

CCH® AnswerConnect

Virtual Coffee Talk

A discussion of the latest tax updates

Pillar Two Uncertainty for U.S. Multinational Companies

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March 23, 2023



Wolters Kluwer



Algonomia

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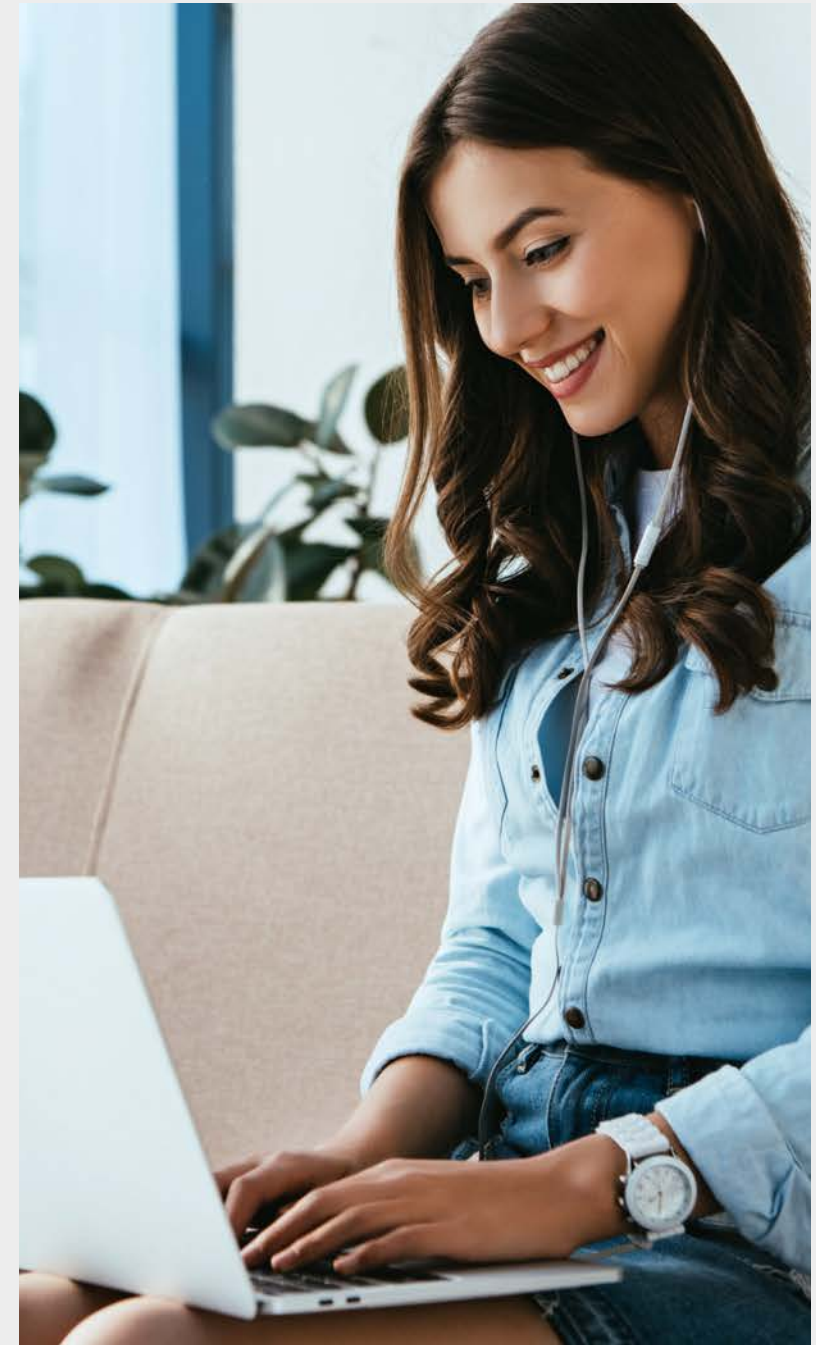
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Today's speakers



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Nick Crama

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Agenda

- **What is Pillar 2?**
- **What are we and what to expect**
- **March 2021 to March 2023 – What did I miss?**
 - GILTI v IIR
 - BEAT v UTPR
 - QDMTT v CAMT
- **The end game?**
- **Is it all about the data?**
 - Data sourcing
 - The engine room
 - Modeling the impacts of Pillar Two

Polling Question #1

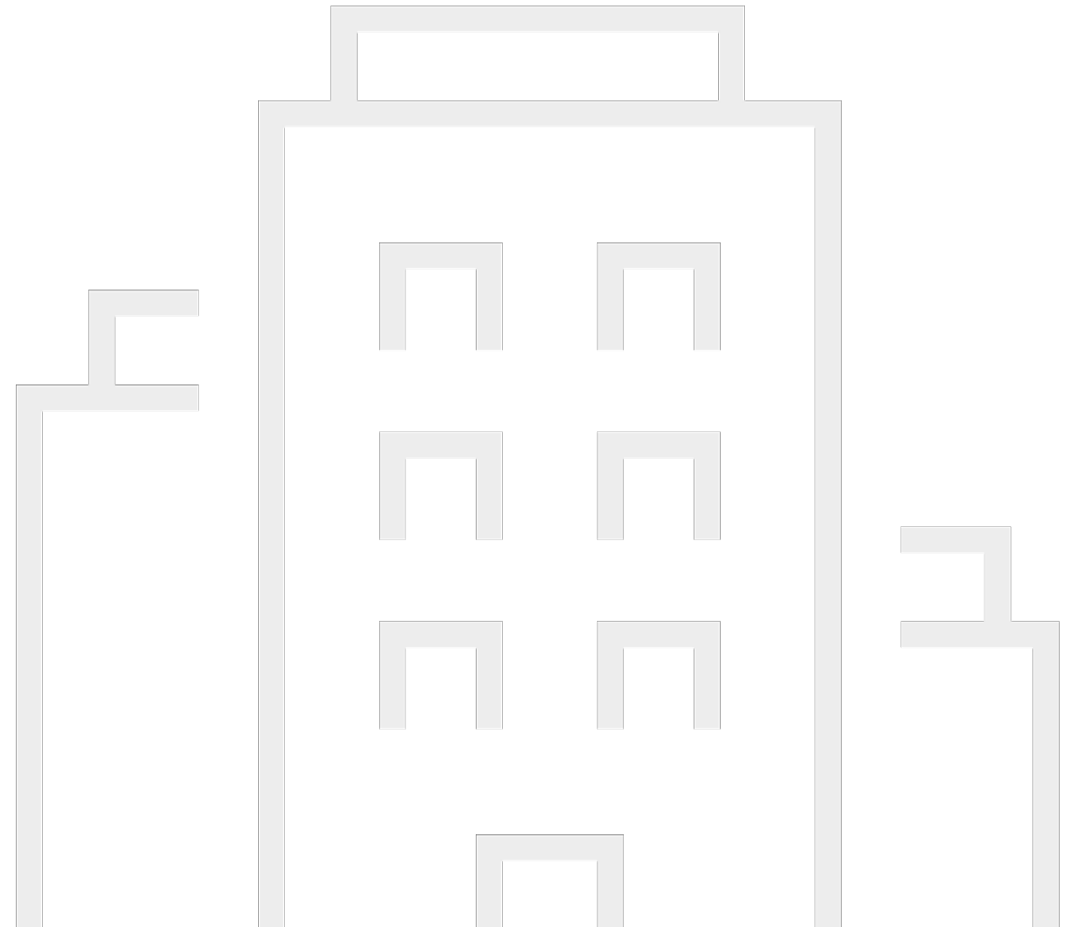
Is Pillar 2 a priority item for your organization?

- Yes
- No

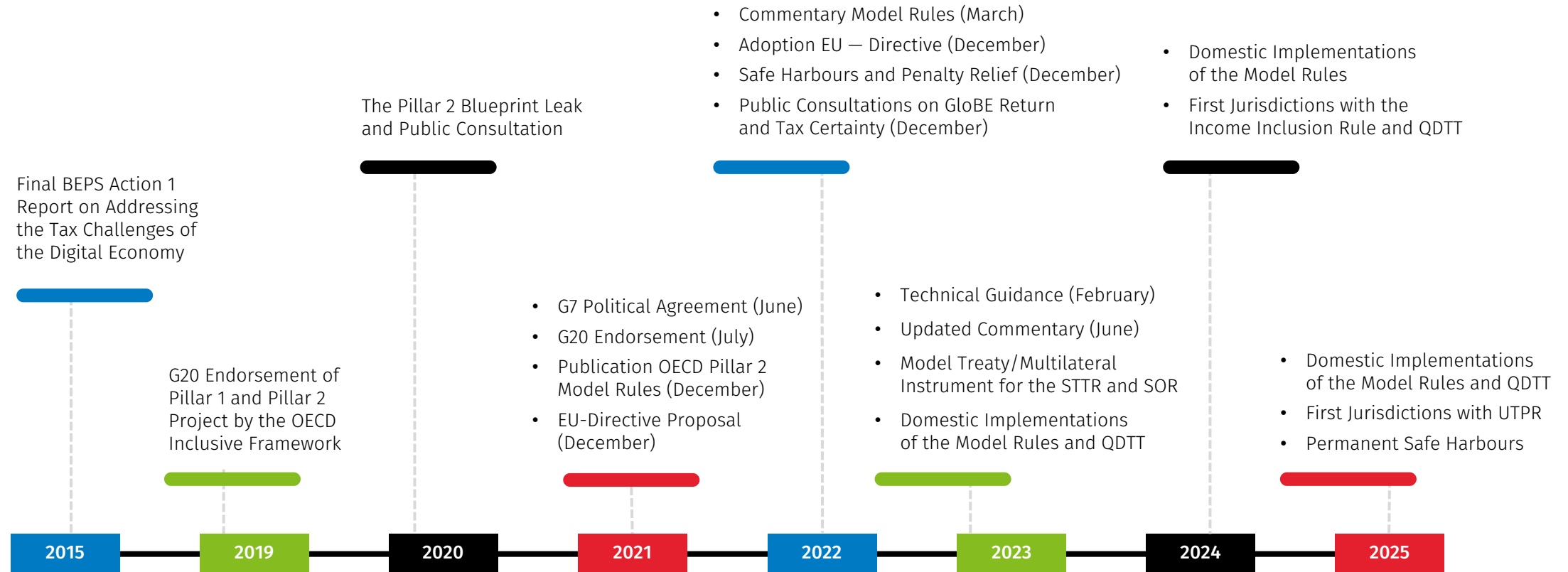


What is Pillar 2?

“The GloBE Rules are a system of top-up taxes designed by the OECD to ensure that multinational enterprises (MNEs) with revenue above EUR 750 million pay at least 15 percent tax in the jurisdictions where their effective tax rate (ETR) is lower.”



Where are we and what to expect



Takeaway:



Domestic differences to the Model Rules



Timing of the IIR, UTPR and QDMTT



OECD updates and constitutional restrictions

March 2021 — March 2023: What did I miss?

Income Inclusion Rule

Top-up tax imposed on a parent entity for entities that are subject to an ETR below 15%

A CFC rule based on similar principles to GILTI

Undertaxed Profits Rule

Denial of deductions (or equivalent adjustments) to create a top-up tax expense when parent entity is not subject to an IIR

A base erosion rule based on similar principles to BEAT

Qualified Domestic Minimum Top-Up Tax

Top-up tax imposed by a specific jurisdiction on entities in that jurisdiction with an ETR below 15%

A domestic tax based on similar principles to CAMT

Subject-to-Tax Rule

Treaties to allow source taxation on related party payments that are subject to profit tax below a nominal rate of 9%

Source taxation

Switch-Over Rule

Treaties to switch from exemption to a tax credit method where permanent establishment profits are subject to an ETR below 15%

Specific technical item

Qualified Domestic Minimum Top-up Tax

What are potential additional complexities of QDMTTs?

QDMTT is a domestic minimum tax that:

- A. Determines the Excess Profits of the Constituent Entities located in the jurisdiction (domestic Excess Profits) in a manner that is equivalent to the GloBE Rules;
- B. Operates to increase the domestic tax liability with respect to domestic Excess Profits to the Minimum Rate for the jurisdiction and Constituent Entities for a Fiscal Year; and
- C. Is implemented and administered in a way that is consistent with the outcomes provided for under the GloBE Rules and the Commentary, provided that such jurisdiction does not provide any benefits that are related to such rules.

Certain allowed variations:

- Variations in design compared to the GloBE Rules are allowed provided such “variations systemically produce a greater incremental tax liability (...)”
- A substance-based income carve-out is not required and cannot be more generous than the carve-out under the GloBE Rules
- Local statutory GAAP instead of the accounting standard used in the Consolidated Financial Statements of the UPE
- Qualified CFC Regime Covered Taxes are not pushed down to CFCs
- Main Entity Covered Taxes are not pushed down to Permanent Establishments

Takeaway:

- Differences in financial figures and variations create a difficult compliance environment that requires tailoring for each jurisdiction
- QDMTT comes before CFC Taxes under the OECD’s approach and assumes that QDMTT can be credited (GILTI and Subpart F unconfirmed, meaning risk of double taxation).

Polling Question #2

Do you have access to the required data to compute the top-up tax under the standard GloBE Rules?

- Yes
- No



Qualified Blended CFC Regime

What is all the fuss about Blended CFC Regimes?

- The GloBE Rules require taxes imposed under a CFC Tax Regime to be allocated the Constituent Entity through which the CFC income has arisen.
- The US Global Intangible Low-Taxed Income (GILTI) regime is an example of a Blended CFC Tax Regime, which raises the question on how to allocate CFC Taxes.
- MNEs feared that GILTI tax would need to be allocated to “high-tax jurisdictions” reducing, among others, the Covered Taxes in the US.
- GILTI is not a Qualified Income Inclusion Rule.

CFC	Income	GloBE Jurisdictional ETR	Difference Applicable Rate	Allocation CFC Tax
A	100	3.125%	10	10/15
B	100	8.125%	5	5/15

Takeaway:

- GloBE Jurisdictional ETR of a CFC equals or exceeds the Applicable Rate, then no allocation of US GILTI tax to CFC (i.e., the CFC Tax stays Covered Tax for the US)
- **A QMDTT is taken into account in determining the GloBE Jurisdictional ETR only if the Blended CFC Tax Regime allows a foreign tax credit for the QMDTT (i.e., to align with CFC Regime)**

Qualified Blended CFC Regime

How is Blended CFC Tax allocated?

Blended CFC Tax Allocation to an Entity

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Blended CFC Allocation Key

Sum of All Blended CFC Allocation Keys

Blended CFC Allocation Key

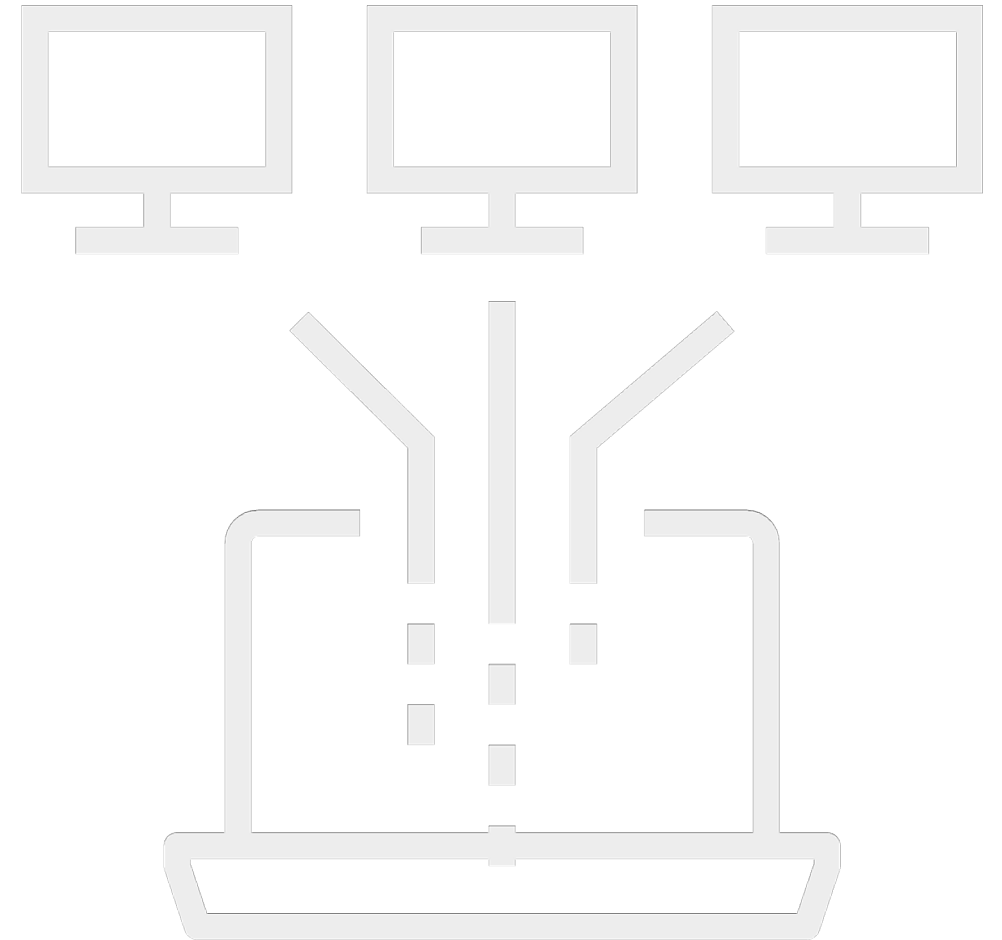
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Attributable Income of Entity X
(Applicable Rate – GloBE Jurisdictional ETR)

Attributable Income of Entity	»»»	Income of the Entity under the Blended CFC Regime
Applicable Rate	»»»	Minimum Rate under Blended CFC Regime (e.g., 13.125% for GILTI)
GloBE Jurisdictional ETR	»»»	GloBE Rules ETR without Covered Taxes under CFC Tax Regime
Applicable	»»»	Tax years ending before or on 31 December 2025

Is it all about the data?

Software and Data Gathering, Application and the
calculation of top up taxes



Polling Question #3

Do you feel confident that you will be able to obtain the relevant data for the CbCR Safe Harbor?

- Yes
- No



Safe Harbors



Transitional Relief

For all fiscal years ending before 1 January 2027.



Relief Mechanics

The top-up tax in a jurisdiction will be deemed zero for the relevant fiscal year.



Permanent Relief

Simplified Calculations Safe Harbor Framework



De Minimis Test

The **revenue** in a jurisdiction is lower than EUR 10 million and the **profit before tax** is lower than EUR 1 million.

Tested through the **CbCR**.



Simplified ETR Test

A jurisdictional **ETR** of at least 15% in 2024, 16% in 2025 and 17% in 2026.

Tested using the profit (or loss) before tax as included in the **CbCR** and income tax expense reflected in the **financial statements**.

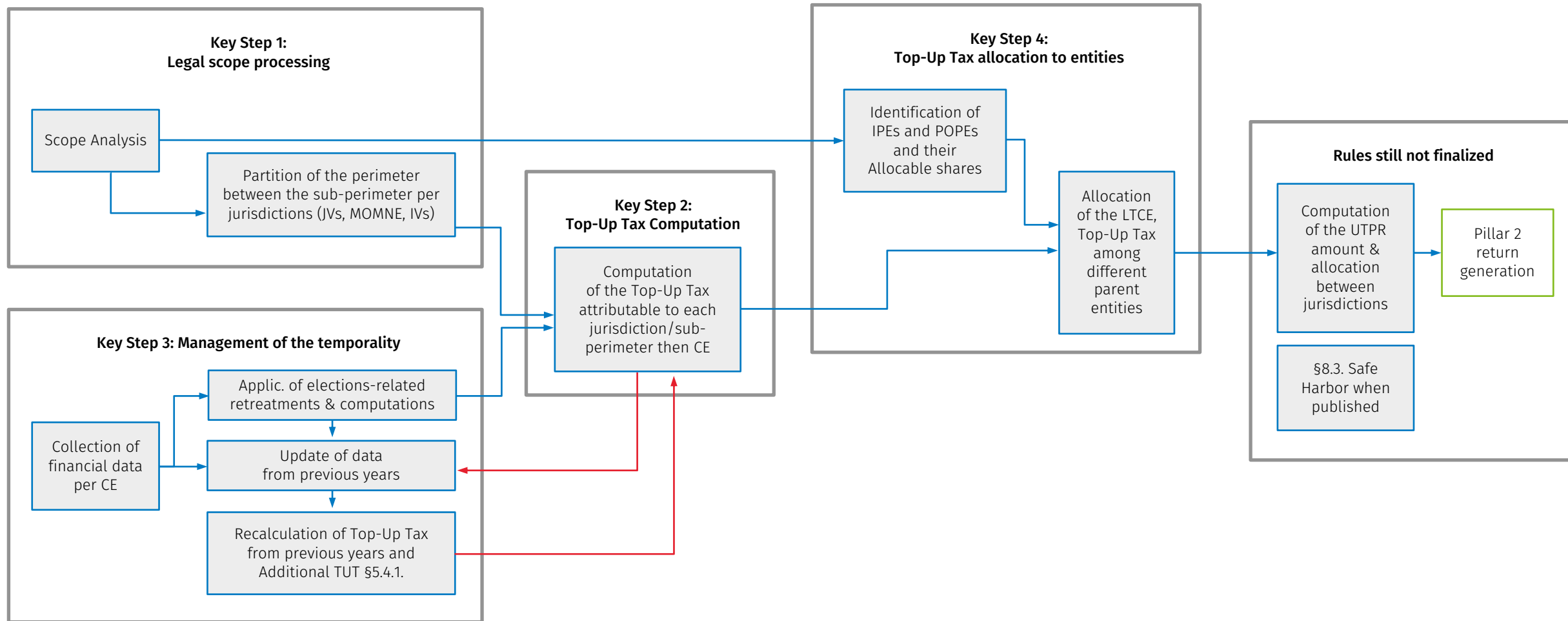


Routine Profits Test

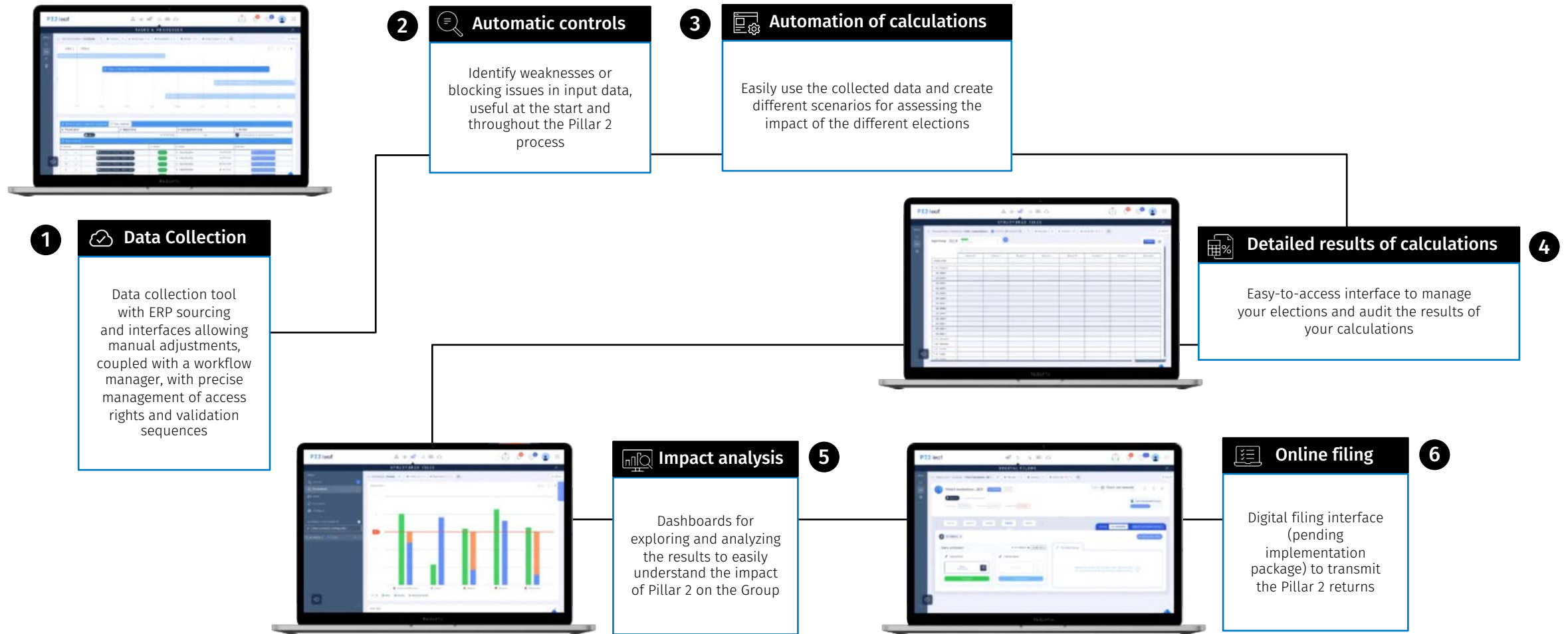
The jurisdictional **profit before tax** does not exceed the **substance-based income carve-out**.

Tested using the profit (or loss) before tax as included in the **CbCR** and the substance-based income carve-out based on the **GloBE Rules**.

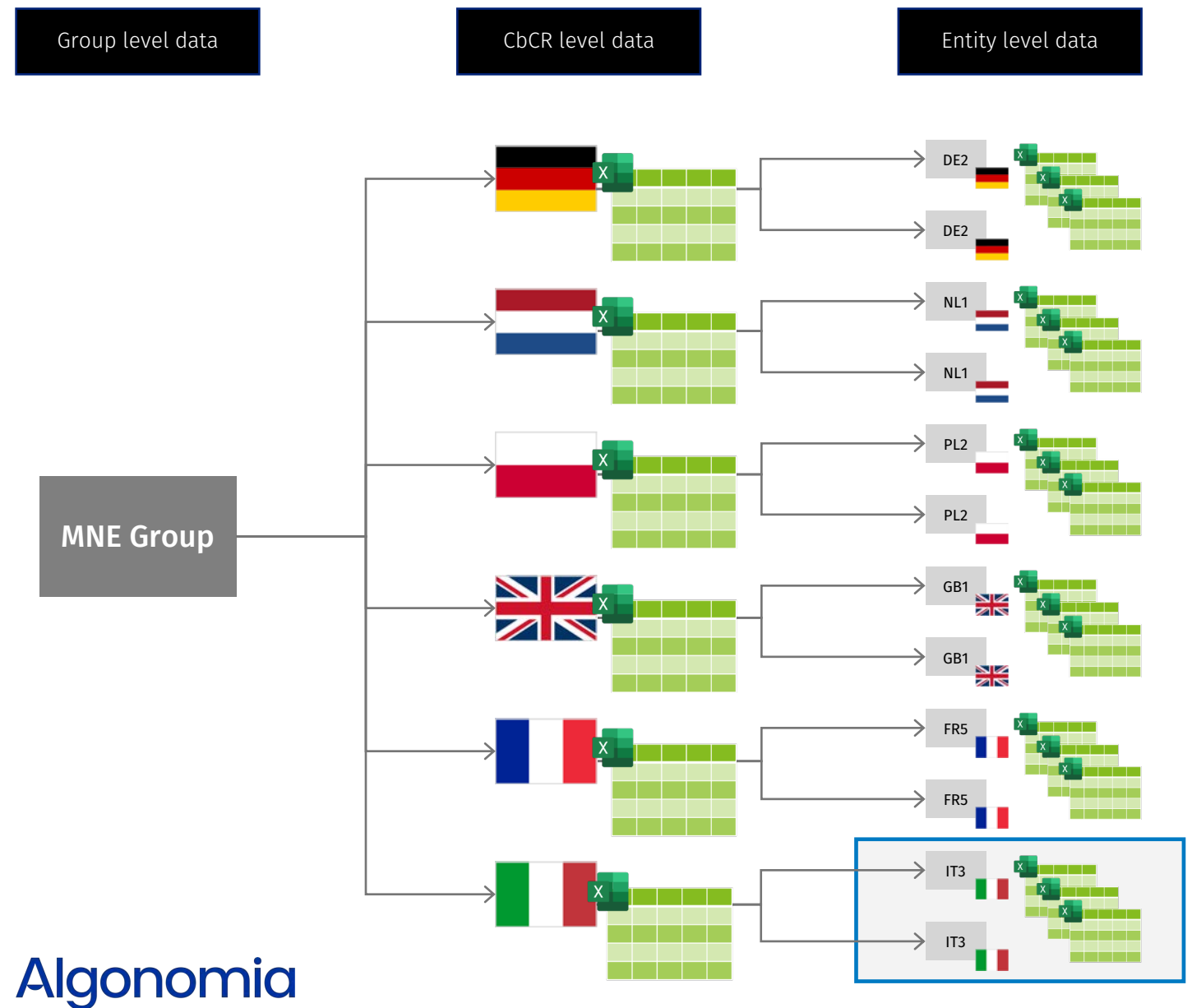
The standard GloBE rules are immensely complex



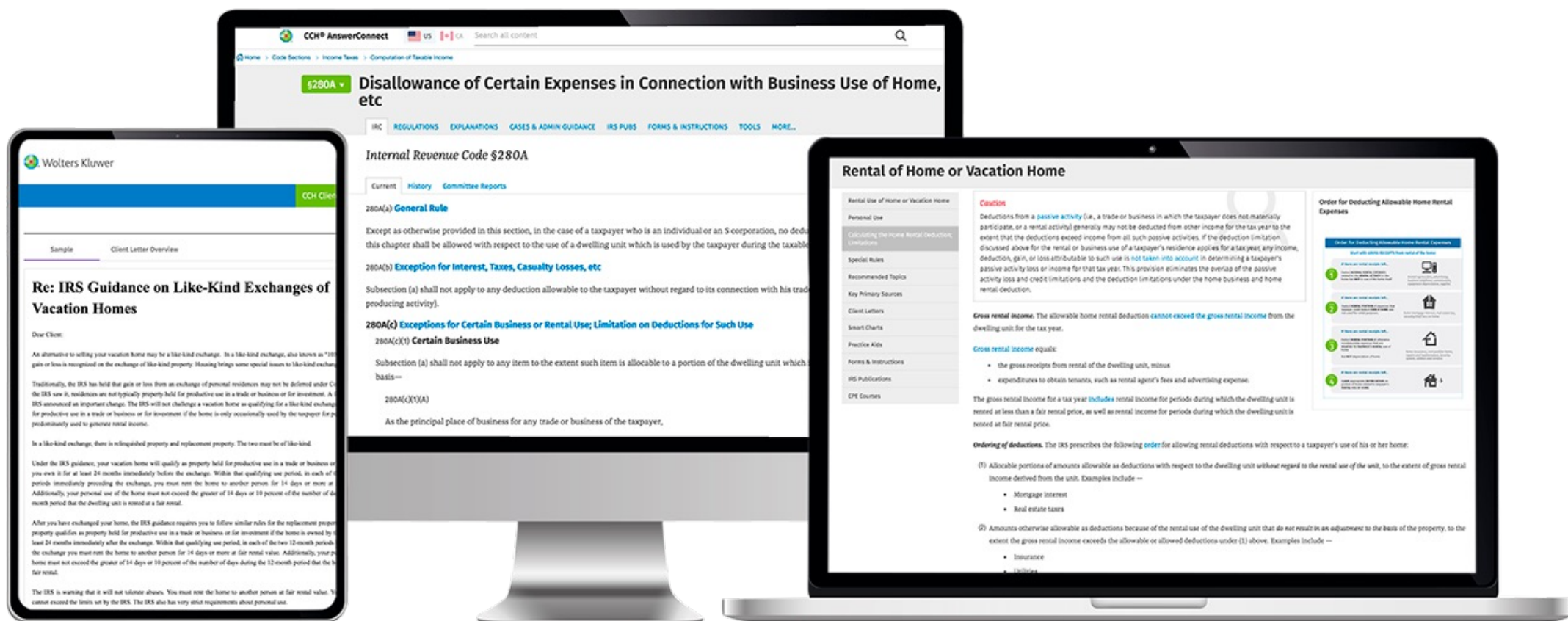
Managing this complexity requires flexible IT solutions



Use safe harbor rules strategically to simplify your data collection process



CCH[®] AnswerConnect



Additional information in CCH[®] AnswerConnect



Kevin DeYoung

Lead Product Manager

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Polling Question #4

Would you like a more in-depth demo or further details on the resources and tools available in CCH[®] AnswerConnect?



- Yes
- No

CCH[®] AnswerConnect

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Thank you for
attending the
Virtual Coffee Talk —
Pillar Two Uncertainty
for U.S. Multinational
Companies



Kevin M. Jacobs

Kevin M. Jacobs is a Managing Director with Alvarez & Marsal Taxand, LLC in Washington D.C. and the National Tax Office Practice Leader. He brings more than 15 years of experience in tax matters in both the public and the private sectors.

Prior to joining A&M, Mr. Jacobs was a Senior Technician Reviewer (TCJA) with the IRS Office of Associate Chief Counsel (Corporate) for more than six years, where he advised on tax issues such as corporate re-organizations and corporation-shareholder issues, earning and profits, recovery and allocation of stock basis, liquidations, redemptions, bankruptcies, spin-offs and consolidated returns.

Mr. Jacobs was the principal Associate Chief Counsel (Corporate) attorney on several regulatory projects including the proposed section 382(h) regulations on built-in gains and losses, the global intangible low-taxed income regulations, and debt-equity regulations. He provided substantial contributions to numerous other guidance projects, such as the limitation on interest deductions regulations, and assisted in overseeing the Corporate Division's response to TCJA, including the coordination with Treasury's Offices of Tax Legislative Counsel and International Tax Counsel.

Mr. Jacobs earned a bachelor's degree in accounting, a master's degree in accounting (with a concentration in taxation), a J.D. (magna cum laude) from the University of Florida and an LL.M. in taxation from New York University. He is admitted to practice before multiple courts and to the District of Columbia and Florida Bars. He is also a licensed Certified Public Accountant (CPA) in Florida and Colorado. Mr. Jacobs is a member of several organizations including the American Bar Association, the American Institute of Certified Public Accountants, the International Fiscal Association, and the New York State Bar Association.



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Neil Fletcher

Neil Fletcher is a Managing Director with Alvarez & Marsal's Taxand, LLC, in London. He specializes in M&A tax transactions. His primary areas of concentration are buy-outs, carve-out transactions, and corporate joint ventures, particularly bringing complex co-invested transactions to a successful conclusion.

With more than 25 years of M&A experience, Mr. Fletcher has advised on transactions with mid-market to large-cap private equity, direct pension fund investments, and sovereign investment funds on a multinational basis across multiple industries and regions. Most recently, he served as Tax Partner in a Big Four London office. In this role, he led teams and provided technical yet practical tax advice on M&A, initial public offerings, joint ventures, and group restructurings across both domestic and international transactions for a wide variety of investors and stakeholders.

As a Senior Deals Tax Leader, Mr. Fletcher has brought commercial and strategic thinking within the ever-changing tax environment and worked collaboratively to deliver successful client outcomes throughout the entire investment cycle. As a Client Service Leader, he has developed methodologies to frame, shape, and enhance tax diligence and structuring processes. He has also attracted and developed talent and teams that have made significant contributions to stakeholder success.

Mr. Fletcher earned a bachelor's degree in history from Newcastle University.



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Nick Crama

Nick Crama is a Director with Alvarez & Marsal Taxand, LLP in Amsterdam. He brings more than 10 years of experience in tax advisory in the investment management industry.

Mr. Crama has advised Dutch and foreign investment managers, asset managers, pension funds, insurance companies, banks, family offices and REITs, specializing in direct and indirect real estate, infrastructure and debt investments. He has deep knowledge of Dutch, Luxembourg and pan-European tax as it relates to structuring investment funds and transactions.

Additionally, Mr. Crama works on tax matters related to the entire investment cycle, including transfer pricing, compliance, reporting, tax (risk) management and vendor assistance.

Prior to joining A&M, Mr. Crama spent 10 years with Deloitte in Amsterdam. He brought commercial and strategic thinking to assist clients with complex tax topics, including implementations of ATAD2 and DAC6 and tax's growing importance in the ESG imperative. He serviced Dutch and pan-European investment management clients, assessing tax development impacts, restructuring when necessary and implementing practical control measures to manage risks and ensure compliance.

Furthermore, Mr. Crama developed methodologies to shape and enhance tax fund due diligence and structuring processes. He was also part of the Dutch leadership team responsible for developing and executing Deloitte's overall strategy for the investment management industry and attracting and developing talent.

Mr. Crama earned a master's degree in international and European tax law from the University of Amsterdam. He is a member of the Dutch Association of Tax Advisers (Nederlandse Orde van Belastingadviseurs).



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Walid Eljaafari

Walid Eljaafari co-founded Algonomia to contribute to the transformation of tax. Indeed, being both trained in mathematics and in law, his experience in law firms made it clear to him how much the tax sector can benefit from new technologies powered by algorithms and data science.

After several years as intrapreneurs within PwC France, with his co-founder decided to launch Algonomia and develop SaaS services for tax professionals.

Algonomia's Manifesto:

“Nowadays, tax, finance and legal departments face complex environments, everywhere they operate. They expect precision, efficiency and effectiveness from their internal teams. However, these teams spend most of their times on repetitive and manual processes.

We want to refocus your work on your actual expertise and give you back control. To that end, we create innovative algorithms combined with user-friendly interfaces dedicated to you.”



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Thank you for joining us today!

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