

Pillar II Explained

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PILLAR II EXPLAINED

Pillar II is the second element of the Organisation for Economic Co-operation and Development's (OECD) two-part global tax reforms. The intention is to create a minimum tax rate of 15% across all countries in the world for large multi-national companies. The goal of this project is to reduce global tax competition and help to ensure companies pay tax where they produce value. It applies to companies with more than €750 million in revenues.

Guernsey implemented the Pillar II regulations with effect from 1 January 2025 (alongside Jersey and the Isle of Man).

Pillar I focused on changing where companies pay taxes. It reallocates profits from where large companies earn income to where they sell products and services.

Significantly, the US has announced it will not adopt Pillar II rules. From recent discussions, however, it seems unlikely that Pillar II rules will be abandoned. Instead, the solution is almost certainly going to be a side-by-side approach where the US system is accepted. It means that US multi-nationals would be subject to the US international tax regime without any Pillar II top-ups.

The US has established a minimum tax on foreign earnings of 10.5%, rising to 13.125% in 2026. This is lower than the Pillar II minimum tax of 15%. There is a difference though. The US method uses a global averaging method. Technically this could reduce companies' US tax liability.

The US rejection of Pillar II may discourage wider uptake of the regime. Certain countries, including India and China, have not yet enacted Pillar II implementation. There's a risk others could try to follow the US lead!

What does this mean for Guernsey?

On the one hand, Guernsey will benefit from its adoption of Pillar II by taxing the profits of large, multi-national companies at a rate of 15%. On the other hand, the increase in tax in low-tax jurisdictions like Guernsey will potentially discourage foreign companies from setting up or operating here.

Implementing Pillar II with effect from 1 January 2025 means Guernsey will receive 15% tax from companies with annual revenue above €750 million – being only the very largest companies. However, it should be recognised that banking and finance companies already pay tax at 10% in Guernsey. Therefore, under Pillar II the multi-national banking and finance companies will pay only an extra (approximately) 5% tax.

Guernsey regulations don't require companies to make their first registration under Pillar II until 31 December 2025. Under Pillar II rules, the first standard Pillar II return is due 18 months after a company's year-end. So for a 31 December 2025 year end, the first return won't be due to be submitted until 30 June 2027, which means that no cash under Pillar II is going to be received until later in 2027 and the amount won't be known until then.

Despite this, Guernsey's forecast budget outturn for 2025 includes an estimate of £39m in respect of income from Pillar II and the budget for 2026 includes a further £40m.

We can expect these large companies to move quickly to obtain the most advantageous tax position. This won't benefit Guernsey, because we are now aligned with all those countries which have implemented Pillar II. Tax will cease to be a reason to be in Guernsey for many of these companies. Instead of a gain in income, there is a real risk of income loss.

Furthermore, the P&R sub-committee led by Deputy Charles Parkinson has already said that they are aiming to increase tax paid by all Guernsey companies. The first workstream of the sub-committee is reviewing corporate tax and is due to report in Q1 of 2026. With Guernsey losing its competitiveness on tax for multi-national corporations, great care is needed if all other Guernsey companies are to be taxed at rates of between 10 to 15%.