The evolving BEPS landscape: the impact on multinationals

International Tax

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BEPS 2.0 is reshaping the business environment, with significant implications for multinational corporations as regulatory changes take effect in 2025.

Key Points

What is the issue?

Both the OECD and individual governments are imposing stricter compliance and reporting obligations. Multinational companies face significant adjustments to their tax structures, including the need to modify transfer pricing policies and increased documentation for country-by-country profit and tax allocation.

What does it mean for me?

As traditional low-tax jurisdictions become less attractive due to the limitations imposed by BEPS rules, many companies are exploring nearshoring and onshoring strategies. Relocating operations closer to key markets simplifies compliance and enhances operational resilience.

What can I take away?

To navigate the new global tax framework, multinational corporations are advised to adjust their transfer pricing policies, strengthen economic substance documentation and enhance internal tax governance frameworks.

As the international tax landscape continues to evolve, the base erosion and profit shifting (BEPS) initiative remains at the forefront of global tax policy. In 2025, this will have a significant impact on multinational corporations.

We examine the latest regulatory changes, their implications for multinational corporations, the move to near-shoring and on-shoring, and strategic considerations for tax planning.

Key developments

Progress on BEPS 2.0

One of the most significant global tax policy changes in recent years has been the BEPS 2.0 project managed by the Organisation for Economic Co-operation and Development (OECD). The initiative, divided into Pillar One and Pillar Two, aims to modernise international tax rules in response to digitalisation and profit-shifting concerns.

Pillar One aims to reallocate taxing rights to jurisdictions where multinational corporations generate revenue, even without a physical presence. However, it seems unlikely that it will enter into force in the foreseeable future. The United States has suspended its participation in the Pillar One/Two project, which means that progress on the necessary multilateral convention has stalled. However, some countries are considering going ahead with Amount B (simplified transfer pricing rules for certain transactions).

Pillar Two introduced a global minimum tax of 15% on large multinational corporations. As more countries align their tax laws with the OECD framework, the enforcement of the global minimum tax is tightening, reducing tax incentives for shifting profits to low-tax jurisdictions.

Increased compliance and reporting requirements

In response to growing concerns over tax transparency, the OECD and national governments are strengthening compliance requirements.

- More jurisdictions are adopting public disclosure of country-by-country reporting, increasing scrutiny on multinational corporations’ tax structures.
- New reporting obligations require digital platforms to provide transaction data to tax authorities, ensuring proper taxation of cross-border activities.
- Stricter regulations require businesses to proactively report aggressive tax planning strategies.

The role of the European Union and unilateral measures

The European Union remains at the forefront of BEPS implementation, pushing for stricter tax rules. Under the Public Country-by-Country Reporting Directive, large companies operating in the EU must disclose their tax payments by jurisdiction, fostering transparency. The directive applies to multinational groups with consolidated revenues exceeding €750 million, which must publicly disclose specific tax-related information for each EU member state and certain non-cooperative jurisdictions.

The EU blacklist of tax havens (officially known as the EU list of non-cooperative jurisdictions for tax purposes) was expanded in October 2024, and now includes 11 jurisdictions that do not align with Pillar Two, discouraging profit shifting. Countries on the blacklist face increased scrutiny of financial transactions and limitations on EU funding and investment.

While Pillar One aims to replace unilateral digital services taxes, which can lead to double taxation and trade disputes, some EU nations continue to enforce them until a global consensus is operational.

The impact on multinational corporations

Transfer pricing adjustments and compliance costs: Multinational corporations may need to adapt their transfer pricing policies to align with Amount B's simplified rules and new country-by-country reporting disclosures, which can apply to tax years beginning on or after 1 January 2025. Under the new disclosures, multinational corporations must provide detailed information on the allocation of profits and the corresponding tax paid in each jurisdiction. Increased documentation requirements translate into higher compliance costs, necessitating robust internal tax governance structures.

Reshaping of tax structures and supply chains: Under the global minimum tax, which is set at 15%, if a multinational corporation's effective tax rate in a jurisdiction is below this threshold, a top-up tax will be applied to bring it up to 15%. This diminishes the attractiveness of tax havens, prompting multinational corporations to reevaluate their corporate structures. Key trends include:

- reshoring and nearshoring: companies are shifting operations closer to key markets to mitigate tax risks; and
- revised IP holding structures: holding intellectual property in tax-favourable jurisdictions is becoming less viable due to stricter substance requirements.

Increased tax liabilities and dispute risks: As tax authorities tighten enforcement, multinational corporations face higher tax burdens and increased audit risks. Countries are aggressively challenging tax planning strategies through mutual agreement procedures and dispute resolution mechanisms, creating uncertainty in tax outcomes.

Key takeaways for multinational corporations

Tax strategy adjustments:

- Multinational corporations may need to rethink transfer pricing policies and profit allocation models.
- Maintaining offshore structures purely for tax benefits is no longer viable under BEPS 2.0 and Pillar Two.

Operational strategy adjustments:

- Companies should evaluate nearshoring and onshoring to optimise tax efficiency, supply chain resilience and regulatory compliance.
- Relocating to jurisdictions with strong commercial and tax incentives (rather than purely tax-driven decisions) will be the new norm.

Regulatory and compliance preparation:

- Multinational corporations should enhance economic substance documentation, ensuring that entities in low-tax jurisdictions have real employees, offices and business operations.
- Tax and finance teams must collaborate closely to align BEPS compliance with broader business strategy.

Interaction of tax and accounting functions

The implementation of Pillar Two will significantly affect the interaction between tax and accounting functions within multinational corporations, primarily because the global minimum tax calculations rely on financial accounting data from consolidated financial statements rather than traditional tax returns. This shift will impact the tax-accounting relationship.

Tax and accounting data alignment

- **Generally accepted accounting principles (GAAP) vs tax accounting differences:** Pillar Two calculations use the global anti-base erosion (GloBE) rules, which require tax computations based on financial accounting standards (e.g. IFRS, US GAAP) rather than local tax rules. This creates challenges where accounting profit and taxable income diverge due to temporary and permanent timing differences.
- **Deferred tax adjustments:** The use of deferred tax assets and deferred tax liabilities in calculating effective tax rates under Pillar Two adds complexity. Finance teams will need to track, adjust and reconcile deferred tax positions more closely with tax teams to ensure compliance with GloBE rules.

Increased coordination between tax and finance functions

The need for consistent country-by-country financial data to comply with the new reporting requirements means that tax teams will rely more heavily on accounting teams to provide real-time, accurate consolidated reports.

In order to reconcile book and tax treatment of income, tax and accounting teams must align on income recognition, provisions and tax credit treatments.

Compliance and increased workload

Since Pillar Two requires tax adjustments based on financial statements, tax teams may need to work closely with accounting departments every quarter rather than just at year-end for compliance filings. There are also implications for audit processes and internal control. External auditors will scrutinise how multinational corporations calculate their effective tax rates under Pillar Two, requiring closer collaboration between financial reporting and tax teams.

Given that different countries may interpret Pillar Two rules slightly differently, multinational corporations need a centralised approach to ensure consistency across jurisdictions, and so that tax provisions align with local and global reporting standards.

Impact on tax planning and strategy

Because low-tax jurisdictions are less attractive under Pillar Two, tax and accounting teams will need to model scenarios where entity restructuring or profit reallocation might be necessary.

Some jurisdictions will introduce qualified domestic minimum top-up taxes or other incentives to offset the Pillar Two impact. Tax teams must collaborate with accounting teams to model the impact of tax credits and incentives on financials.

Strategic considerations for businesses

To navigate BEPS-related changes, multinational corporations should enhance their tax governance frameworks, ensuring compliance while mitigating risks. Key steps include:

- conduct regular revies to align transfer pricing policies with OECD and local requirements;
- ensure that compliance processes are streamlined to allow efficient tax reporting and documentation;

- ensure that data can be collected quickly and efficiently from the various sources needed in all countries where the multinational corporation operates;
- consider participation in the OECD’s International Compliance Assurance Programme (‘ICAP Risk assessment’); and
- build a Tax Control Framework to set out the activity’s tools, techniques and organisation arrangements to ensure that all tax risks are identified, assessed and understood, and that appropriate responses are in place to mitigate the impact of all risks.

With the incentive to operate in traditional low-tax jurisdictions waning, multinational corporations need to explore new investment destinations based on commercial, regulatory and geopolitical factors rather than tax benefits.

The effect of new BEPS rules

The evolving BEPS 2.0 framework, particularly under Pillar Two, is driving multinational corporations to reevaluate their tax and operational structures. The tightening of economic substance rules, combined with the global minimum tax of 15%, is making traditional strategies less viable. As a result, companies are increasingly considering nearshoring and onshoring as alternatives to tax-driven offshore structures.

The BEPS framework has long targeted the artificial shifting of profits to low-tax jurisdictions without significant business operations. Many tax-favourable jurisdictions have responded by tightening economic substance rules, requiring businesses to demonstrate that their presence involves real activities, employees and decision-making functions rather than mere paper profits.

Under Pillar Two, companies operating in low-tax jurisdictions must prove that they are conducting real business activities to avoid additional taxation in their parent or operating jurisdictions.

Since the global minimum tax ensures that profits in low-tax jurisdictions are taxed at the 15% minimum, there is less incentive to maintain operations in jurisdictions that offer low or zero corporate tax rates. If a company lacks real economic substance in these jurisdictions, it risks triggering top-up taxes under the GloBE rules, making offshore tax structures less attractive.

A shift towards nearshoring and onshoring

As a response to BEPS rules, companies are shifting toward nearshoring (moving operations closer to key markets) and onshoring (relocating operations to the company's home country) for both tax and operational benefits.

Compliance simplicity: With BEPS reducing the benefits of tax havens, companies are finding less benefit in maintaining complex offshore structures. Moving operations closer to key markets reduces compliance risks associated with economic substance tests and avoids Pillar Two top-up taxes.

Lower reputational risks: Governments and regulators are scrutinising tax structures more closely, and companies operating in tax havens without sufficient substance face higher reputational risks. Nearshoring and onshoring improve corporate transparency, which can be beneficial in regulatory, investor and consumer relations.

Operational and supply chain resilience: Supply chain disruptions, geopolitical tensions and rising labour costs in traditional outsourcing destinations are prompting multinational corporations to look at moving production closer to home markets. Nearshoring provides greater control over logistics, intellectual property protection and regulatory compliance, while ensuring cost efficiencies.

Use of tax incentives in high-tax jurisdictions: Many high-tax jurisdictions are introducing incentives (such as R&D credits, investment tax breaks and domestic tax holidays) to attract businesses back to their home countries. With BEPS neutralising the tax advantages of some offshore jurisdictions, it is becoming more financially viable for companies to operate in jurisdictions where they already have a strong commercial presence.

In conclusion

The global development of the BEPS project and its gradual implementation by countries around the world presents significant complications for multinational corporations and potentially creates the need to consider restructuring activities and operations.

The BEPS-driven crackdown on artificial profit shifting is making nearshoring and onshoring more attractive. Companies that proactively adjust their tax structures, supply chains and operational strategies to align with the new rules will benefit from reduced compliance risks, improved transparency and long-term stability.

Pillar Two is requiring enhanced interaction between tax and accounting functions. Seamless integration and cross-functional collaboration will be critical for compliance. Multinational corporations are likely to need to invest in technology, internal processes and training to ensure that financial and tax reporting are fully aligned under the new global minimum tax regime. The BEPS initiative is reshaping international taxation, increasing compliance burdens and altering business strategies.

As 2025 unfolds, businesses must stay agile, embrace transparency and proactively manage tax risks to thrive in an era of heightened regulation. By aligning their tax strategies with the evolving global framework, multinational corporations can ensure sustainable growth, while maintaining compliance in a rapidly changing environment.