KPMG Meijburg & Co Tax & Legal

Pillar Two -Top 10 areas to watch for in 2025

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A few months into 2025, many Multinational Enterprises (MNEs) have their Pillar Two preparations well underway, while others are still engaged with preliminary efforts. Jurisdictions representing a third of global GDP have had Pillar Two rules (Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-Up Tax (QDMTT)) in effect already for fiscal year 2024, as part of a first 'wave', so Pillar Two tax has already 'bitten'. That being said, aspects of the rules remain to be clarified, and more than a year remains until most MNEs will need to pay Pillar Two tax and file returns.

2025 is set to be a year in which Pillar Two becomes ever more 'real'. The second 'wave' of jurisdictions will put their Pillar Two rules into effect, including several Asia-Pacific jurisdictions. The Undertaxed Profits Rule (UTPR) will come into effect in many jurisdictions. By the end of 2025 (as matters currently stand), MNEs will be facing the lapsing of the UTPR Safe Harbour (from 2026), as well as the looming end of the Transitional CbCR (Country-by-Country Reporting) Safe Harbour (from 2027). The first QDMTT related filings will be due by the end of 2025 (e.g., in Belgium, Vietnam). This is paralleled by the anticipated completion, by the OECD, of much of the administrative apparatus of the Pillar Two rules in 2025, e.g., dispute resolution, etc. An important overlay on this is the possibility of further changes to the overall Pillar Two architecture, as the US develops its position.

With all this ahead, in this article KPMG Meijburg professionals set out ten top Pillar Two areas to watch in 2025.

1. Pillar Two rollout 'completion'

Key message – By end 2025 the final 'steady state' adoption of Pillar Two by countries should be clearer

The OECD has stated that 65 jurisdictions have either legislated for Pillar Two or taken concrete steps towards legislating. This includes most European and Asia-Pacific jurisdictions, as well as a certain number of jurisdictions in Africa, the Middle East and the Americas. These jurisdictions collectively account for approximately 40% of global GDP. The OECD asserts that, by 2025, 90% of MNEs meeting the Pillar Two thresholds will be subject to the rules, reflecting the fact that most of the key hub locations will have the rules in place by 2025.

It seems likely that, as 2025 progresses, we may progressively get a sense of the 'final tally' of Pillar Two adopters, at least for the foreseeable future. Several major economies, which have so far not made concrete steps, could conceivably come on board with announcements in 2025. Some of these may join a third '2026 wave' of Pillar Two rule adopters.

That being said, there will likely be several jurisdictions that stay out for longer (or even indefinitely), including the US, several African and Latin American countries. China and India remain 'wait and see' cases.

2. Trade turbulence

Key message - The impact of proposed and implemented tariffs in 2025 could readily eclipse concerns over Pillar Two impacts. Interactions between the 'tariff story' and Pillar Two should become more apparent in the course of the year

Increased trade disputes and tariffs are already a feature of the 2025 narrative. Some of the increased tariffs being proposed by the US have been justified with reference to the financial support (including tax incentives) being provided to MNEs in other jurisdictions, and the manner in which they are asserted to distort competition. A question being raised is whether Pillar Two unavoidably accentuates these distortions, e.g., by favoring some forms of incentive over others, including certain US tax incentives.

The moves by the US to take action against UTPR jurisdictions, whether by way of tariffs or other measures, is linked to this. It remains to be seen whether modifications to the Pillar Two rules might be arrived at to assuage these concerns.

Given the very high levels of some of the tariffs being mooted by the US , it is also conceivable that these 'overwhelm' the costs associated with Pillar Two taxes, and render them something of a secondary consideration in corporate supply chain planning, etc.

3. Parallel tax system changes

Key message – Pillar Two is having a knock-on impact on the shape of Corporate Income Tax (CIT) regimes more generally, with many of these changes taking effect in 2025, and others likely to be announced in the course of the year

The rollout of Pillar Two has been paralleled with the introduction of CIT regimes, for the first time, in numerous Middle Eastern and Caribbean jurisdictions. Many of these are effective from 2025. At the same time, a degree of convergence in CIT rates towards 15% has been observed, with countries below raising their rates towards 15% and countries above lowering their rates towards 15%.

Beyond these changes, it is striking how jurisdictions adopting new CIT regimes have, in many instances, chosen to use the Pillar Two tax calculation rules, including its approach to calculating income and deductions. Several countries are also making modifications to their existing CIT regimes (e.g., Ireland's new participation exemption regime, the proposed EU initiative to 'declutter' overlapping and obsolete anti-abuse rules) to co-exist more harmoniously with the Pillar Two rules.

It remains to be seen, in 2025 and beyond, how CIT regimes across countries are adapted to conform to the Pillar Two template. Conceivably, a broader convergence in CIT bases, across jurisdictions, could arise.

4. Tax incentives

Key message – 2025 could see a raft of jurisdictions, across regions, finalizing new post-Pillar Two incentive regimes

Pillar Two tax can negate the benefits of various types of tax incentives, and countries in all global regions have indicated plans to revise their offerings to preserve their value to MNEs. This can involve replacing income-based incentives (tax holidays, low rates, etc.) with expenditure-linked refundable tax credits or grants (particularly in Asia-Pacific, Americas and Middle East), or tweaking existing credits to make them refundable (e.g., Ireland, Belgium). See our recent KPMG report.

Thus far, most of the changes are still at the proposal level – 2025 is expected to will see these measures take further shape. Countries are continuing to discuss what constitutes "related benefits" at the OECD, and it seems feasible (and sensible) that countries would wait for this to be clarified before moving forward.

5. Accounting and Pillar Two

Key message – As Pillar Two becomes more of an established reality in 2025, increased attention will be given to the effect of different GAAPs and accounting treatments on Pillar Two outcomes. At the same time, financial statements will increasingly reflect the impacts of Pillar Two

Pillar Two has an 'input' and an 'output' dimension in relation to accounting and financial reporting. On the 'input' side, the Pillar Two tax calculations are built on the basis of GAAP numbers, thus giving accounting treatments a great significance for Pillar Two tax outcomes for MNEs (including for the Transitional CbCR Aafe Harbour, where much effort has been invested by MNEs in 'firming up' on the accounting information used for CbCR). On the 'output' side, Pillar Two tax must be reflected in financial statement accruals and disclosures, raising some complex questions in relation to provisioning, impairment analysis, and allocation of tax liabilities across group entities and corporate stakeholders.

In 2025, as experience accumulates with conducting Pillar Two calculations, variant and unusual outcomes arising from the use of different GAAPs or special accounting treatments (e.g., for government concessions) could conceivably drive the issuance of further clarifications from the OECD and/or national tax authorities, and perhaps even revisiting of certain rule outcomes.

In parallel in 2025, publicity of the accruals for Pillar Two tax in 2024 financial statements will start to give a clearer sense of the tax revenue impact of the overall initiative. 2025 will also see increasing maturity of practices in relation to allocating Pillar Two taxes across groups, compensating minority investors, and providing legal protections in the context of M&A transactions. This will be partly a function of the finalization of domestic law Pillar Two tax liability allocation and penalty provisions in the course of 2025.

6. Transfer pricing and Pillar Two

Key message – In 2025 the complex interactions of transfer pricing with Pillar Two are set to become increasingly evident

In 2024, much of the interaction between corporate tax and transfer pricing teams centered on securing the usage of the Transitional CbCR Safe Harbour. In the course of 2025, the complex interactions of transfer pricing and Pillar Two rules are set to come increasingly to the fore. As the Pillar Two rules have been clarified through successive rounds of administrative guidance, it has become progressively clearer that the rules act upon a "GloBE (Global Anti-Base Erosion) accounting reality", which may differ from the accounting representation of corporate results. Key elements of this "GloBE accounting reality" are the GloBE arm's length principle rule, the prior year adjustment rules, and increasing numbers of anti-arbitrage provisions.

The manner in which transfer pricing adjustments will interplay with these rules, and the Pillar Two tax calculation, depends on many factors including whether adjustments relate to pre-or-in regime periods, whether they are bilateral or unilateral, the manner in which the adjustments are made (all at once, or over multiple years), whether MAPs are in point, etc. Given the significant size of transfer pricing adjustments, the manner in which these are handled could be very impactful for Pillar Two exposures. In consequence, in 2025, transfer pricing experts are set to take an ever-greater role in Pillar Two workstreams.

7. Pillar Two-driven data transformation projects and safe harbours

Key message – In 2025 the finalization of the permanent safe harbours, clarified reporting requirements and other considerations, will play into MNE decisions on whether to invest in comprehensive data transformation projects

MNEs impacted by Pillar Two have been moving at varying paces with upgrades to their accounting and tax information systems in response to Pillar Two. Some MNEs have invested heavily in comprehensive data transformation projects, in certain instances using Pillar Two as a consideration to support a substantive overhaul of their internal systems (which they may have already had in contemplation) and set themselves up for further enhancements in the years ahead, e.g., AI integration. At the same time, many MNEs have just 'made do' with their existing systems, preparing Pillar Two calculations using more traditional approaches, e.g., Excel spreadsheets and manual data collation.

In some instances this has been because the location of MNE operations has been such that the MNEs just face Pillar Two exposures as from 2025; their computations to-date have been undertaken in the context of a high-level impact analysis. However, there have also been MNEs whose operations are largely in-scope of Pillar Two as from 2024, but which 'got by' with excel-based computations. Oftentimes these are groups for which 90%+ of their jurisdictions fall within the Transitional CbCR Safe Harbour, meaning that more labor-intensive manual processes for the remaining jurisdictions were workable.

In 2025, many MNEs may revisit their position and decide to forge ahead with more comprehensive system upgrades. A key factor in this regard will be the shape of the permanent safe harbours, which are still under debate at OECD level. While business would prefer for these to be highly simplified calculations, if these prove to be more detailed, then some MNEs might see their decision tipped towards more comprehensive system upgrades.

A further factor could be variances in the information demanded in Pillar Two reporting and filings. The OECD's January 2025 GIR (GloBE Information Return) guidance provided that, in certain circumstances, the data used to complete the GIR for a jurisdiction might reflect the nuances of that jurisdiction's Pillar Two implementing legislation. In other cases, an MNE might find itself providing supplemental data to certain country tax authorities, beyond that entered in the GIR. This is in addition to the proliferation of early registration and notification requirements applying in many jurisdictions.

Further, MNEs might conclude that the increasing number of anti-arbitrage provisions, Pillar Two elections, changes to incentive regimes, transfer pricing interactions, etc., calls for more powerful systems for modelling and scenario planning.

8. Anti-abuse rules

Key message – 2025 may see greater clarity with regard to acceptable tax planning and post-Pillar Two group structure optimization

With the Pillar Two framework still being refined and clarified via administrative guidance, it remains unclear what arrangements and outcomes might be considered problematic under Pillar Two.

In the course of 2025, the 'rules of the road' are hoped to become clearer. While not part of the January 2025 OECD release, guidance might still be forthcoming later in the year. This could better assist MNEs in understanding what arrangements might be targeted by future anti-arbitrage rules developed by the OECD, or by national GAARs. Knowing what types of group structure and operating model optimization are acceptable would facilitate post-Pillar Two restructuring, such as simplification of corporate structures and application for new tax incentives.

9. Dispute prevention and resolution

Key message – As the potential for differences across jurisdictions in the interpretation and application of the Pillar Two rules become more apparent, there is anticipation that 2025 may see greater clarity in mechanisms to help ensure dispute prevention and resolution

As Pillar Two domestic legislation has been rolled out across countries, and as MNEs come to terms with the rules, the potential for diverging interpretations and applications of the rules has become increasingly apparent. This is in part due to ambiguities in the drafting of the model rules, especially pronounced when applied to highly industry-specific fact sets. It is also due to nuances in local legislation and guidance, including instances where national tax authorities seek to set out pragmatic simplifications for inherently complex rules, e.g., testing dates for the portfolio shareholding rules. This has increasingly led to questions on how differing interpretations across jurisdictions are to be addressed, to avoid the application of double tax.

2025 is anticipated to see further progress with the development of a Pillar Two dispute resolution framework. Key questions are what the scope of the dispute resolution framework might be (i.e., which interpretative/application divergences can be resolved via the dispute resolution mechanism, and which cannot) and what legal mechanisms might underpin it (e.g., multilateral treaty, corresponding domestic law provisions, bilateral arrangements). The January 2025 release saw transitional qualified status granted for Pillar Two rules in 30+ jurisdictions. That being said, it remains to be seen to what degree the application of a QDMTT Ssafe Harbour to an MNE's operations in one country 'protects' it from audit by other jurisdictions, and how transitional qualified status moves to permanent qualified status.

These themes also link to broader questions on the overarching Pillar Two administrative framework, including the use of joint audits, joint risk assessment (e.g., ICAP), information exchange, etc. – these seem likely to also see further clarity in 2025.

10. Future evolution of Pillar Two

Key message – With 2025 facing a period of tumult in the trade and tariffs space, the future shape of Pillar Two might still not be clear by year end. Nonetheless, some hints as to the future evolution of the rules may emerge

Even as MNEs grapple with the practical aspects of applying Pillar Two to their operations, questions are also frequently raised on "where things go from here". Could the scope of Pillar Two be expanded at some point in the future, either via global agreement or by the action of individual jurisdictions? Might the revenue threshold be lowered, to bring in smaller groups, or might non-consolidated holdings of wealthy families be targeted? Might there be a move to raise the rate from 15%? Or might a shift away from global tax collaboration lead Pillar Two to be 'frozen in aspic' for an extended period? Could we even see some jurisdictions take steps to roll back elements of their Pillar Two rules?

2025 might be too early for answers on these longer-term questions, particularly if we are looking at a period of tumult in international trade relations, but it is still a space to be monitored for indications on future trends.

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