

The role of business applications in responding to global minimum tax (Pillar Two) requirements



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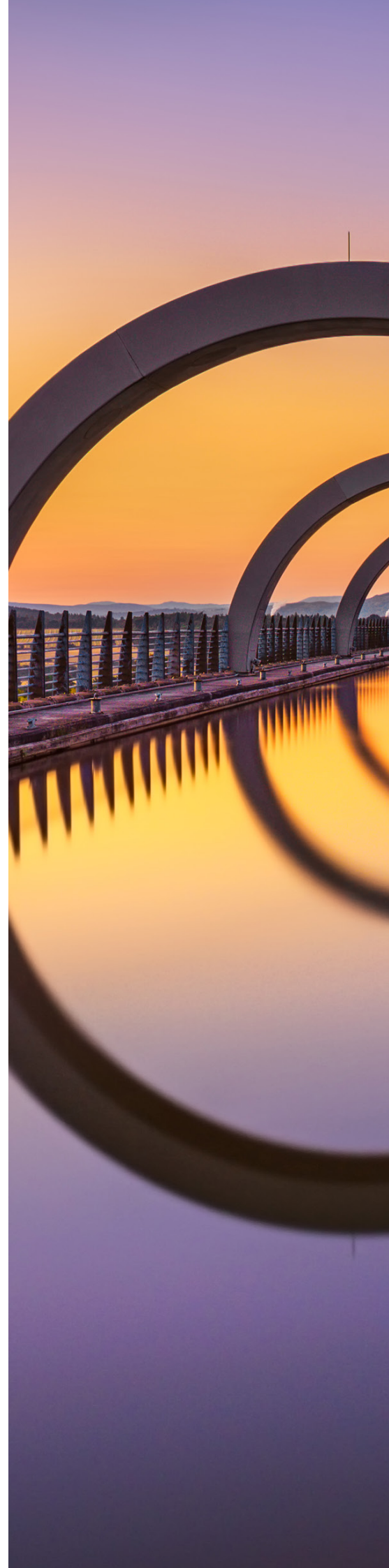
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Introduction

Global minimum tax rules, also known as Pillar Two Model Rules, are set to dramatically change the international tax landscape and create significant new tax reporting and compliance requirements for affected organizations, in every industry. Developed as part of the OECD/G20 BEPS 2.0 project, these rules are expected to take effect in 2024.

With the clock ticking, organizations should consider taking action now to understand the potential impacts of the Pillar Two Model Rules and potential develop a comprehensive plan, with technology at the heart of any approach. Organizations will need to adapt their internal processes and systems to manage the new computations and data requirements, to calculate their global minimum tax liabilities and satisfy reporting obligations.

What is BEPS 2.0 and why is everyone talking about it?

BEPS 2.0 (Base Erosion and Profit Shifting) is considered the New World Tax System and will dramatically change the international tax landscape. The objective is to ensure a minimum level of effective corporate taxation of large multinational groups and for the EU, of large-scale purely domestic groups operating in the Single Market.

BEPS 2.0 consists of Pillar One, which proposes a partial re-allocation of taxing rights towards market jurisdictions and Pillar Two, which proposes to introduce a minimum level of taxation of 15% for large multinational groups with global turnover over 750m EUR.

The Pillar Two rules are complex and may take effect as early as 2024. For non-compliant businesses, the risks are two-fold: legal and reputational risk, and risk of sanctions for non-compliance (including but not limited to financial).

The focus of the paper is on the Pillar Two requirements and how business applications can act as a key readiness enabler.



Pillar Two: Income Inclusion Rule (IIR) and Under-Taxed Payment Rule (UTPR) workflow

Pillar Two will change the international tax landscape. The ETR calculation set out in the Model Rules are at the crux of the changes.



→ The workflow result aims to determine the top-up tax to be paid by the (ultimate) parent entity

Challenges of Pillar Two



Timeline

- ▶ Enterprises will have limited time to implement between the time the Pillar Two rules are brought into national law and when they will come into effect.
- ▶ A BEPS 2.0 run will be dependent on the closing schedule of all in-scope entities. Therefore it can only be performed once all entities have closed their books and provided information relevant for the closing entities e.g., tax accruals.
- ▶ There may be tight timelines for submitting tax filings. There are also deadlines for the group reporting calculations and disclosures, which are anticipated to be due in 2024.

Data availability and sourcing

- ▶ Not all data required for the GloBE calculation might be directly available but must be calculated specifically for global minimum tax purposes as the regulation differs from standard IFRS accounting standard and tax definitions, but also in the new method of aggregation, e.g., now by jurisdiction/country.
- ▶ The IT landscape is generally unlikely to have the variety of data needed saved in one place. Financial and non-financial data, structured and non-structured, transactional and aggregated data is required as depicted in the diagram on the next page.
- ▶ Some of the non-financial data required for the rules might not be available in a form that can be easily used in a solution and require manual efforts, e.g., ownership structure or characteristics of entities.

Data harmonization

- ▶ Data models even within an enterprise often differ and are unlikely to be fully harmonized.
- ▶ The more data models one enterprise has, the more complex a Pillar Two solution may be.

Changing Pillar Two rules

- ▶ The framework has been introduced quickly and discussions on the technicalities are still ongoing.
- ▶ There will be changes in the future and jurisdiction-specific differences that will need to be accommodated in the technology solution.
- ▶ Solutions must therefore be flexible and agile enough to accommodate change in rules.

Financial accounts data

- ▶ Revenue
- ▶ Profits
- ▶ Gains from the sale of tangible property
- ▶ Excluded equity gain or loss
- ▶ Deferred tax
- ▶ Excluded dividends
- ▶ Pension expenses
- ▶ Eligible payroll costs
- ▶ International shipping Income
- ▶ Carrying value of tangible assets
- ▶ Accounting treatment of Intragroup transactions

Tax data

- ▶ Income tax accrued
- ▶ Post-filing adjustments
- ▶ CFC regime
- ▶ Transparency
- ▶ Withholding tax accrued
- ▶ Deductible dividend regimes
- ▶ Covered Taxes on passive income
- ▶ PE status of branches
- ▶ Domestic minimum tax top ups
- ▶ Refundable tax credits
- ▶ Tax treatment of intragroup transactions
- ▶ Uncertain tax positions

Pillar Two data readiness challenge

Factual data

- ▶ Number of employees
- ▶ Ownership and control
- ▶ Nature of tangible assets
- ▶ Entity classifications
- ▶ Purpose of tangible assets
- ▶ Foreign currency exchange
- ▶ Independent contractors participating in ordinary operating activities of MNE Group

Other data

- ▶ Immovable property
- ▶ Pillar Two carry forwards
- ▶ Pillar Two elections
- ▶ Applicable accounting standards
- ▶ M&A transactions
- ▶ Social security contributions
- ▶ Location of tangible assets
- ▶ Location of employees

How can business applications support companies with global minimum tax requirements?

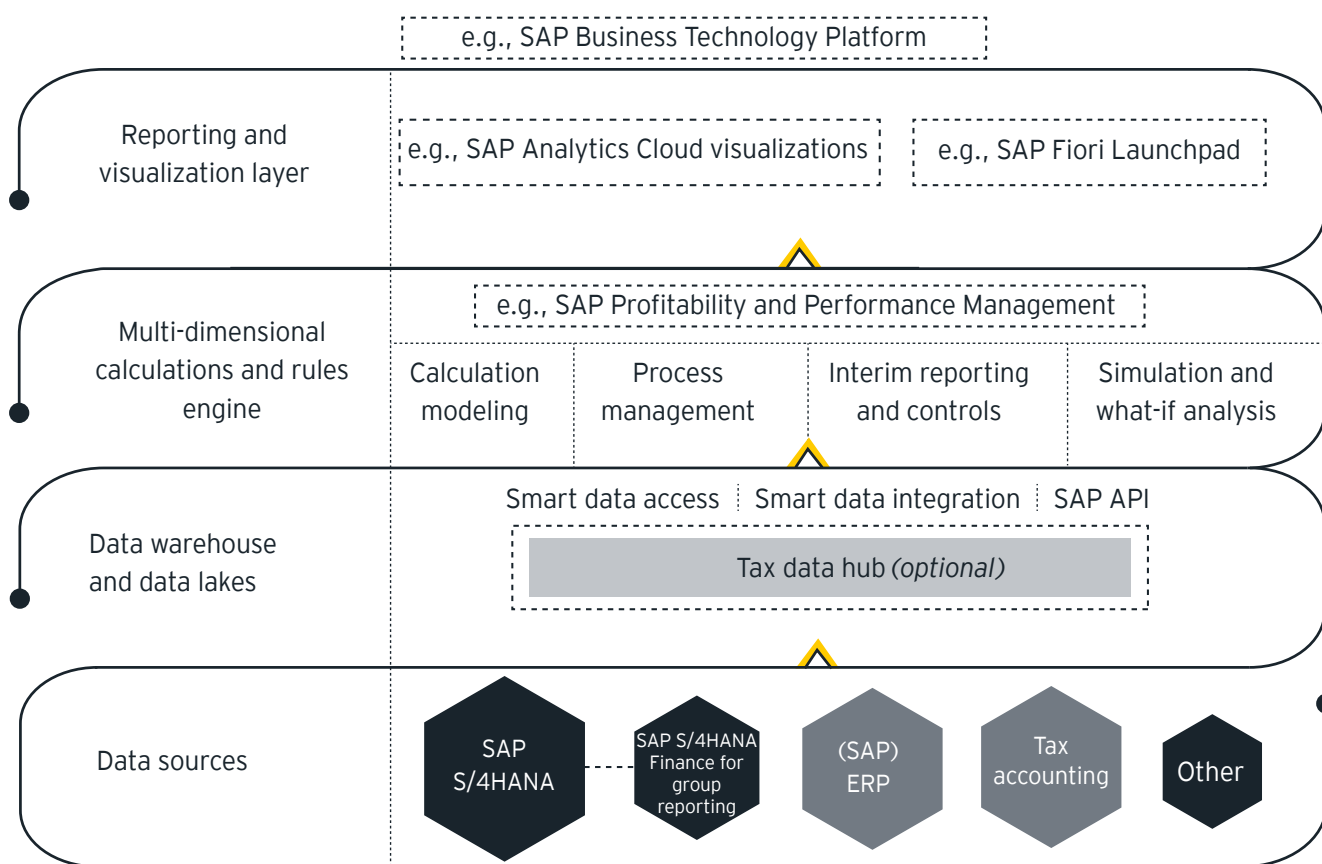
Given the complexity of Pillar Two analysis and associated calculations, the first step is to understand specific business requirements based on the enterprise structure, system and process landscape.

| Activity | Requirement | Capabilities |
|---|---|--|
| Capture and combine | Collect data needed for analysis and calculations: financial and non-financial (e.g., ownership structure, entity characteristics) from multiple sources for every entity in the enterprise | <ul style="list-style-type: none"> ▶ With SAP Profitability and Performance Management, it is possible to connect directly to other systems, SAP e.g., SAP S/4HANA® and non-SAP systems ▶ Ability to retrieve most input data from SAP S/4HANA Finance for group reporting and store most results (as adjustment postings), or work with other financial consolidation solutions ▶ Ability to manually upload spreadsheets ▶ Store and collect all needed data upstream of SAP Profitability and Performance Management in a Tax Data Hub (similar to a data lake or warehouse such as SAP Data Warehouse Cloud), offering potential for other use-cases |
| Calculate | Calculate the top-up tax, taking into account the subprocess which results in the top-up tax and adjust the rules as regulations evolve | <ul style="list-style-type: none"> ▶ Process and analyze large amounts of data at speed ▶ Leverage multi-dimensional calculations and rules engine (e.g., for segmentation logic, allocations, IIT, UTPR and STTR) ▶ Quickly adjust calculations and rules engine as required |
| Model | Understand the potential impact on cash, effective tax rate, and other current and future tax considerations | <ul style="list-style-type: none"> ▶ Simulate and visualize impact of scenarios to understand the impact of BEPS 2.0 and drivers ▶ Create intuitive and elaborate dashboards using SAP Analytics Cloud |
| Report | File for the top-up tax for all entities within the jurisdiction | <ul style="list-style-type: none"> ▶ Transform the data into the required output into a predefined report, for onward filing to the relevant tax authorities |
| Write back | Automatically generate and process postings in the source systems based on the calculations | <ul style="list-style-type: none"> ▶ Partly automated generation and processing of postings in the source systems based on the calculation |
| Audit | Store calculations, results and filing data and make available for audit purposes | <ul style="list-style-type: none"> ▶ Timely and effective data versioning processes ▶ Effective archiving processes |
| Process orchestration and governance | Connect all capabilities listed above and enable effective analyzing of the data, activities and call out required actions | <ul style="list-style-type: none"> ▶ Well-orchestrated process through preset workflow including responsibilities, deadlines and automated notifications ▶ Intuitive way of monitoring processes following 'manage by exception process' ▶ Process controls to support better data quality |

The technology stack can comprise of a combination of SAP Analytics Cloud for reporting and analysis, and SAP Profitability and Performance Management for rules management and allocations. SAP Profitability and Performance Management can connect nearly real-time to SAP Business Warehouse, where also other data sources can be connected, such as systems for employee data, tax data, other financial data etc.

SAP Profitability and Performance Management can run either inside and as part of SAP S/4HANA or separately (e.g., cloud). Input data does not necessarily need to be duplicated, it can also be read at run-time from its original source (e.g., general ledger balances) and in this way, SAP Profitability and Performance Management can be fully integrated with SAP S/4HANA.

Pillar Two typical technology architecture

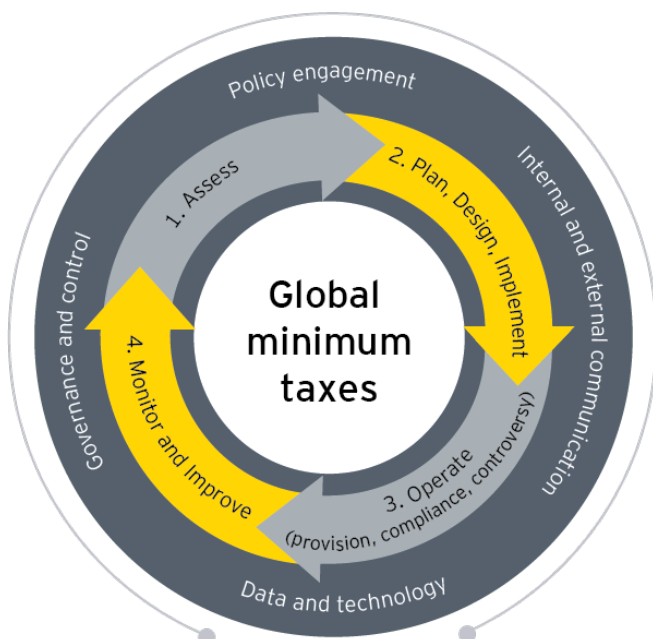


End-to-end support for a major tax development

Getting ready for global minimum taxes can be overwhelming and many organizations are just getting started. EY teams of local and international tax, tax accounting and tax technology professionals can help you understand the complex rules and assess potential impacts. We can also work with you to prepare a robust, actionable plan so that you are ready before the rules are enacted and effective.

The EY and SAP alliance provides trusted and strong brand collaboration with the right capabilities to help large corporations respond to the challenge. By leveraging core SAP and related ecosystem SAP applications for tax (such as SAP Profitability and Performance Management) and by using EY leading knowledge and experience, the agile tax function needed yesterday can be realized today and continue to evolve tomorrow.

EY teams have in-depth experience of designing, configuring and implementing SAP solutions. We leverage our experience from other tax, statutory finance and managerial finance use-cases, such as operational transfer pricing, sustainability performance management.



Contacts



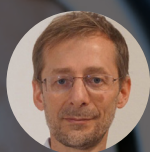
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on sustainability performance
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For more insights on BEPS 2.0 and
the potential impact on your business,
please visit ey.com/beps

Acknowledgements

The authors would like to acknowledge the collaboration and contribution of colleagues, including Charlene Glenister at EY during the development of this paper.

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EY's Tax Technology and Transformation (TTT) is a global practice that brings together transformation strategists and technology professionals dedicated to helping organizations redefine the tax function to meet the demands of the digital age: from rapid business model change and global transparency, to expanding digital tax administrations, escalating reporting requirements and cloud-based solutions. Our objective is to help each client transform the traditional tax function into a connected intelligent tax function, with an operating model that thinks about data differently – one that's integrated and adding value across the enterprise, embraces innovation, and is open to adopting advanced and emerging technologies to fuel continuous transformation.

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EYG no. 009380-22Gbl

BMC Agency
GA 175033337

ED None



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