



SW

Accountants & Advisors

 Take the lead

Pillar Two

FAQs

March 2025

Australia's *best kept*
accounting secret



Pillar Two, or the global minimum tax regime, is an OECD measure signed by over 140 countries.

What is Pillar Two?

Pillar Two, also known as the global minimum tax regime, is an OECD measure adopted by over 140 countries. It requires affected multinational groups to maintain a minimum effective tax rate of 15% in each country they operate.

These groups must demonstrate their effective tax rate and determine if they owe any top-up tax by performing Pillar Two calculations and submitting the necessary forms in countries that mandate it, including Australia.

Is the effective tax rate for Pillar Two purposes the same as the accounting effective tax rate?

No, they are not the same. Top-up tax may arise even if the accounting effective tax rate is greater than 15%. The Pillar Two rules govern how the effective tax rate is calculated.

Which groups are affected by Pillar Two?

Pillar Two generally applies to multinational groups with an annual global revenue of EUR 750 million or more in at least two of the four fiscal years immediately preceding the start date (e.g., 1 January 2024 for Australia).

These groups must also have entities or branches in at least two jurisdictions. Additionally, the rules governing mergers and disposals may require the pre-merger revenue of the merging groups to be considered for the pre-merger period.

When does the law start to apply in Australia?

The income inclusion rule (IIR) and the domestic minimum tax (DMT) apply from 1 January 2024. The undertaxed payment rule (UTPR) applies from 1 January 2025.

From an accounting perspective, the Pillar Two rules were fully enacted in Australia in December 2024. This means that AASB 112 will require the recognition of current taxes arising from Pillar Two for the year ended 31 December 2024.

There is a mandatory temporary exception from recognising any deferred taxes arising from Pillar Two. The reliance on this exception must be disclosed in the financial statements.

The above means that affected groups may need to provide analysis to the auditors to demonstrate that no current taxes arise concerning Pillar Two.

What happens if a jurisdiction has an effective tax rate below the minimum tax rate?

If a jurisdiction's effective tax rate is below the minimum tax rate, top-up tax may be payable by the ultimate parent entity (UPE) under the income inclusion rule (IIR) or by the jurisdiction itself if it has a qualifying domestic minimum tax regime.

If the UPE's jurisdiction has not implemented the Pillar Two legislation, the obligation to collect the top-up tax may fall on an intermediate parent entity located in a jurisdiction that has implemented Pillar Two.

Alternatively, entities within jurisdictions with enacted Pillar Two legislation may also be subject to top-up tax of other grouped entities under the undertaxed payment rule (UTPR).

When the UTPR becomes effective on 1 January 2025, Australian subsidiaries will need to obtain information from their overseas parent entities to demonstrate that top-up tax is not payable in Australia under the UTPR.



Is Pillar Two relevant for Australian entities given the 30% corporate tax rate?

Yes, it is relevant. From a compliance perspective, Pillar Two returns must be lodged regardless of whether top-up tax is payable.

The 30% corporate tax rate does not determine the Pillar Two effective tax rate. Instead, the effective tax rate for Pillar Two purposes is calculated based on specific rules outlined in the Pillar Two framework. As a result, Australian entities may still need to collect top-up tax under the income inclusion rule (IIR), domestic minimum tax or the undertaxed payment rule (UTPR).

A challenge arises if an Australian entity is an intermediate parent entity and the ultimate parent entity's jurisdiction has not implemented Pillar Two. In this situation, the global information return must still be lodged, and the Australian entity may be subject to top-up tax concerning the overseas subsidiaries it controls. Furthermore, when the UTPR applies, the Australian entity could also be subject to top-up tax for grouped entities, regardless of whether it has any ownership interests in these group entities.

When is the first lodgement date and what forms are required?

The first lodgement date for a December balancer is 30 June 2026. The required forms include the global information return, foreign lodgement notification, Australian IIR/UTPR tax return, and the Australian domestic minimum tax return.

It's important to note that these forms must be submitted to ensure compliance with the Pillar Two requirements. The global information return provides a comprehensive overview and data of the group's global operations, while the foreign lodgement notification informs the Australian Taxation Office (ATO) of any foreign tax obligations.

The Australian IIR/UTPR tax return and the Australian domestic minimum tax return are specific to the Australian jurisdiction and ensure that the group meets the minimum tax requirements set by the OECD.

FAQs

What does it mean for Australian subsidiaries if their parent jurisdiction has not enacted Pillar Two legislation?

Even if the parent jurisdiction has not enacted Pillar Two legislation, Australian subsidiaries are still required to lodge a global information return.

This return must include calculations for the entire group to ensure compliance with the Pillar Two requirements. It is crucial for Australian subsidiaries to initiate dialogue early with their ultimate parent entity to coordinate and gather the necessary information.

This proactive approach will help ensure that all required data is accurately compiled and submitted on time. Ideally, the ultimate parent entity should take ownership of the Pillar Two implementation process, as it possesses the necessary information for effective implementation.

Anecdotally, most groups have already commenced their Pillar Two implementation projects and completed their Transitional CbCR Safe Harbour modelling.

These groups believe they can satisfy the relevant tests and that no top-up tax should arise for their group. It is recommended that groups which have not yet started this process commence the project as soon as possible, so that the analysis can be provided to senior management, the governing board, and statutory auditors.

Can an extension for lodgement be obtained from the ATO?

The Australian Taxation Office (ATO) cannot extend the lodgement date for the global information return. Penalties for late lodgement can be significant (i.e. similar to those imposed to Significant Global Entities).

However, during the transitional period, the ATO does not intend to impose penalties if reasonable steps to comply are taken. It is important for entities to ensure they meet the lodgement deadlines to avoid any potential penalties.

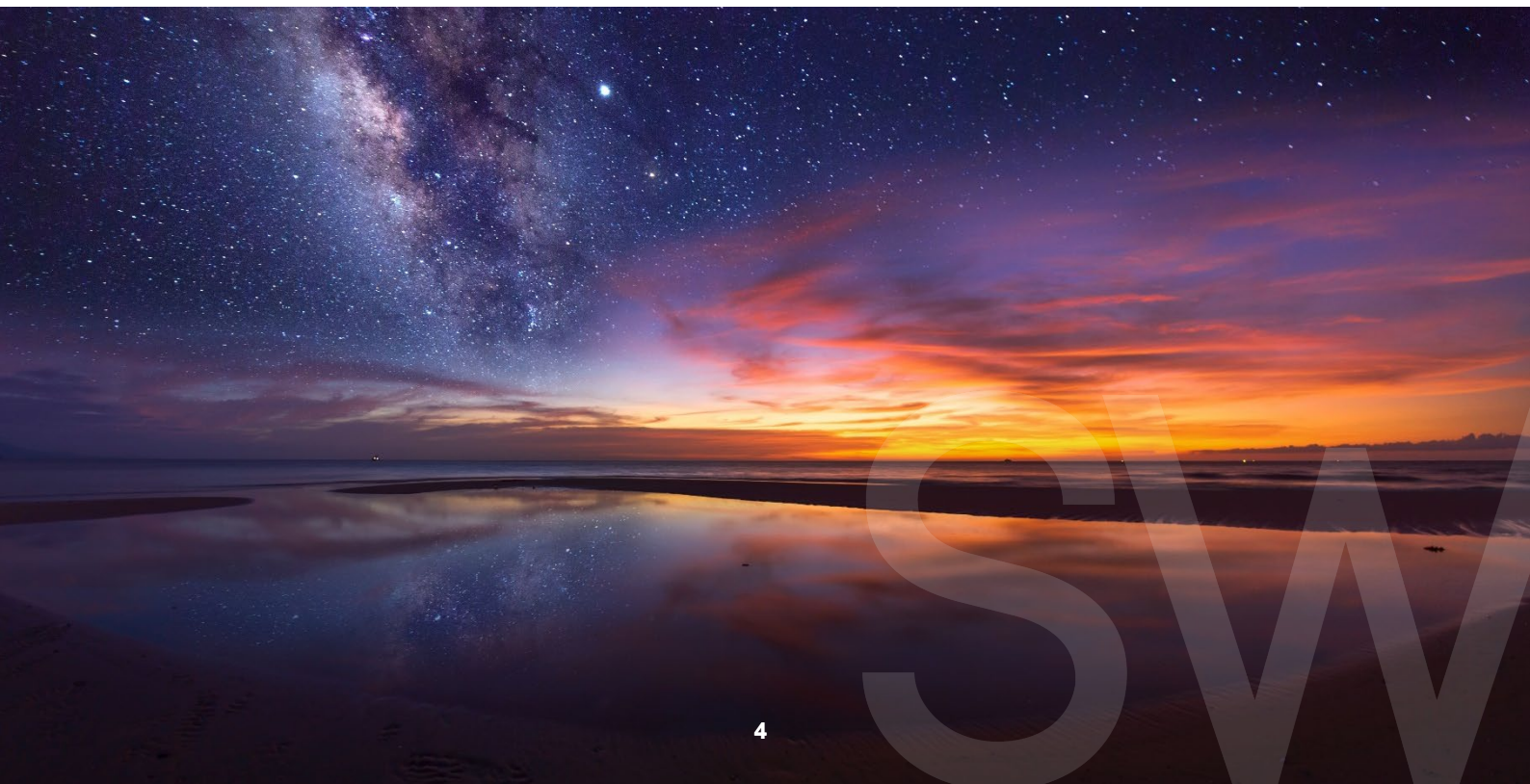
Do Australian entities need to lodge advance notifications or register for Pillar Two?

No advance notification or registration is required in Australia, but other countries may have different requirements.

How are Australian headquartered clients being assisted?

Australian headquartered clients are being assisted in several ways to ensure compliance with Pillar Two requirements. This includes developing a comprehensive Pillar Two implementation roadmap, which outlines the steps and timelines for achieving compliance.

Additionally, controls, process automations and systems for data collection are being implemented to gather the necessary information for Pillar Two calculations and lodgement of the Pillar Two returns. This holistic approach ensures that Australian headquartered clients are well-prepared to meet the Pillar Two requirements.



FAQs

How are foreign headquartered clients being assisted?

Australian subsidiaries of foreign headquartered clients are advised to start dialogue with their global head of tax to ensure that all required forms are lodged by the relevant due date. This dialogue is crucial to clarify their role in the implementation process and to coordinate the collection of necessary data. Additionally, it is important for Australian subsidiaries to understand the specific requirements of the Pillar Two framework as they could be subject to top-up tax in relation to group entities overseas either as an intermediate parent entity (where the ultimate parent entity's jurisdiction has not implemented Pillar Two) or under the undertaxed payment rule.



What is the transitional CbCR safe harbour?

The Transitional Country-by-Country Reporting (CbCR) safe harbour allows a jurisdiction to avoid complex Pillar Two calculations by deeming the top-up tax for the jurisdiction to be nil. This also simplifies the completion of the global information return. The safe harbour broadly applies for the first three income years.

To qualify for the Transitional CbCR Safe Harbour, the tested jurisdiction must meet one of the following criteria:

- **De minimis test:** The total revenue in the Country-by-Country Report (CbC report) is less than EUR 10 million, and the profit (loss) before income tax is less than EUR 1 million.
- **ETR test:** The simplified Effective Tax Rate (ETR) is:
 - Greater than or equal to 15% for the 2025 income year.
 - Greater than or equal to 16% for the 2026 income year.
 - Greater than or equal to 17% for the 2027 income year.
- **Routine profits test:** The profit (loss) before income tax is equal to or less than the substance-based income exclusion amount as calculated under the Pillar Two rules.



To rely on the safe harbour, the CbC report must be "qualifying." To be qualifying, the CbC report must be prepared (without adjustments) and filed using qualifying financial statements. Qualifying financial statements include:

- Accounts used to prepare the consolidated financial statements of the ultimate parent entity (UPE).
- Separate financial statements for each constituent entity (CE), provided they are prepared in accordance with acceptable or authorised financial accounting standards and the information is reliable.
- Financial accounts used for the preparation of the MNE group's CbC reporting if a CE is not consolidated into the group's consolidated financial statements solely due to size or materiality grounds.



Accordingly, care should be taken when preparing the CbC report going forward to ensure that they are qualifying. Reconciliations to the qualifying financial statements should be performed and retained.



Pillar Two experts



Daren Yeoh

T +61 3 879 849 714
E dyeoh@sw-au.com



Kirsty McDonnell

T +61 405 484 561
E kmcdonnell@sw-au.com



Antony Cheung

T +61 3 8779 6518
E acheung@sw-au.com



Kate Wittman

T +61 2 8059 6822
E kwittman@sw-au.com



Jason Ch'ng

T +61 3 8635 1836
E jchng@sw-au.com

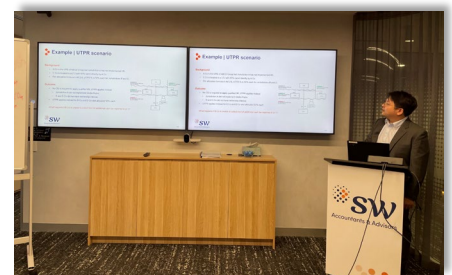


Sarah Hong

T +61 3 8102 5301
E shong@sw-au.com

Supporting our clients

Our **Pillar Two workshop** provides key insights on calculations of GloBE Income, Adjusted Covered Taxes, and more!



Visit [our website here](#) to stay informed of the latest in Pillar Two and more!

About SW

SW is an Australian owned advisory and accounting firm with a 90 year history that understands relationships make all the difference in delivering great outcomes.

12,000+
people globally

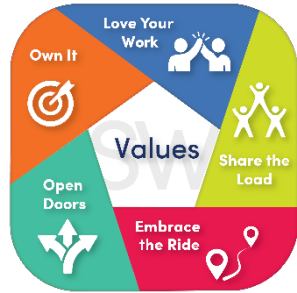
21 + 120
combined jurisdictions
with Praxity Alliance

102+
offices globally

400+
people nationally

90
years Australian owned

\$685.9m
worldwide revenue 2022
(USD)



Purpose | Build lasting relationships with our clients and people to achieve shared success

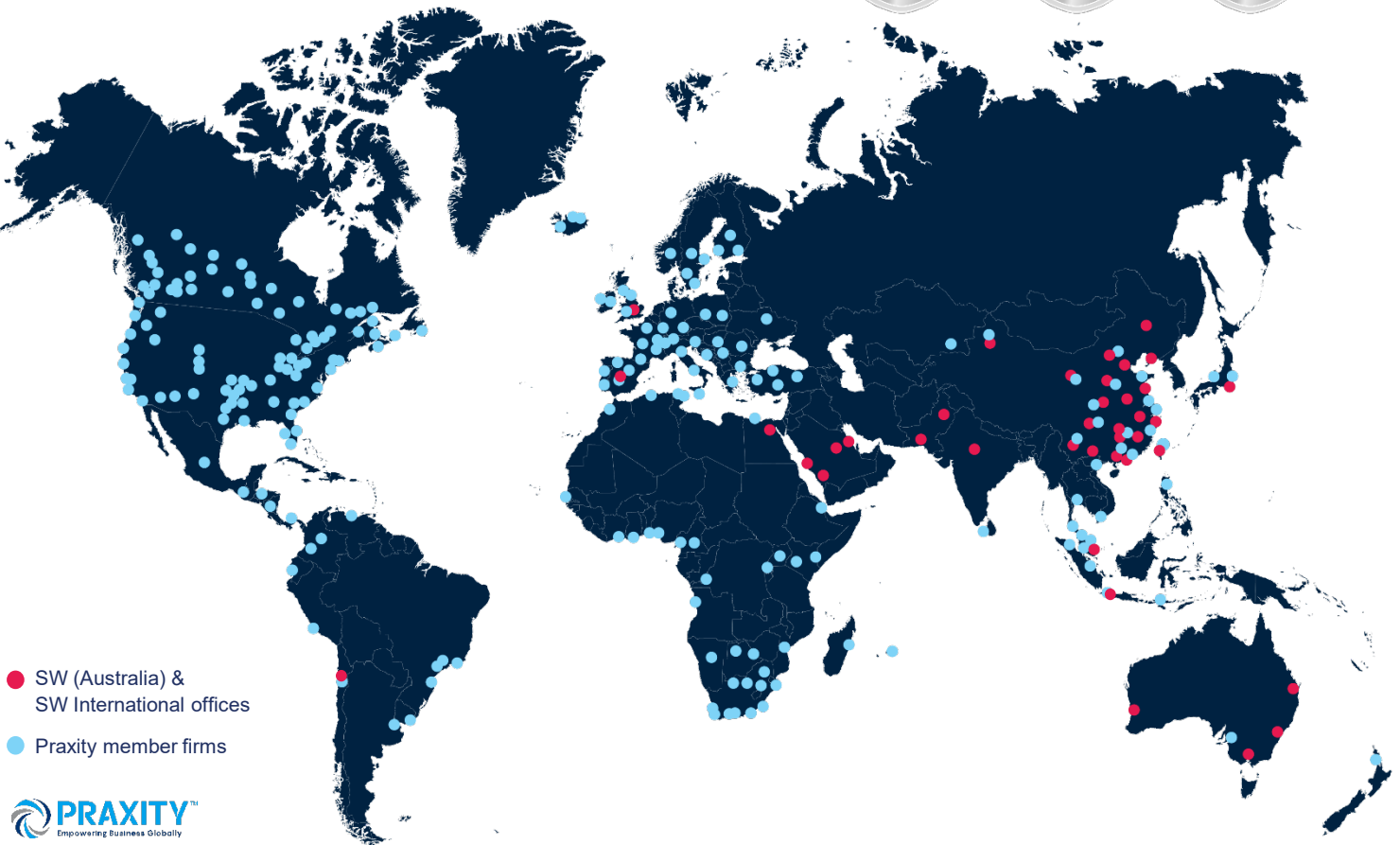
Values | We are a values led firm with these values embedded into our everyday behaviour and language and are unique to our people. They also reflect the manner in which we work with you.

We have 400+ people across four locations, and are ranked 22nd largest firm by revenue in the 2024 AFR Top 100 Accounting Firms. Of all national practices in Australia, we rank 9th.

As a member firm of SW International, one of the world's leading member organisations of independently owned and managed accounting and advisory firms, we also have access to professionals across the globe to support our clients in their global aspirations.



Connected to support you globally



- SW (Australia) & SW International offices
- Praxity member firms



 Take the lead

Australia's *best kept*
accounting secret



SW

Accountants & Advisors

Yuggera Nation

Brisbane
Level 15
240 Queen Street
Brisbane QLD 4000
T +61 7 3085 0888

Kulin Nation

Melbourne
Level 10
530 Collins Street
Melbourne VIC 3000
T +61 3 8635 1800

Whadjuk Nation

Perth
Level 18
197 St Georges Terrace
Perth WA 6000
T + 61 8 6184 5980

Eora Nation

Sydney
Level 7, Aurora Place
88 Phillip Street
Sydney NSW 2000
T +61 2 8059 6800



sw-au.com

SW acknowledges and pays respect to the past, present and future Traditional Custodians and Elders of this nation and the continuation of cultural, spiritual and educational practices of Aboriginal and Torres Strait Islander peoples.