Grant Thornton

Pillar 2 compliance roadmap – Safe harbor and penalty relief

Transcript

00:00:07:00 - 00:00:28:14

MONIQUE PISTERS:

Welcome to part three of our seven step approach for the Pillar 2 compliance process. In this video I will zoom in on which entities fall under the safe harbors of Pillar 2, to provide some welcome relief to OECD released guiding documents on the safe harbor rules of Pillar 2.

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MONIQUE PISTERS:

A company can apply for a safe harbor if any, of the following three tests are met. The de minimus test, the effective tax rate test, or the routine profits test. The tests are rather technical, but in short, they boil down to the following. The de minimus test is met if a company reports total revenues of less than €10 million and a profit before income tax of less than €1 million in a jurisdiction. The effective tax rate test is met if a company has an effective tax rate for a jurisdiction that is equal to or greater than the applicable tax rate for the year. And lastly, the routine profits test. This test is met if a company's profit before income tax in a jurisdiction is equal to or less than the substance based income exclusion amount. If applicable, the safe harbor rules effectively by a company relief of any detailed Pillar 2 calculations and reduces the jurisdictional top-up tax to zero, based on these simplified calculations.

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MONIQUE PISTERS:

As mentioned, these tests are rather technical. So for more information on particulars, we refer to our tax alert.

To provide for a smooth transition, the safe harbors are divided into a transitional period and a permanent period. The transitional safe harbor period is a short term measure to exclude a group's activities in low risk countries from the compliance burden of preparing a complete Pillar 2 calculation. The transitional safe harbors use information from companies, country by country, reports or financial statements to determine whether its activities in a country meet any of the three tests. The transitional periods applies for years beginning on or before December 31st, 2026. Furthermore, the report sets out a framework for future development of permanent safe harbors. That, if agreed, of course, would reduce the number of computations and adjustments a company is required to make.

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MONIQUE PISTERS:

The tests for the transitional period and the permanent periods are essentially the same. However, whereas the test of the transitional period is applied using the country by country report of a company, the test of the permanent period is applied by using the GloBE rules. Now you are updated on the safe harbors under Pillar 2.

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MONIQUE PISTERS:

In the next video we will talk about data collection, which is the fourth step in our Pillar 2 roadmap. Meanwhile, check out our website for more details on Pillar 2. And as always, feel free to contact me or one of my colleagues if you have any questions. Thank you for watching.