BEPS Pillar Two

From readiness to reality: What to expect and key issues

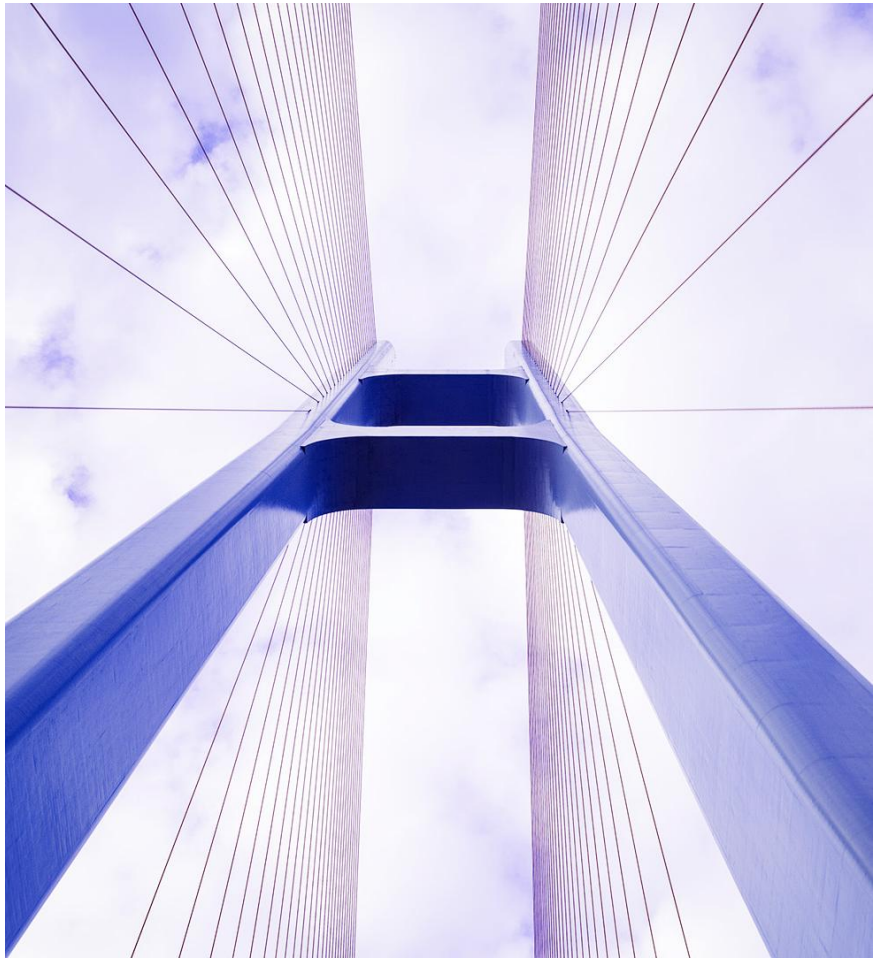


5 November 2026

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KPMG. Make the Difference.

KPMG in Malaysia



Agenda

01 Recap – Overview of Pillar Two

02 Preparing for Malaysia's Pillar Two compliance

03 Pillar Two practical considerations

04 Getting Pillar Two–ready: next steps for companies

05 Q&A

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01

Recap – Overview of Pillar Two

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Overview of Pillar Two - GloBE Rules

Who

MNE Group with annual revenues **> EUR 750 million** in at least **2 out of 4** immediately preceding financial years

How much

Amount required to achieve **15%** effective tax rate



Where

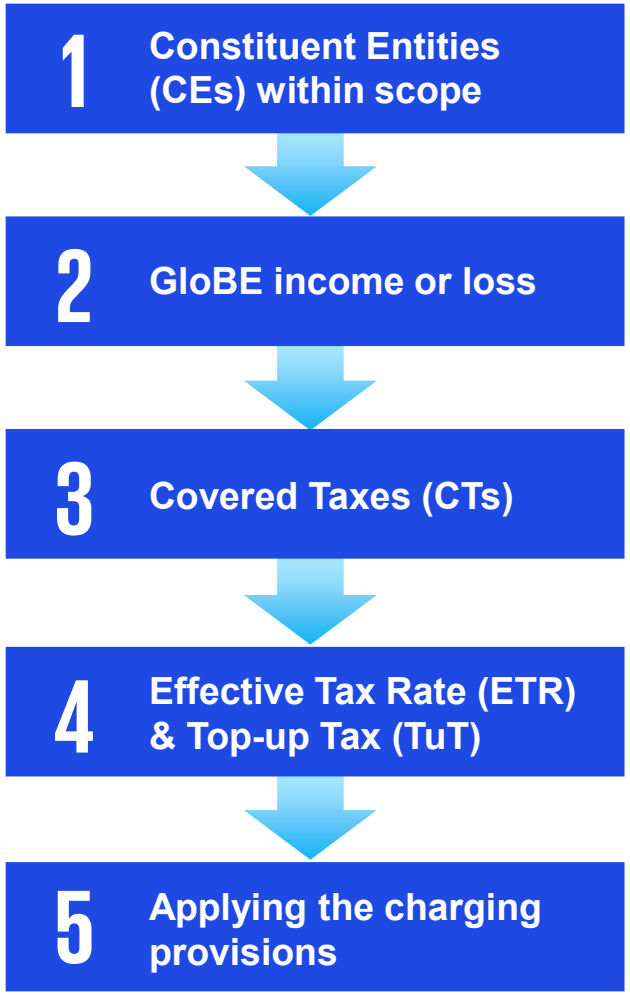
Each jurisdiction

Responsibility

Ultimate Parent Entity (UPE) & Constituent Entity (CE) of Pillar Two implementing jurisdictions

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Key steps in calculating top-up tax



- Identify the Group and if it's a MNE Group. If UPE meets Revenue test (exceed threshold), then the MNE Group is in scope.
- Classify each CE and identify the jurisdiction the CEs are located.

- Determine GloBE income or loss (i.e. Financial Accounting Net Income or Loss +/- adjustments) of each CE in a jurisdiction

- Determine adjusted CTs (i.e. current & deferred income tax exp +/- adjustments) of each CE in a jurisdiction

- Calculate ETR of all CEs in a jurisdiction (or stand-alone ETR, where relevant) & resulting TuT

- TuT imposed under Qualified Domestic Minimum Top-up Tax (QDMTT) and/or Income Inclusion Rule (IIR) in accordance with agreed rule order, with Undertaxed Profits Rule (UTPR) as backstop

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Charging Mechanisms

Three methods of achieving the policy objective (in order):

01

Qualified Domestic Minimum top-up tax (QDMTT)

Local country measure

Allows the local jurisdiction to collect any top-up tax of their own tax residents that would otherwise be paid to another jurisdiction under Pillar Two.

Tax paid under a QDMTT (safe harbour) reduces (exempts) top-up tax payable under IIR/UTPR.

02

Income Inclusion Rule (IIR)

“Parent” country measure

Triggers top-up at the level of one or more Parent Entities where the income of a constituent entity is taxed at a rate less than 15% (based on jurisdictional blending)
.

03

Undertaxed Profits Rule (UTPR)

Backstop measure

UTPR is a backstop; it only applies where Group income is not already subject to IIR.

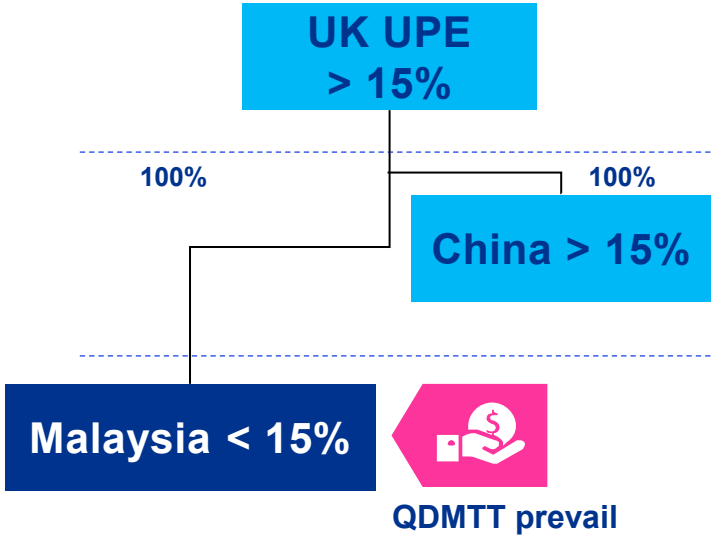
It operates by denying deductions (or an “equivalent adjustment”).

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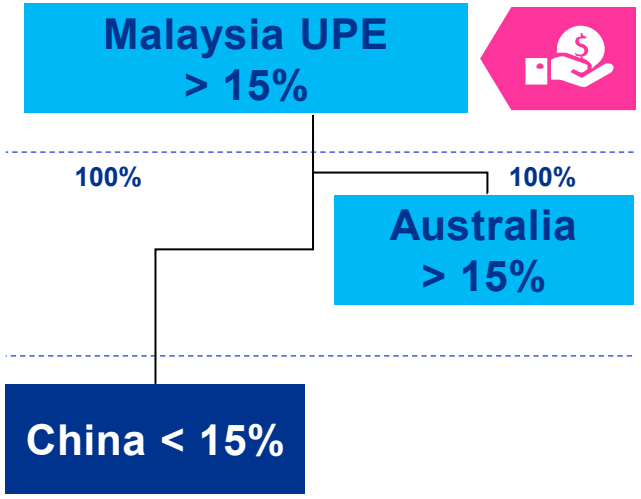
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Top-up tax collection mechanisms

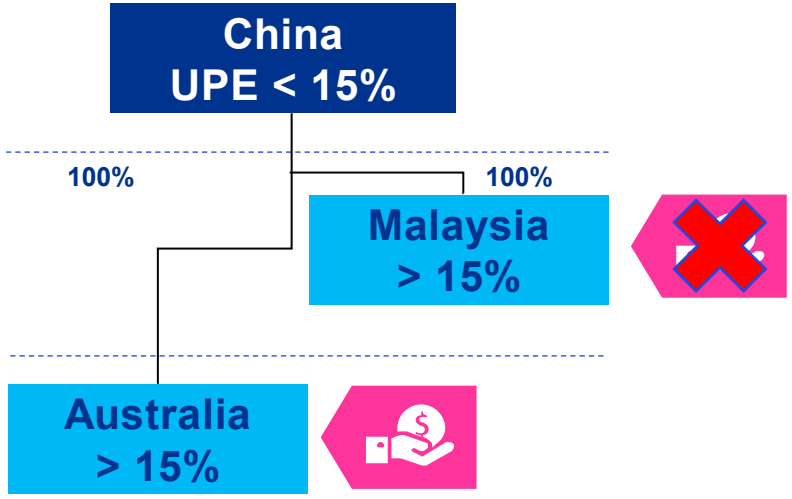
1) Qualified Domestic Minimum Top-up Tax (QDMTT)



2) Income Inclusion Rules (IIR)



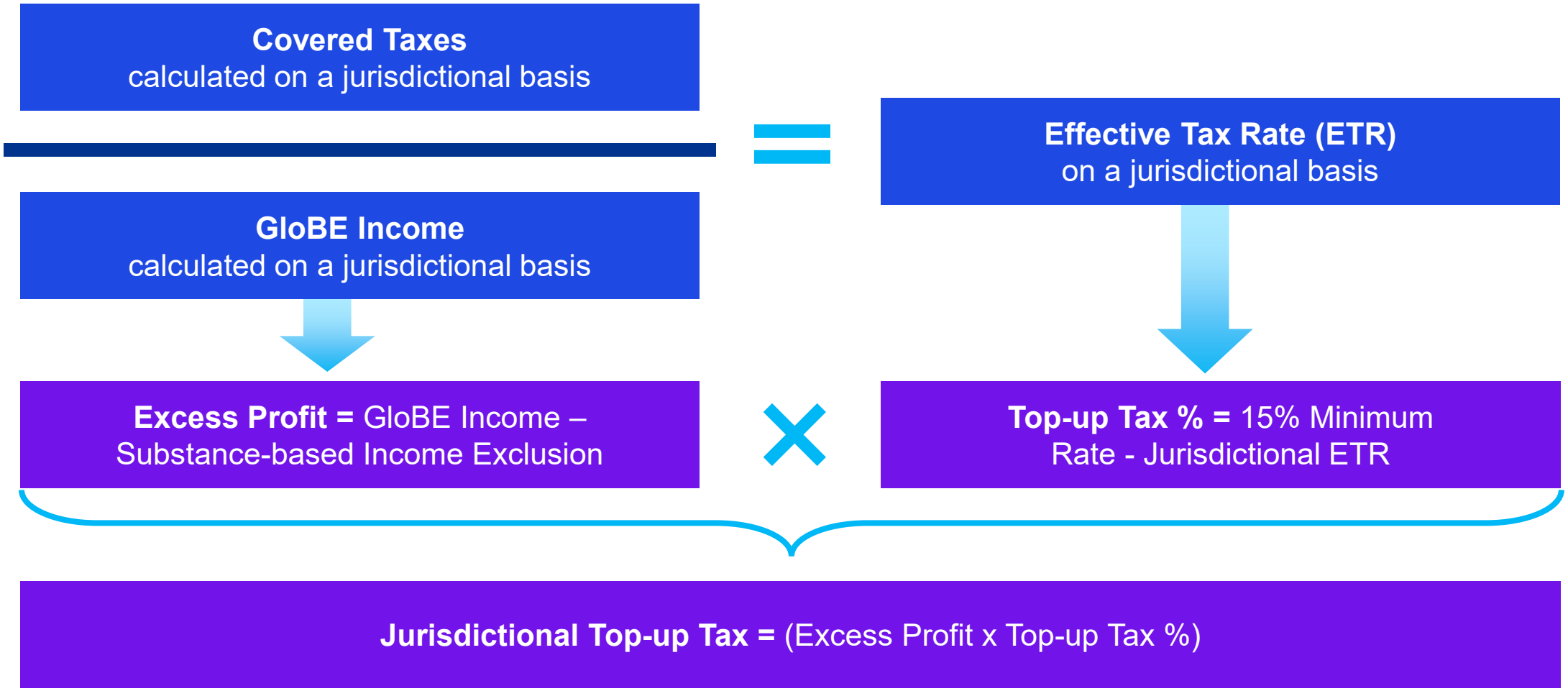
3) Undertaxed Profit Rule (UTPR)



Low-taxed
High-taxed

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Top-Up Tax calculation



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Calculating GloBE Income / Loss

GloBE Income

=

Financial Accounting Net Income or Loss
(e.g. Profit After Tax)

±

Adjustments
(e.g. net tax expenses, excluded dividend, excluded equity gains or loss)

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Calculating Adjusted Covered Taxes



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Substance-based Income Exclusion (SBIE)



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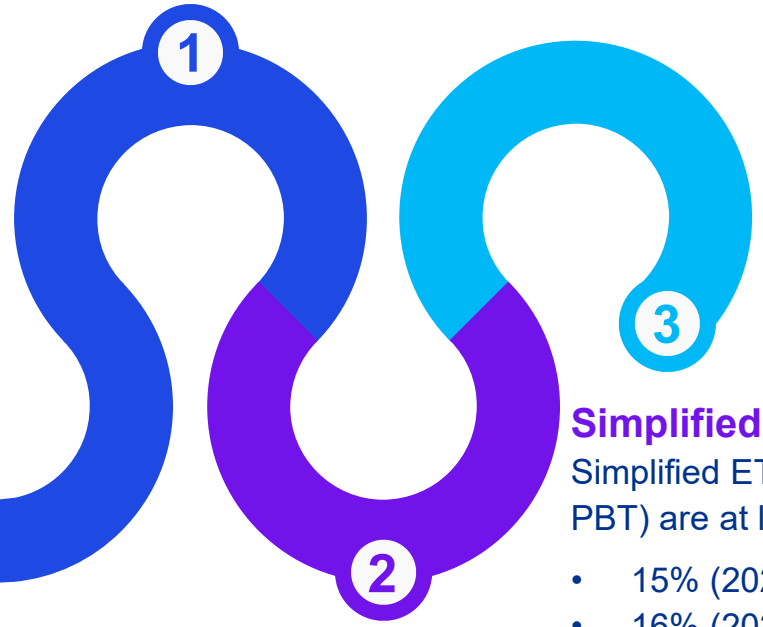
Transitional CbCR safe harbour

Jurisdictional Top-up Tax deemed to be ZERO, if one of the 3 tests is met:-

CbCR Revenue and PbT excludes dividends received from other constituent entities

De minimis test

CbCR Revenue < EUR 10million
and PBT < EUR 1million



Routine Profit Test

Substance-based Income Exclusion (eligible payroll + tangible assets) > PBT

Simplified ETR test

Simplified ETR (i.e. Simplified Covered Tax / PBT) are at least:-

- 15% (2023 and 2024)
- 16% (2025)
- 17% (FY 2026 onwards - i.e up to FY27 for Dec YE and FY28 for non-Dec YE)

1 Once out, always out

2 Use of Qualified CbC Report

1) Qualified CbC Report means CbC Report prepared and filed using Qualified Financial Statements
2) Qualified Financial Statements:-
   - Accounts used to prepare UPE's Consolidated Financial Statements ("CFS"); or
   - Separate FS of CE in accordance with Acceptable Financial Accounting Standard

3 Computations required

- To compute Simplified Covered Taxes (i.e. income tax expense from the CFS, then adjusted to remove non-Covered Taxes and uncertain tax positions).
- To compute substance-based income exclusion under GloBE Rules (no simplification)

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02

Preparing for Malaysia's Pillar Two compliance

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Overview of Pillar Two in Malaysia



Enacted in Malaysia by virtue of gazette of Finance (No. 2) Act on 29 December 2023

Multinational Top-up Tax (MTT)

Income Inclusion Rule (IIR) equivalent – Top-up Tax (TuT) collection mechanism for Malaysian parent entities on low-taxed entities outside Malaysia.

Domestic Top-up Tax (DTT)

Qualified Domestic Top-up Tax (QDMTT) equivalent – TuT collection mechanism for low-taxed entities in Malaysia.

Scope and Effective Date

- Applicable to MNE Groups with annual revenue exceeding EUR 750 million threshold.
- Effective from Financial Year (FY) beginning on or after 1 January 2025

No announcement on Undertaxed Profits Rule (UTPR)

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A Glimpse at GMT filing obligations in Malaysia

	GloBE Information Return	Top-up Tax Return
Platform for submission	• Hasil International Data Exchange Facility (HiDEF) • Platform for the submission of GIR and TTR is currently under development and is expected to be ready in early 2027	• MyTax Portal • Platform for the submission of GIR and TTR is currently under development and is expected to be ready in early 2027
Format for submission	• Extensible Markup Language (XML) format	• e-Filing (to be filed by each Constituent Entity in Malaysia), two separate forms (MTT and DTT)
Registration	• MyGIR ID registration to access HiDEF	• No registration is required
GMT Notification	• GIR notification will be incorporated into the Top-up Tax Return. • Malaysia included in the OECD's list of signatories of exchange of GIR information (updated as at 1 October 2026)	
Deadline	• 15 months after the end of the Reporting Fiscal Year; and 18 months for the Transition Year	
Duty to retain documents	• Seven (7) years from the end of the Reporting Financial Year	
Time bar period	• An assessment or additional assessment may be made within five (5) years after expiration	

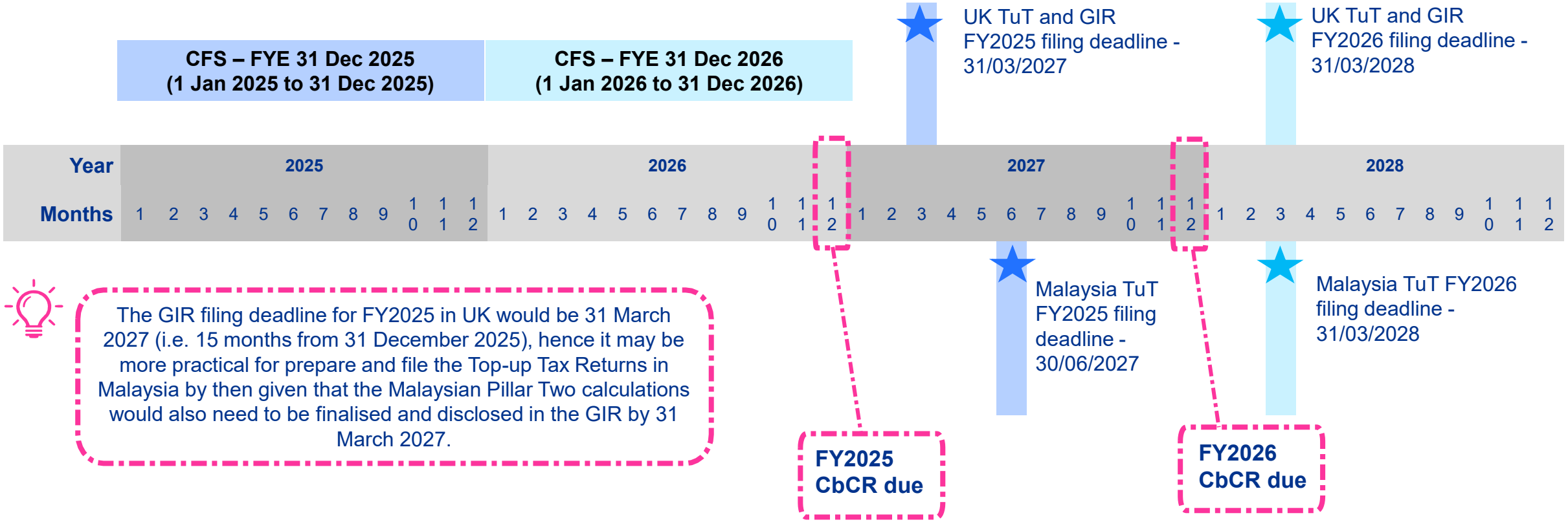
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Filing due date for December YE companies

Example: Filing due date of Malaysian entities of UK-headquartered Group



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GMT Disclosure in e-Form C

Sample e-Form C for YA 2025 (Dec-YE)

NAME OF COMPANY :

OTHER PARTICULARS	
Made payments in the basis period which are subject to withholding tax under sections 107A, 107D, 109, 109A, 109B, 109E, 109F dan 109G	
Disposal of capital asset under Income Tax Act 1967	
Disposal of capital asset declared to IRBM	
Disposal of asset under the Real Property Gains Tax Act 1976	
Disposal of asset declared to IRBM	
Carry on e-Commerce	
E-Commerce business model : ☐ Online sales/services ☐ Online advertising ☐ Cloud computing ☐ Payment services ☐ Digital currency/digital token ☐ e-Hailing/p-Hailing ☐ Others	
Subject to Income Tax (Country-by-Country Reporting) Rules 2016	
Subject as a reporting entity/non-reporting entity *(Please refer attachment)*	
Has financial account(s) at financial institution(s) outside Malaysia	
Company has implemented tax governance	
Company participates in IRBM's tax governance program	
Subject to Domestic Top-up Tax or Multinational Top-up Tax under Part XI of the Income Tax Act 1967	
Name of the Ultimate Parent Entity and its Jurisdiction	

DRAFT

Sample e-Form C for YA 2026

H9a	Subject to Domestic Top-up Tax (DTT) or Multinational Top-up Tax (MTT) under Part XI of the Income Tax Act 1967 (If 'Yes', complete item H9b and H9c)	☐ 1 = Yes, DTT only 2 = Yes, MTT only 3 = Yes, DTT and MTT 4 = Not subject to
H9b	Name of the Ultimate Parent Entity	
H9c	Jurisdiction of the Ultimate Parent Entity	☐ (Use country code)

In accordance with the operational and administrative provisions of GMT effective from 1 January 2025, this item can only be completed by companies whose financial year begin on or after 1 January 2025.

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03

Pillar Two Practical Considerations

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Pillar Two Practical Considerations

Transitional CbCR Safe Harbour (TCSH)

- Using Qualified Financial Statements and Qualified CbCR ?
- What adjustments are required for Simplified ETR calculation ?

Data challenges

Collection of the relevant data, reliance on correct data sources to start from (depending on different Pillar Two system)



Calculation of Malaysia DTT using local Financial Statements *

Impact on Malaysian tax incentives *

Refresh of tax attributes upon transition *

Post filing adjustment *

Dealing with different approaches to prior-year adjustments

** Covered in the following slides*

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Calculation of Malaysia DTT

FANIL is determined based on the local financial statements of the Constituent Entity in Malaysia (Local Financial Accounting Standard "LFAS"), provided conditions are met

Conditions

a **All Malaysian Constituent Entities have the same Financial Year as the Ultimate Parent Entity**

b **Each Constituent Entity prepares its own financial statements, which are either:**

- **(i)** Required under Malaysian written law; or
- **(ii)** Audited by an approved company auditor

Issues

1 **What happens if there is a mismatch in FY ?**

- LFAS cannot be used as the starting point. FANIL reverts to UPE's consolidated accounting standard, with adjustments)
- Exception: acquisition, disposition, dissolution, merger, or similar restructuring (as per Administrative Guidance- September 2026)
- If fiscal period for account is the same period used for CE in preparation of CFS, LFAS can still be used.

2 **What happens if there is a Permanent Establishment ("PE") in Malaysia ?**

- The Main Entity must prepare separate financial statements for the PE, in addition to meeting (a) and (b)

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Refresh of tax attributes upon transition

1 General rule – Article 9.1.1 of the Model GloBE Rules

- All pre-regime deferred tax assets (DTAs) and deferred tax liabilities (DTLs) can be taken into account in-regime
- Exception: DTAs under Article 9.1.2
- Track recognised tax attributes and unrecognised DTAs

2 Transition of tax attributes begins only once the TCSH ceases to apply

- No transition while the Transitional Safe Harbour (TCSH) applies to the jurisdiction
- Transition Year = first Fiscal Year the jurisdiction no longer qualifies for, or applies, the TCSH; deferred tax attributes are taken into account from that year

3 Refresh required where QDMTT applies first and the IIR applies in a later year

Illustration: UK Constituent Entity of a Malaysian-HQ group | Source: OECD Consolidated Commentary, para 118.49.2

Year 1 – QDMTT applies

The UK QDMTT applies to the UK entity first, before the Malaysian parent's IIR

Year 2 – IIR applies

The Malaysian parent's IIR (GloBE Rules) first applies to the UK entity; this year becomes a new Transition Year

Refresh – new Transition Year

Art. 9.1.1 deferred tax items are eliminated and re-applied at the start of the new Transition Year

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Post-filing adjustments

What about prior year under / over provision of taxes relating to year before implementation of GMT ?

Key points

1 Taken into the year of adjustment

Adjustments to prior-year Covered Taxes are taken into the year the adjustment is made; decreases trigger recalculation of the prior year's ETR and top-up tax (unless immaterial decrease where election can be made)

2 Annual Election

Immaterial decreases (< EUR 1m aggregate) may be treated as current-year adjustments

Illustrative example | *Malaysia, EUR m, SBIE ignored for simplicity*

FY2025 as originally filed

100m	12m	12%	3m
GloBE Income	Covered Taxes	ETR (12m ÷ 100m)	Top-up tax (15% − 12%) × 100m

A FY2026: FY2025 Covered Taxes reduced by EUR 4m

Decrease above EUR 1m (e.g. prior year over provision)

- FY2025 Covered Taxes 12m → 8m; FY2025 ETR recomputed to 8% (was 12%)
- Top-up % = 15% − 8% = 7%; revised FY2025 top-up tax = 7m (was 3m)

Additional EUR 4m top-up tax is added to FY2026

B FY2026: FY2025 Covered Taxes reduced by EUR 600k

Decrease below EUR 1m, election made

- Treated as a reduction of FY2026 Covered Taxes
- FY2025 ETR (12%) and top-up tax (3m) are not recomputed

No FY2025 recalculation; EUR 600k flows through FY2026 ETR

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Impact on Malaysian tax incentives

Incentives available in Malaysia

Are these Qualified Tax Incentives ("QTI")?

Pioneer Status	Investment Tax Allowance
Reinvestment Allowance (Sch 7A)	Allowance for increase in export
Double Deduction on R&D (S34A / 34B)	Further Deduction (disabled employees etc)
Special Deduction	New Incentive Framework

Substance-based Tax Incentive ("SBTI") Safe Harbour allows QTIs to be treated as an addition to the Adjusted Covered Taxes

GMT impact: incentives that reduce Covered Taxes lower the ETR and can increase Top-up Tax. The SBTI Safe Harbour lets qualifying QTIs count towards Adjusted Covered Taxes.

1 Scope: QTI criteria

- Expenditure or production based
- Generally available to taxpayers
- Reduces the liability of a Covered Tax (subsidies, grants or timing-difference incentives do not qualify)
- Meets generosity conditions (tax benefit may not exceed the expenditure)

2 Treatment of QTIs

Added to the ETR numerator (Adjusted Covered Taxes); excluded from the denominator (GloBE Income)

3 Substance cap

- Higher of 5.5% of payroll costs or depreciation on tangible assets in the jurisdiction; or
- 5-year election: cap of 1% of carrying value of tangible assets (excl. land and non-depreciable assets)

4

Election for FYs beginning on or after 1 January 2026

ETR with SBTI **(Adjusted Covered Taxes + QTI) ÷ GloBE Income**

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04

Getting Pillar Two-ready: next steps for companies

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Pillar Two action plan

OUR FOCUS

Be ready for the GMT compliance filing in 2027

Six priorities: assess, verify, track, protect incentives, fix data and resource

1

Start the GMT assessment

Commence GMT assessment, if not started yet, including:

- **Assess in-scope entities and jurisdictions**
- **Identify high-risk jurisdictions**
- **Estimate potential top-up tax exposure**

2

Verify TCSH eligibility

Verify the Qualified Financial Statements (QFS) and Qualified CbCR (QCbCR), prepare concurrently with GIR

3

Build a Pillar Two compliance tracker

Track due dates

4

Review the impact on tax incentives

For companies enjoying incentives, assess the GMT impact, consider restructuring and negotiate alternative incentive structures with investment regulatory bodies

5

Close the data gaps

- Consider data gap analysis and mapping, keep track of DTAs and tax attributes
- Identify the GIR-filing jurisdiction and confirm Malaysia has an active GIR-MCAA with it

6

Resources – determine compliance model and upskill

Decide in-house, outsource or co-source; upskill employees

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Q&A



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