PKF
Hong Kong

The Pillar Two Framework: Navigating the Global Tax Landscape

What is Pillar Two?

Pillar Two introduces a 15% global minimum tax rate for multinational enterprise (“MNE”) groups with consolidated group revenue of EUR 750 million or more in at least two of the four financial years immediately preceding the tested financial year.

The main objective is to ensure that large MNE groups, operating in more than one jurisdiction, pay a minimum level of tax on the income arising in each jurisdiction where they operate. This is achieved by applying a system of top-up taxes that brings the total amount of taxes paid on an MNE group’s excess profits in a jurisdiction up to the minimum rate of 15%.

Pillar Two works alongside Pillar One, which focuses on reallocating some taxing rights over the largest and most profitable companies to the jurisdictions where their customers are, rather than where they are headquartered.

To comply with Pillar Two of the Organization for Economic Co-operation and Development’s (“OECD”) global tax framework, MNEs must meet specific requirements to ensure a minimum tax on profits across all locations – this involves key steps and ongoing obligations for companies.

Pillar Two comprises two components: the Global Anti-Base Erosion (“GloBE”) rules (i.e. the Income Inclusion Rule and the Undertaxed Profits Rule) and the Subject To Tax Rule ("STTR"). There are different Pillar Two deadlines across the world – MNEs operating in multiple jurisdictions must monitor their global Pillar Two obligations, which can vary from year to year.

Recent development in Hong Kong

Recent developments highlight that Hong Kong is actively aligning with the global initiative, having formally adopted the OECD's BEPS 2.0 framework through the enactment of the Inland Revenue (Amendment) Ordinance 2025. This legislation, which came into effect on 6 June 2025, introduces the global minimum tax and a Hong Kong Minimum Top-Up Tax ("HKMTT"), starting from the 2025 fiscal year. As part of Hong Kong's commitment to international tax transparency and fairness, the new rules aim to curb artificial profit shifting and ensure that multinationals pay a fair share of tax on their cross-border profits, aligning closely with the OECD's GloBE rules.

The GloBE rules impose a minimum effective tax rate ("ETR") of 15% on multinationals with consolidated revenues exceeding EUR 750 million in at least two of the prior four fiscal years. This regime features two interlinked rules:

- Income Inclusion Rule – the primary rule that imposes a top-up tax on parent entities for low-taxed (ETR below 15%) subsidiaries outside their jurisdiction, if the parent is in scope.
- Undertaxed Profits Rule– a backstop that ensures any under-taxed profits not captured under the Income Inclusion Rule are subjected to additional top-up tax.

Together, these two rules are known as the GloBE rules, aimed at ensuring that in-scope MNE groups pay a minimum of 15% tax on profits earned worldwide. The rules work to reduce the incentive for profit shifting and to curb harmful tax competition by setting a minimum effective tax rate globally.

Hong Kong's implementation of the GloBE rules is articulated through detailed legislative provisions, notably in the amended Inland Revenue Ordinance (IRO). The framework incorporates the OECD GloBE Model Rules and includes specific local adaptations, including provisions on safe harbours, the HKMTT, and dispute resolution mechanisms, all designed to facilitate compliant and efficient implementation.

Furthermore, the new regime introduces mandatory electronic filing requirements via the new Pillar Two Portal, which is scheduled to be launched by the Hong Kong Inland Revenue Department in phases starting from January 2026. This portal will enable streamlined submission of top-up tax notifications and returns, support the assignment of unique group codes for administrative purposes, and potentially simplify compliance for affected MNE Groups.

Our publication explores these latest developments in depth, helping you understand their implications and how to prepare your organization for compliance. We remain committed to supporting your global tax strategies and ensuring your business is well-positioned to navigate these evolving international standards.

Does Pillar Two apply to you?

Pillar Two rules apply to groups with a consolidated turnover of EUR 750 million or more in at least two of the four financial years immediately preceding the tested financial year.

Excluded entities include: Government entities, international organizations, non-profit organizations, real estate investment vehicles, pension funds, and investment funds.

Members of large groups that are in a Pillar Two jurisdiction will need to think about Pillar Two to varying extents. For example:

If you are the ultimate parent of an in-scope MNE group, you may need to pay top-up taxes for the jurisdiction you are in, as well as for your subsidiaries (to the extent they are not collected locally).

If you are a subsidiary in an in-scope MNE group, but your parent company is not in a Pillar Two jurisdiction, you may need to pay top-up taxes for the jurisdiction your parent company is in. If you have subsidiaries yourself, you may also have 'ultimate parent' responsibilities for your subgroup.

If your in-scope MNE group has an effective tax rate of 15% or higher in each jurisdiction it operates in, you may still need to register for Pillar Two and file annual returns to show no top-up taxes are payable (assuming your parent does not do so).

If your group is not an MNE (i.e. the whole group operates in just one jurisdiction) but it still exceeds the EUR 750 million revenue threshold, you may still be subject to a domestic top-up tax (and related filing obligations).

Illustrative example

This table sets out the various Pillar Two implementation dates* using the example of an MNE group operating in Hong Kong, the UK, Germany and Singapore.

As shown, from year to year, there are different aspects of Pillar Two compliance that the group will need to consider.

MNE with a financial year-end of 31 December		Hong Kong	UK	Germany	Singapore
Income Inclusion Rule	Applies for periods starting on or after	1 Jan 2025	31 Dec 2023	31 Dec 2023	1 Jan 2025
Qualified Domestic Minimum Top-up Tax		1 Jan 2025	31 Dec 2023	31 Dec 2023	1 Jan 2025
Undertaxed Profits Rule		To be confirmed	31 Dec 2024	31 Dec 2024	To be confirmed
Pillar Two registration with local tax authorities	Earliest deadline for groups already in scope	30 June 2026	30 June 2025	28 Feb 2025	30 June 2026
First filing of Pillar Two returns		30 June 2027	30 June 2026	30 June 2026	30 June 2027

*correct at the time of publishing

Challenges

- ETRs must be calculated per jurisdiction according to local Pillar Two rules. This requires complex calculations and detailed jurisdictional data, which may not currently be tracked, necessitating updates to existing systems and processes, and thereby increasing the compliance burden.
- Filing the GloBE Information Return requires the analysis and reporting of extensive and granular data, with an estimated 100+ data points required from each entity within the Group. Certain financial data will also need to be sourced from outside the ERP system, involving multiple stakeholders.
- Pillar Two regulations provide for multiple safe harbor regulations, elections and optional treatments. Relevant technical expertise is required to perform the right analysis and choose the appropriate rules/ approaches that apply based on the fact pattern of the Group.
- Robust technical infrastructure, processes and systems will need to be implemented by the MNE Group to interact closely with the ERP system to ensure appropriate data capture, consistency, analysis and reporting.
- Pillar Two regulations are evolving on a day-to-day basis. There is a need to keep pace with these constant updates.

How we can help

Impact assessment

- Evaluate your group's exposure to Pillar Two rules
- Identify at-risk jurisdictions and model top-up tax liabilities
- Review the Country-by-Country Report (CbCR) safe harbours and their potential application
- Address accounting advisory considerations

Operational readiness

- Assess data readiness, identify any gaps and assist in resolving them
- Agree on a feasible compliance model and on the key responsibilities of internal group functions
- Assist with selecting appropriate Pillar Two technology solutions

Compliance and on going support

- Prepare ETR calculations for each jurisdiction
- Prepare and/or review of annual Pillar Two returns
- Advise on other ad hoc Pillar Two matters

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