BEPS 2.0

Impactful for Multinational Groups

Who | What | Where | When | Why | How

The below is based on information currently available as at July 2022.

Who?

The OECDs BEPS 2.0 initiative will have major implications in the following scenarios:

- **A** Multinational Groups with global turnover in excess of €20 billion and profits before tax above 10% of turnover (Pillar 1 – Amount A), with exclusions for the Extractive Industry and Regulated Financial Services.
- **B** All Multinational Groups with marketing and distribution entities (Pillar 1 – Amount B).
- **C** Multinational Groups with global turnover in excess of €750 million (Pillar 2).

What?

Pillar 1 - Amount A

Redistributes 25% of residual profits above the 10% mentioned above to other countries, where there is sufficient nexus, using a turnover based allocation key.

Pillar 1 - Amount B

Will simplify and streamline the assessment of transfer pricing arrangements for baseline marketing and distribution activities.

Pillar 2

Designed to ensure the effective tax rate for all countries is at least 15% and also levies a withholding tax on intercompany payments subject to tax below a minimum rate.

The impact of BEPS 2.0 is already being seen across the globe.

Where?

All groups operating in more than one country should be mindful of these rules and assess how they could be impacted from a compliance and effective tax rate/shareholder value perspective.

When?

Pillar 1 was originally expected to come into force in 2023, though is now expected in 2024.

Pillar 2 is expected to largely come into force in 2023 though the current timeframe in the UK has been delayed from January 2023 to December 2023, with certain aspects coming into effect in 2024.

Why?

The BEPS 2.0 initiative has been designed to enhance taxing rights for source countries primarily where existing tax mechanisms do not capture sufficient value in the country of consumption.

How?

The impact of BEPS 2.0 is already being seen across the globe via countries who have a corporate tax rate effectively lower than 15% making announcements about increased corporate tax rates on the horizon. Notable countries in this regard include Ireland, Switzerland and the United Arab Emirates.

Multinational Groups impacted by "Pillar 1 – Amount B" could see a reduction in their compliance burden though all Multinational Groups impacted by "Pillar 1 – Amount A" and/or "Pillar 2" will see a significant increase in their compliance burden through complex additional year end calculations and reporting. Many Multinational Groups may also see their Global effective tax rate increase.

Steps that should be taken now include:

- Modelling profitability for 2023 and beyond, then assess tax liabilities to see where the impact of BEPS 2.0 will be seen for your business
- Communicate internally the impact of BEPS 2.0 to key stakeholders
- Review systems to ensure key information is captured at source to aid future reporting requirements
- Consider whether low tax jurisdiction are strategic locations regarding assets, functions and risks, then restructure accordingly.

Please contact our team for more guidance on this matter:

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