prepare, we have new calculations being introduced, so a lot to consider for next year. Chad, I'm going to start with you.
UTPRs, right, need to be considered for the next filing. What impact do you think that's going to have on taxpayers?

Chad Hungerford: I think folks underestimate how impactful UTPR obligations may be on the depth and breadth of their tax filings. Just imagine a U.S. group, they largely meet the transitional safe harbor everywhere, except they have one low-tax jurisdiction sitting direct under the U.S. that has a smallish UTPR tax obligation. Well, that means in every jurisdiction where you're subject to Pillar 2, you now have a real tax return with an actual amount due and a tax payment that has to be made. And you may have now just taken your total filings and at least doubled them as you have, you know, 20 or 30 returns that now actually have meat on their bones, right? They're not a full transitional safe harbor where it's relatively easy to get the local team comfortable with the return. It's got an amount due, it's going to be subject to audit, there's a lot more detail in that return. It's not just a safe harbor return. How are you going to get all the way through that process as it has this multiplicative effect? And it kind of puts the pressure on one of the things Beth mentioned with our hub-and-spoke model is we found it really important to have the hub be responsible for that transitional CBCR safe harbor calculation, so we could do it all at once and then provide that data out to every jurisdiction around the world so that they could see, if the hub's in the U.S, the U.S. has done all of this due diligence to get comfortable with it. That same principle becomes doubly or triply more important with the UTPR, as otherwise you're, 30X-ing the time to review and prepare the UTPR calculation. And those calculations are much more involved than transitional CBCR calculation. It is certainly one of my concern items, is that I think folks that have exposure to UTPR are probably underestimating the level of effort and the cost associated with handling those filings, both because of the breadth of the filings, the number of the filings that are going to be triggered, but also the depth of each individual filing, because they will be much more data-intensive and much more, tax technical than the transitional CBCR filings they would have been familiar with in 2024.

Carrie Falkenhayn: Beth, let's talk a little bit about the timelines. How are the deadlines changing, and how should a tax team prioritize their next cycle for compliance here?

Mueller, Beth: Yeah, the headline really is the calendar here. We went from an 18-month runway on the preparation of the first GIR, to 15 months for year 2. Meaning, for those taxpayers, calendar year taxpayers, who filed this past June 30th, they will be filing March 31st of next year. So, 3 months shorter, doesn't 15 months seem like a really long period of time? But here's the thing, close to half the work, we'll call it on the first cycle really started in those last 3 to 4 months leading up to the deadline. So, teams were already really compressing, that preparation worked into something like 3 to 4 months.

Let's think about if that same pattern repeats with a timeframe that's already 3 months shorter. Then that means if the due date is March 31st, if you're trying to do the work in December, January, February. There's a lot of other priority work that tax teams are facing in that time frame. So, you really need to map out that calendar, what is the work you're going to have to do, all the new stuff that Chad already mentioned, and when are you going to do that? I'll be blunt about it, you ought to be starting right now. The late start habit is one thing that has to change among everyone, and we have many clients who are doing that. They're wrapping up their 2025 country-by-country reporting earlier this year. They're already gathering data or rolling forward analysis and work papers. But that is really the key, is if you think about how that timeframe matches up with other work that your tax function has, you really can't wait to start. It's ought to be now.

Carrie Falkenhayn: Chad, what is one of the parts of the process that you see might trip people up as they work to get ahead of the filing deadlines?

Chad Hungerford: Reflecting on what Beth just shared, we have a lot of clients that are anxious to get ahead of the Pillar 2 filing obligations for the 2025 tax year, particularly given the pain that they dealt with last time around. Unfortunately, they don't control their own destiny. A lot of what we are worried about this time is there's another 10 to 15 governments that this will be their first time doing Pillar 2, and they haven't released their forms yet. They haven't opened their tax portals. We also haven't seen definitive words from the OECD and some of the countries that did it last year on whether they're going to use the same forms again for this year. Whether those forms are going to go through changes, and whether we're going to see updates to XML schemas and filing protocols and fixes for a number of the errors we saw. I do think that there's this hurry up and wait that's going to have to be part of this filing process, where if I was running a tax department at a company that was subject to Pillar 2, I'd be starting now to pull all my data together to do everything I can to be as ready as possible. But then you're probably going to be waiting for the government to say, okay, now you can file. And when you can file comes is going to differ depending on the government. Governments who've been through this before, I expect in September or October, those windows will open, we'll be able to get those filings done. But for those that are newer, we might be going right up to that March deadline. And so I would do everything you can to have all the data ready, have your powers of attorney in place, have, you know, your signers all notified, and they've reviewed, and they know what's going to be on those forms.

And then work with your advisor so that you're ready when the windows open and the forms become available. A lot of those things that Beth mentioned were important and worked well in year one is going to be important again. You're going to need to have a good coordination team. You're going to need to have someone in the center that's in charge of and monitoring and watching these portals as they open, so that they can, you know, trigger the filing as soon as the government is ready for us to make those filings.

Carrie Falkenhayn: What are 3 concrete moves that Tax departments can take over the next couple months?

Chad Hungerford: Well, if I were to do that, I would say start now. I'm going to double down on what Beth said, start now. You know, there's no reason to wait. You know, some of the scoping and the pricing and all that may be a little uncertain. But you can pull all your data together, you can do all your calculations, you can get it into Pillar 2 Agent, you can be ready to file, even if the government isn't ready for you to file. Plan for the portal delay. Be ready, be all but wet sync, wet ink signature ready, and then treat it as a formal project. Project management is more important to a big, globally coordinated compliance project like this than it is in a lot of other projects. So, it's not an ad hoc effort. You're going to need to have a plan and trackers and some thoughtful, dedicated project management to get you from the beginning to the end. So, start now, plan for the portal delays, and treat it as a formal project.

Carrie Falkenhayn: Obviously, lots to do to be ready for the next filing, but let's just zoom out a little bit and talk about, big picture, what are some of the trends that we're seeing, or what are some of the things that our tax leaders need to be thinking about for the future, and one of the areas, Chad, I want to start with you, is safe harbors. They continue to evolve. What does this mean from a practical perspective?

Chad Hungerford: One of the things that I'm worried about for taxpayers is I think they've taken the wrong message from the side-by-side safe harbor that's coming, so particularly in the U.S. market, there's this feeling that the side-by-side safe harbor and the permanent safe harbor that's coming after are going to save them from Pillar 2, and that there's a significantly reduced amount of work to be done when those come in 26, 27, and 28. I think that's both true and misleading at the same time. It's true in that UTPRs and IIR obligations are off the table for those U.S.-parented multinationals because of the side-by-side safe harbor. But that doesn't mean there's going to be significantly less work to do than there was compared to your 2024 filings. Recall last year when we did that June 30th exercise, UTPR wasn't on the table, and for most of my clients, IAR wasn't a significant amount of work. That was just your QDMTTs. Then we advance to 25, we get, like, 15 more jurisdictions. Somewhere that blending between 24 and 25 becomes the new baseline, even under the side-by-side safe harbor. So, if you're thinking, hey, we're going to do less work in 26 than we did in 24, that's not an accurate read on what's coming for us. 2024 is probably the minimum amount of work we're looking forward each year. We'll get better at it, it'll be less chaotic, it won't be the first time for everybody, but that level of filing and that level of data is the baseline, and frankly, triples or quadruples when the transitional CBCR safe harbor expires at the end of 27, and we have to do the permanent safe harbor, starting fully in 28. When that happens, we're not even at that 24 baseline anymore. We're filing something that looks closer to a full globe return for each jurisdiction where there's a QDMTT. Yes, the side-by-side safe harbor was really important in reducing the hockey stick of work that would have come at U.S. based multinationals. But it doesn't reduce the amount of filing work we have to do, or the amount of data and coordination and effort that's involved. It's just going to slow its growth, if that's a better way to think about it.

Carrie Falkenhayn: Makes sense. Beth, I know a lot of companies spent so much time figuring out their data model, to get ready for the first filing. Is that, like, set it and forget it, or what should companies do? How should they think about that?

Mueller, Beth: I have to say one thing. I would say you're going to have to go back and really stress test your data model pretty soon against where this is headed, as Chad described, not where it's been. The safe harbors, as Chad mentioned, are changing. Right now, if you meet the transitional safe harbors, it's jurisdictional-level data with minimal adjustment. But those permanent safe harbors require different data points, different adjustments and you may find, necessary to do full globe calculations, which are much more complex. The first round of the data model assessment, has some relevance, but I think, based on timing and processes, a lot of tax people did what we often do, is we found the data on an ad hoc basis and with this becoming, clear that we're going to continue to have QDMTTs. You really need to build a data model that is more than just clearing you for year one. So, don't wait until the safe harbor you're relying on today expires to figure out you have some gaps. I would say in the next 6 months, you need to re-run a data gap assessment against those permanent safe harbors, and against full globe calculations, and figure out soon what gaps you have, so that you can start to fix those as those rules come into effect.

Carrie Falkenhayn: What are some of the considerations around companies, how they're looking at their resource model, given all these changes?

Chad Hungerford: One of the things that we saw a lot of companies struggle with is we had a lot of companies, particularly outside of the United States, that wanted to do Pillar 2 themselves. They built a tax department that was designed to do foreign income tax compliance and is part of the core competency of their departments, and so they went out and they licensed software, they rallied their teams and in a significant number of those engagements, it proved more complicated, more difficult. And frankly, beyond the capabilities of their software that they had licensed, they ended up coming back to us or our peers to get help as I got to the finish line. A full outsourcing model, a full insourcing model was less possible for year one. I think that maybe it will soften as we get into year two. There's still going to be the new jurisdictions, I think there's still going to be challenges with software, I think there's still going to be challenges with technology. But you're going to start seeing more of those hybrid models come into play, where you might be able to do some in-house and somewhere you're looking for help from a provider to do. I think as time goes on, that becomes more possible, where you're going to be better able to take your core in-source or outsource decisions you use elsewhere in corporate income tax, and apply it back to Pillar 2. But it's not going to come all at once. We have a tremendous amount of change in Pillar 2 before we get to a steady state. I know folks want this to get easier in the short term, they want the change to slow down. But keep in mind, alright, 2024 was year one, 2025 is year one of UTPR, 2026 is year one of side-by-side, 2027 is year one of permanent safe harbor, 2028 is the first year fully without the transitional CVCR safe harbor. It isn't until 29 that we're doing this again on a steady state of rules. And that much change in the rules and in the scope and the breadth of filing make it a little bit difficult to take this work in-house in the short term, or at least fully in-house. Because the technology tools are struggling, when the government releases a form, it takes time for a technology provider to ingest that form, build the filing into their systems, test it and get it ready so that it can be facilitated in that kind of an offering. And frankly, human systems are maybe a little bit more adaptable than full technology systems.

I do think that resourcing model is going to be something that's going to have to be carefully monitored as you go along, but I think folks are going to want to manage the costs, and so there are going to be pieces of Pillar 2 that might be easier to insource. There is going to be pieces that probably must remain outsourced for a long period of time until we get to that steady-state model in 2029. It is the complexity of doing this big, new area of tax that didn't exist before, and, you know, all of us are pioneering this, and we're figuring it out as we go along, and that has implications on our resourcing model.

Mueller, Beth: Just add to that, so if you think of what Chad was talking about in terms of a continuum, fully insourcing, fully outsourcing, and in the middle is co-sourcing. And I think we will, to Chad's point, see that trend of a lot of different models of co-sourcing happening, but probably the two, full extremes on the ends will likely be the outliers, and it will be looking at what can we do in-house, but where does it not make sense for me to invest? And I think as you think about that, you really should be thinking about the long haul. Don't wait to make decisions on that till 2029, but map out what's changing, what things look like each year, and how you're going to adjust that operating model overtime.

Carrie Falkenhayn: All right, let's, do some rapid-fire questions as we wind down this discussion, and so much good information. Thank you, guys. But, Chad, what is one thing tax teams should consider before the end of this September?

Chad Hungerford: I'm just going to go with what Beth said and start now. The biggest challenge we had with year one, the biggest difficulty that caused us, as you let out to be the most difficult busy season many people remember, was a lot of taxpayers waiting until it was frankly, too late. We had 50% of our clients globally contracted to do Pillar 2 compliance after March. So, April, May, June, within 3 months of the deadline. And put a tremendous amount of stress on them, and on the global system of delivering this kind of tax, compliance. So, start now! Start before the end of September, be under contract, be underway, be getting your data into a software. Go!

Carrie Falkenhayn: Absolutely. Beth, is there anything underrated, like something people might not be thinking about that we haven't covered already that you want to include?

Mueller, Beth: Following with some specifics to what Chad said, I think it's clarity on your filings and authorizations. Make sure you understand where and what you're going to file for year two with the new jurisdictions, with the new UTPR. Maybe it's not the most glamorous, but sorting out these details, having a good calendar, starting the power of attorney and local authorization paperwork will really help later. Those things are the things that pop up at the end and can quietly stall the whole filing process when you really want to be focused on the data and the numbers. So, get those things going now. Get those new jurisdictions under control, and that's really in your control today to do.

Carrie Falkenhayn: All right, well, thank you both. A lot of information, a lot for our U.S. multinationals to be thinking through. And I know a lot of them are in the middle of working through their U.S. filings right now, so, super timely advice to get ready for what's coming next. So, audience, thank you, as always, for joining us. If you want more information on Pillar 2, and I'm sure listening to this probably raised some questions in your minds. You should go to Deloitte.com and search on Pillar 2. There is a wealth of information there. You can reach out to Chad, or to Beth, or to your favorite Deloitte tax practitioner for more information as well. Thank you all for joining us. I'm sure we'll be talking about this topic again. Until then, everyone, continue to be well. Take care!