

[pwc.pt/tax](http://pwc.pt/tax)

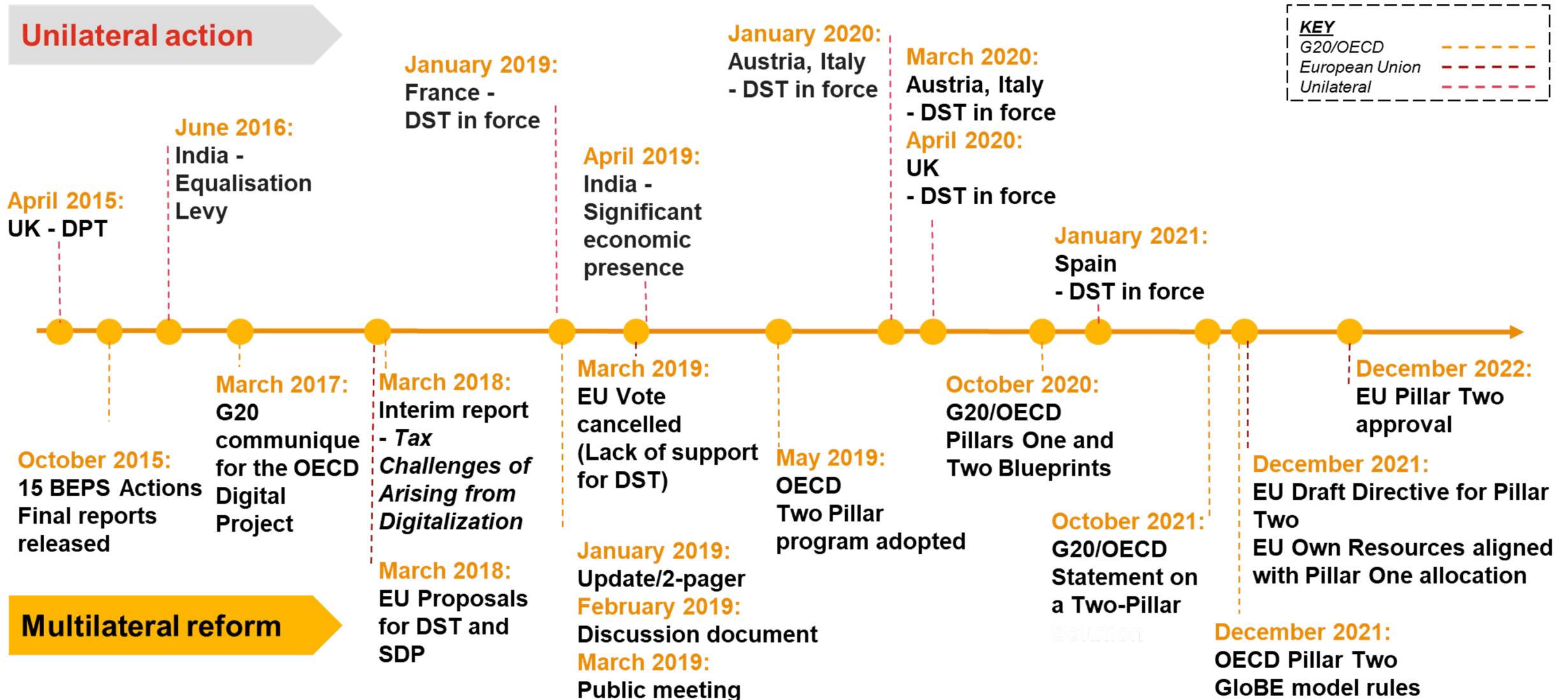
# The Two-Pillar Solution

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# The Two-Pillar Solution

## Unilateral action



## Multilateral reform

# The Two-Pillar Solution

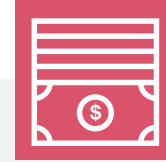
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New set of worldwide rules



*Fair share of tax*



**Pillar 1**  
*Re-allocated USD\$ 200 billion  
in taxing rights*

**Pillar 2**  
*USD\$ 220 billion in additional  
global tax revenues per year*



*Agreed by more than 135  
countries and jurisdictions*

Pillar 1

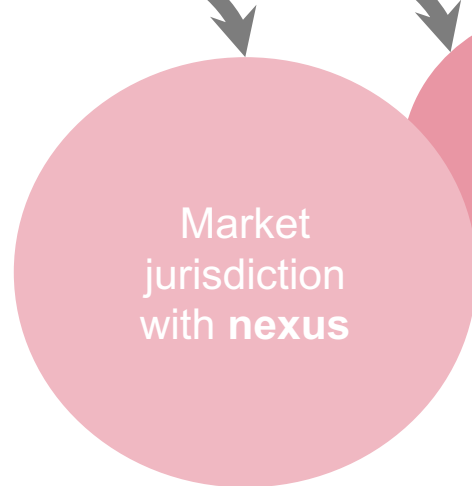


# Pillar 1

Amount A

$$\text{Amount A} = 25\% \times \left[ \text{Profits before Tax} - \left[ 10\% \times \text{Revenue} \right] \right]$$

Revenue-based allocation key



# Pillar 1

## Amount A



### Scope

- MNEs with profitability above 10% (PBT) and global turnover above EUR 20 billion.
- Exclusions: extractives and regulated financial services.



### Nexus

- A new special purpose nexus rule permitting allocation of Amount A to a market jurisdiction when the in-scope MNE derives at least EUR 1 million in revenue from that jurisdiction. For smaller jurisdictions with GDP lower than EUR 40 billion, the nexus will be set at EUR 250 000.



### Tax base/profit

- The relevant measure of profit or loss will be determined by reference to financial accounting income, with “a small number of adjustments”. Losses will be carried forward.



### Revenue sourcing

- Revenue will be sourced to the end market jurisdictions where goods or services are used or consumed. Detailed source rules for specific categories of transactions will be developed. MNEs must “use a reliable method based on the MNE’s specific facts and circumstances.”



### Allocation

- 25% of the residual profit (defined as profit in excess of 10% of revenue) will be allocated to market jurisdictions with sufficient nexus, using a “revenue-based” allocation key.

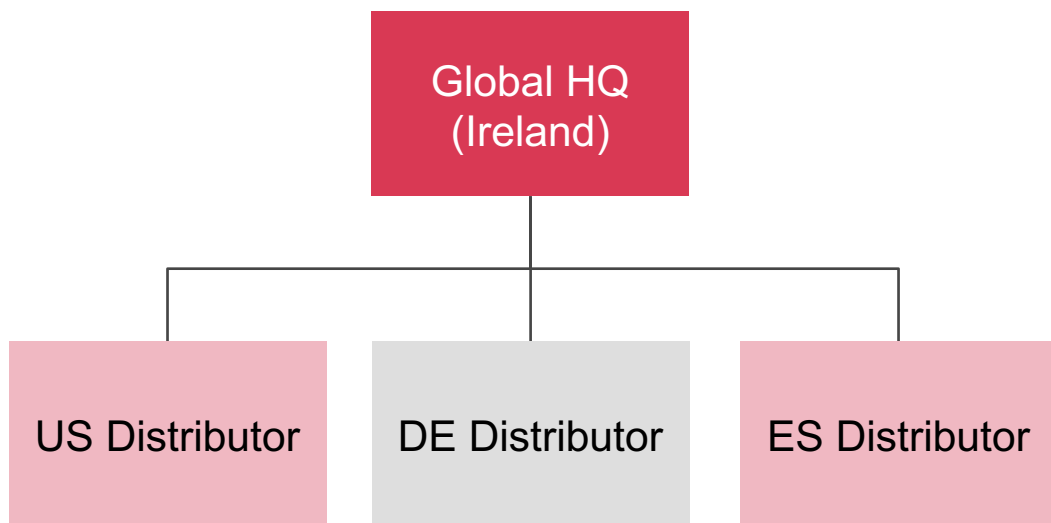


### Other aspects

- Elimination of the Digital Service Taxes
- Implementation of the Multilateral Convention (MLC) - The MLC will enter into force only upon ratification by a “critical mass” of countries (i.e., the US)

# Pillar 1

## Amount A



### Background

- Global revenue = \$40B
- Profit before tax (PBT) = \$10B
- Global Sales: US 40%, Europe 60%; Germany and Spain are equal size
- Distributors' profit margins = 5% on sales (US \$800M, Germany \$600M, and Spain \$600M)

1. Pre-Pillar One Profit Allocation				
Global HQ	US Distributor	DE Distributor	ES Distributor	Total
8B	800M	600M	600M	10B

2. **Amount A** = 25% x (PBT \$10B - (10% x global revenue \$40B)) = **1.5B**
- 1.5B x 40% US revenue share = **600M**
  - 1.5B x 60% Europe revenue share = **900M** (split between DE and ES)

3. Pillar One Profit Allocation				
Global HQ	US Distributor	DE Distributor	ES Distributor	Total
8B - <b>1.5B</b> = <b>6.5B</b>	800M + <b>600M</b> = <b>1.4B</b>	600M + <b>450M</b> = <b>1.05B</b>	600M + <b>450M</b> = <b>1.05B</b>	10B

# Pillar 1

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## Amount B

### Who?



Guaranteed minimum percentage return to a country where 'routine' marketing and distribution functions occur. Meant to 'approximate' to arm's length standard pricing out of routine profit. Fixed return for certain 'baseline' activities.

### Quantum?



Fixed return for certain 'baseline' activities.

### Tax Certainty

- will mitigate disputes involving in-scope baseline marketing and distribution transactions, specifically recognizes the long-standing mechanisms of APAs and Mutual Agreement Procedures

Pillar 2



# Pillar 2

## Framework

### Main features



15% of minimum  
tax by jurisdiction



*Top-up Tax*

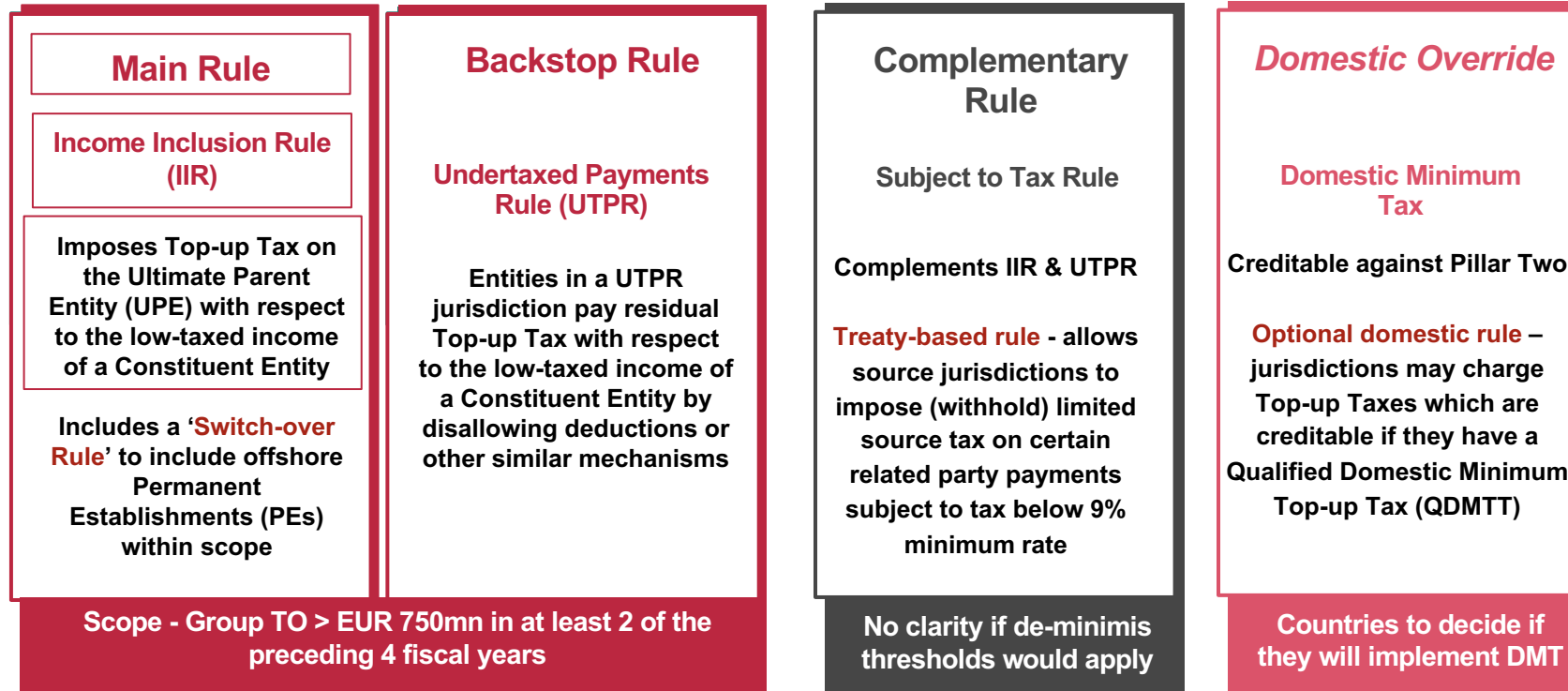


*“Common approach”*



# Pillar 2

## Overview



# Pillar 2

## Top-up Tax - Mechanics

Effective tax rate	Calculated on a jurisdictional basis using standard definition of covered taxes and tax base <b>ETR = Total Covered Taxes / Total GloBE Income</b>
GloBE Income	Start with the <b>financial accounting net income</b> included in the Ultimate Parent Entity's (UPE) consolidated accounts (e.g., IFRS, GAAP equivalent). <b>Adjust for certain items</b>
Covered Taxes	Basic rule - include <b>taxes accrued</b> (current + deferred) in parent entity's consolidated accounts <b>Adjust for certain items</b>

# Pillar 2

## Top-up Tax percentage

Top-up Tax %

=

15%

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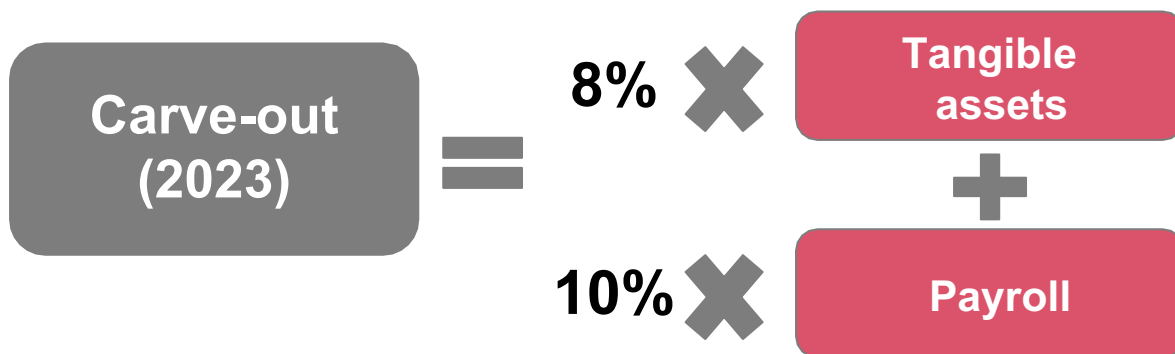
Jurisdiction  
ETR

## Top-up Tax percentage

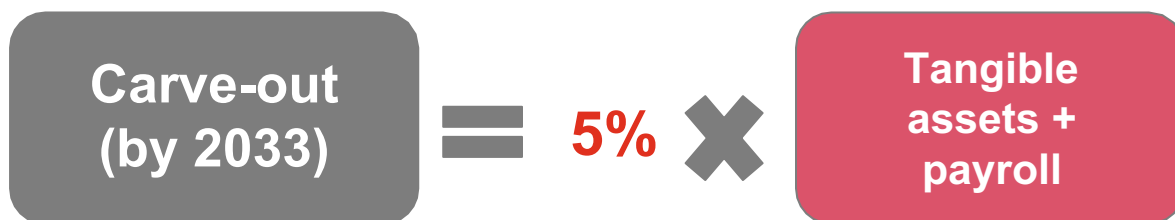
- **Net GloBE income (-) substance-based income exclusion for that jurisdiction**
- **De minimis exclusion**
  - Treats TPT amount as zero if, averaging the current and two prior years, GloBE revenue is  $\leq$  EUR 10m and GloBE income is  $\leq$  EUR 1m (or a loss)
- **Safe harbour rules**
  - Will be developed
  - Election for a zero TPT amount in certain other cases as part of the Implementation Framework

# Pillar 2

## Substance-based carve out



### DECLINING TO

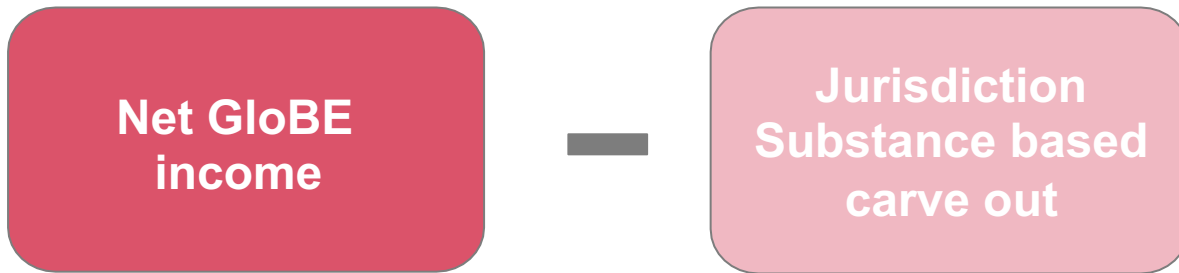


## Substance-based carve out

- **10 year transition period to reduce to 5%**
  - 8% of tangible assets and 10% of payroll in 2023
  - 5% of tangible assets and payroll in 2033
- **Eligible payroll costs**
  - Employee compensation expenditures
  - Salaries, wages, other expenditures that provide a direct and separate personal benefit to the employee
- **Eligible tangible assets**
  - Property, plant, equipment, natural resources, a lessee's right to use tangible assets, certain government licenses, including ones to exploit natural resources
  - Carve-out doesn't apply to property that is held for sale, lease or investments

# Pillar 2

## Excess profit and substance-based carve out (continued)



Excess profit
<ul style="list-style-type: none"><li>• Net GloBE income (-) jurisdiction substance-based carve out</li></ul>



# Thank you!