



Date July 2024

Dear Sir or Madam

UK adoption of Organisation for Economic Cooperation and Development (OECD) Pillar 2

Our information suggests that your business may be in scope of Domestic Top-up Tax (DTT) and/or Multinational Top-up Tax (MTT). The UK government introduced these taxes from 31 December 2023.

Please check how these taxes may affect your group and what you need to do to comply with them. If your group is affected, you'll need to continue to monitor global and domestic developments.

This is our third Pillar 2 update. It includes:

- why your group will have to register for Pillar 2 top-up taxes and file returns – even if you don't owe any tax
- an update on our new online service and how to register
- our latest guidance and where to find it
- how safe harbours can help reduce your compliance obligations, and who qualifies

You should show this letter to your group's UK Senior Accounting Officers and/or Chief Financial Officer, and those responsible for your international accounting and tax compliance.

Look out for more updates

We'll send you more updates about Pillar 2 developments, guidance and events, to help your business prepare for the changes.

Please share your progress on implementing Pillar 2 with your Customer Compliance Manager (CCM), as part of your ongoing conversations. Tell them if you don't believe your group will be in scope of MTT and DTT and you don't want to receive Pillar 2 updates.

Getting advice

If you have a tax adviser, you may want to discuss this with them. We've shared an example of this letter with many advisers who might represent groups in scope of Pillar 2. We're also having conversations with them about how we can best support affected businesses.

— Yours faithfully

Clare Walsh

Pillar 2 Technical Lead

To find out what you can expect from us and what we expect from you, go to <https://www.gov.uk/government/publications/hmrc-charter>.



You should check if Pillar 2 may affect your business and keep up to date with global and domestic developments.

Common misconceptions – UK compliance obligations and scope of MTT and DTT

Some businesses have estimated that they won't have to pay any MTT and/or DTT but have mistakenly assumed that this means they won't have UK compliance obligations. As with other UK direct taxes, if your business is in scope, you'll still have reporting obligations, even if there's no tax liability. This means you'll need to register for Pillar 2 top-up taxes, file returns and make notifications. This applies to both UK and non-UK headed groups, regardless of whether the jurisdiction of the ultimate parent entity implements Pillar 2.

The group's filing member will need to submit a UK Pillar 2 Self Assessment return and a GloBE Information Return (GIR) to HMRC for every accounting period that the group is within scope of MTT and DTT - or DTT only, if the group is a domestic-only group. If a GIR has already been submitted to a qualifying authority outside of the UK, then an overseas return notification will need to be submitted to HMRC instead of a GIR. This also applies to businesses where the UK presence is limited to a UK branch.

HMRC online service

We're developing a new online service to help businesses meet their MTT and DTT obligations. This will include the ability to register, file returns and make notifications and payments. We're releasing the service in stages.

You can now register for the Report Pillar 2 top-up taxes digital service, using your Government Gateway account. Make sure you are using your sign in details and not your tax adviser's credentials. To set up a Government Gateway account or sign in, please go to GOV.UK and search 'HMRC online services'.

Once you have signed in to the Government Gateway, registration for the Report Pillar 2 top-up taxes digital service is simple. You don't need to give us any financial information. All you need is:

- details of the ultimate parent entity
- details of the filing member if it's not the ultimate parent entity
- contact details for the individual or tax team responsible for filing returns
- the accounting period start and end dates

The deadline to register is six months from the end of the accounting period in which your group becomes a qualifying group.

When you register, you'll get a Pillar 2 reference number. Please make a note of it and the date that you register. You may wish to use the print page function to save a PDF, as you will not receive a registration email confirmation at this stage of development of the online service. You'll need this information if you want to contact us at a later date.

We expect to release the next stage of the online service in Autumn 2024. This will allow you to make payments on account.

We are working with third-party software providers to provide you with the ability to submit UK Pillar 2 returns using existing third-party software products. Further information will be provided on this in future communications. We also welcome additional businesses helping us to further develop the online service. Please get in touch if you would like to take part.

Guidance

We published more draft guidance in December 2023, including updates to previously released pages on chargeability, scope and administration, in June 2023. We've also published a new section on:

- calculating the effective tax rate
- applying MTT and DTT to particular types of entity

The consultation period for this guidance has now ended however if you have any additional feedback on the draft guidance, please send this to us and include the page number where relevant. We're reviewing the responses we received so far which will feed into a future guidance update.

We'll publish further draft guidance in the coming months. This will include:

- a section on determining top-up tax amounts (covering chapters 6-8 of Part 3 of Finance (No.2) Act 2023)
- more guidance about particular types of entities and structures

To see the draft guidance, go to GOV.UK and search 'Multinational Top-up Tax and Domestic Top-up Tax'.

The OECD has recently published further Agreed Administrative Guidance (June 2024) and Consolidated Commentary to the Global Anti-Base Erosion Model Rules, incorporating the Agreed Administrative Guidance that has been released by the Inclusive Framework between March 2022 and December 2023. There are also updated Illustrative Examples. To find these, go to www.oecd.org and search 'Pillar two'. Follow the link to the top search hit, then scroll down to:

- 'Agreed Administrative Guidance' – published 17 June 2024
- 'Consolidated Commentary to the Global Anti-Base Erosion Model Rules (2023)' – published 25 April 2024
- 'Illustrative Examples' – published 25 April 2024
- 'Agreed Administrative Guidance' – published December 2023

Legislation

The Finance (No.2) Act 2023 and Finance Act 2024 Schedule 12 contain the UK legislation that implements MTT and DTT.

We'll continue to amend our legislation, where necessary, so that it's consistent with the UK's international obligations.

For more information on the latest position and for access to the draft legislation, please go to GOV.UK and search 'multinational top-up tax amendments'.

Webinars

We'll offer a number of webinars in Autumn 2024 to help businesses prepare for their Pillar 2 obligations. These will cover the scope of the legislation, reporting obligations and safe harbours. They will give you the opportunity to ask us questions about Pillar 2. We'll announce dates and how to join nearer the time. If you have suggestions for topics you'd like us to cover in webinars, please email us at pillar2mailbox@hmrc.gov.uk

Transitional safe harbour

You may be able to take advantage of the transitional Pillar 2 safe harbour, to make it easier for you to administer the new taxes. Qualifying for a safe harbour doesn't exclude you from registering and filing returns.

A transitional safe harbour aims to reduce the compliance obligations for groups in the first years of the regime. It allows groups to use figures calculated for the purposes of Country-by-Country (CbC) reporting to assess if they're likely to face a top-up tax under MTT for a territory. If these simplified calculations show that one of the safe harbour tests is met, the group is treated as having no tax charge and doesn't have to perform the full effective tax rate calculation.

You'll find our draft guidance on this at MTT15900 onwards.

The safe harbour applies on a territory-by-territory basis and consists of three tests. The tests are calculated based on qualified CbC report figures. A CbC report will be a qualifying report in respect of a territory if, for that territory, the information is prepared based on qualified financial statements. For the definition of qualified financial statements, see MTT15920.

A group only needs to meet one of the following tests to qualify for the safe harbour:

- The threshold test – where revenue of members in a territory is less than €10m and profit before tax is less than €1m (or a loss)
- The simplified effective tax rate test – where the simplified effective tax rate (ETR) of members in a territory is at least the 'minimum'. The ETR is calculated as the members' qualifying Income Tax expense divided by the aggregate profit (or loss) before Income Tax for those members. The 'minimum' ETR is 15% for accounting periods beginning in 2023 or 2024, 16% for accounting periods beginning in 2025 and 17% for accounting periods beginning in 2026
- The routine profits test – where the aggregate profit (or loss) before Income Tax of members in a territory is not greater than the qualified substance-based income exclusion (SBIE) for the territory. The SBIE is calculated using the model rules

Transitional safe harbour – election

A group must make an election for the safe harbour to apply for a territory in an accounting period. This election is made annually on the GIR.

If a group has already submitted full MTT calculations for a territory, they can't make the election for subsequent periods. This is because the purpose of the transitional safe harbour is to reduce the compliance burden for groups first entering the scope of MTT.

Transitional safe harbour – DTT and groups not required to prepare a CbC report

If a group is in scope of MTT but not in scope of CbC reporting they won't have prepared a CbC report. In these cases, the group can use the figures that would have appeared in a qualifying CbC report had they been required to prepare one.

The transitional safe harbour applies for DTT purposes in the same way as it does for MTT, with some exceptions for wholly domestic groups and entities. For more information, see our draft guidance at MTT15970.

Transitional safe harbour – other things to note

You'll need to make some adjustments to the CbC report figures for the purpose of the transitional safe harbour. These adjustments make sure the calculations for the safe harbour tests are more closely aligned to the calculations that would normally be made for MTT. For more information, see our draft guidance at MTT15925.

The above is not a comprehensive summary of the rules relating to MTT and DTT. You should refer to the legislation and guidance for detailed information.

If you have any questions, or suggestions about what you'd find useful to cover in future updates, please email us at pillar2mailbox@hmrc.gov.uk