

Pillar Two Guide for Asia Pacific Multinational Enterprises

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<https://www.pwc.com/gx/en/services/tax/pillar-two-readiness.html>



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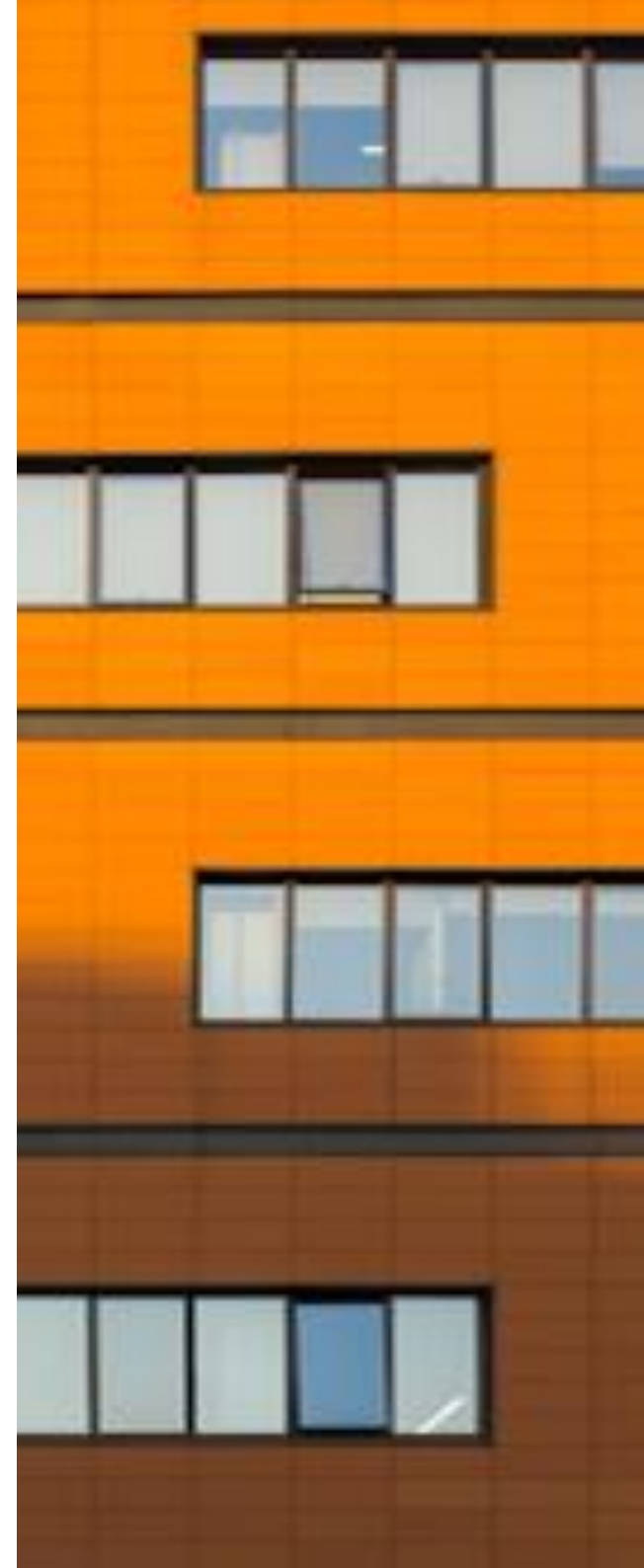
1 Implementation roadmap

Introduction

The window to prepare and implement an action plan for Pillar Two, the new global minimum tax framework, is closing rapidly. Based upon existing organisational structures and supply chains, in-scope multinational enterprises (MNEs) could face increases in their global effective tax rate (ETR), cash tax outlays, and compliance burden. Earnings in jurisdictions where the MNE's ETR (as determined under the Pillar Two rules) is below the 15% minimum rate will be subject to an additional Top-up Tax. In addition, other countries that enact Pillar Two may be able to impose additional tax on Asia Pacific headquartered MNEs if the tax imposed by the headquarter jurisdiction on the profits of these MNEs is less than 15%.

In this regard, although the headline corporate rate for many Asia Pacific jurisdictions is above 15%, certain credits (including the R&D tax credits), as well as other tax holidays, preferential rates, super deductions and tax-free classes of income, could cause the tax rate on such Asia Pacific operations to fall below 15% for Pillar Two purposes. Tax incentives are a key aspect of the Asia Pacific tax environment. Under Pillar Two, such measures to attract investment could be at risk of losing effectiveness. In response, various Asia Pacific jurisdictions have introduced measures to incentivise inbound investment in other ways. Examples include the BOI tax reduction regime in Thailand and Singapore's Refundable Investment Credit.

The Pillar Two rules contemplate four different mechanisms for assessing tax on a MNE's income, and MNEs will have to comply with the filing requirements for each applicable rule.



There is a Qualified Domestic Minimum Top-up Tax (QDMTT), which is a tax that a country imposes on income earned within its own borders to ensure that such income is taxed at a rate of 15% for Pillar Two purposes. Differences and inconsistencies in the application of QDMTT rules are evident among countries that have introduced these rules. As each implementing country adopts domestic legislation, taxpayers can expect further variances as laws change and evolve. The so called “primary” rule is the Income Inclusion Rule (IIR), which generally imposes tax on the parent entity of an MNE group to the extent that the foreign subsidiaries of the MNE¹ are taxed at a rate less than 15%, as determined for Pillar Two purposes. The IIR is accompanied by a ‘backstop’ rule, known as the Undertaxed Profits Rule (UTPR, formerly known as the Undertaxed Payments Rule), which permits a country to impose additional tax on an entity if that entity has any affiliated entities in other jurisdictions that are taxed at less than the 15% Pillar Two rate. Further, as part of the various filing requirements for each of these taxing mechanisms, MNEs will need to track elections and various Pillar Two attributes, effectively requiring MNEs to maintain a new set of books and establish all the processes and technologies needed to maintain those books.

Note that the OECD’s second set of Administrative Guidance on Pillar Two released 17 July 2023 introduces a QDMTT Safe Harbour, which deems a MNE’s Top-up Tax for a jurisdiction to be zero if that jurisdiction qualifies for the safe harbour, thereby switching off the IIR and UTPR in other jurisdictions. However, the QDMTT Safe Harbour introduces a peer review process, which may lead to uncertainty, depending on how jurisdictions in Asia Pacific interpret the requirements given the variation in legal systems.

Finally, the Subject to Tax Rule (STTR) is a treaty-based rule that may apply to payments from developing countries that are taxed at less than 9%. To achieve this, the Inclusive Framework has

released a ‘Multilateral Convention to Facilitate the Implementation of the Pillar Two Subject to Tax Rule.’

As part of the various filing requirements for each of these taxing mechanisms, MNEs will need to establish processes and mechanisms to track elections and deferred tax liability (DTL) recaptures/remasurements. Adding to the complexity of Pillar Two is the interplay with existing domestic tax regimes (e.g., domestic CFC regimes in jurisdictions such as Australia and Japan, and alternative minimum taxes in jurisdictions such as India and Taiwan) and timing of implementation across jurisdictions, as although Asia Pacific jurisdictions are largely implementing in 2025, there are still several economically sizeable jurisdictions that have yet to announce their intention (see [PwC’s Pillar Two Country Tracker](#) for details). Pillar Two effectively requires keeping a new set of books, which means developing all the processes and technology needed to maintain those books.

Pillar Two is more than just a tax issue. Responsibility for complying with this new regime will require resources beyond the traditional tax function, including financial reporting controllers, IT/systems, human resources, and other corporate stakeholders. A multi-functional team is needed from the outset to identify an implementation plan that includes operational readiness, data strategy, and quantitative analysis.

Certain rules became effective starting 1 January 2024 in many jurisdictions (in particular across the EU and for Australia and Canada). Therefore, Asia Pacific headquartered groups operating in such jurisdictions will need to ensure compliance with new annual tax filings as early as 2025. The GloBE Information Return (“GIR”) will generally be due in 2026, with some jurisdictions imposing notification requirements and/or estimated payments. Hence, developing the framework for data, technology and process foundation for global and statutory compliance should already be well underway.

This Pillar Two Guide for Asia Pacific Multinational Enterprises is intended to provide Asia Pacific headquartered taxpayers with an illustrative step-by-step approach to prepare for Pillar Two, including ongoing financial statement reporting and tax compliance requirements. Creating and adopting a plan for Pillar Two readiness will require agility and flexibility, and any plan should be viewed dynamically with many interconnected activities requiring coordination across the entire organisation. This guide should be adjusted, customised, and prioritised based on current-state Pillar Two readiness and unique organisational challenges. From an operational perspective, Asia Pacific headquartered MNEs exhibit a broad range of centralisation in managing their tax affairs, and those MNE groups adopting a highly decentralised approach may face additional challenges in implementing Pillar Two readiness.

The [Pillar Two Readiness Guide](#) can be used in parallel by MNEs to evaluate preparedness for Pillar Two, navigate unique complexities, identify any actions to undertake to sustain compliance requirements, and understand possible financial and operational implications of Pillar Two on existing business models. The Pillar Two Readiness Guide outlines technical areas that will help MNEs refine their strategies for the full-year reporting and, ultimately, prepare for QDMTT filings and the first GloBE return filings.

General Financial Statement Considerations

For IFRS purposes, on 23 May 2023, the International Accounting Standards Board (IASB) released its final standard with amendments to IAS 12 Income Taxes. The new guidance provides temporary relief for companies from having to account for deferred taxes arising from the implementation of Pillar Two along with requiring disclosures that should help users of their financial statements understand their exposure to Pillar Two. The amendments became effective as of the date the guidance was released; however, for local country purposes a ratification process was generally necessary. The disclosure requirements apply for annual periods that began on or after 1 January 2023. While many countries' Pillar Two IIR legislation became effective in 2024, other countries are in the process of enacting legislation and the UTPR will soon go into effect. As a result of the legislative developments, companies should consider any related disclosures as part of their financial reporting process. For financial statements under IFRS, preparers should consider the disclosure requirements included in the amendments to IAS 12, as noted above. Other local statutory accounting standards should also be considered.

For US GAAP purposes, the Financial Accounting Standards Board (FASB) has indicated that it believes the Pillar Two Global Anti-Base Erosion (GloBE) minimum tax is an alternative minimum tax as discussed in ASC 740. Accordingly, reporting entities would not recognize or adjust deferred tax assets and liabilities for the estimated future effects of Pillar Two taxes as long as enacted legislation is consistent with the OECD's GloBE Model Rules and associated commentary. Rather, the tax would be accounted for as a period cost impacting the effective tax rate in the year the GloBE minimum tax obligation arises

Provision Considerations

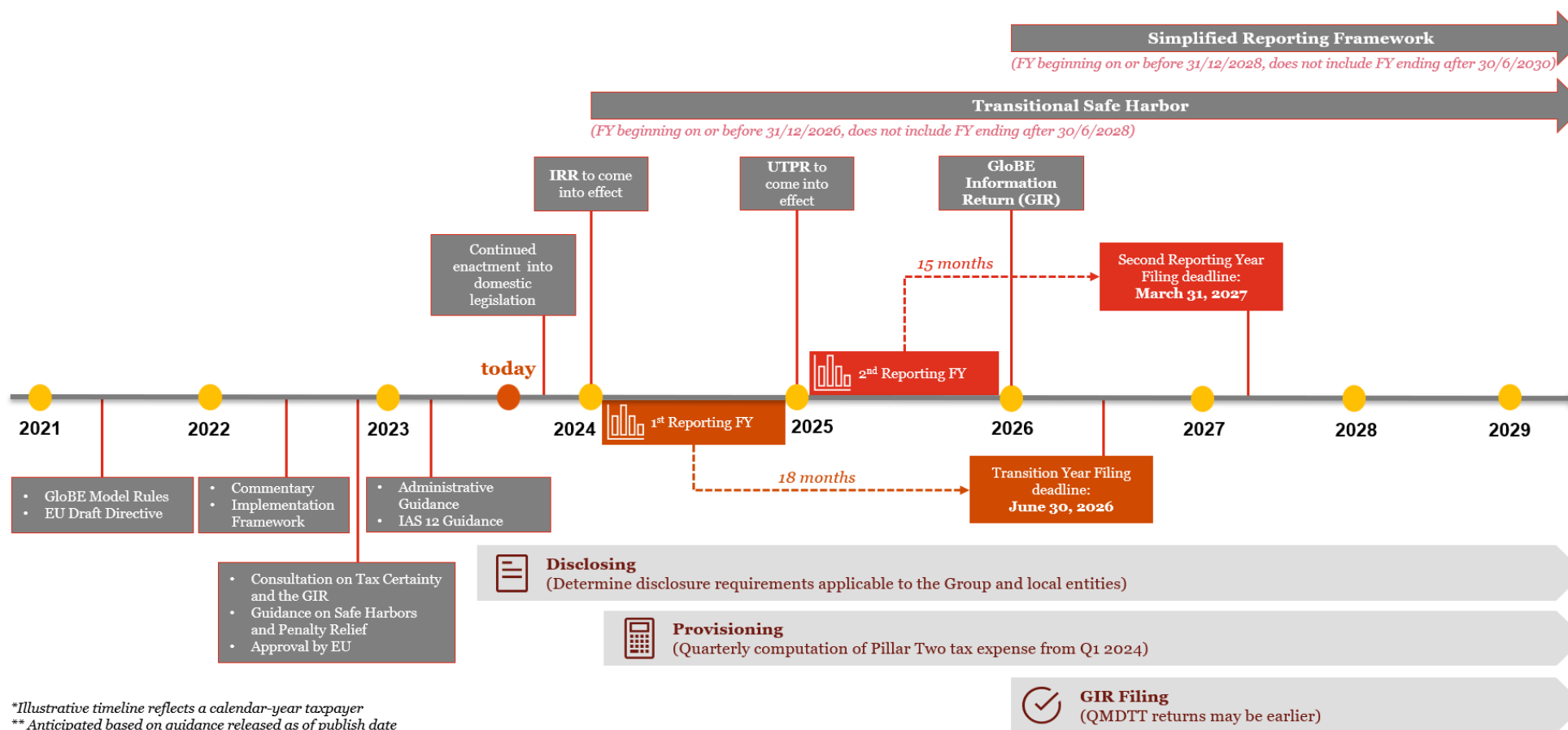
Companies will need to include the impacts of Pillar Two in the financial reporting period when the legislation is effective (for calendar-year companies, generally beginning in the first quarter of 2024). For companies with interim reporting requirements, these impacts will need to be estimated under the income tax accounting model of the applicable accounting standard.

Additionally, companies will need to consider what new processes and internal controls should be established to determine any incremental Pillar Two tax liabilities, as well as to support any determinations that no liabilities exist.

Filing Considerations

For many MNEs, compliance with new annual tax filings will be necessary for 2024 tax years. Filing of Pillar Two tax returns, including the GloBE Information Return (GIR) by each Constituent Entity or a designated filing entity, is required starting 30 June 2026 for calendar-year taxpayers. Certain jurisdictions (e.g. Hong Kong) will also require separate top-up tax notifications to be filed in shorter time periods (e.g. six months) after the end of the fiscal year.

Implementation of Pillar Two





2

Detailed Client

Action Plan

1.0 Operational Transformation

2.0 Legal Entities

3.0 Safe Harbors

4.0 Data and Systems

5.0 Financial Statement Reporting

6.0 Compliance

1.0 Operational Transformation

Guardrails for success: stakeholder management, governance and controls, development tracking

1.1

Educate key stakeholders about the broad reaching effects of Pillar Two adoption and ongoing compliance

Pillar Two adoption will take significant cross-functional teaming and coordination as there are several key stakeholder groups within the organisation that will be impacted – on a global scale. These stakeholder groups include Tax, Controllershship, Financial Planning and Analysis (FP&A), Legal, Corporate Secretary, Treasury, Information Technology, and other relevant organisational functions (including sector or business unit controllers, if decentralised).

A global network of specialists comprised of resources from each of the key stakeholder groups identified should be established to help drive adoption and deliver ongoing reporting and compliance. Members of this group should be educated as to:

- The core objectives and principles, data requirements, new reporting and compliance obligations (enacted and anticipated) impacting their teams
- The impact that Pillar Two reporting and compliance will have on current processes, internal controls, and financial statements, including any expected ETR impact

The estimated timeline for any remaining implementation efforts, as well as any additional resource requests to complete implementation Given the magnitude and complexity, consider whether a dedicated project management resource or supplemental outside resources are needed to help the implementation effort and early years of reporting and compliance.

1.0 Operational Transformation

1.2

Establish clear lines of communication and responsibility

Effective communication, education, and coordination among these groups will help stakeholders and employees understand the need for change and how it will affect them. It will also help provide insights needed to develop a well-informed Pillar Two strategy to guide the consistent application of processes, policies, and procedures across the organisation (and geographies).

We recommend that the Lead Team:

- Establish responsibilities for communicating potential impacts and relevant information to those responsible for analysing and assessing the impacts of Pillar Two
- Educate relevant individuals across the organisation about the requirements in their jurisdiction and what is expected of them
- Keep key stakeholder groups engaged and informed throughout the implementation effort and beyond

Furthermore, the variation in management structure of Asia Pacific headquartered MNEs will also need to be considered when establishing lines of responsibility, particularly for those MNEs adopting a more decentralised approach to managing their tax affairs.

1.0 Operational Transformation

Guardrails for success: stakeholder management, governance and controls, development tracking

1.3

Establish governance, oversight, and internal controls to help manage risk

The cross-functional nature, dynamic environment and anticipated divergence in local rules leads to additional complexity and risk associated with Pillar Two. Governance and internal controls are critical to help reduce risk, improve completeness and accuracy, promote operational efficiency and encourage adherence to policies, rules, regulations, and laws. Specifically, an enterprise should:

- Establish a governance framework that clearly defines the objectives, policies, processes, role delegations and risk oversight required to help effectively support and deliver on the company's Pillar Two strategy
- Set up a cross-functional steering committee to provide project governance and oversight, promoting stakeholder accountability and strategy execution
- Develop an internal controls structure over the end-to-end Pillar Two process.

Consider where enhancing existing governance and internal controls may occur versus establishing new processes and internal controls. An enterprise's strategy and approach is likely to evolve as new developments unfold. As such, it is important to continuously review and update your governance framework and internal controls to properly adapt and sustain these structures.

Additionally, companies should consider developing a risk management plan that outlines risk ownership and establishes a risk mitigation and escalation plan. The steering committee and other key stakeholders should monitor risks on an ongoing basis associated with stand up, readiness, timing and sequencing and specific local country developments along with changes to the business or existing tax positions that need to be evaluated under the Pillar Two lens.

1.0 Operational Transformation

1.4

Monitor new developments and keep stakeholder groups informed

Designated teams should continually monitor new developments related to Pillar Two including legislative, regulatory, tax technical, and financial reporting implications. Ongoing communication to the broader stakeholder group is essential to avoid wasted effort and actions taken on stale information.

Examples of resources available include:

- [Subscribe](#) to PwC publications that provide updates on new developments
- Attend technical training sessions and webinars
- Reference Pillar Two development trackers, such as [PwC's Pillar Two Country Tracker](#), for details on the implementation status and related requirements by country or region.

Cultivate your team: resource planning, defined roles and responsibilities, timeline, training

1.5

Determine the level of resources required to comply with Pillar Two and identify teams and resources

Pillar Two is truly a cross-functional endeavour requiring technical knowledge and resources from across all areas of tax as well as the broader business. It is critical to understand who needs to be involved as well as their role in the development and long-term sustainability of the Pillar Two planning, reporting and compliance environment. Steps to consider include:

- Determine the expected level of resources needed to comply – e.g., key stakeholder groups (previously identified), data and process owners, financial statement / consolidations teams, etc.
- Establish a dedicated, cross-functional team composed of global resources responsible for preparing, reporting and complying with Pillar Two.

This assessment should include whether the enterprise should employ project management resources or supplemental outside professionals to help on an interim or permanent basis.

1.0 Operational Transformation

1.6

Define roles, responsibilities and timeline

After identifying teams and resources:

- Clearly define roles and responsibilities for each stakeholder group or resource
- Develop milestones and expectations around roles, responsibilities, and timeline.

Each reporting period, companies will need to continue to assess the impacts of the rapidly changing tax law to determine the impacts for financial statement purposes.

Compliance with new annual tax filings will be necessary at year-end 2024 or 2025. Filing of GloBE returns will start in 2026 for calendar-year taxpayers, with some local QDMTT tax returns and/or payments due starting in 2025. As a result, companies should prioritise near-term requirements.

1.7

Provide education and training to designated resources

Educating your dedicated, cross-functional team and other key stakeholders is critical to the adoption and sustainability of Pillar Two processes and solutions. There are many existing training resources, however, we have found company specific training to be the most effective approach given the application will be different given your operating footprint, materiality and other factors. As a general rule:

- All tax personnel should be trained on the technical aspects of Pillar Two and how it impacts their company
- Non-tax resources should receive training as part of the readiness assessment, so that you can level-set on baseline reporting and data requirements.

Tailor your education and training approach based on your specific operating model, facts and circumstances and regularly update training as new guidance is issued and local adoption occurs.

1.0 Operational Transformation

Refine and evolve an implementation plan: operating model, readiness assessment

1.8

Consider whether your operating model is fit-for-purpose

Assess whether your current operating model (insource, outsource or co-source) is fit-for-purpose given the pervasive impact Pillar Two will have on your operations:

- Establish short, medium and long-term plans to fulfil reporting and compliance obligations for Pillar Two
- Consider how the scope and complexity of these plans impact your ability to comply with existing requirements, including bandwidth, technical knowledge, technology enablement, data accessibility and reliability, etc.

Give additional attention to how your provision and long-term compliance processes will differ. Depending on scope, you may decide to align to your existing operating model or revisit your operating model related to a variety of tax areas such as global tax compliance.

Change may also be driven and objectively measured by the following key performance indicators (KPIs):

- Cost
- Risk (financial and reputational)
- Efficiency and effectiveness
- Sustainability.

Keep in mind that enhancing your existing operating model to meet the needs of the business may involve changes to the tax ecosystem including technology, processes and resources.

1.0 Operational Transformation

1.9

Assess operational readiness for near-term and longer-term adoption

Pillar Two reporting and disclosure requirements are already impacting certain MNEs since the first quarter of 2024, or sooner for budgeting and forecasting purposes. Companies need to understand the scope and complexity required to comply with ongoing adoption requirements, while planning for the development and implementation of long-term, sustainable solutions and processes.

A readiness assessment can help your company initially understand what is required as well as where a deeper dive assessment may be necessary based on risk. This assessment should be iterative, enabling your company to adjust and refine its approach as Pillar Two requirements evolve.

Consider:

- Understand your business needs
- Identify gap areas related to people, process, data and technology
- Risk assess where a deeper dive assessment may be required
- Develop an implementation plan and roadmap
- Consider the impact on existing process and internal controls as well as the need to establish new ones
- Evaluate whether a near-term and long-term sustainable approach for adoption may be needed (based on scope and complexity).
- Continuously assessing and refining to maintain an adaptive approach.

1.0 Operational Transformation

Budget and investment management

1.10

Develop and manage your budget

Develop and secure budget and funding necessary to comply with Pillar Two - e.g., acquisition of additional resources, adaptation of technology and processes, required system updates/implementations, etc.

Sample budget considerations may include:

- Near-term provision and reporting requirements based on the readiness and deeper-dive assessments – e.g., remediate gaps, stand-up processes and systems, establish governance and internal controls, satisfy additional resource needs, etc.
- Solidify long-term reporting and compliance processes via the design and implementation of systematic changes including technology enhancements and implementations, additional resources (if necessary), etc.
- Identify costs associated with source data and system enhancements required, including ERP, consolidation and legal entity management system changes.
- Secure training resources for designated resources.

Factor in near-term and long-term reporting and compliance requirements as you establish and manage your budget.

2.0 Legal Entities

2.1 Constituent entity analysis	<p>First determine which financial consolidation groups are subject to Pillar Two rules. For corporate MNEs, this may seem straightforward. However, this may be a bigger undertaking for private equity and financial services firms, as identifying financial reporting consolidations may require US GAAP or IFRS accounting knowledge to supplement tax knowledge. Once the consolidation groups have been identified, you then must analyse which entities will be considered constituent entities for Pillar Two purposes. There are several nuances related to joint venture entities, branches, transparent and flow-through entities and permanent establishments that may cause operational challenges.</p> <p>Once identified and confirmed:</p> <ul style="list-style-type: none">• Analyse your current legal entity (LE) structure based on the definition of a constituent entity• Reconcile sources of LE master data for constituent entities to help improve completeness and accuracy, and develop a source of truth• Collaborate with the relevant stakeholder groups to obtain real-time LE information.
2.2 Stand-alone financial statement analysis	<p>After the constituent entities have been identified, companies should evaluate the US GAAP and/or IFRS financial statement preparation and process including the recording of consolidation, eliminations and intercompany transactions. It is critical to understand the allocation of these adjustments to the underlying legal entities in order to arrive at the starting point required for Pillar Two.</p> <p>This can be a challenging task as consolidated financial statements are designed for external and management reporting, and are often not prepared at a true legal entity level. As a result, this exercise will require a deep understanding of US GAAP or IFRS accounting procedures.</p>

3.0 Safe Harbors

3.1

Evaluate your current Country by Country Reporting (CbCR) process, data and output

The transitional safe harbour potentially excludes a group's operations in lower-risk jurisdictions in the initial years as the full rule sets are adopted and implemented, thereby potentially providing operational relief. Companies will be able to use data available from an MNE's qualified CbCR and jurisdictional revenue and income information in qualified financial statements to determine whether its operations in a country meet one of the safe harbour criteria.

MNEs considering a transitional safe harbour should perform a detailed review of current CbCR processes to determine whether the 'as is' data can be deemed qualifying. This can be challenging as there is limited guidance as to what 'qualifying' means. CbCR data has historically been used for informational reporting versus the determination of taxes paid and safe harbour rules. Given this new application, we anticipate that tax authorities and external auditors will apply additional scrutiny on data integrity and the processes used to develop CbCR data. As a result, companies may need to update their processes to meet the new standards.

During evaluation, companies should carefully consider historic decisions made on where and how to source data for this process consistently with data used in the rest of the tax reporting process. Timing may also be a factor as companies may not be able to execute required process changes in time for the appropriate reporting period. Any changes made to historical CbCR processes or positions should be evaluated from a risk perspective as well as certain changes may require disclosure in existing annual CbCR filings.

Companies may consider shifting ownership of CbCR processes within their tax department and should also evaluate pending and upcoming public CbCR requirements to determine whether readiness programs should be combined.

3.0 Safe Harbors

3.2

Analyse which jurisdictions may qualify for safe harbour and the benefits of opting in

It may be the case that not all jurisdictions benefit from the safe harbour such that a full data set is required. In this case, MNEs should consider whether it is more efficient to undertake a data gap analysis and compliance assessment for all jurisdictions rather than undertake the exercise twice.

In addition, the safe harbour provisions feature the 'once out, always out' rule, whereby a jurisdiction not applying any of the safe harbour provisions in one period cannot benefit from any of the safe harbours in a subsequent period. Further, one-off transactions or anomalies have the potential to push a territory outside the safe harbour conditions. In the same way, the increasing rates (from 15% in 2024 to 17% in 2026) could exclude a jurisdiction from the safe harbour. This could mean that at the last minute, an MNE group has to engage in a disjointed and fragmented data-gathering exercise that will include having to build the compliance infrastructure for different jurisdictions in different periods rather than approaching it on a holistic basis.

We recommend that you:

- Determine where the safe harbour rules may apply to your group
- Evaluate the potential benefits and risks of opting in. Perform a risk assessment on jurisdictions that are within an acceptable range (as determined by company) to the safe harbour percentage to decide whether to run the full calculation side-by-side with the safe harbour.

3.0 Safe Harbors

3.3 Develop processes for safe harbour jurisdictions	<p>Develop process and calculations on a go-forward basis for application of the safe harbour (if applicable). Steps to consider:</p> <ul style="list-style-type: none">• Evaluate and identify the changes and enhancements to the CbCR process required to achieve ‘qualifying’ data needed to perform the safe harbour calculation• Assess what data will be available and which enabling technology will be used to run the safe harbour calculation for provision purposes, including particular consideration for how the safe harbour analysis could be prepared utilising forecasted information• Define roles and responsibilities related to the CbCR and safe harbour processes, respectfully• Determine what internal controls and governance procedures are needed and whether the process will now be subject to regulatory reporting controls.
3.4 Assess your Transitional UTPR safe harbours position	<p>The transitional UTPR safe harbour generally provides relief from the UTPR in the UPE jurisdiction during the first two years in which the GloBE rules come into effect. Under this Transitional UTPR Safe Harbour, the UTPR Top-up Tax amount calculated for the UPE jurisdiction shall be deemed to be zero for each fiscal year during the transition period if the UPE jurisdiction has a corporate income tax rate of at least a 20% based on the nominal statutory rate. Consider the accessibility of this simplification carefully as it disqualifies out the relevant jurisdiction from the CbCR safe harbour option (once out, always out).</p> <p>The transition period refers to the fiscal years which run no longer than 12 months that begin on or before 31 December 2025 and end before 31 December 2026.</p> <p>MNEs that qualify for more than one transitional safe harbour may choose which safe harbour to apply for that jurisdiction.</p> <p>Note if the Transitional UTPR Safe Harbour is used, such only provides that the UTPR Top-up Tax amount is deemed to be zero and other Constituent Entities may still be subject to Pillar Two taxes.</p>

4.0 Data and Systems

4.1

Perform an assessment of your data and systems structures

Data and systems are critical components of Pillar Two operational readiness. Companies should assess current systems, data structure and data sources to determine how to collect the data required for Pillar Two calculations.

Steps to consider:

- Understand comprehensive data requirements applicable to your organisation and how those requirements are met in the current state.
 - [PwC's Pillar Two Data Input Catalog](#) is an ideal inventory to begin your analysis. The Data Input Catalog defines the data requirements for Pillar Two, giving MNEs a thorough understanding of the amount of work that lies ahead of them and can help MNEs anticipate the unique challenges they will face.
- Understand broader, enterprise-wide initiatives where Pillar Two can serve as a catalyst for much needed tax data modernization such as ERP system upgrades and broader digital transformation efforts.
- Identify where data can be sourced and who owns the controls over that data
 - It is expected that 40-60% of data will be available directly in a company's ERP or financial consolidation systems. The remaining 40-60% is expected to be sourced from a variety of sub-ledger systems, tax provisions systems, employee benefits systems and offline schedules and files.
- Collaborate with cross-functional data and system owners to educate them on what will be required under Pillar Two, why it's important, and how it may impact them going forward to obtain buy-in.

4.0 Data and Systems

4.2

Identify and remediate data and system gaps

Performing a data and system gap analysis can enable tax to identify areas of deficiency or areas in need of improvement, which can lead to greater efficiencies and modernization.

As part of this effort:

- Analyse the current state
- Highlight current state gaps such as lack of data availability and reliability issues as well as any manual processes used to obtain data needed today
- Determine potential solutions to help remediate the gaps identified
- Designate solutions as short-term versus long-term
- Develop a remediation plan including risk assessment and prioritisation. Focus on what is needed to execute near-term reporting requirements for the 2024/25 reporting cycle.

4.0 Data and Systems

4.3

Develop and implement a data strategy rooted in systems and processes

Companies should consider developing a comprehensive data strategy rooted in systems and processes that can sustain reporting and compliance requirements upon enactment.

- Identify data requirements
- Understand the data sources and owners
- Design solutions and implement specific processes and enabling technology
- Integrate solutions with overall Pillar Two roadmap
- Embed internal controls in the process.

Regardless of the source, data needs to be extracted and transformed, ideally in an automated manner in order to then drive the calculation process. At the core of the data transformation, we recommend centralising your data using a common data model (or similar solution), which defines all of the data points needed, the level of granularity at which they are needed and then the format to drive the calculation. This will look slightly different for each company, but the goal is to have a data set that has been vetted for completeness and accuracy, that can seamlessly integrate into the downstream Pillar Two calculation solution.

PwC has created a suite of data solutions tailored to integrate seamlessly with your existing technology infrastructure, built to adapt and evolve in line with Pillar Two requirements. These data solutions can be customized into existing EPM/Consolidation systems or leveraged through PwC's proprietary Sightline technology. The data accelerators streamline the identification of relevant data for Pillar Two reporting and compliance, efficiently collecting and preparing it for use in PwC's Pillar Two Engine or other calculation models, providing a truly unified experience. Apply a holistic approach to solutions and integrate into existing processes to help improve results and lead to sustained outcomes.

5.0 Financial Statement Reporting

5.1 Understand Pillar Two disclosures	<p>Companies should review the FASB and IASB guidance related to Pillar Two reporting and disclosure requirements to understand the expected impact on their financial statements. There will be quantitative and qualitative disclosures required so consider whether that information is available today or will need to be established as further legislative developments occur.</p> <p>This evaluation should be made for all global and local filing requirements for financial statements being prepared today. Make sure you understand these requirements as they relate to your business and communicate with your accounting and investor relations group as necessary.</p>
5.2 Determine the income tax provision impacts	<p>Many companies were required to calculate the impact of Pillar Two on their forecasted ETR and will soon be required to determine the annual ETR impacts for the 2024/25 tax provision. The data required to execute the calculations at the right level of granularity for Pillar Two requires coordination with the appropriate stakeholders including FP&A. Looking ahead, as more countries come online and as the UTPR takes effect, this coordination will be imperative. We recommend that the data and systems analysis described above include both actuals and forecasts.</p> <p>We recommend early stakeholder engagement to help achieve sufficient reliable data in time to meet the reporting requirements. Buy-in from external auditors on approach and data reliability will likely also be required.</p>
5.3 Technical interpretation	<p>MNEs should review the technical nuances of the Pillar Two rules and consider how the changing landscape and local country enactment will impact their organisation.</p>

6.0 Compliance

Pillar Two compliance obligations will likely be onerous, but the extended timeline proposed in the model rules provides some additional time to consider and prepare. Below we have laid out a number of longer-term compliance related considerations as companies focus on near-term priorities.

6.1 Deferred tax liability (DTL) recapture and elections	<p>MNEs will need to establish a separate process and mechanism to track deferred tax liability (DTL) recaptures and remeasurements as well as elections. Some organisations may need to develop a process for provision, and many will need to focus on developing granular calculations for the compliance process.</p> <p>Remember that this compliance process relies on accounting principles. As such, companies should consider whether the data available at provision time is granular enough to execute a detailed calculation. Therefore, companies should closely evaluate this requirement as they prepare for their first year of determining the Pillar Two impacts for purposes of the provision.</p>
6.2 Implement a Pillar Two calculation engine	<p>A Pillar Two calculation engine can help provide audit-ready detail, clearly outlining all of the adjustments that were factored into the calculation, the ability to integrate results into tax provision and compliance processes and visualisations in order to facilitate review and analysis of the results.</p> <p>An enterprise should consider how they will maintain the global set of rules and logic on a jurisdictional basis, especially in light of the uncertainty around local country deviations from the model rules and varying compliance requirements. Developing, maintaining and updating the evolving Pillar Two rules, including the intricacies of rule ordering and interaction, will require a global network of international tax experts and advanced technology.</p> <p>PwC's Pillar Two Engine is a centralised, cloud-based calculation engine for quantifying the impact of OECD Pillar Two, including provision, compliance and modelling. The Pillar Two Engine is configured to support the inconsistent and unique adoption of Pillar Two rules around the world and allow for flexibility as those rules continue to evolve. Jurisdiction-specific calculations are swiftly incorporated into a centralised rules library after a thorough governance process, ensuring each user runs up-to-date calculations, something that is incredibly challenging in a spreadsheet environment or with a basic technology tool.</p>

6.0 Compliance

Decisions related to enabling calculation engine technology should also be considered in the context of the overall operating model assessment. Licensing a fully configured and perpetually maintained rules engine, like PwC’s Pillar Two Engine, could lead to a reduction in internal resources required and facilitate a leaner, more strategically focused internal tax function. On the other hand, building an internal calculation engine will likely lead to additional resources required in the long term to maintain the global set of rules.

During implementation, we recommend focusing on integrating your Pillar Two process and enabling technology with existing solutions for more sustainable outcomes.

6.3
Comply with filing obligations

Pillar Two compliance requirements will be significant especially when considering the global scale at which companies will need to respond. Additionally, an MNE will have to comply with the different filing requirements for each applicable rule.

Compliance with new annual tax filings will be necessary at year-end 2024. Filing of the GloBE Information Return (GIR) is required starting June 30, 2026 for calendar year taxpayers and a QDMTT or other local tax return filings or registrations will likely also be needed and may need to be filed in 2024 or 2025. Taxpayers will need to monitor developments to identify specific compliance obligations.

Given the magnitude and complexity required, companies should consider whether they align Pillar Two compliance to their existing global compliance model or whether Pillar Two requires them to revisit their current operating model. We will issue additional guidance as compliance obligations become more clear.

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Key

Contacts

Doug McHoney

International Tax Services
Global Leader

PwC US
douglas.mchoney@pwc.com

Jesse Kavanagh

Pillar Two Asia Pacific Co-
Leader

PwC Hong Kong
jesse.kavanagh@hk.pwc.com

Utpal Sen

PwC India

utpal.sen@pwc.com

Aurobindo Ponniah

PwC Malaysia

aurobindo.ponniah@pwc.com

Tay Lek Tan

PwC Singapore

tay.lek.tan@pwc.com

Jenny Chong

International Tax Services
Asia Pacific Leader

PwC China
j.chong@cn.pwc.com

Shintaro Yamaguchi

Pillar Two Asia Pacific Co-
Leader

PwC Japan
shintaro.yamaguchi@pwc.com

Nicholas Sugito

PwC Indonesia

nicholas.sugito@pwc.com

Allison Curle

PwC New Zealand

allison.x.curle@pwc.com

Paulson Tseng

PwC Taiwan

paulson.tseng@pwc.com

Chris Kong

Connected Tax Compliance
Asia Pacific Leader

PwC Singapore
chris.kong@pwc.com

Chris Stewart

PwC Australia

chris.d.stewart@au.pwc.com

Haruhisa Shirato

PwC Japan

haruhisa.s.shirato@pwc.com

Peter Burnie

PwC Papua New Guinea

peter.burnie@pwc.com

Orawan Phanitpojjamarn

PwC Thailand

orawan.phanitpojjamarn@pwc.com

Adrian Arn

PwC Hong Kong

Adrian.ky.arn@hk.pwc.com

Kevin Wang

PwC China

kevin.p.wang@cn.pwc.com

Hong-Hyeon Kim

PwC Korea

hong-hyeon.kim@pwc.com

Lawrence Biscocho

PwC Philippines

lawrence.biscocho@pwc.com

Nghiem Hoang Lan

PwC Vietnam

nghiem.hoang.lan@pwc.com





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