Chief Tax Officer Insights

October 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.

Topics in this issue

Facing Pillar Two head on

- Insights from the 2023 KPMG Pillar Two Compliance Survey
- Key updates shaping the global tax dialogue

The Organisation for Economic Co-operation and Development's (OECD) Pillar Two rules establish a globally coordinated minimum taxation regime to end the "race to the bottom" on corporate tax rates. Some aspects of the rules are scheduled to take effect in 2024 while other aspects of the rules will take effect in 2025.

Pillar Two introduces an array of challenges for tax functions at multinational organizations: additional cash tax, more complex tax computations, additional compliance and reporting obligations, and a higher risk for tax controversies. CTOs are keeping a close eye on ongoing developments in relevant jurisdictions as they steer through the twists and turns of this new global tax reform.

Insights from the 2023 KPMG Pillar Two Compliance Survey

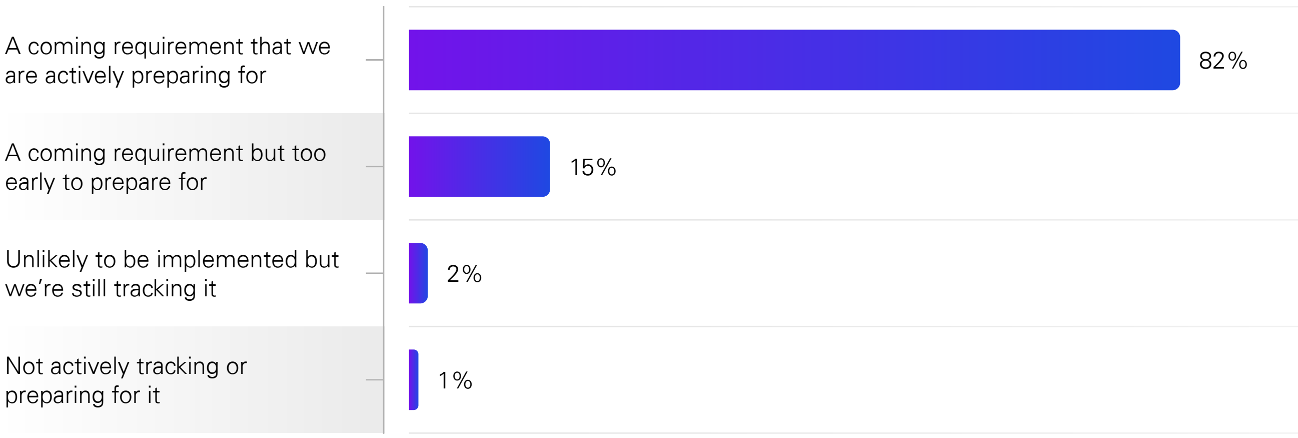
In August 2023, KPMG conducted a survey of CTOs and other senior tax leaders about their views and priority areas for Pillar Two implementation.[1] In this section, we explore trends from the survey findings from respondents of approximately 100 organizations with $1 billion or more in revenue, 70 percent of which operate in more than 25 jurisdictions. Topics relate to organizations' current level of readiness, preparations to manage compliance, expectations for added tax liabilities, and cost implications of rollout.

[1]KPMG 2023 Pillar Two Compliance Survey (August 2023)

Ramping up readiness

Most multinationals are steadily progressing along the Pillar Two implementation journey. According to our research, the majority (82 percent) of tax executives surveyed view Pillar Two as an impending requirement and are actively preparing.

As an organization, how do you view Pillar Two? (select one)

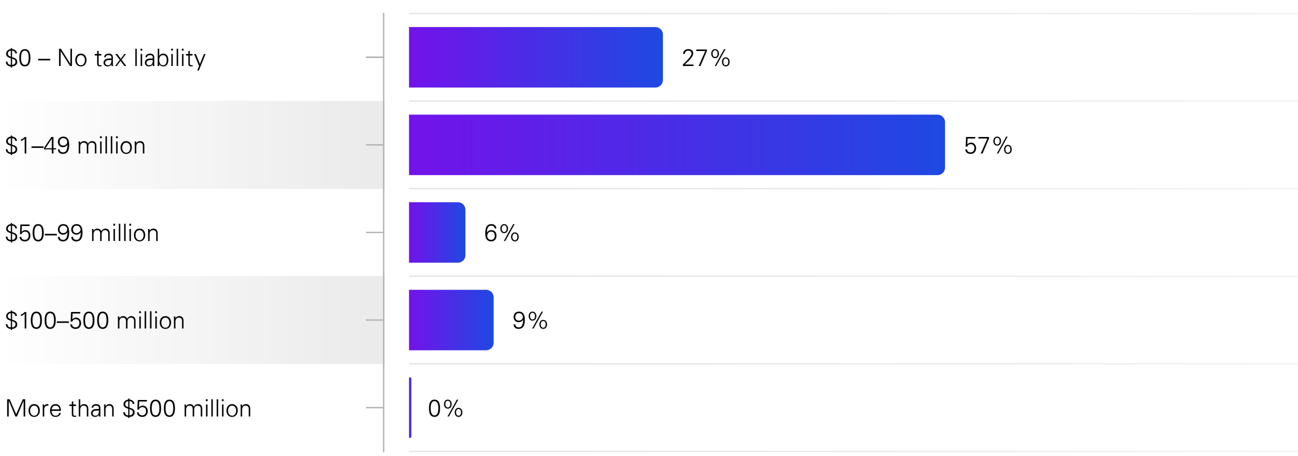


Tax leaders are exploring new ways to calculate effective tax rates (ETR), assess financial and operational implications, and report to global tax authorities. This requires updating internal processes and systems for managing complex computations and the data burden brought by Pillar Two compliance.

Addressing cost implications

As the OECD releases more guidance, BEPS 2.0 implementation moves closer. Leaders are actively considering staffing, budgeting, and preparations for the rollout. More than two-thirds (69 percent) of organizations predict a surge in external audit costs related to Pillar Two. With the introduction of undertaxed profits rules (UTPR) in 2025, companies anticipate a rise in tax liabilities. More than half (57 percent) of tax executives estimate their organizations' additional annual tax liability will be between $1 million and $49 million.

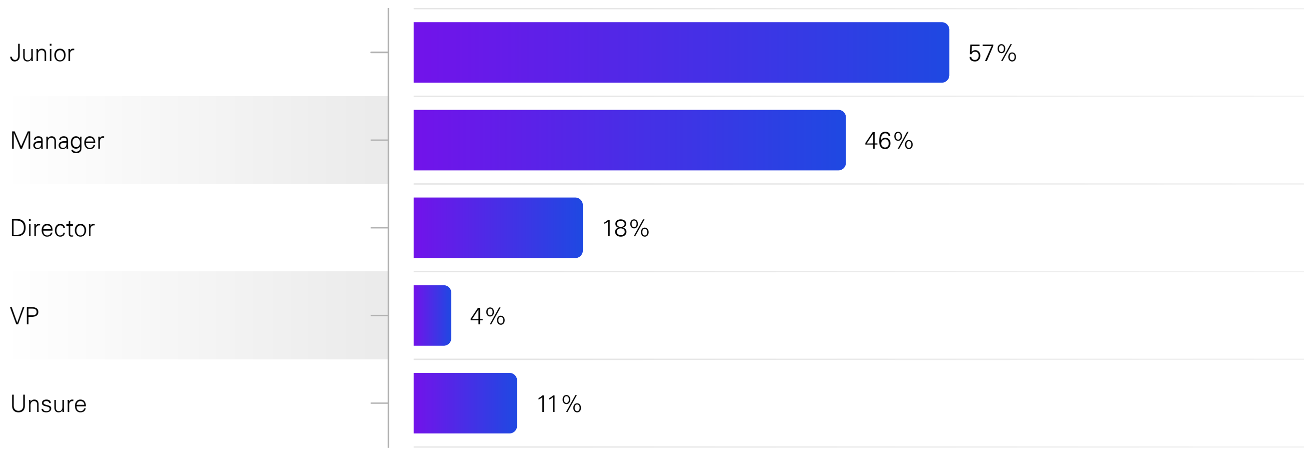
As an organization, we expect Pillar Two, once fully implemented including the UTPR, to give rise to an additional tax liability, per year, of: (select one)



Note: Percentages do not add to 100% due to rounding.

Although 53 percent of respondents feel that hiring nontax staff such as controllership resources may not be necessary in response to Pillar Two, some additional tax staff are expected to be needed: 57 percent of respondents are contemplating hiring more tax staff at junior level, 46 percent at managerial level, 18 percent at director level, and 4 percent at the VP level.

At which of the following levels do you plan to hire additional tax staff? And how many? (Select all levels that apply; for each level selected, indicate the number of FTEs to be hired.)

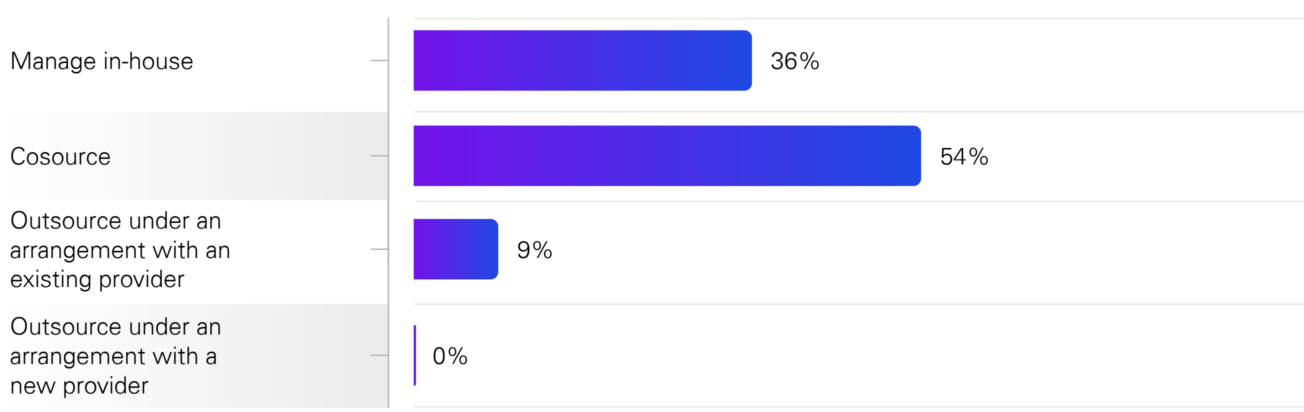


Involving third parties

Third-party providers can play a crucial role in helping multinationals satisfy reporting and compliance needs while future-proofing data streams. Given the novelty and complexity of model rules, tax leaders are still grappling with the balance between in-house development and outsourcing. More than half (54 percent) of organizations are considering cosourcing their tax function to leverage a third-party firm's tax expertise and stronger technology capabilities. However, 36 percent prefer managing it in-house.

Although there is little consensus about the optimal approach, some businesses feel hybrid solutions—a mix of in-house and third-party tools for modeling and tax scenario planning—are most effective. Meanwhile, others are focusing on developing automated data collection tools for integration with their modeling software to avoid dependence on tools from a handful of key market players.

How do you expect your organization to manage Pillar Two compliance? (select one)



Note: Percentages do not add to 100% due to rounding.

Optimizing data and reporting

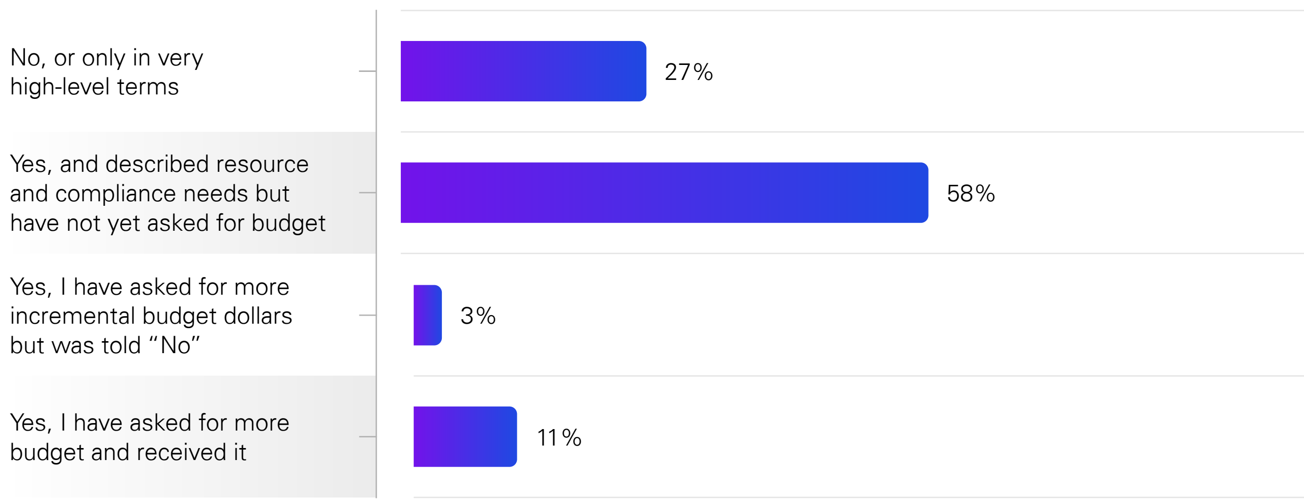
Data access is the biggest challenge for tax leaders in managing and accounting for the new reporting requirements. To tackle this, businesses are focused on adapting their data sourcing and storage, systems, processes, and controls.

Moreover, increased reporting obligation demands tax, finance, and technology teams collaborate closer than ever to create new data-gathering processes and handle evolving country-by-country (CbC) reporting rollouts. The considerable investment in time, money, and effort will be worthwhile for companies that can future-proof their systems by automating tax data collection at the source, reaping benefits far beyond the scope of Pillar Two.

Earning executive attention

To ensure timely budgeting and keep implementation on track, tax leaders stress the importance of getting leadership attention on Pillar Two matters and are making it a focal point of their conversations. Nearly three-quarters (73 percent) of respondents have already managed to discuss resource and compliance changes with the board (excluding the cost implications associated with Pillar Two).

Have you spoken with your executive management team about the potential incremental compliance/administrative costs associated with Pillar Two? (select one)



Note: Percentages do not add to 100% due to rounding.

It's important for CTOs to find the right opportunity to communicate and cite relevant topics that can drive immediate engagement and kick-start that dialogue within their organizations. For instance, 88 percent of CTOs believe transitional CbC safe harbor can offer temporary relief to their firms. However, since these measures last only the first three years and do not apply to all jurisdictions, budget allocation is a crucial concern to be addressed with top leaders sooner rather than later.

Survey highlights: How CTOs are preparing for Pillar Two

- *Rising cost of compliance*: More than two-thirds (69 percent) of tax leaders predict a surge in external audit costs related to Pillar Two.
- *Increasing role of advisers*: More than half (54 percent) of organizations are considering cosourcing the tax function to leverage a third-party firm's tax expertise and stronger technology capabilities.
- *Emphasis on garnering executive focus on Pillar Two matters*: Almost three-quarters (73 percent) of tax leaders have discussed resource and compliance changes with the board (except about the cost implications of Pillar Two).

Key updates shaping the global tax dialogue

The OECD has been racing to issue Pillar Two global minimum tax guidance, aiming for implementation as early as 2024. The latest guidelines, released in July 2023, provide clarification on various topics. This section highlights the evolving Pillar Two guidance and how it is shaping the tax conversation globally.

GloBE safe harbors

The OECD has reached an agreement on two additional safe harbors:

- **QDMTT Safe Harbor.** A permanent qualified domestic minimum top-up tax (QDMTT) safe harbor has been introduced, wherein the top-up tax payable under a QDMTT will no longer be treated as a credit under the income inclusion rule and UTPR, but instead moves toward an exemption approach. However, this safe harbor is only available if various conditions are met.
- **UTPR Transitional Safe Harbor.** In cases where the ultimate parent entity (UPE) jurisdiction lacks a QDMTT, the UTPR effectively becomes the primary mechanism for imposing top-up tax. Under a transitional UTPR safe harbor, no top-up tax will be payable on undertaxed profits in the UPE's country if it has a nominal corporate income tax of at least 20 percent. This safe harbor is available in 2024 and 2025.

Tax credits in GloBE rules

The tax credit treatment under GloBE rules is crucial, as it significantly affects jurisdictional ETR calculations. The latest guidance on transferable credits highlights that credit originators must treat the face value of the credit as income rather than a reduction to covered taxes. The buyer of the transferable credit, in turn, will reduce its adjusted covered taxes by the amount of the discount. Transferable credits will still negatively impact both the originator's and buyer's US effective tax rate.

The unequal treatment of US and global research and development (R&D) tax credits remains a contentious topic in the US Congress. Once the transitional UTPR safe harbor period ends, US multinationals will remain vulnerable to top-up tax on their US income under the UTPR for various reasons, such as R&D credits and foreign-derived intangible income deductions. As a result, the temporary relief offered by the latest OECD guidance simply delays, but doesn't resolve, many US businesses' concerns.

The latest OECD guidance on Pillar Two implementation

- *The OECD introduced two additional safe harbors.* A permanent QDMTT safe harbor alters top-up tax treatment for qualifying multinationals, removing its credit status, while a transitional UTPR safe harbor exempts top-up tax on undertaxed profits in the UPE's country having at least 20 percent income tax for a transition period.
- *Disparity between US and global R&D tax credit treatments remains contentious.*

Questions to consider

- What broader benefits will technology enablement provide in meeting the reporting obligations of Pillar Two?
- How are you tackling potential staffing and budgeting requirements in preparation for the Pillar Two rollout?
- How can you navigate the intricacies of UTPR and QDMTT safe harbors and tax credits under the new OECD guidelines?
- Are your strategies robust enough to address and monitor the effects of Pillar Two rules on your global tax position?

Related insights

BEPS 2.0 – Pillar Two

Explore KPMG insights about the impact of Pillar Two—global minimum tax rules—and how companies are responding.

Taxation of the digitalized economy

Stay abreast of digital services taxes developments around the world.

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