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Understanding the Business Response to the OECD/G20's Pillar Two Initiative: A Survey Analysis

Aurifer Middle East had the privilege of representing the business community at the UNCTAD's 8th World Investment Forum held in Abu Dhabi, a reason it conducted a survey for MNEs operating in the UAE and the Gulf to gauge where businesses stand and their readiness to adapt to the impending changes of the OECD/G20's Pillar Two Initiative. The data and sentiments captured in this survey were shared in the forum, bringing the GCC business perspective to a global stage.

overview

The OECD and G20 countries' original Base Erosion and Profit Shifting project ('BEPS 1.0') was concluded in 2015 with an agreement on 15 action items. These 15 action plans focused on addressing cross-border tax loopholes that were eroding corporate tax bases. However, the action plans did not impose direct changes to the domestic tax law of OECD member jurisdictions but rather enhanced the existing tax frameworks.

Following the passage of time, the consensus was that the BEPS 1.0 project did not fully solve the challenges that came with the digitalisation of the economy. As such, the BEPS 2.0 initiative was proposed by the G20/OECD which aimed to update and strengthen the original BEPS measures and ensure that the global tax system is fairer and more effective. BEPS 2.0 will address these issues by recommending a new coordinated approach to international taxation.

The BEPS 2.0 project comprises two pillars: Pillar One seeks to introduce a revised allocation of taxing rights over a share of profits toward market jurisdictions. Pillar Two looks to introduce a global minimum tax of 15% for large Multinational Enterprises (MNEs) with consolidated revenue over EUR 750 million (approximately AED 2.9 billion).

Background Context

The 140+ members of the OECD's Inclusive Framework, including the majority of the GCC countries, have committed to implementing the Global Anti-Base Erosion (GloBE) rules, which are the basis for implementation of Pillar Two.

Some jurisdictions, such as the EU Member States, the UK, Switzerland and South Korea have agreed to adopt the GloBE Rules into their respective domestic legislations to be applicable from January 2024. Others such as Singapore and Hong Kong are looking to postpone implementation until 2025. Similarly, the UAE's Ministry of Finance (MoF) has indicated that Pillar Two will not be operational in the country in 2024.

Instead, a public consultation regarding its implementation is slated for release in the first quarter of 2024. This decision reflects the MOF's acknowledgement that businesses are already facing a substantial transition domestically with the implementation of the UAE's domestic corporate tax law applicable for accounting periods beginning on or after June 2023. It also underscores the country's desire to understand business sentiment and preparedness on such transformative measures.

survey analysis

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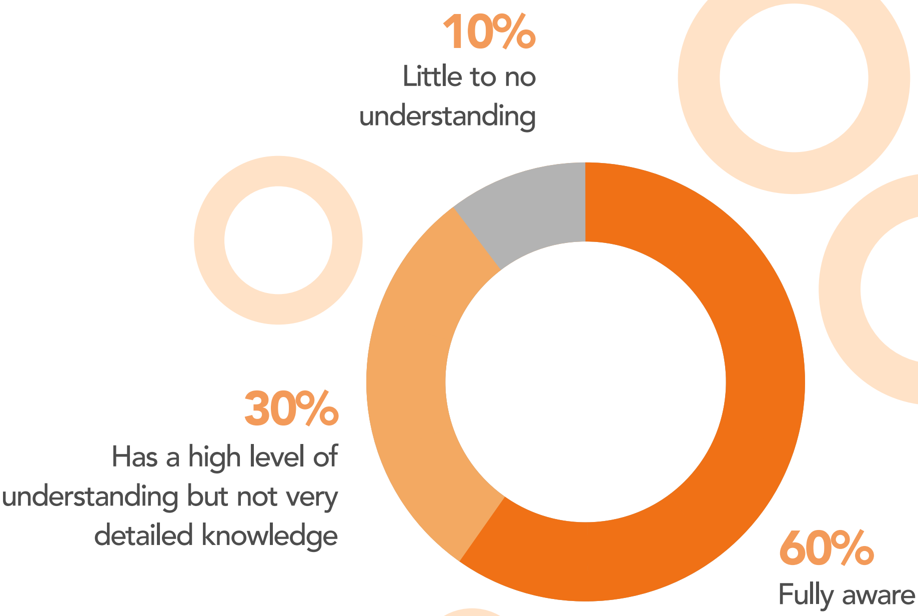
The data collected from the survey offers an insight into how businesses are viewing and preparing for the Pillar Two initiative. Let's delve into the results:

Is your organization aware of the OECD/G20's Pillar Two initiative on the Global Minimum Tax aiming to introduce a minimum effective tax rate of 15% for Multinational Enterprises with annual consolidated group revenues exceeding EUR 750 million?

60% of respondents indicated that they are fully aware of the OECD/G20's Pillar Two initiative. This highlights that a majority of the businesses are proactive in keeping abreast of global tax changes and understand their potential implications.

30% have a high-level understanding but lack detailed knowledge. This segment represents businesses that might need further guidance and education to grasp the intricacies of the initiative fully.

Surprisingly, 10% admitted to having little or no understanding. While it's a minority, this emphasizes a crucial segment that might face significant challenges if they remain uninformed as the initiative rolls out.



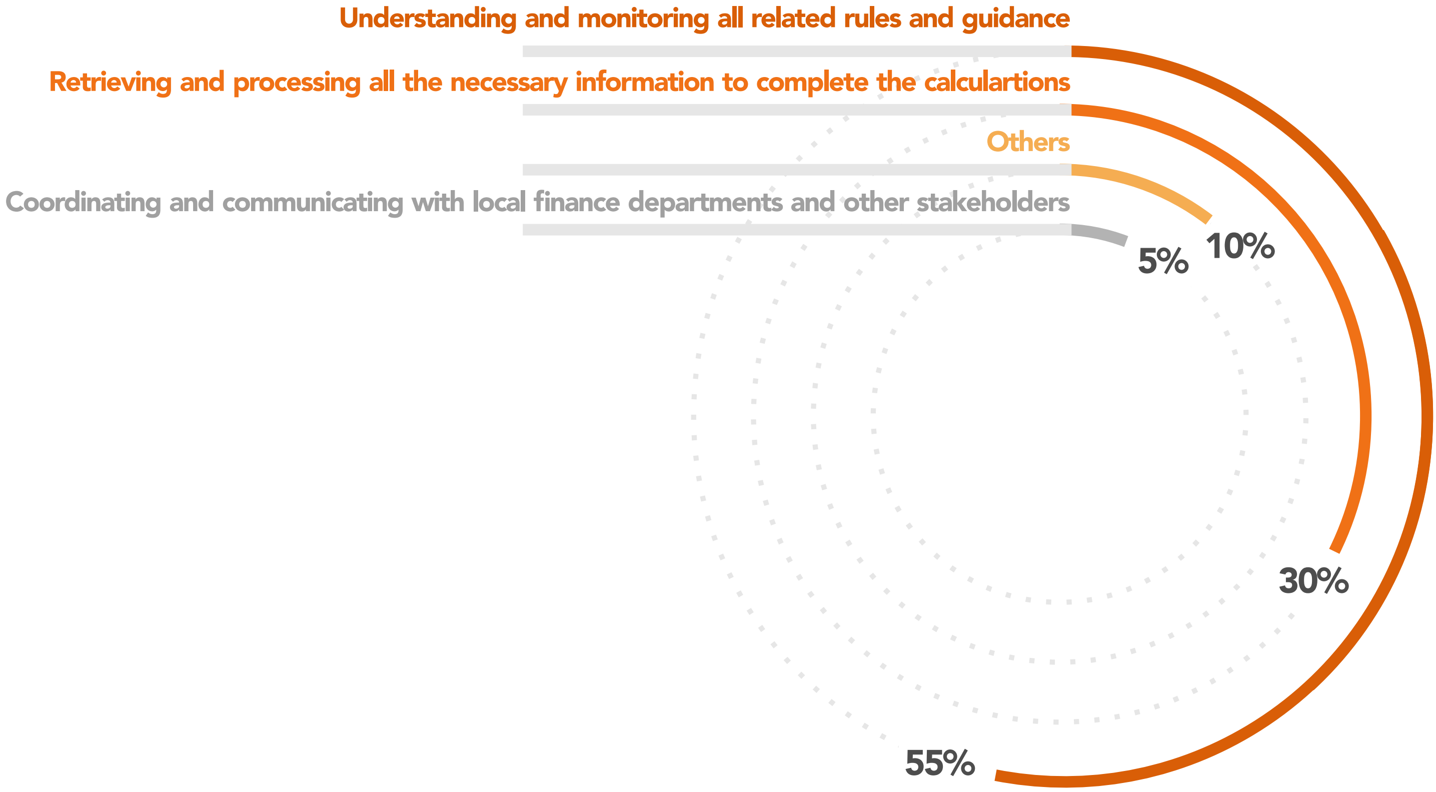
What is the biggest challenge your organization faces in the context of the OECD/G20 Pillar Two initiative and planned implementation?

The primary challenge, as expressed by 55% of respondents, was understanding and monitoring all related rules and guidance. This underscores the complexity of the new tax rules and the necessity for clearer guidelines and educational resources.

30% found the retrieval and processing of information for calculations to be the most daunting. This could indicate potential operational or infrastructural challenges in assimilating and computing the required data.

Only 5% cited coordinating and communicating with local finance departments as their primary challenge, suggesting that internal communication might not be as big a hurdle compared to understanding the initiative itself.

The remaining 10% fell into the 'Other' category, suggesting unique challenges faced by specific businesses.

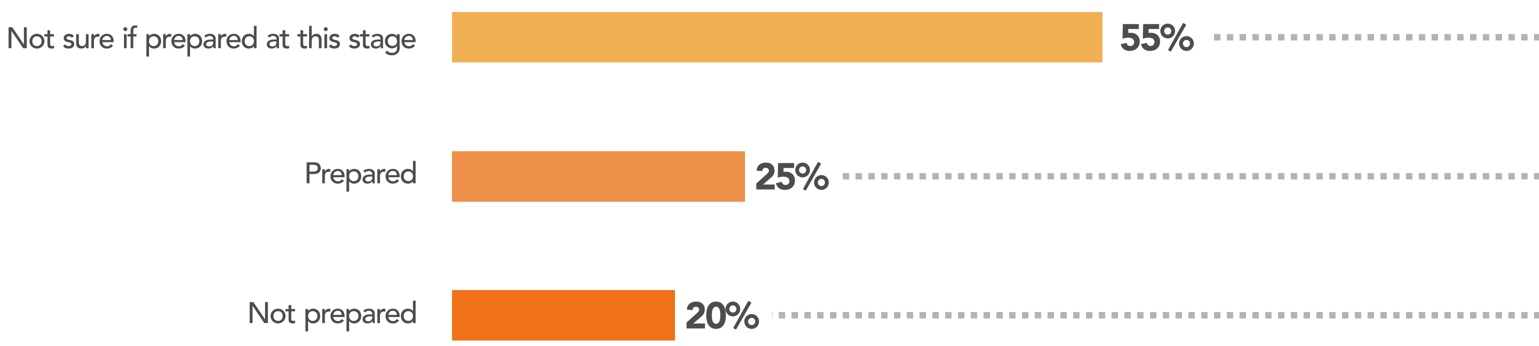


Preparedness of Staff

A notable 55% were uncertain about their staff's preparedness in undertaking Pillar Two-related calculations and rule applications. This uncertainty underscores the importance of capacity-building and training in the run-up to the implementation.

25% felt confident in their staff's capabilities, suggesting a robust internal training or hiring of experts proficient in the domain.

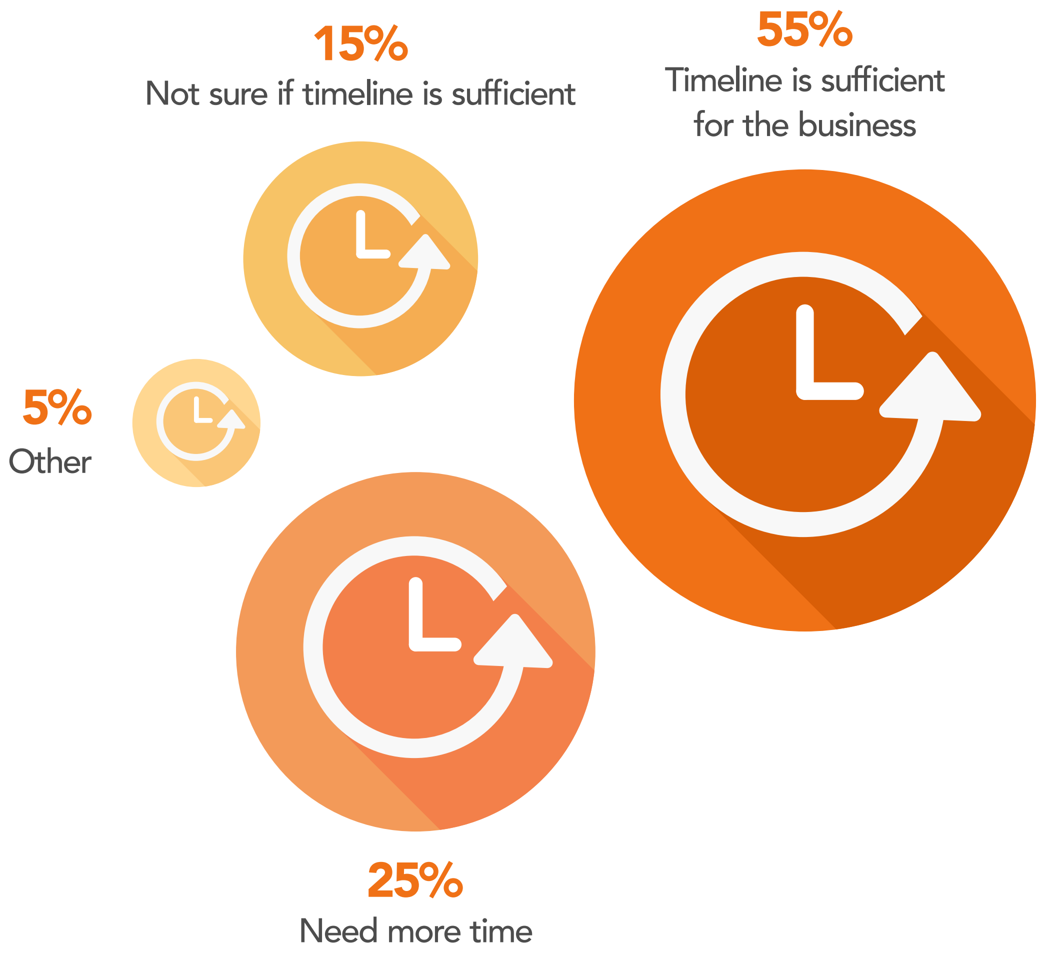
Only 20% voiced concerns, indicating potential gaps in knowledge or expertise.



Timeline Acceptance for Pillar Two in the UAE

55% felt the 2025 timeline for introducing Pillar Two in the UAE was adequate, reflecting a general sentiment of readiness or at least confidence in getting prepared in the stipulated time.

However, 25% opined that they need more time, signaling potential challenges in restructuring or aligning with the new tax regime.



Impact on Investment Decisions

Opinions were varied when it came to the impact on investment decisions. While some foresaw potential shifts due to increasing corporate income tax, others felt investment would remain largely unaffected, driven by non-tax factors such as client location.

A significant portion (35%) believed that their stance would be influenced by the UAE government's responsive measures, like alternative incentives.

While there is a general awareness and understanding of the initiative, there are clear indicators of areas where businesses feel they need more support, clarity, and time.

50% Investment decisions are fundamentally driven by non-tax factors (e.g., clients location).

35% The impact depends on responses put in place by the UAE government

10% Do not know / the tax department is not involved in this kind of strategic planning

5% Increasing corporate income tax will reduce investment in the UAE

Summary and insights

From Aurifer's survey, a few pivotal insights emerge:

Awareness and Preparedness:

While a majority of companies in the GCC display commendable awareness of the upcoming changes, there is a tangible demand for more detailed resources and guidelines. The need for capacity-building, especially in terms of staff training and understanding of the initiative, stands out as a clear call to action.

Challenges Ahead:

The intricate nature of the Pillar Two initiative brings forth multiple challenges, from understanding its nuances to the logistical aspects of data retrieval and processing. Businesses are voicing these concerns, and it's crucial for regulators, advisory firms, and policymakers to take note and provide the necessary scaffolding.

Investment Implications:

The jury is still out on how the Pillar Two initiative will shape investment decisions in the GCC. While some businesses foresee potential hurdles due to tax changes, others view it as one of the many factors influencing their decision-making. The role of the UAE government, and its responsive measures, will play a critical part in shaping these outcomes.

The Role of Advisory Firms:

As highlighted by the survey's responses, advisory firms play a pivotal role in bridging the knowledge gap, offering clarity, and guiding businesses through these difficult times.

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