KPMG BEPS 2.0 Model

Scenario-planning: responding to potential new BEPS proposals

The OECD's 'BEPS 2.0' initiative has the potential to change the global tax landscape significantly by changing how profits are allocated between jurisdictions (known as Pillar One) and introducing a new globally coordinated regime for a minimum tax and anti-base erosion measures (known as Pillar Two).[1] There is no shortage of challenges and opportunities facing today's tax functions, and this latest initiative could present a new set of pressures. International tax professionals from across KPMG International's network of member firms help organizations understand, communicate and evaluate appropriate actions in light of the BEPS 2.0 initiative. Using a new proprietary tool, KPMG BEPS 2.0 Model, these professionals can assist you in analyzing how the proposals may affect your organization and how to communicate with senior executives, audit committees and other stakeholders. The Model has been updated to reflect the latest 'Unified Approach' Secretariat proposal.

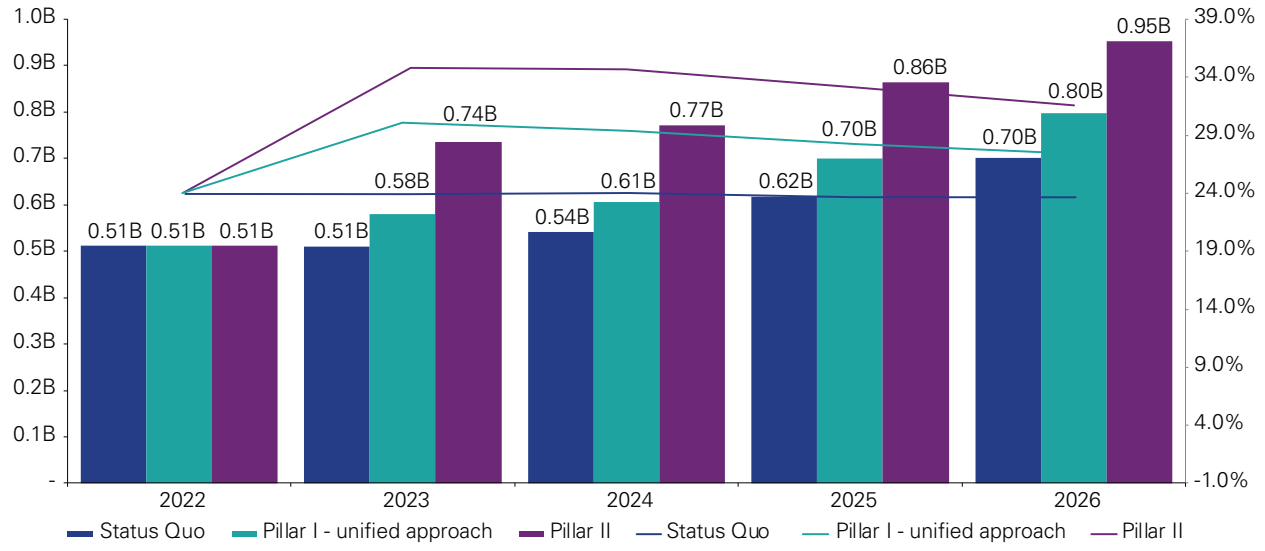
The challenge

The OECD's latest initiative may affect multinationals more than any other BEPS proposals in the last decade. The OECD is evaluating two modifications to the existing tax system: new ways to apportion income between taxing jurisdictions, and a 'backstop' imposing a minimum tax and denial of deductions or imposition of withholding taxes on payments made to 'low tax' entities.

Should these changes be implemented, they are likely to have an impact on the effective tax rate and the amount of cash taxes paid by multinational organizations.

Scenario comparison of Cash Tax and ETR for 2022 — 2026

Cash Tax and ETR — All Years



Source: KPMG BEPS 2.0 Model

[1] "Programme of Work to Develop a Concensus Solution to the Tax Challenges Arising from the Digitalization of the Economy" (May 2019).

The proposals may also affect a multinational's choice of capital structure, location of intangible property and related research and development activities, and even business model. Refer to graph below on scenario comparison of Cash Tax and ETR.

The interaction of Pillar One and Pillar Two could have significant and unintended impacts on a business, which a multinational can only understand by modelling the options under consideration.

Senior executives outside of tax, such as CFOs, CEOs and Audit Committees may not yet appreciate the far reaching nature of the proposals. For example, cash taxes may materially change, causing a company to have to adjust its investment strategy. Further, the impacts of these proposals are not going to be the same from one company to the next. This has contributed to some leading executives seeking to engage in the debate as to the options that should be adopted, while others remain unsure of how the changes affect their specific business. If BEPS 2.0 is adopted, it could cause certain tax planning tax rulings or advance pricing agreements to become less effective. Senior executives rely on their tax department to advise them of these upcoming issues and to have a plan in place to mitigate unwelcome impacts.

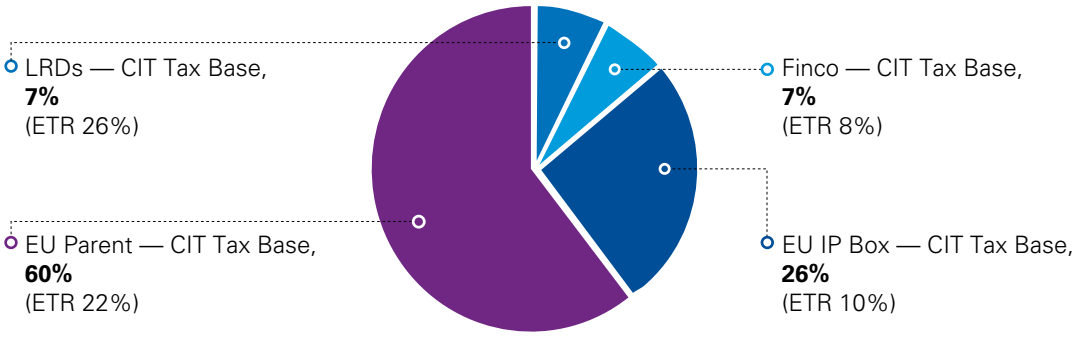
Tax base for specific year by jurisdiction

The following pie charts illustrate one sample company and how its current structure would be affected under Pillar One.

By inputing your data we are able to model different scenarios and provide you with data results specific to your organization.

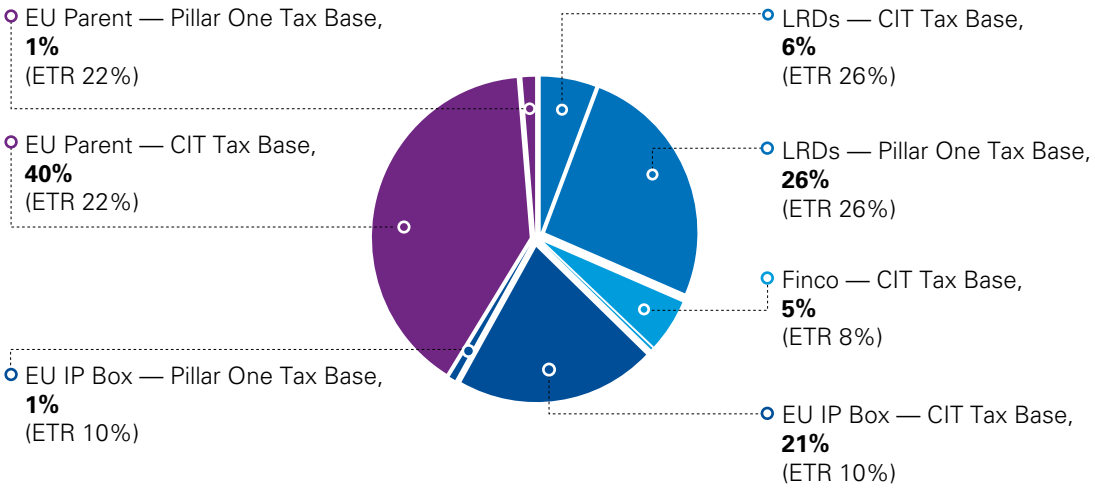
Scenario selected: status quo

Tax base for specific year by jurisdiction



Pillar One — Unified Approach

Tax base for specific year by jurisdiction



Source: KPMG BEPS 2.0 Model

The opportunity

KPMG professionals understand the difficulties in anticipating and communicating the potential impacts of the many, wide ranging proposals. To better support tax leaders in understanding, communicating and acting upon the proposals, we have developed a new technology — KPMG BEPS 2.0 Model. By combining the tool's ability to model the unique circumstances of your organization with our KPMG member firm professionals' abilities to interpret the output and make recommendations that are specific to you and your objectives, you can stay ahead of these initiatives. We can help you identify the potential impacts, develop communication plans, and help empower you to support your organization's current and future actions.

> "This tool enables member firm clients to quickly identify key impacts arising from this initiative and advise senior executives how the company can respond. In today's data-based world, applying technology enables the tax leader to be as precise as senior executives now expect."
>
> **Rodney Lawrence**
> Global Head of International Tax

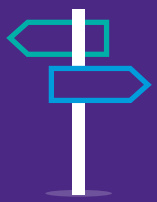
> "KPMG clients find this tool to be incredibly helpful. Being able to visualize potential impacts as well as to estimate actual numerical outcomes enables tax leaders to more effectively understand and communicate the implications of BEPS 2.0."
>
> **Brett Weaver**
> Global Head of Value Chain Management

KPMG BEPS 2.0 Model in practice

KPMG BEPS 2.0 Model can support you in identifying the impact that the OECD's BEPS 2.0 options under consideration may have on your organization. The tool is customizable to meet your needs and offers flexible visualization capabilities. This tool is a new way for tax leaders to approach proactive, data-driven tax management.

Case study

A large multinational with operations in many countries contacted a KPMG member firm to understand the potential impact of BEPS 2.0. The company had significant tax attributes in key jurisdictions. Using KPMG BEPS 2.0 Model, KPMG professionals determined that should certain BEPS 2.0 proposals under consideration be adopted, much of the company's tax attributes would expire unused — resulting in to a significantly higher effective tax rate and raising questions of how to preserve these benefits.



Next steps

Every organization is unique. Every tax function is too. With the help of KPMG BEPS 2.0 Model, KPMG professionals across our network are here to support your organization in accomplishing its goals. Continue the conversation by contacting us.

Together, let's prepare for the future of tax.

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