



# Pillar Two Readiness Guide For EMEA Multinational Enterprises

December 2024



# Introduction

The **Pillar Two Readiness Guide** is designed to help in-scope multinational enterprises (MNEs) 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. This guide outlines technical areas that will help MNEs refine their strategies for the 2024 full-year reporting and, ultimately, prepare for the first GloBE return filings in 2026.

The guide features a series of questions accompanied by commentary, emphasizing the potential Pillar Two impact, and the relevant tax technical context for the prompt. These questions are intended to help MNEs identify gaps in preparedness, initiate necessary actions, and coordinate with stakeholders across the organization.

The Pillar Two Readiness Guide is not exhaustive of all potential Pillar Two considerations and is intended as a foundational tool for evaluating Pillar Two readiness. Not every question will be relevant or applicable to every in-scope MNE. To effectively use the Pillar Two Readiness Guide, it's essential to have a thorough baseline understanding of an MNE's current Pillar Two plan, organizational structure, business model, operations, and unique circumstances.

For more information, please refer to PwC's Pillar Two resources:

- [Pillar Two Website](#)
- [Country Tracker](#)
- [Data Input Catalog](#)





# Are you ready for Pillar Two? Conversation prompts for an engaging dialogue

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# 1.0 Transitional CbCR Safe Harbors

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 1.1 Understanding process and timing considerations

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| 1.1.1 What is your current process in place for preparing CbC Reports?   | <p>MNEs considering the Transitional CbCR Safe Harbor should perform a detailed review of current CbC processes to determine whether the 'as is' data can be deemed as 'qualified' under GloBE Rules (i.e., whether the data set utilized constitutes "Qualified Financial Statements" or "QFS" as defined by the OECD and local country rules). MNEs should also review any adjustments made to the QFS and whether such are permitted based on relevant guidance. We anticipate that tax authorities will apply additional scrutiny on data integrity and the processes used to develop CbC data. As a result, MNEs should also revisit and update their processes to meet the new standards.</p> <p><b>For more information:</b> <a href="#">Transfer Pricing and the Pillar Two Transitional CbCR Safe Harbor: What do you need to know to transform?</a></p> |
| 1.1.2 Which accounting or tax reporting systems is the CbC data sourced from?  | <p>Understanding the accounting or tax reporting system can help determine the underlying source data used to prepare the CbC Reports, which in turn can help assess whether the report is deemed as 'qualified' under GloBE rules. For a CbC Report to be 'qualifying', there must be consistent source of data for each Constituent Entity, and it must be used for all entities located in the same Tested Jurisdiction (certain exceptions for non-material Constituent Entities and Permanent Establishments).</p> <p>MNEs should carefully consider historic decisions made on where and how the data is sourced, and where there could be synergies and efficiencies applied within the broader tax reporting process.</p>   |
| 1.1.3 When are your CbC Reports prepared and available?  | <p>Timing of CbC Report preparation and go-forward alignment with Pillar Two reporting is critical, as CbC data has historically been used for informational reporting versus the determination of taxes paid and Transitional CbCR Safe Harbor rules. In many cases, CbC Reports are prepared using 'actual' numbers, which typically reflect post year-end adjustments. Accordingly, many MNEs may need to modify their approach to preparing their CbC Reports or risk disqualifying themselves from using the Transitional CbCR Safe Harbor.</p>  |
| 1.1.4 Have you considered accelerating Transitional CbCR Safe Harbor calculations, and if not, what is your process to model/forecast the data in CbC Report (if the data is not yet available)? | <p>MNEs should assess what data will be available and which enabling technology will be used to run the estimated safe harbor calculations, including how the safe harbor analysis could be prepared utilizing forecasted information.</p> <p>If forecasted data is utilized for estimate purposes, additional process documentation and substantiation as to the data sources and related processes for preparing the CbC Report as discussed above may be required (e.g., demonstration that no adjustments are being made that would otherwise qualify the CbC Report).</p>  |
| 1.1.5 Are any adjustments related to prior activity incorporated into current year data reported in the CbC Reports?   | <p>Post year-end adjustments (e.g., transfer pricing adjustments) to the financial statement data on which the CbC Report is based are not permitted under the Transitional CbCR Safe Harbor "regardless of whether such adjustments were intended to make CbCR data more consistent with the GloBE Rules". This does not reflect the reality for many MNEs that CbC Reports are prepared using 'actual' numbers, which will typically reflect such post-year-end adjustments. This restriction on adjustments can lead to irregularities in the calculation if items are booked within consolidation within the Qualified Financial Statements. Accordingly, many MNEs will need to modify their approach to preparing their CbC Report or else face the risk of disqualifying themselves from using the Transitional CbCR Safe Harbor.</p>                      |
| 1.1.6 What is your process for booking post-filing adjustments and how does that fit into CbC Reporting?   |   |
| 1.1.7 How will you prepare for transfer pricing adjustments and ensure that these adjustments are sustained?   |   |



# 1.0 Transitional CbCR Safe Harbors

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 1.1 Understanding process and timing considerations

1.1.8 What is your strategy for identifying consolidation entries that might be adjusted as a part of the existing CbC Report process?

1.1.9 Are there anticipated year-end adjustments that will result in a jurisdiction falling in/out of the Transitional CbCR Safe Harbors?

1.1.10 If the group doesn't have a taxable UPE, do you know which jurisdictions in the group will be liable for Pillar Two and which top-up tax will be allocated from where?

Post year-end adjustments (e.g., transfer pricing adjustments) to the financial statement data on which the CbC Report is based are not permitted under the Transitional CbCR Safe Harbor "regardless of whether such adjustments were intended to make CbCR data more consistent with the GloBE Rules". This does not reflect the reality for many MNEs that CbC Reports are prepared using 'actual' numbers, which will typically reflect such post-year-end adjustments. This restriction on adjustments can lead to irregularities in the calculation if items are booked within consolidation within the Qualified Financial Statements. Accordingly, many MNEs will need to modify their approach to preparing their CbC Report or else face the risk of disqualifying themselves from using the Transitional CbCR Safe Harbor.

There are special rules for tax neutral UPEs and the Transitional CbCR Safe Harbor does not apply in the UPE jurisdiction where the UPE is a Flow-through Entity unless all the Ownership Interests in the UPE are held by Qualified Persons (see the OECD's December 2022 Safe Harbor Guidance)

### 1.2 Determining whether CbC Reports meet the definition of "qualifying"

1.2.1 What method of accounting is used to prepare your CbC Reports (US GAAP, statutory GAAP, combination)?

An MNE must understand what method of accounting is currently used to prepare CbC Reports, and if there needs to be any changes meet the definition of "Qualified Financial Statements". Qualified Financial Statements are defined as:

- (1) the accounts used to prepare the Consolidated Financial Statements (CFS) of the UPE or
- (2) separate financial statements of each Constituent Entity provided that such financial statements are prepared in accordance with either an Acceptable Financial Accounting Standard or Authorised Financial Accounting Standard and, in the case of separate financial statements, the information contained in such statements is maintained based on that accounting standard and it is reliable.

The definition of QFS from the OECD's December 2022 Safe Harbor Guidance was:

- (1) the accounts used to prepare the consolidated financial statements of the Ultimate Parent Entity (UPE) (to mirror the requirement under Article 3.1.2),
- (2) separate financial statements of each Constituent Entity (CE) provided they are prepared in accordance with either an Acceptable Financial Accounting Standard or an Authorised Financial Accounting Standard if the information contained in such statements is maintained based on that accounting standard and it is reliable, or
- (3) in the case of a CE that is not included in an MNE Group's consolidated financial statements on a line-by-line basis solely due to size or materiality grounds, the financial accounts of that CE that are used for preparation of the MNE Group's Country by Country Report.

# 1.0 Transitional CbCR Safe Harbors

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 1.2 Determining whether CbC Reports meet the definition of "qualifying"

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| 1.2.2 | Is your CbC Report based on OECD Guidelines (or based on domestic rules that may differ from the OECD Guidelines)?  | The data source required to be used for preparing and filing the CbC Report for purposes of the Transitional CbCR Safe Harbor is a category of data sources that is more stringent than what is permitted for purposes of filing IRS Form 8975. Consequently, MNE Groups will need to consider whether the data source (i.e., QFS) that is being used to prepare and file the CbC Report is acceptable for applying the Transitional CbCR Safe Harbor. |
| 1.2.3 | Have you made adjustments to ensure that reporting on a "separate company" US GAAP basis for each Constituent Entity is appropriate, including for instance for intercompany transactions that are eliminated for US GAAP consolidation purposes, and/or topside adjustments? | A "qualifying" CbC Report is a CbC Report compiled with data drawn either from the group consolidated statement or from the individual entity accounts, provided they are prepared using an authorized or acceptable financial standard, as defined in the GloBE Rules.  |
| 1.2.4 | If you have any purchase price accounting adjustments, how is this reflected for CbC reporting?   | For purchase price adjustments (PPA), if the entity-level financial statements (included in the 'reporting package') contain PPA adjustments, there is no general requirement to remove PPA adjustments, subject to 1) consistent reporting condition for fiscal years beginning after Dec. 31, 2022; and 2) goodwill impairment adjustment. See OECD's December 2023 Administrative Guidance.   |
| 1.2.5 | Did you confirm the completeness of the Constituent Entity list by ensuring that the CbC Report includes all Constituent Entities for the reporting year?   | It is important for the MNE to perform an inventory assessment of all Constituent Entities to ensure completeness for the Transitional CbCR Safe Harbor.   |
| 1.2.6 | Did you consider the financial activity of Constituent Entities that were formed or acquired during the year, but only for the period since the Constituent Entity was established or joined the Company group?   | If a Constituent Entity is bought from a 3rd party, the Constituent Entity's results should be included in the P&L on a pro-rated basis, based on actuals after acquisition.   |
| 1.2.7 | Did you remove entities that are liquidated/dissolved as of the first day of the annual reporting period and/or are not consolidated entities for US GAAP financial statement purposes?   | In the case of a Constituent Entity that is not included in an MNE Group's Consolidated Financial Statements on a line-by-line basis solely due to size or materiality grounds, the financial accounts of that Constituent Entity that are used for preparation of the MNE Group's CbC Report should be used for the Qualified Financial Statements.   |

# 1.0 Transitional CbCR Safe Harbors

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 1.3 Consideration of differences between the Transitional CbCR Safe Harbor and Pillar Two

**Below are examples of common adjustments but is not intended to be comprehensive of all possible adjustments. Consult with your Pillar Two SME.**

1.3.1 Which adjustments do you make to financial statement Profit Before Tax to arrive at CbCR Profit Before Tax?

1.3.2 Do you aggregate or consolidate Revenue in your CbCR?

1.3.3 Do you include gains on the sales of shares in your CbCR Profit Before Tax?

1.3.4 Do you have any DTAs relating to transition attributes that may be recognized in 2024 or later?

1.3.5 Do you include dividends received in CbCR Profit Before Tax?

1.3.6 Do you have goodwill impairment on transactions after November 30, 2021?

1.3.7 Do you have Net Unrealised Fair Value Gains and Losses on Ownership Interests (unless < 50 mln Euro)?

1.3.8 Do you have any Hybrid Arbitrage Arrangements entered into after December 15, 2022?

1.3.9 Do you have Deferred Taxes booked at group level?

1.3.10 Do you have Joint Ventures, Minority Owned entities or entities held for sale?

1.3.11 Do you have DTLs recognized for outside base differences in a subsidiary or joint venture?

1.3.12 Do you have DTLs on intangibles that are amortised for tax purposes but not amortizable for book purposes?

Companies considering applying the Transitional CbCR Safe Harbor must evaluate the differences (and similarities) between GloBE Income vs. Profits Before Tax (PBT), Adjusted Covered Taxes vs. the total tax provision, and the delineation of the jurisdictions for CbCR vs. Pillar Two.

Profits Before Tax as reported in a CbCR may include items that are treated differently under Pillar Two (e.g., certain items may cause the Effective Tax Rate (ETR) under the Transitional CbCR Safe Harbor test to be lower or higher than the actual Pillar Two ETR).

**For more information:** [Differences between the Transitional CbCR Safe Harbor and Pillar Two](#)

# 1.0 Transitional CbCR Safe Harbors

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 1.4 Analyzing Transitional CbCR Safe Harbor Results

1.4.1 Which jurisdictions (if any) do not meet the Transitional CbCR safe harbors tests, and what is the proposed strategy for completing full GloBE calculations for these jurisdictions?

MNEs will need to determine how full GloBE calculations will be performed for jurisdictions that do not meet the Transitional CbCR Safe Harbor, including an assessment of data, systems, and processes to sustain full calculations for estimate purposes and compliance. Further, the Transitional CbCR Safe Harbor provisions feature the 'once out, always out' rule, under which a jurisdiction not applying any of the safe harbor provisions in one period cannot benefit from any of the safe harbors in a subsequent period. One-off transactions or anomalies have the potential to push a territory outside the safe harbor conditions. In the same way, the increasing rates (from 15% in 2024 to 17% in 2026) could exclude a jurisdiction from the Transitional CbCR Safe Harbor.

1.4.2 How do you plan to calculate safe harbor application on a go-forward basis?

For go-forward application of the Transitional CbCR Safe Harbor, MNEs should develop sustainable processes. Processes should be focused on data integrity (for 'qualifying' CbC Reports), enabling technologies, timing considerations, forecasting methodology, roles and responsibilities, governance, and technical assessment of any required adjustments.



## 2.0 Transition Period

### Questions to Identify Gaps and Act

### Unpacking "Why it Matters"

#### 2.1 Overall considerations

- 2.1.1 For the transition year, have you conducted a complete inventory and gained a comprehensive understanding of all DTAs/DTLS for each Constituent Entity?
- 2.1.2 How have you determined the Pillar Two opening deferred tax balances for input into the GLoBE computation?

The transition period began on 30 November 2021 and will run until the commencement of the Transition Year (i.e., the first accounting period for which the Tested Jurisdiction falls within the scope of the GloBE Rules, expected to be 2024 or later if the Transitional CbCR Safe Harbor is met for a jurisdiction). During this period, certain transactions and attributes are subject to special rules known as Transitional Rules. The Transitional Rules provide the basis for taxpayers to use carried forward deferred tax assets (DTAs) and liabilities (DTLs) as part of their jurisdictional top-up tax calculations.

MNEs will need to identify significant components of current and deferred tax expense that may require adjustment to reach Adjusted Covered Taxes, including (i) significant deferred tax expense that may be subject to recast at 15% (i.e., deferred tax expenses recorded at a rate greater than 15%) and (ii) significant deferred tax expense that could be attributable to >5 year DTLs.

#### 2.2 Transition period transactions

- 2.2.1 Do you have significant transactions occurring after November 30, 2021 and before the first transition year? (third party stock acquisition, third party stock acquisition treated as an asset sale under Article 6.2.2, third party asset acquisition, intercompany asset transfer between constituent entities per Article 9.1.3)
- 2.2.2 For significant acquisitions after November 30, 2021, has pushdown accounting been applied (e.g. journal entries made to "push down" the acquisition effects to the acquired entities)?
- 2.2.3 For significant acquisitions after November 30, 2021, was there a resulting tax step-up (e.g., via a Section 338 election or due to non-corporate entity treatment)?
- 2.2.4 Do you have intra-group transactions between November 30, 2021 and before the Transition Year (tested at the level of the disposing Constituent Entity)?
- 2.2.5 Do you have intra-group transactions executed during or after the Transition Year (tested at the level of the disposing Constituent Entity)?

Article 9 of the Model Rules sets out certain Transitional Rules related to share and asset transactions, intercompany transfers, etc. An MNE should perform an assessment of any significant transactions during the period to understand if certain Transitional Rules apply. Note the definition of "transaction" for these purposes may be interpreted in a broad way capturing any MNE Group action (e.g. a tax election).

To the extent pushdown accounting has been applied, there needs to be an understanding of whether the "pushed down" adjustments were recorded as "topside" entries layered on top of the source detail or whether the underlying subledger reflects only the postadjustment amounts (i.e., the pre-acquisition carrying values have been fully superseded). Purchase accounting adjustments may need to be adjusted out to arrive at a proper computation of GloBE Income for these Constituent Entities depending on the MNE Group's approach.

Any stepped-up basis (and the amortization thereof) arising from an acquisition is not expected to be permitted for GloBE Income computation purposes, and an MNE should consider if any step-up should be reversed. Further, the deferred tax implications of such adjustments should be further considered by MNEs.

Transactions executed during the Transition Period (i.e., financial years before the Transition Year but after November 30, 2021) are expected to be subject to the Article 9 Transition rules as well as related guidance (e.g., the OECD's February 2023 Administrative Guidance and June 2024 Administrative Guidance).

Where intra-group transactions are accounted for at cost, the GloBE Rules generally require MNE Groups to apply the Arm's Length Principle to cross-border intra-group transactions. The rationale for this rule is to protect the integrity of jurisdictional blending. Further, the OECD's June 2023 Administrative Guidance requires the acquiring Constituent Entity to take such FMV basis into account for GloBE purposes, along with a redetermination of deferred tax upon such base).

# 3.0 Organizational Structure

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 3.1 Constituent Entity Scoping

- 3.1.1 Have you identified and scoped your Pillar Two legal entity designations for each Constituent Entity? (e.g., Permanent Establishments, Hybrid Entities, Tax Transparent Entities, Reverse Hybrid Entities, Joint Ventures, Investment Entities, Insurance Investment Entities etc.)
- 3.1.2 Have you identified any entities or Permanent Establishments, such as certain Tax Transparent Entities, that are considered "stateless" for Pillar Two purposes?
- 3.1.3 To the extent you have concluded that there are Constituent Entities not within the scope of Pillar Two, how do you plan to support this conclusion (any supporting internal or third-party analysis)?
- 3.1.4 To the extent that you have concluded that there are Investment Entities or Insurance Investment Entities within the scope of the Pillar Two Group, have you identified whether it is possible to make an Election under Article 7.5. or 7.6.?

A comprehensive scoping exercise should be conducted to identify which entities will be classified as Constituent Entities for Pillar Two purposes. There are several nuances related to Joint Ventures, Tax Transparent and Flow-through Entities and Permanent Establishments that may cause operational challenges. As part of this analysis, MNEs should reconcile sources of master data to help improve completeness and accuracy and develop a source of truth to establish a go-forward process. Documentation should be created to support the classification of entities, along with the determination of any entities that fall outside the scope of Pillar Two.

**For more information:** [Pillar Two Entity Classification Flowcharts](#)



# 4.0 GloBE Calculations

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 4.1 Overall Considerations

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| <p>4.1.1 How do you plan to understand and monitor the local application of legislation given various interpretations?</p>                          | <p>MNEs should examine the technical details of the Pillar Two rules and assess how the evolving landscape and local implementation will affect their operations. With numerous countries moving forward with Pillar Two legislation, it's evident that there are varying applications and interpretations of the rules across jurisdictions. This creates a highly complex global tax environment that necessitates close monitoring of legislation on a country-by-country basis. Developing, maintaining and updating the evolving Pillar Two rules, including the intricacies of rule ordering and interaction, will likely require a global network of international tax experts and advanced technology.</p>  |
| <p>4.1.2 Have you performed an inventory of relevant jurisdictions and which taxing regimes will apply (e.g. QDMTT, DMTT, IIR, multiple, etc.)</p>  | <p>The Pillar Two framework comprises distinct but interconnected rules that necessitate careful evaluation of their application in each jurisdiction, along with the relevant sequencing of how they are implemented.</p>  |
| <p>4.1.3 Do you have a full understanding of how GloBE Income and Adjusted Covered Taxes differ from financial accounting amounts?</p>              | <p>GloBE Income or Loss is generally calculated based on separate legal entity financials using the UPE financial reporting standard (e.g., US GAAP), but with numerous required or elective adjustments. For example, certain disallowed expenses are required to be reversed, and intra-group transactions may be adjusted to comply with the Arm's Length Principle.</p> <p>Adjusted Covered Taxes are determined by taking the Constituent Entity's current taxes for the Fiscal Year, adjusted to reflect certain timing differences. Covered Taxes are allocated from one constituent entity to another in certain cases. To the extent there are changes in tax liability after filing, additions or reductions to taxes are identified and allocated to a particular jurisdiction and time period. See Featured Content linked.</p> <p><b>For more information:</b> <a href="#">Pillar Two Info Sheet - Adjustments to GloBE Income and Covered Taxes</a></p> |
| <p>4.1.4 Which GloBE elections are relevant to your group and which ones do you plan to make?</p>   | <p>There are many elections available that can impact GloBE calculations (see Featured Content linked). An MNE should make data-driven decisions to determine which election(s) to make, when to make the election, how to make the election, and mechanisms to track elections on a go-forward basis.</p> <p><b>For more information:</b> <a href="#">Pillar Two Elections</a></p>   |
| <p>4.1.5 Will you apply the Substance-Based Income Exclusion? If so, how do you plan on identifying eligible payroll costs and tangible assets?</p> | <p>The Substance-Based Income Exclusion (SBIE) applies by default but can be opted out of per year/per jurisdiction by election. If it is applicable, an MNE must identify how to gather the necessary data for SBIE calculations, including information on payroll, headcount, and tangible assets.</p>  |
| <p>4.1.6 Do you have significant transactions occurring during the current GloBE year?</p>  | <p>Some transactions may require special treatment under GloBE Rules, and there should be a thorough understanding of all significant transactions during the current GloBE year to determine associated treatment/adjustments (share/asset transactions, intra-company transactions, distributions, dividends, etc.)</p>   |
| <p>4.1.7 Do you operate in any jurisdictions where CFC regimes apply (including a blended CFC regime, i.e., the US "GILTI" regime)?</p>             | <p>The December Administrative Guidance provided a methodology to allocate CFC taxes to a Constituent Entity when generated under a Blended CFC Tax Regime (e.g. GILTI is an example of a Blended CFC Tax Regime). There should be a comprehensive understanding of whether the MNE operates where CFC regimes apply, and how CFC taxes will be allocated.</p>  |

# 4.0 GloBE Calculations

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 4.2 Assessment of Data Hierarchy and Availability

- 4.2.1 Are you able to provide journal entries and workpapers supporting any adjustments booked at the group-level (e.g. topside, eliminations, reversals, etc.) and indicate which Constituent Entities those entries pertain to?
- 4.2.2 What is the current process for preparing standalone financial statements for statutory reporting (as applicable)?
- 4.2.3 How to plan on sourcing and reconciling Constituent Entity data at the local financial account standard or UPE standard, as required by local QDMTT legislation?
- 4.2.4 Have you conducted a complete inventory and gained a comprehensive understanding of DTA/DTL activity for each Constituent Entity?
- 4.2.5 What is your mechanism to track prior year adjustments and other multi year issues? Will this be easily available, traceable and reconcilable for future calculations (e.g. deferred tax recaptures)?
- 4.2.6 What is your mechanism to track temporary differences (DTA/DTL remeasurements)?
- 4.2.7 What is your process for determining whether portfolio shareholdings are long term or short term portfolio holdings?

The Model Rules generally use book income, rather than taxable income, that is based upon the UPE's consolidated financial accounting standard. However, certain countries have enacted QDMTT's based on the Local Financial Accounting Standard (e.g., the local statutory reporting financials). MNEs should assess their US GAAP and/or IFRS financial statement preparation processes, including consolidation, eliminations, and intercompany transactions. Understanding whether this process is managed centrally or decentralized will help determine how adjustments are allocated to legal entities, which is essential for determining the financials required for Pillar Two. This involves recognizing significant differences among the parent's accounting framework, local records, and enacted tax laws, as well as the MNE's strategy for reconciling parent and entity-level data.

MNEs will need to establish a separate process and mechanism to track deferred tax liability (DTL) recaptures and remeasurements as well as elections for each Constituent Entity. Some organizations may need to develop a process for estimates, and many will need to focus on developing granular calculations for the compliance process.

MNEs (particularly life insurers and other significant equity investors) will need to establish a separate process and mechanism to track portfolio shareholdings and the length of ownership, across the group (including any indirect shareholdings through investment funds). Some organizations may need to develop a process for estimates, and many will need to focus on developing granular calculations for the compliance process.

### 4.3 GloBE Income/Loss

**Below are questions to help identify common adjustments but is not intended to be comprehensive of all possible adjustments. For more information: [Pillar Two Info Sheet - Adjustments to GloBE Income and Covered Taxes](#)**

- 4.3.1 What is the process in place for gathering Constituent Entity level data for GloBE Income/Loss?
- 4.3.2 Have you identified and calculated all the relevant adjustments to each Constituent Entity to arrive at GloBE Income/Loss?

To calculate a jurisdiction's GloBE ETR, it needs to determine GloBE Income/Loss for each Constituent Entity. If an MNE has a complex structure with many constituent entities subject to GloBE calculations, this could lead to a substantial data sourcing effort that may necessitate a transformation of processes.

Article 3 of the Model Rules detail adjustments required at the Constituent Entity level to arrive at GloBE Income/Loss.



# 4.0 GloBE Calculations

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 4.3 GloBE Income/Loss

Below are questions to help identify common adjustments but is not intended to be comprehensive of all possible adjustments.

For more information: [Pillar Two Info Sheet - Adjustments to GloBE Income and Covered Taxes](#)

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|-------|---|---|
| 4.3.3 | Do you have transactions between Constituent Entities located in different jurisdictions, and have these been priced in accordance with the Arm's Length Principle? | Transactions between Constituent Entities located in different jurisdictions must be priced in accordance with the Arm's Length Principle and may require a GloBE Income adjustment.  |
| 4.3.4 | Do any Constituent Entities have a different tax functional currency from their accounting functional currency?   | If the accounting functional currency differs from the local tax functional currency, there may be Asymmetric Foreign Currency Gains or Losses per Articles 3.2.1(f) and 10.1. Adjustments are made to avoid distortions where the functional currencies used for accounting and tax are different.   |
| 4.3.5 | Do you have any pension expense or stock based compensation?  | There may be adjustments required for pension expense and stock based compensation. The GloBE Rules require adjustments to book pension expense to avoid timing differences between accrued and actual expense. Adjustments to stock based compensation are intended to prevent top-up tax arising in respect of book-to-tax to permanent book-to-tax differences associated with stock based compensation plans. |
| 4.3.6 | Do you have any international shipping income?  | For an MNE that has International Shipping Income, each Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income is excluded from the computation of its GloBE Income/Loss under Article 3.3 for the jurisdiction in which it is located.   |

### 4.4 Adjusted Covered Taxes

For more information: [Pillar Two Info Sheet - Adjustments to GloBE Income and Covered Taxes](#)

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|-------|---|---|
| 4.4.1 | What is the process in place for gathering Constituent Entity level data for Adjusted Covered Taxes?                            | To calculate an entity's GloBE ETR, the MNE needs to assess adjusted covered taxes for each Constituent Entity. If an MNE has a complex structure with many Constituent Entities subject to GloBE calculations, this could lead to a substantial data sourcing effort that may necessitate a transformation of processes.   |
| 4.4.2 | Have you accounted for post filing adjustments at the Constituent Entity level for computing Adjusted Covered Taxes?            | An adjustment to a Constituent Entity's liability for Covered Taxes for a previous Fiscal Year recorded in the financial accounts is treated as an adjustment to Covered Taxes in the Fiscal Year in which the adjustment is made, unless the adjustment relates to a Fiscal Year in which there is a material (i.e., >1M) decrease in Covered Taxes for the jurisdiction. See Article 4.6.1. |
| 4.4.3 | Have you identified and calculated all the relevant adjustments to each Constituent Entity to arrive at Adjusted Covered Taxes? | Article 4 of the Model Rules detail adjustments required at the Constituent Entity level to arrive at Adjusted Covered Taxes.   |

# 4.0 GloBE Calculations

## Questions to Identify Gaps and Act

## Unpacking "Why it Matters"

### 4.4 Adjusted Covered Taxes

For more information: [Pillar Two Info Sheet - Adjustments to GloBE Income and Covered Taxes](#)

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| 4.4.4 | Can you provide significant components of current and deferred tax expense that may require adjustment to reach Adjusted Covered Taxes (including deferred tax recast at 15% and deferred tax expense attributable to >5 year DTLs)? | Adjusted covered taxes are equal to the financial statement current and deferred tax expense of the entity, as adjusted under the relevant Pillar Two rules. As such, covered taxes generally include the impact of financial statement deferred taxes. The creation of a Deferred Tax Liability (DTL) will generally result in an income tax expense in the financial statements, which increases covered taxes, thus increasing the GloBE ETR and minimizing the exposure to a top-up tax liability. The reversal of a deferred tax liability will result in an income tax benefit in the financial statements, which would decrease covered taxes, thus reducing the GloBE ETR and potentially resulting in a top-up tax liability. However, Article 4.4.4 provides a special rule with respect to DTLs, requiring, in certain cases, for such DTLs to reverse within the subsequent five years. See Article 4.4.5 for certain exclusions from the 5-year rule of Article 4.4.4. See 2.1.1 and 2.1.2 above. |
| 4.4.5 | Have you considered Qualified Refundable and Non-Refundable Tax Credits and associated treatment for Pillar Two calculation purposes?  | Generally, tax credits are recognized as income or a reduction to income tax expense based on existing financial accounting rules (e.g., IFRS and GAAP). However, for purposes of determining the GloBE ETR, the entire amount of a Qualified Refundable Tax Credit is treated as GloBE Income, whereas the entire amount of a Non-Refundable Tax Credit is treated as reducing a covered tax.   |
| 4.4.6 | Have you identified any qualified flow-through tax benefits?   | Section 2.9 of the February 2023 Administrative Guidance sets out the treatment of Qualified Flow Through Tax Benefits (QFTB) by the investor in a Qualified Ownership Interest (QOI); QFTBs are first treated as a reduction to the QOI investment until it is reduced to zero, and then as a reduction to the investor's Adjusted Covered Taxes. July 2023 Administrative Guidance modifies the timing for taking into account QFTBs.  |
| 4.4.7 | Did you have any Uncertain Tax Positions (UTPs) or Valuation Allowances (VAs)?   | The accrual of UTPs and VAs are generally excluded from Covered Taxes – similarly, a release of a VA is not taken into account as a reduction to Covered Taxes. UTPs may be taken into account once paid.  |



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