The New 15% Global Minimum Tax – Summary

On 20 December 2021, the OECD published the Model Rules on Pillar 2. These new rules mandate a 15% global minimum taxation in the case of undertaxed income in foreign jurisdictions. This is achieved either by applying a top-up tax at the parent company level – through the Income Inclusion Rule (IIR) – or at the subsidiary level – through the Undertaxed Payments Rule (UTPR). The Model Rules also create a new tax basis (GloBE Income) and define the Covered Taxes to uniformly determine and compare the effective tax rate (GloBE ETR) of in-scope MNEs for each jurisdiction.

The implementation timeline the OECD set forth is ambitious. Pillar 2 is intended to become effective in 2023, with the UTPR coming into effect in 2024.

Due to this urgency, affected companies must respond now. The new Pillar 2 rules significantly increase the compliance and reporting requirements. Therefore, the relevant data points must be identified and IT systems must be updated accordingly. All of these changes must be implemented prior to Pillar 2 coming into effect.

Key elements of Swiss implementation

Switzerland will implement Pillar 2 by introducing the IIR and the UTPR as well as a Qualified Domestic Minimum Top-Up Tax (QDMTT) for Swiss entities of in-scope MNEs. The later will be introduced to ensure a 15% minimum taxation in Switzerland in order to prevent taxation of Swiss profits abroad under Pillar 2. The additional tax proceeds are shared between the cantons (75%) and the Federation (25%). The cantons and the Federation will also be able to use their fiscal policy leeway to decide on locational measures ensuring Switzerland’s continued attractiveness as a business location.

Due to the urgency of the implementation, Switzerland plans to introduce this reform by a constitutional amendment. This will require a popular vote, which is expected to take place in June 2023. Based on the results, the Federal Council will then issue a temporary ordinance to implement these rules as of 1 January 2024.
Challenges for in-scope companies

This reform poses great challenges, which must be addressed within a very short time (see the graphic on the left). Due to the complexity of the tax calculation and the imminent application of the regulations, possibly already in 2023, there is a need for prompt action.

Timing of the different domestic Pillar 2 implementation processes:

- Switzerland plans to apply the IIR as well as the UTPR as of 1 January 2024
- The EU member states plan to apply the IIR in tax years on or after 31 December 2023 and the UTPR in tax years on or after 31 December 2024
- Currently, there is no indication on the timing of the Pillar 2 implementation in the US, nor does guidance exist regarding the co-existence of the GILTI regime with the Pillar 2 rules
- However, a single jurisdiction could trigger the application of these rules on at least a part of an MNE group as of 1 January 2023

Our EY BEPS 2.0 Service Offerings

We can help you become BEPS 2.0 ready and assist you throughout the implementation life cycle (see graphic on the right), through several tools in our offering. A first step usually is an interactive client workshop. From there, we can co-develop an action plan in line with your needs, where we provide strategic advice on:

1. **ETR impact**
   - ETR assessment and impact analysis with detailed ETR impact on the group by jurisdiction

2. **Structure and operating model**
   - Operational planning opportunities, including legal entity rationalization, strategies to mitigate the impact of lost tax incentives, and potential operating model changes

3. **Data & technology**
   - Assessment of compliance and data management systems, including the process, data source, system and technology readiness to meet data requirements to comply with Pillar 1 and Pillar 2 rules

4. **Tax accounting**
   - Identification of accounting and reporting impact on financial statements and develop a timeline for tax accounting implementation

5. **Controversy management**
   - Tax controversy management assessment, including maintenance of required documentation and strategy for engagement with tax authorities through the tax certainty panels

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