



Preparing for Disputes linked to Pillar Two

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New rules designed to reform the international corporate tax framework could lead to further increases in inquiries and disputes for already hard-pressed tax functions, our research reveals. The research, part of a wider study into the tax inquiries and disputes companies are now facing worldwide, suggests companies have a broad range of concerns about [“Pillar Two”, the first global tax system of its type](#) .

Under the Pillar Two rules, agreed in October 2021 by more than 135 countries and [in force in more than 50](#), any company with consolidated annual revenues of more than €750m must pay a minimum of 15% tax on its profits in each jurisdiction in which it operates.

The rules, also known as the Global Base Erosion (GloBE) rules, have the potential to increase some companies' tax bills, but will also significantly drive up the compliance burden that tax functions manage. Taxpayers will be expected to carry out complex calculations to assess their Pillar Two liabilities, requiring access to a [wide range of data points](#) they may not currently track and a powerful [calculation engine](#) that centralizes the bespoke rules adopted by each country.

Our research suggests many companies are anxious about the impact of the new regulation (see Figure 1). Almost a third of those taking part in the research (30%) say not only that they are concerned about Pillar Two but also that they have yet to work out how they will approach it. In addition, 60% of companies say they remain concerned despite having done some work to prepare for the new rules.

One problem is that the full scope of work is not yet clear because the OECD continues to issue new administrative guidance, and many jurisdictions have still to set out the detail of how they will enact and/or put the GloBE rules into practice. Even those companies that have thought about how they will approach Pillar Two are likely to be faced with additional work and new challenges as new rules are published and take effect.

Figure 1: Anxiety over Pillar Two

To what extent is your tax function concerned about the Pillar 2 regulation?



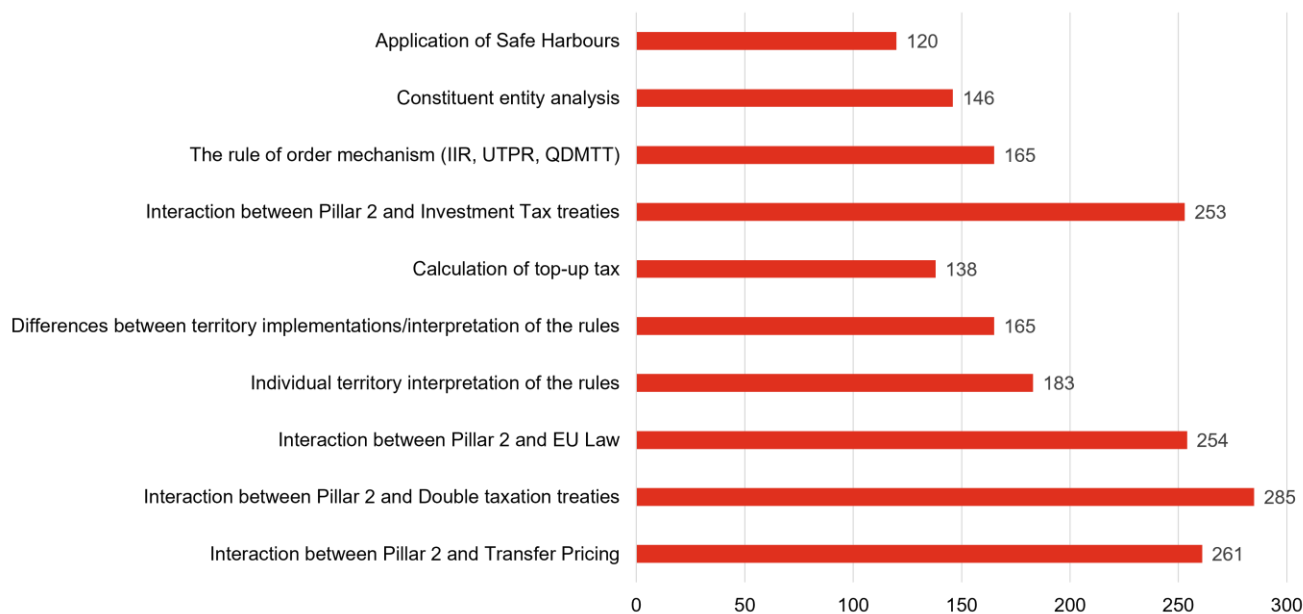
Today, the most concerning aspects of Pillar Two for many companies are the interplay between the new rules and existing international tax regulations (see Figure 2). In particular, 39% of companies worry that interactions between Pillar Two and double taxation treaties will drive an increase in disputes with tax authorities, while 35% worry about additional disputes in relation to Pillar Two’s co-existence with transfer pricing regulations. There is also widespread nervousness about the likelihood of disputes in relation to Pillar Two and EU law, and Pillar Two and investment tax treaties.

Equally, however, it’s important that companies do not focus only on how Pillar Two fits within the existing international tax framework, with other issues also posing potential challenges. For example, in this research, only 16% of companies say they are worried the safe harbour provisions – enabling companies to make less complex GloBE calculations in countries where they meet certain conditions – could lead to disputes. But the extent to which companies will be able to rely on the safe harbour provisions will vary enormously – and these provisions are only intended to be transitional.

Similarly, while only 22% of companies appear to be worried about disputes arising from the new income inclusion rule (IIR) and the new undertaxed profits rule (UTPR), these are likely to prove to be very sensitive areas. Assessing liabilities under the IIR and the UTPR will require significant work – and there is plenty of scope for disagreement with individual tax authorities.

Figure 2: Where Pillar Two worries are mounting

What area of the Pillar 2 regulations do you expect to give rise to disputes with tax authorities?



It's also worth noting that 41% of companies taking part in this research expect the Pillar Two rules to be most likely to give rise to tax disputes in Europe – against 34% in Asia and 32% in North America. Just over a quarter of companies (27%) think Pillar Two is most likely to cause disputes in their home country. The data may to some extent reflect the different amounts of progress individual jurisdictions around the world have made with implementing the Pillar Two provisions. Still, it provides an early snapshot of where companies are expecting to run into difficulties.

The bottom line is that companies should be ready to undertake further complex work as the precise detail of the Pillar Two rules evolve in each jurisdiction. The administrative burden for tax functions is likely to prove challenging – and there is significant potential for the regulation to drive inquiry rates higher, and to lead to more disputes. Any complacency at this stage would be misplaced.

Go to [PwC Pillar Two Readiness](#) to learn more about Pillar Two and how PwC can assist you



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