



Chief Tax Officer Insights

July 2023

Chief tax officers (CTOs) are expected to align tax with business goals, drive strategic value, increase transparency, and improve the efficiency of tax operations. *CTO Insights* is designed to highlight top-of-mind issues for tax executives and ways CTOs are addressing these opportunities and challenges. We are confident that you will find the information in each issue of *CTO Insights* practical and actionable in demonstrating the value you and your department bring to your organization.

In this issue

Pillar Two operational readiness: A radical shift

With the introduction of Pillar Two, tax is again in the spotlight. CTOs need to keep up to date with the latest developments to navigate and stay ahead of change. Preparing now enables multinationals to incorporate Pillar Two into their strategic plans, activate operational readiness, mitigate risks, and build resilience. With Pillar Two coming into effect from 2024, delay is no longer an option.



Pillar Two: State of play

In 2021, the OECD/G20 Inclusive Framework on BEPS (IF) reached agreement on the Pillar Two global anti-base erosion (GloBE) rules, which provide a coordinated system to ensure that large multinationals pay an effective tax rate (ETR) of at least 15 percent on their adjusted financial statement income in each of the jurisdictions in which they operate.

These rules are set to take effect in many jurisdictions around the world from 2024. With only months left before the rules take effect, CTOs want to understand the impact on their organizations' tax positions, what changes they might need to make to their current structures and operating models, and what they need to do to comply with these new rules.

Who is affected?

Multinationals with annual income of €750 million or more are subject to Pillar Two GloBE rules and will need to calculate and report their ETR in every jurisdiction where they operate.

Projected timeline

- Jurisdictions around the world are enacting the Pillar Two GloBE rules this year. Many jurisdictions are implementing the Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-up Tax (QDMTT) for 2024. Most are delaying the implementation of the Undertaxed Profits Rule (UTPR) till 2025, though as yet, Korea is still scheduled to implement its UTPR in 2024.
- The IF has released additional guidance on the GloBE rules throughout 2022 and 2023, including Commentary, Implementation Framework, and Administrative Guidance. Further information on the GloBE Information Return and QDMTT safe harbors, among a range of other issues, is expected in July or August 2023.

KPMG maintains a tracker of the implementation status in jurisdictions around the world, accessible [here](#).

How CTOs are gearing up for Pillar Two compliance

Recognizing the extensive operational updates needed to meet new compliance requirements, Pillar Two readiness is top of mind for CTOs of multinational organizations. Acting now is crucial to ensure that your information systems can meet the data demands for performing the computations and reporting required under Pillar Two.

Dealing with data

CTOs foresee Pillar Two compliance as more of an operational burden than a financial risk. The rules for calculating ETRs on a jurisdictional basis are highly complex and require new sources of financial data. As such, CTOs are rethinking approaches to data sourcing, process automation, and integration of tax into scenario evaluation and strategic planning.

Modeling is an important first step on the path to implementation, giving CTOs insights on jurisdictions that may be at risk of being subject to the Pillar Two top-up tax and expose information or system gaps that may need to be fixed as part of preparing for Pillar Two. Companies with disparate data streams are especially challenged and will need to develop a comprehensive

data strategy to evaluate system changes before implementation deadlines.

CTOs are also turning to customized enterprise planning tools (ERP) such as SAP to plug data gaps to accommodate the granularity of the GloBE calculations while staying focused on material matters.

There may be some temporary relief for CTOs dealing with the massive data burden brought on by Pillar Two compliance requirements through the application of the transitional safe harbor rules, which CTOs are hoping will become permanent. These rules allow companies to perform simplified computations using information that is generally contained in their financial statements and county-by-country reports, though both need to meet a defined “qualified” standard. Groups must test whether they are eligible for the safe harbor annually in each jurisdiction in which they operate; where they do, they are able to avoid performing a more comprehensive ETR computation in 2024, 2025, and 2026. Importantly, modeling may still highlight some jurisdictions where the multinational does not meet the transitional safe harbor rule and would still need to be prepared to perform a comprehensive ETR computation.

CTOs say a good approach to understanding the cost of compliance is to start with transitional safe harbor calculations using qualified country-by-country (CbC) data. Based on these estimates, CTOs can improve tax risk assessment by achieving a holistic view of what is needed on a by-country basis.

A leadership challenge

Strong, clear leadership from tax, with close collaboration with key stakeholders across the business, is essential to navigating the uncertainty and complexity of Pillar Two changes. Indeed, the primary solution to addressing Pillar Two compliance is better technology. The modern systems and tools for managing complex data sets and performing complex calculations for reporting are crucial enablers of tax transformations being driven by Pillar Two and other regulations.

In particular, artificial intelligence (AI) can be used to analyze large volumes of data to identify patterns and trends that can help tax departments make more informed decisions. According to a KPMG survey of 500 business executives, **Tax Reimagined 2023: Perspectives from the C-suite**¹, more than half (59 percent) already use emerging AI technology in their tax or finance department to make workflows more efficient and to reduce the strain on existing talent. And of the 41 percent who aren't yet using AI, nearly all are interested in doing so.

¹ KPMG LLP, Tax Reimagined 2023: Perspectives from the C-suite, 2023

The challenge is that AI systems are often big-ticket items that require C-suite buy-in and support for investment. As such, early engagement with senior leadership is crucial given the potentially significant cost of Pillar Two compliance. The CFO and other senior leaders are necessary allies for CTOs seeking timely budget and resource allocation. CTOs also may benefit from including the controllers' team in Pillar Two discussions, as it has the expertise, information, and resources to help tax meet increasingly diverse and demanding reporting requirements.

Although executive communication is also important, CTOs may have a difficult time getting attention from leaders about these changes, especially in organizations where there is no material tax impact and Pillar Two is viewed as largely a compliance exercise.

CTOs say executive communication about Pillar Two impacts is a balancing act of ensuring the appropriate budget is available to comply while not overselling the compliance burden. Several executives expressed caution about asking for too much compliance investment, particularly if provisions like safe harbor that reduce workload are extended.

Others say the key to success is finding the right opportunity to communicate, citing several topics that are most likely to drive engagement on Pillar Two. For example, focusing on potential outcomes of cross-border rules can help executive leadership understand the challenges that tax will need to deal with as countries enact the Pillar Two rules. In addition, CTOs can highlight the increase in compliance spending that is anticipated in the coming years because of the new tax reforms.

A role for third-parties

Given the novelty and complexity of the model rules, and in light of the challenge associated with deviations that may arise as jurisdictions translate model rules into domestic law, Pillar Two is raising questions—and propelling changes—about staffing decisions and use of advisers. Based on the scope of compliance and administrative work, organizations are scrambling to strike the right balance between make-and-buy decisions. However, there is little consensus about the optimal approach.

Many CTOs are leaning on the expertise of large accounting firms to assist with reporting obligations, particularly CbC reporting and ETR calculation.

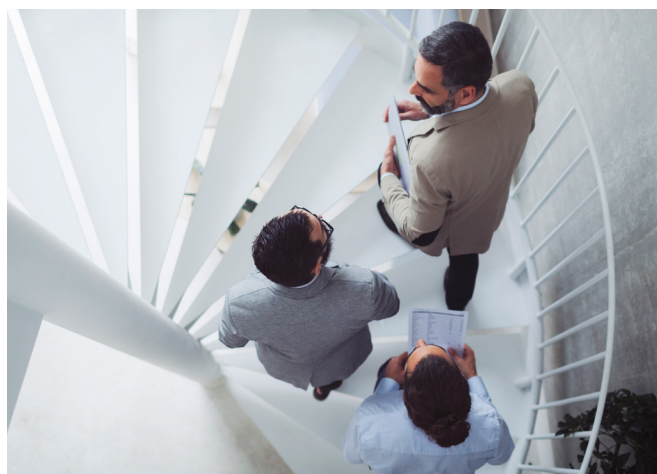
According to the KPMG 2023 Tax Reimagined survey, **Tax Reimagined 2023: Perspectives from the C-suite**², 94 percent of corporate executives say they are more willing to outsource or cosource their tax function this year compared to last year.

The increased information requirements of Pillar Two compliance is also increasing the appetite for various sourcing options. The data burden requires greater reliance on data systems and automation tools—and stronger technical capabilities—than many departments have in house. KPMG's research finds that nearly all C-suite leaders (99 percent) would consider an alternative tax function sourcing model to leverage the tech expertise, tools and skills of a third-party provider to combat their challenges to recruit professionals with technology-savvy skills.

Others feel a hybrid solution—licensing a tool from a third party and using it in-house for modeling, scenario analysis, and tax planning—is the best model.

Questions to consider

- How will Pillar Two affect your global ETR and cost base?
- Are your existing systems and technology capable of handling new complex data needs for Pillar Two compliance?
- Do you have governance controls required to help manage the risks associated with the complex Pillar Two rules?



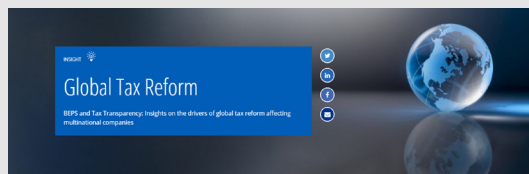
² KPMG LLP, Tax Reimagined 2023: Perspectives from the C-suite, 2023

Related insights



Be ready for disruption

For businesses everywhere, disruption comes in many forms. Tax organizations need to stay alert to emerging legislative and regulatory changes, both large and small. Speed and flexibility are critical. Our tax insights, seasoned professionals, and powerful technology can help you navigate uncertainty and disruption with confidence.



Global Tax Reform: BEPS and Tax Transparency

Stay abreast of ongoing developments regarding the OECD's base erosion and profit shifting (BEPS) project plan, including latest OECD efforts that focus on a two-pillar approach to modernizing the global tax system, including a global minimum tax under Pillar Two

For previous editions of *CTO Insights*, please visit read.kpmg.us/cto-insights

Follow the KPMG (US) Tax practice on Twitter @KPMGUS_Tax

Contact



Greg Engel
Vice Chair, Tax
T: 713-319-2105
E: gengel@kpmg.com

The information in *CTO Insights* is based on discussions between KPMG professionals and CTOs at their clients as well as with government contacts.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia



The following information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. USCS000011-3A