



TAX NEWS & VIEWS PODCAST

Episode - Pillar Two updates: What US multinationals should know

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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 and developments. I'm Carrie Falkenhayn, your host for Tax News and Views. Today, we're going to be talking about Pillar 2, a topic that we've talked about a lot in this series, focusing particularly on some recent guidance and the impact that guidance has on compliance and provision processes. Joining me today to discuss these developments are two specialists from Deloitte's Washington National Tax Group. We have Ryan Bowen and Krystle Kort. And Ryan, I'm gonna start with you. On January 5th, the OECD released additional administrative guidance on the application of Pillar 2 global minimum tax rules. So, what are the key changes to Pillar 2 arising out of this guidance?

Ryan Bowen: Sure, thanks, Carrie. This guidance, in some ways, was something a lot of us were expecting, for about 6 months or so before it came out, dating back to June of last year, when Treasury Secretary Bessent announced on X that U.S. companies would not be subject to Pillar 2 going forward. And there was a G7 statement that followed that shortly thereafter. And so that sort of set the stage for this guidance package, but there's a lot of speculation in those intervening months as to what this package would ultimately contain, and the specifics on some of the rules and how they would operate.

And so the package we often refer to it as a side-by-side package, but it really contains four separate guidance packages that address, some similar concerns, really around simplifying the OECD guidance, as well as implementing, what the G7 had agreed to the prior summer. And so, that side-by-side safe harbor that exempts U.S. entities, U.S. multinational groups, from some of the globe rules.

That, again, we were anticipating for several months. That's certainly what I'll call the main event of these rules, and that'll be the focus, I think, of what we're going to talk about today. But there are other aspects of this package that are worth noting. First, the transitional country-by-country based safe harbor that the OECD released, I think, back in 2022. That Safe Harbor was scheduled to expire at the end of this year. It now is extended for another year through 2027. And that's to sort of transition us to another aspect of these rules, which is a new permanent safe harbor. This is something that the OECD has previewed for quite some time but had, up to this point, only provided, sort of, a framework or aspirational goals, if you will. Now we actually have a detailed rule set around the first permanent safe harbor that countries that can adopt into their legislation. And again, this is all around simplifying compliance with the rules, especially for jurisdictions that you wouldn't expect to be low taxed under the OECD framework. And then the final aspect of these rules, which may be a bit more of a surprise than some of the others, was really for what the OEC calls substance-based incentives. These are things like the R&D tax credit in the U.S, jurisdictions that have patent box regimes or production-based incentives through their tax code to incentivize companies to invest in those jurisdictions. This is something that the OEC has been looking at for a long time. There's a lot of political pressure and political sensitivity around this and the OECD, in this package, put out rules sort of addressing what tax incentives can sort of be blessed under the Pillar 2 framework and not push companies down below, that 15% and into a top-up tax. So, by and large, there's a lot of material there, but all pretty taxpayer favorable.

Carrie Falkenhayn: Let's go a little bit deeper in the new side-by-side safe harbor. What are the practical implications for a U.S.-headquartered multinational?

Ryan Bowen: Yeah, sure. So, again, going back to last summer, speculation was swirling around U.S. based clients of, do I have to do anything with Pillar 2? Is this all going to go away? Maybe I'm not going to worry too much about getting ready for the 2026 filing date, because I think I'm not going to have to deal with it, the landscape has sort of settled now in light of this guidance, and so, maybe to hit the most important points here, while the IIR and UTPR top-up taxes, the top-up taxes that might sit above a group or side-by-side, brother, sister, under the UTPR, those will not be applicable to U.S.-based multinationals starting in 2026. So, let's unpack that a bit, right? So, if you're a not U.S. parented multinational groups, so parented anywhere else in the world, this guidance doesn't do anything for you. So that's sort of the first point to mention there. The second is that for 2024 and 2025, those are unaffected. This is supposed to take place starting in 2026, and so for companies who have sort of been on their journey to getting ready for Pillar 2 compliance, those 2024 returns are due this year for most companies. That work still needs to be ongoing. Those obligations still exist, because nothing has changed for tax years 24 and 25 under this framework. So, really important, sort of caveats to know, even though, by and large, this is obviously great news for U.S.-based multinationals. The third point to mention, and this had been something that, I think U.S. Treasury even went back and forth a bit on, was the status of the qualified domestic minimum top-up taxes, those local Pillar 2 taxes that apply first in sort of the Pillar 2 pecking order. This package does not impact QDMTTs whatsoever. And so, for a lot of our U.S.-based clients, while it's great that IIRs and UTPRs won't apply, particularly for, assessing whether the U.S. itself would be subject to a top-up tax. If you operate in the EU, if you operate in Southeast Asia, Australia, Canada, all these jurisdictions that have QDMTTs that tax regime still applies even under this side-by-side framework, and is expected to apply going forward. And so with that comes not only, potential tax liability, but also all the compliance and data gathering and all the sort of administrative and practical hurdles that our clients have faced under Pillar 2 thus far. That's not going away under this regime. And so, again, the relief from the side-by-side package is great, but folks should keep in mind that it's not a cure-all. You still have not only your 24 and 25 compliance for all the taxes, but also these local obligations are going to continue, and that's why we continue to stress the importance of moving through the Pillar 2 process, getting ready for compliance this year, and building out systems for the long term.

Krystle Kort: One important note, Ryan made in terms of, like, the practical implications to U.S. multinationals is 24 and 25 is unchanged, and primarily that statement's because this guidance is intended to be effective for 2026, and that's how the OECD intended it for it to come out. But, as we all know, the

OECD doesn't have the authority to enact tax laws in all these jurisdictions that are sort of signed up to follow the Pillar 2 regime, and so from an accounting perspective, enactment date is very important, and I'll get into more detail, but just keep that in mind, that you know, this package is great, and new information and very important, but from an accounting perspective, we may have to wait until enactment.

Carrie Falkenhayn: Yeah, thanks, Krystle. We'll get to that in a minute, but I do want to go over the 2024 and 2025 filing requirements, because I think a lot of U.S. multinationals were hopeful that those filing requirements would go away with this most recent guidance, and I know you talked about it a little bit earlier, Ryan, but just to re-emphasize it for our audience. Can you walk us through what's required?

Ryan Bowen: Yeah, sure. So, 2024 filings, they're coming up, for calendar-based multinationals, the due date for the Globe Information Return is June 30th of this year. And so that's going to include all the information around your M&E group, the calculations for entities that are subject to a top-up tax for this year, whether you met a safe harbor for one or more jurisdictions. And I think there's going to be a lot of growing pains, through that process, not just for taxpayers, but also tax authorities as they take this information into account, get their systems up and running. And so, that is certainly where we've been, actively engaged with our clients, trying to help them through that process. Governments are continuing to roll out guidance forms, filing tools, and the like. You know, everybody's kind of working through this together. And like we said, the G7 statement, the side-by-side guidance from the OECD, it hasn't changed any of that. And so, really critical to keep moving forward with that process. We want to stress, again, because everybody's kind of feeling this out for the first time not something necessarily you want to wait till the last minute to figure out, and then find there's an issue. So, our message has really been consistent, I think, to our clients of trying to move forward with the 2024 compliance and not taking that foot off the gas pedal. And the same goes then, of course, for 2025 as well, because the side-by-side agreement didn't change that. And in addition, in 2025, more countries will have the rules online. You'll have UTPRs, effective in countries that have adopted those in 2025. You also have many companies, or sorry, excuse me, many countries that have their QDMTTs turning on in 2025 for the first time. And so, 2024, I think, just being the first year, there'll be a lot of, struggles to work through there. And then in 2025, the exercise is going to include more data, more countries.

And so more work to do on that front as well. And so, you know, we've been actively working this all along and really trying to help our clients prepare for these dates, and everybody's sort of in the churches together in this learning process, but again, bears repeating that the side-by-side agreement didn't change this, and so very relevant, for our U.S. based clients.

Carrie Falkenhayn: June 30th is rapidly approaching, and there's a lot of work to do. I guess the other big item for 2026 is your income tax provision, right, and how you think about it for quarterly reporting purposes. Krystle, why don't you expand on that?

Krystle Kort: Sure, happy to. And I'm gonna talk about the financial, reporting, your financial accounting impacts, into two buckets. First, we'll talk about the amount. To be recorded, and then secondarily, I'll talk about disclosures. So, the first piece being the amount, right? As I mentioned before, enactment of tax laws is important from an accounting perspective, and that's because there's a rule in ASC 740 that simply says the effect of a change in tax law shall be recognized at the date of enactment. An enactment is a matter of tax law, and so that's going to be specific to each of these jurisdictions. Now, what that means is that each reporting date, for example, Q1 is coming up here shortly, companies will be required to analyze each relevant country and its structure to determine whether the enactment of this package which has occurred. Also, just because one country enacts doesn't mean that the company may be relieved of a top-up tax due to that country, because it may ultimately just shift to another jurisdiction that hasn't enacted the side-by-side package. For example, let's say that there's a company that was accruing a top-up tax under an IR in a jurisdiction, and that jurisdiction enacts this side-by-side package. Now, that liability might now just be due under a UTPR in another jurisdiction that hasn't enacted the side-by-side package yet. So, this dynamic is pretty important to consider in interim periods in terms of we have to account for

a provision based on enacted tax law at the reporting date, and as jurisdictions start to enact, you might see the top-up tax sort of shift between jurisdictions before ultimately being relieved once, hopefully, everybody enacts.

And so, when you think about this, like, there's definitely going to be more to do at each interim period to sort of assess what countries have enacted. Now, from an interim perspective, right, when we're estimating our annual effective tax rate and the taxes to accrue at interim periods, you'd expect that not many jurisdictions have enacted yet, and so in theory, there's probably going to be Pillar 2 taxes accrued in your AATR, your annual effective tax rate, and as that changes, as you potentially get reduced or relieved of top-up tax liabilities. I'd expect for that to just be adjusted through your AETR.

Okay, now let's talk about the second bucket, disclosures. From an ASC740 perspective, there is an explicit guidance requiring you to disclose when a new tax law has changed. However, if there is a difference in comparability, a company might consider disclosing the nature and the effect of a significant matter impacting comparability. If, we might be in instances where countries may be enacting throughout the year, and so when you're thinking about your provision, you still have to account for tax laws existing as an enactment date, so you might be finding yourself in a situation where enactment occurs after the reporting date, but might impact your, the amount you're accruing for the year. If that happens, you might be in a situation where you can't really pull it back, but you'd have to disclose, if it's material to the financial statements, that there has been a change in tax law after the reporting date that's impacted the amounts disclosed, and it would be accounted for in the period of enactment. We'll refer to that as a non-recognized subsequent disclosure that normally, kicks in when the amount is material to the readers of the financial statements. Now, lastly, for SEC registrants, there's this management discussion and analysis disclosure, or the MD&A disclosure. That's where we do have some forward-looking disclosures. And, there's a requirement that if there are material events and uncertainties known to management that are reasonably likely to cause. The financial information, not necessarily to be indicative of future operating results or future financial conditions, that you sort of have to let the reader know that there's, it might not be comparable. And therefore, if material, companies should consider disclosing the anticipated effect of future impact of the new safe harbors on their results of operations, financial position, liquidity, and capital resources. So, this is one of those disclosures that could come into play after enactment, or even before enactment, of just letting the reader know if the side-by-side package happens, my results of operations, financial position, and liquidity could be impacted.

Carrie Falkenhayn: Well, Krystle and Ryan, thank you so much for that information. What really strikes me is, despite the fact that this guidance that came out earlier this year was for simplification, there is still an incredible amount of complexity, and so much for U.S. multinationals to consider, from both a reporting and a provision perspective. So, thank you so much for sharing that. If our audience wants additional information, go to [Deloitte.com](https://www.deloitte.com) and search on Pillar 2. There's a wealth of guidance there. You could also reach out to the speakers directly via LinkedIn. As always, thank you for joining, and I hope you tune in for our next episode. Be well, everyone. Take care.

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