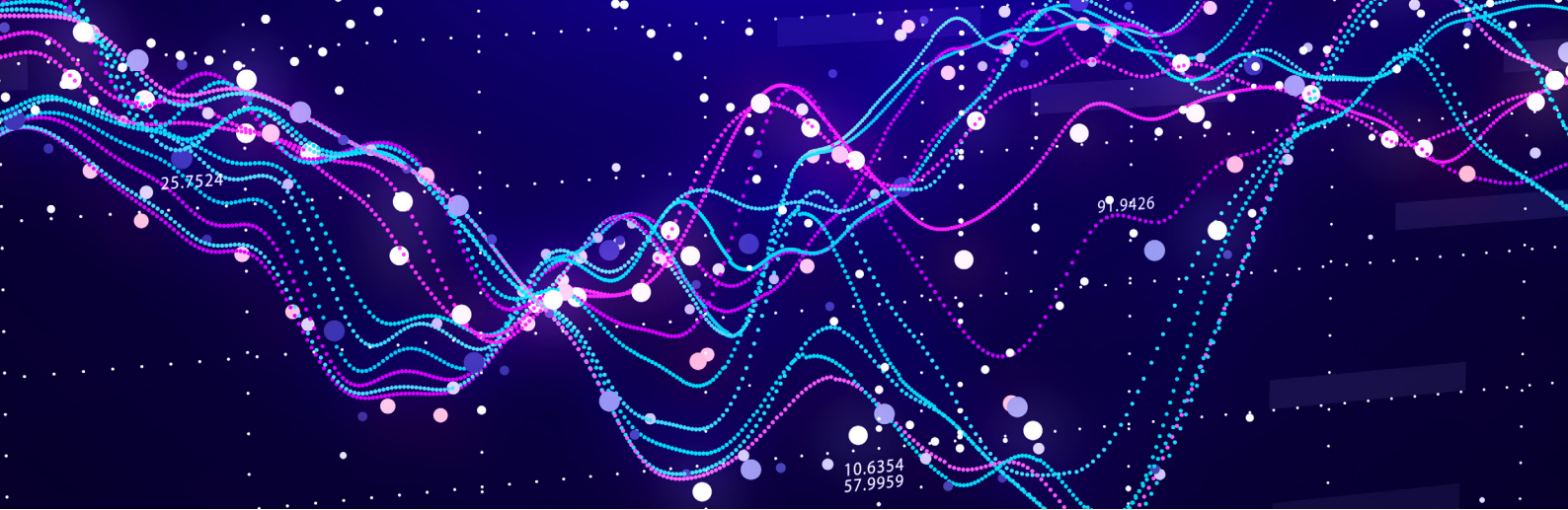


Pillar 2 readiness journey A&M's approach



Introduction to the Pillar 2 (GloBE) rules

The Pillar 2 (GloBE) rules constructed by the OECD set out global minimum tax rules designed to ensure that large multinational companies pay a minimum effective tax rate of 15% on profits in all relevant countries. The GloBE rules are applicable to Multinational Enterprises (MNEs) with consolidated revenues exceeding EUR 750 million in at least two of the four years immediately preceding the tested year.

In instances where an MNE has an Effective Tax Rate (ETR) that is lower than the 15% minimum rate, additional tax (or top-up tax) is due. This top-up tax would be collected under one of the following collection mechanisms:

- i. Domestic Minimum Top-Up Tax (DMTT)
- ii. Income Inclusion Rule (IIR)
- iii. Under Taxed Profits Rule (UTPR)

In order to calculate their ETR, MNEs must follow specific rules and adjustments to their financial accounting net income (to arrive at their GloBE Income or Loss) and to their current tax expense accrued for financial accounting purposes (to arrive at their Covered Taxes). This exercise can be quite complex, especially considering the OECD's proposed 21 elections for GloBE Income or Loss calculation purposes.

For the first years of application of these rules, the OECD proposes a measure to simplify the Pillar 2 compliance and calculation requirements: the CbCR Safe Harbour. This Safe Harbour allows taxpayers to rely on their qualifying CbCR data to reduce the top-up tax in a particular jurisdiction to zero, where certain criteria are met.

As of now, 30+ countries worldwide have introduced the Pillar 2 rules. Bahrain was the first GCC country to release executed Pillar 2 related guidance, demonstrating their planned implementation strategy. Furthermore, we have seen increased activity across the Middle East, in reference to the Pillar 2 domestic implementation, with the UAE and Kuwait announcing the implementation of a DMTT from 1 January 2025, the Qatari authority updating the standing law to allow for the inclusion of future Pillar 2 related provision and KSA is due to release a statement of intent in the coming months.



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Why should you start preparing today?

The countries that have already implemented the Pillar 2 rules include a number of large markets such as most of Europe, UK, Canada and some APAC countries, with the application of their domestically implemented rules commencing from 1 January 2024. Therefore, groups with operations within these jurisdictions could have compliance obligations for the year ended 31 December 2024, with the first global information return due by the end of June 2026.

However, even if this is not the case, there are advantages stemming from an early Pillar 2 readiness journey, including:



Ample time to consider optimization opportunities and group reorganizations, which could include available changes to the current top level of consolidation of the group, commercial considerations on operations overseas and possible entity rationalizations to remove dormant or unnecessary companies. The consideration of optimization strategies could help with reducing the data impact and tax exposure of these rules.



Sufficient time to complete a comprehensive audit of the group's current data landscape, requirement for ERP alignment across all in scope jurisdictions and implementation of a remediation strategy to address data gaps allowing for an elaborate and efficient data process.



Moreover, the prompt commencement of a Pillar 2 project plan allows sufficient time for detailed deep dive workshops with internal Tax and Finance functions on the more complex data points included within GloBE Income and Covered Taxes. As part of this process, groups can also determine how effective the CbCR Safe Harbour will be, considering the OECD administrative guidance and implemented domestic legislation on these matters.



Identification of automation opportunities in transitioning jurisdictional source data into a Pillar 2 tailored solution, enabling automation of the complex calculations, limiting the requirement for a vast reallocation of internal resource. Moreover, businesses who start their Pillar 2 journey in advance are able to design implementation plans for any chosen new solutions, allowing for extensive time for integration, training of key internal stakeholders, completion of scenario testing and initial data inputs to ensure a complete connection from the source data to the new Pillar 2 solution.

How Can A&M Help?

A&M has developed a detailed phased approach to support MNEs navigate the entire Pillar 2 readiness journey, as follows:

Phase

01



Pillar 2 Technical Analysis

The A&M Pillar 2 readiness approach naturally starts with a Pillar 2 impact assessment, during which our team assesses the scope of the GloBE rules and prepares an estimate calculation of the Top-Up taxes arising under the GloBE rules for the MNE Group. As part of this phase, we also assess whether the MNE Group may benefit from the CbCR Safe Harbour, based on the available CbCR data for the group, and identify any of areas of simplification. Whilst the UAE Pillar 2 rules are not yet released, we expect them to follow the OECD recommendations. Therefore, our analysis at this stage is based on the available OECD framework and guides.

Phase

02



Technology & Data Assessment

Following completion of Phase 1, A&M seeks to understand the MNE's current organizational structure, the role of the internal business functions (i.e. Tax, Finance, Legal & IT) and which Pillar 2 data points can be extracted from the group's current systems and processes. We also seek to identify any gaps between the MNE's data capabilities and the Pillar 2 data requirements, while advising on strategies to potentially mitigate any gaps identified. A&M recognizes the importance of upskilling the relevant stakeholders within MNEs on the required Pillar Two data points, and therefore we also conduct data workshops with key stakeholders leveraging our Pillar 2 Data Catalog.

The backbone of Pillar 2 compliance is data. Meeting this requirement is heavily dependent on the ability of tax departments to collect, validate and process tax, financial and operational data. While this may sound manageable at first glance, the reality is far more complex. MNEs often operate in numerous tax regimes, each with its own unique rules. These organizations typically rely on local finance teams to manage their data. Pillar 2 compliance, however, demands consolidated data across jurisdictions, requiring these local teams to coordinate effectively with their headquarters to meet reporting obligations.

Once the data is prepared and the foundation is established the implementation of a system that enables organizations to calculate their Pillar 2 obligations is essential. While some organizations may consider using excel or manual processes to meet Pillar 2 requirements, this approach carries significant risks. Manual reconciliation of data is time-consuming and prone to error.

Organizations should invest in scalable solutions to address these challenges effectively. At A&M, we are prepared to support you throughout the entire process, from vendor selection to solution implementation. We are your trusted partner on your Pillar 2 journey, ensuring compliance while building a sustainable framework for the future.

Phase 03



Operational Remediation (Organizational Readiness)

During Phase 3, we support MNEs with selecting their Pillar 2 compliance models, supporting them in making strategic decisions about whether to insource, outsource or opt for the hybrid approach. The decision depends on several factors including the organization's existing resources, expertise, and technology.

For organizations with robust tax functions, well-integrated technology systems, and experienced teams, insourcing Pillar 2 compliance can be a viable and efficient option.

For MNEs lacking sufficient in-house resources or expertise, outsourcing Pillar 2 compliance can alleviate the burden while ensuring compliance with evolving global rules.

Some MNEs may find a hybrid approach most effective—insourcing key compliance activities while outsourcing more labor-intensive or technical tasks, such as data reconciliation or jurisdiction-specific filings. This approach allows organizations to retain control over strategic decisions while leveraging external expertise where needed. Pillar 2 compliance extends beyond the tax department, requiring the collaboration and input from various functions within the organization. To ensure seamless collaboration, a framework that outlines roles, responsibilities and escalation protocols should be established.

Our team of tax transformation specialists can guide you through choosing the proper sourcing model and define the right framework for collaboration within your organization. We work closely with your tax, finance, IT, and operational teams to identify gaps, align responsibilities, and establish a governance structure that ensures seamless coordination.

Phase 04



Vendor Selection

We provide advisory and support services for vendor selection, offering a solution-agnostic approach to help identify and adopt suitable solutions to facilitate Pillar 2 compliance requirements. Our team ensures an objective evaluation of vendors, enabling clients to select a solution tailored to their specific needs.

Phase 05



Solution Implementation

We provide end-to-end support for implementing chosen solutions, including design, configuration, testing, training, and deployment. Our expertise ensures a seamless integration with your existing processes and systems while minimizing disruption.

During the implementation phase, we support with implementing the strategies identified for the mitigation of any gaps between MNE's data capabilities and the Pillar Two Data requirements, and continue to focus on stakeholder development, with more granular technical training sessions.

We offer comprehensive training and upskilling programs to ensure teams are equipped with the necessary knowledge and skills to understand how to best leverage new tax processes and technology solutions. We support our clients in change management, updating relevant source systems and designing data workflows and templates to enhance efficiency and compliance.

Phase 06



Ongoing support and compliance

Following the implementation stage, A&M is available to support MNEs with the compliance process or review of initial compliance obligations (for GloBE return and Domestic Minimum Top-up Tax Return purposes). We also offer ad-hoc advisory support on on-going Pillar 2 technical positions and legislative updates/procedure changes driven by in scope domestic law and OECD guidance.



Please reach out to the listed authors to discuss how these changes may impact your business.

KEY CONTACTS



Pierre Arman

Managing Director
Middle East

parman@alvarezandmarsal.com



Djanno Boskan

Senior Director
Middle East

dboskan@alvarezandmarsal.com



Jordan Gill

Director
Middle East

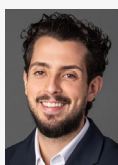
jgill@alvarezandmarsal.com



Matilde Barroso

Assistant Director
Middle East

mbarroso@alvarezandmarsal.com



Joulán El Msharafieh

Manager
Middle East

jelmsharafieh@alvarezandmarsal.com

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Alvarez & Marsal Tax, part of Alvarez & Marsal (A&M), a leading global professional services firm, is an independent tax group made up of experienced tax professionals dedicated to providing customized tax advice to clients and investors across a broad range of industries. Its professionals extend A&M's commitment to offering clients a choice in advisors who are free from audit-based conflicts of interest, and bring an unyielding commitment to delivering responsive client service. A&M Tax has global presence in major metropolitan markets throughout the Americas, EMEA, and APAC.

Alvarez & Marsal Tax is a founder of Taxand, the world's largest independent tax organization, which provides high quality, integrated tax advice worldwide, and represents the Global Network in the US and UK. Taxand professionals, including 770+ partners and more than 3,000+ advisors in 48 countries, grasp both the fine points of tax and the broader strategic implications, helping you mitigate risk, manage your tax burden and drive the performance of your business.

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