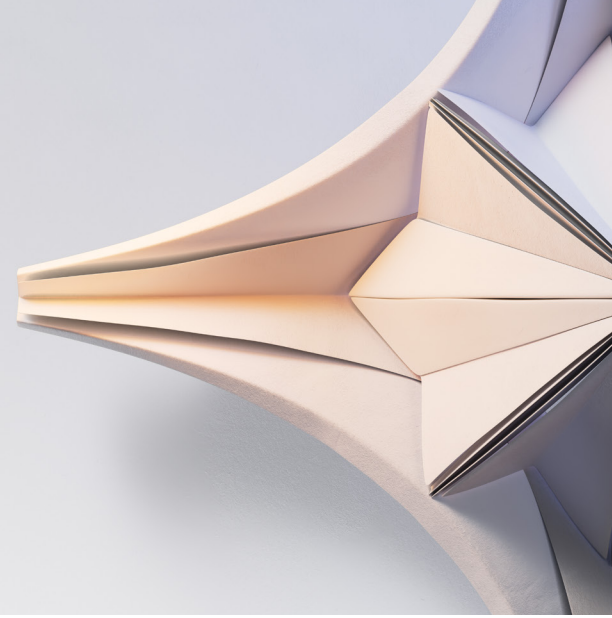


Pillar 2 UK Overview



Pillar 2 is part of the OECD/G20 Inclusive Framework on BEPS (Base Erosion and Profit Shifting), which aims to address the challenges of the digital economy and ensure that large multinational enterprises (MNEs) pay a **fair share of tax in the jurisdictions where they operate**.

For the purposes of Pillar 2 a permanent establishment is treated as equivalent to a subsidiary in the jurisdiction where the permanent establishment is situated. The UK, as a member of the OECD and G20, has implemented legislation to comply with Pillar 2 requirements for years ended 31 December 2024 onwards.

What is Pillar 2?

Pillar 2 introduces a global minimum tax rate to ensure that large MNEs are subject to at least a minimum level of tax on profits in any jurisdiction. This is achieved through two main mechanisms:

- ◆ Global Anti-Base Erosion (GloBE) Rules sub-divided into (in order of priority) two rules:
 - Income Inclusion Rule (IIR): This rule requires the parent entity of a large MNE to pay top-up tax on the income of its low-taxed subsidiaries unless the low-taxed subsidiary is itself subject to a domestic IIR.
 - Undertaxed Profits Rule (UTPR): This rule allows jurisdictions to deny deductions or make equivalent adjustments to collect top-up taxes where the full amount of top-up tax for the group is not collected under an IIR.
- ◆ Subject-to-Tax Rule (STTR): This rule allows jurisdictions to impose source-based taxation of up to 9% on payments to low-taxed entities.

Key components of UK Pillar 2 legislation

The UK has adopted specific measures to align with Pillar 2. These measures include:

- ◆ Global Anti-Base Erosion (GloBE) Rules: These rules implement the IIR (split into Domestic Top-up Tax and Multinational Top-up Tax) and UTPR to ensure large MNEs are taxed at a minimum effective tax rate of 15%.
- ◆ Reporting Requirements: Large MNEs with a UK subsidiary or permanent establishment must register with HM Revenue and Customs (HMRC) through a nominated company within the group and file an annual report with HMRC to either report the group's effective tax rate and any adjustments under Pillar 2, or report that another entity in the group is reporting such information to a qualifying jurisdiction.
- ◆ Penalties for Non-Compliance: Failure to comply with the GloBE Rules and reporting requirements may result in significant penalties.

Filing dates and deadlines

Large MNEs must adhere to specific filing deadlines to ensure compliance with the Pillar 2 legislation. The deadline for submitting annual reports to HMRC is 15 months after the year end, with two notable exceptions. Firstly, large MNEs must register with HMRC for Pillar 2 within six months of the end of the first year in which they qualify as large. Secondly, the deadline for the first annual report is extended to 18 months from the year end.

Penalties

Non-compliance with Pillar 2 requirements can result in substantial penalties. These may include financial fines, interest on unpaid taxes, and potential reputational damage. The severity of penalties will depend on the extent of non-compliance and whether it was intentional or not.

Conditions for MNEs

An MNE is defined as a group of entities that operate in multiple countries and has to prepare consolidated financial accounts. To be subject to Pillar 2 (i.e. be a large MNE) the MNE must have annual revenues in excess of €750 million in at least two of the previous four accounting periods. In addition, the Domestic Top-up Tax in the UK brings wholly domestic groups and even UK standalone entities within the definition of a large MNE where they exceed the same annual revenue thresholds.

Consolidated financial accounts

The consolidated financial accounts are broadly those that the ultimate parent company must prepare under UK GAAP or IFRS. There are exemptions for pension funds, investment funds and not for profit entities and the intention is not to impose an additional requirement to consolidate where one does not exist under GAAP.

Who is responsible for filing

The consolidating entity, usually the ultimate parent company, is responsible for ensuring compliance with the GloBE Rules. This entity will consolidate the financial statements of all subsidiaries and report the group's effective tax rate and any necessary Pillar 2 adjustments.

In addition, as noted above, any groups with UK companies or permanent establishments will need a nominated company to register and file a report to HMRC.

Countries that haven't implemented Pillar 2

While many countries have committed to implementing Pillar 2, some jurisdictions have yet to adopt the legislation. Where the ultimate parent company is situated in a country that has not implemented Pillar 2 then the calculation, reporting and payment obligations will fall on the intermediate parent company or companies of the group.

Conclusion

Pillar 2 represents a significant shift in international tax policy, aiming to create a more level playing field for taxation across jurisdictions. Even in groups where no additional tax is due, there will be additional reporting requirements in the UK.

How can HaysMac help

With our combined expertise in business tax and financial reporting we can help you identify if your group is in scope of Pillar 2, and then assist you with making your registration within six months of the end of your first in scope year.

For further information please contact Mark Baycroft, Partner or your regular HaysMac contact.



Mark Baycroft

Partner

T +44 (0)20 7396 4334

E Mbaycroft@haysmac.com



HaysMac[★]



10 Queen Street Place
London EC4R 1AG

T 020 7969 5500
E marketing@haysmac.com

haysmac.com

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