



PILLAR TWO SYSTEMS IMPLEMENTATION

TAX DATA
MAPPING AND
MANAGEMENT

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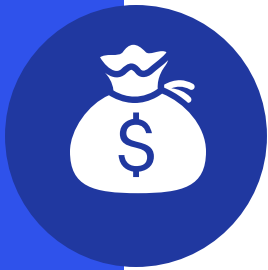
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Introduction

For MNEs looking at an effective systems implementation to accurately calculate any Pillar Two top-up tax and allocate this to the required group entities, a tax data mapping assessment is the first step.

This takes the required data points required to apply the Pillar Two rules and allows the MNE to match these either with existing data sources (eg in the ERP or EPM system) or create new data sources to specifically pull the required Pillar Two data.

In practice, a number of the data points for Pillar Two will already be in place for other international tax reporting requirements (eg CbC reporting).

The Pillar Two data points are therefore the lynchpin of an effective strategy to implement systems changes to apply Pillar Two.

In this report we take a systems-based approach to the Pillar Two GloBE rules, and look at the impact on MNEs ERP and data gathering systems and the approach to undertaking a tax data mapping exercise.

Centralized or Decentralized Data

Having decentralized data makes it easier to allocate costs and also ensures that the required data reported either to a sub-holding company in the jurisdiction or another group entity for calculation and allocation more accurately ties in with the jurisdictional requirement.

Secondly, the Pillar Two rules are complex and require a deep level of granularity in the data in order to correctly calculate the effective tax rate (for instance income and taxes of a permanent establishment as adjusted for the GloBE rules as well as tax credits available on PE income).

Whilst the group will have access to a lot of data centrally the level of detail required for Pillar Two, including other resources that are available to the local tax function means that entity or jurisdictional level input is essential. As such it may be preferable to have the Pillar Two calculation co-ordinated centrally but ensure that local input still remains.

Implementing data management for Pillar Two then flows according to the agreed governance model.

Whilst centralised data can be accessed from the ERP/EPM via automated processes and included in Pillar Two modelling and calculation tools, a different approach is required for decentralized systems with required information held locally.

A dynamic questionnaire could be used to obtain the information required. Even with a decentralized system, the Pillar Two calculations are made at the jurisdictional level.

Whether multinationals adopt a centralized or decentralized approach to Pillar Two will be one of the key factors in correctly establishing the systems and architecture to collect, manage, analyse and store source data for the Pillar Two effective tax rate and top-up tax calculation.

This in part flows from the existing approach taken for accounting and other systems.

Centralizing accounting processes has an advantage in terms of efficiency as it can remove redundant operations and streamline reporting.

Centralized or Decentralized Data

However, given that MNEs operate across multiple jurisdictions a decentralized approach is often preferred given this allows jurisdiction-specific features to be more adequately addressed.

Of course, even with decentralized accounting processes, MNEs will already be centralizing source data for other international reporting purposes (eg CbC reporting).

However, for Pillar Two, it is likely that even if an MNE had a centralized approach, some form of decentralization is likely to be required.

The reason for this is two-fold.

Firstly, the Pillar Two effective tax rate calculation (and the calculation of the top-up tax) operates on a jurisdictional level.

As such the GloBE ETR calculation would be performed by one entity in a jurisdiction with the results then flowing into the central function for review and filing purposes.

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Tax Data Mapping

General Approach to Managing Pillar Two

The Pillar Two GloBE Rules will add a further burden on MNEs.

However, if correct data extraction, cleansing and transformation systems are established the burden can be significantly reduced after the initial set up.

Before all this is the tax data mapping assessment.

This is the crux of an effective approach to implementing a system to manage Pillar Two.

MNE's already have many different international tax reporting obligations aside from jurisdictional tax return submission, including CbC reporting (including EU public CbC reporting from June 2024), local and master files for transfer pricing and DAC 7 (from 2023).

Pillar Two includes an additional reporting obligation but in any well designed data management system

data processes that are already in place (eg for CbC reporting) can be utilised for Pillar Two.

Of course, the challenge with Pillar Two is that it essentially creates a separate, additional tax regime for MNEs.

Income for instance will be determined for financial reporting purposes, for tax purposes and also for Pillar Two purposes.

Each is subject to separate rules.

Therefore data extracted for Pillar Two purposes will be subject to a specific Pillar Two data transformation process that will then enable the calculation of the jurisdictional effective tax rate.

The basic process for MNE's will be:

Tax Data Mapping Assessment



Tax Data Mapping

Data Extraction



sources at this point (eg tangible assets and payroll for the substance-based income exclusion) which would be available from the data storage solution.

Data Transformation



Data Extraction, Transformation and Storage for Pillar Two

Data extraction for Pillar two will require extracting data so that the tax department has the required information to calculate the Pillar Two calculation.

Data Storage



There will be overlap with already existing data points that the MNE currently collects for financial accounting or tax purposes, but the requirements of Pillar Two will impact on what needs to be sourced.

Pillar Two ETR Calculation

Each of these consist of a number of steps.

After this if the MNE has a jurisdictional ETR below 15%, further calculation is then required calculate the top-up tax.

This will require additional data

Data will need to be extracted from Enterprise Resource Planning Systems and Enterprise Performance Management Systems, but additionally information from the domestic tax computation and group structure information will be required (eg to determine tax residency or the allocation of income/tax between a main entity and a permanent establishment).

Tax Data Mapping

In general, the approach will be to undertake a Pillar Two tax data assessment. This will firstly involve identifying the required data points for the Pillar Two GloBE ETR calculation and then mapping these requirements to data sources.

As identified above, an MNE may already have data sources that are used in other tax data assessments (eg CbCR). If this is the case, those data points can be utilised for Pillar Two purposes.

Wherever possible existing data points should be used to ensure conformity across different tax reports.

Once the data is extracted it is then cleansed and stored for use by the tax department. The methodology will be determined by the MNEs own systems. For instance, under Article 3.2.1(g) of the OECD Model Rules, Pillar Two requires fines and penalties to be added back if they are 50,000 euros or more.

Whilst fines and penalties will already

be an existing data point for financial accounting and domestic tax purposes, the 50,000 euros threshold likely won't be. The data mapping could create a separate data point derived from the existing source data point for fines and penalties to specifically carve out a Pillar Two fines add back figure.

Or the existing data point could be used and the consideration of whether this is added back or not would be taken in the Pillar Two GloBE ETR calculation.

In most cases, the latter approach would be preferred, particularly given the Pillar Two calculation is likely to be an automated process once the Pillar Two tax data assessment is correctly implemented and data is extracted for the required data points.

Tax Data Mapping Assessment

The tax data mapping assessment is the key (and most challenging) aspect of the practical implementation of the Pillar Two GloBE rules for MNEs.

It is this that determines what information needs to be collected and therefore this is the first step when considering how to manage Pillar Two

Tax Data Mapping

compliance and reporting.

A look through the GloBE rules reveals a huge number of data points that will need to be sourced (between 100 and 350 depending on granularity).

The foundation of the Pillar Two GloBE ETR calculation is the financial accounts.

Obviously, this will already have all existing data points identified and mapped for financial accounting purposes. This will be in the financial accounting/EPM system and derived from the ERP system.

Pillar Two GloBE-specific requirements will require further data points.

For instance, deferred tax relating to tax credits is specifically excluded from the total adjusted deferred tax figure for Pillar Two purposes under Article 4.4.1(e) of the OECD Model Rules.

Whilst mapping for financial accounting purposes will include the

underlying deferred tax entries this may not be grouped into a separate figure to identify the total deferred tax credit amount. As such a new data point for this would need to be established.

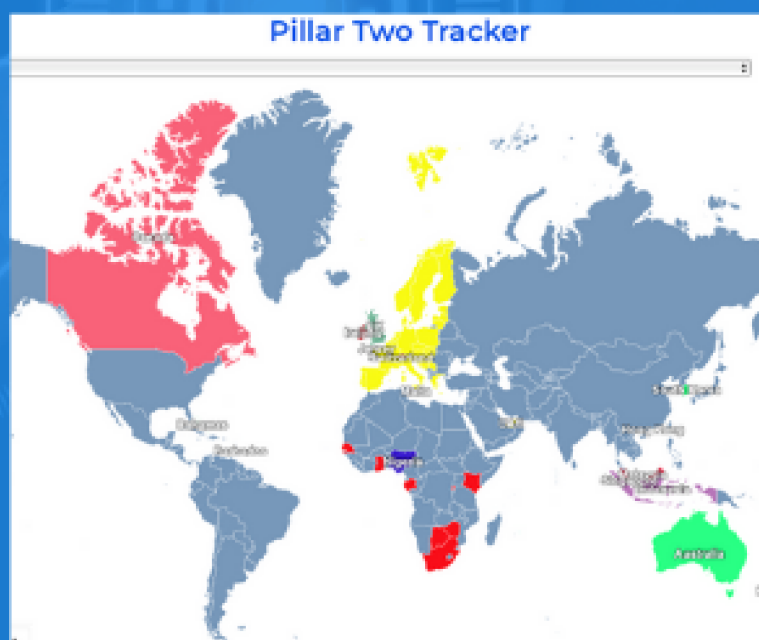
Only once all required data points have been mapped can the underlying system changes to collect the required information be undertaken.

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