Navigating Pillar II: Impact and Compliance for Private Companies and Family Offices

The global tax landscape is shifting dramatically with the implementation of Pillar II, a key piece of the OECD's Inclusive Framework on BEPS (Base Erosion and Profit Shifting). While primarily targeting large multinationals, Pillar II's reach may extend to many private companies and family offices operating internationally. There are, however, possible safe harbours that may be available.

By **Lionel de Freitas**, 11th March 2024

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What do Private Companies Need to Know About Pillar II?

The first step is to identify, by confirmation from your parent, whether your multinational group is within scope of Pillar II (the most notable revenue headline requirement of €750 million in two out of the four prior years immediately preceding the fiscal year being tested).

Further, understanding the reporting needs, and obtaining an implementation roadmap from your parent is needed, for a full understanding of tax and accounting reporting expectations. Reaching out to your multinational enterprise is an important step in communicating and understanding this.

Private companies will need to make an assessment on their current data and system structures to identify any system gaps that require remediation. A data strategy may then be deployed in rooted systems and processes, to ensure sufficient and appropriate reporting for the purposes of Pillar II.

More information on the requirements of Pillar 2 can be found here.

What is the Impact on Family Offices?

Even though family offices are not the intended target, their structures may bring them under the scope of Pillar II if they meet the respective criteria. Although entities within family office structures may not be required to prepare financial statements – either due to company law requirements in the jurisdiction they are located or due to the form, such as trusts or partnerships – hypothetical financial statements are applied as the starting point and applied against the Pillar II criteria.

Family offices operating in more than one jurisdiction may thus be subject to top-up tax. Family offices are recommended to assess the potential impact and explore mitigation options.

How May Pillar II Impact Private Companies and Family Offices?

If you form part of a group that falls within the scope of Pillar II, after consideration of the exceptions that are applicable (including excluded entities), consequences to consider may include:

- Increased need to collect data and related reporting – companies may need to maintain books in terms of US GAAP or IFRS (depending on the multinational's reporting framework), in tandem with records of local GAAP, which may create the need to maintain separate books.

- Increased cash tax expense for any top-up payments required.

- Possible impacts to tax and business structures.

- Increased administration and compliance – with relation to set-up, track, report and documentation for Pillar II information.

What Else Should Private Companies and Family Offices Consider?

Although the minimum global tax is applicable to multinational enterprises, private entities have the onus of ensuring compliance. Family offices meeting the respective criteria also have the obligation of ensuring compliance. Confirming the appropriate tax advice is obtained is crucial, to ensure adherence to the tax reporting requirements under Pillar II.

Additional Information

Should your family office or private company have any questions on the related impact of Pillar II, reach out to Dixcart for more information. Please contact Dixcart Portugal for more information: **advice.portugal@dixcart.com**.

Disclaimer: This guide is for informational purposes only and does not constitute professional tax advice. Please consult with qualified tax professionals for specific guidance.