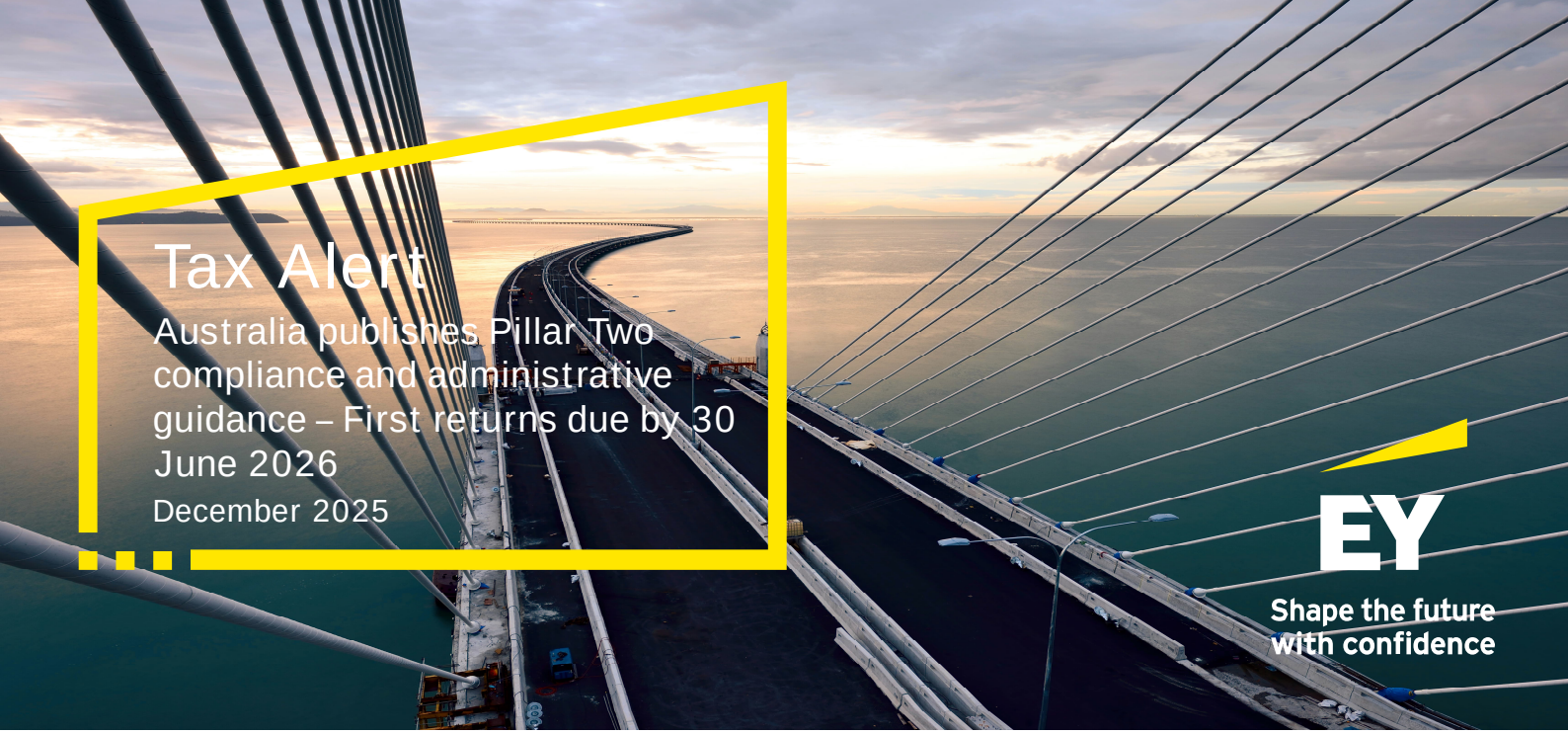

Tax Alert

Australia publishes Pillar Two compliance and administrative guidance – First returns due by 30 June 2026

December 2025

Shape the future with confidence

At a glance

- Australia's Pillar Two rules are in force and have retrospective application to fiscal years starting on or after 1 January 2024.
- Australia's Pillar Two rules include a Domestic Minimum Tax (DMT) and an Income Inclusion Rule (IIR) which apply to fiscal years starting on or after 1 January 2024 and an Undertaxed Profits Rule (UTPR) which applies to fiscal years starting on or after 1 January 2025.
- The ATO has published PCG 2025/4 which outlines the ATO's transitional compliance approach to penalties during the transition period and helps taxpayers understand expectations for compliance.
- There also has been considerable ATO website and formal public guidance released in the second half of 2025, including clarifications as to the interaction with Australia's Country-by-Country and tax consolidation rules.
- In-scope multinational enterprise groups (MNE Groups) need to prepare for the compliance obligations that will be required under the new domestic and global and minimum tax.
- EY can assist MNE Groups with the preparation, review, and filing of their Australian and global Pillar Two returns using the EY GloBE Engine.
- EY can also support with data readiness, technology implementation, assessing eligibility for exemptions and safe harbours, record-keeping requirements, and the development of internal documentation policies to help demonstrate reasonable measures and reduce the risk of penalties.

The better the question.
The better the answer.
The better the world works.

On 26 November 2025, the Australian Taxation Office (ATO) published its *Practical Compliance Guideline (PCG) 2025/4 Global and domestic minimum tax lodgment obligations – Transitional approach* relating to the implementation of the Organisation for Economic Co-operation and Development's (OECD) Pillar Two global minimum tax solution in Australia.

The final PCG follows an earlier draft and provides administrative guidance on new lodgment obligations and outlines the ATO's transitional compliance approach to penalties during the transition period. It also helps taxpayers understand expectations for compliance and how to demonstrate "reasonable measures" to mitigate penalties.

This Tax Alert also covers several other recent updates in Australia's Pillar Two landscape including:

- ATO website guidance on Pillar Two to include new guidance on the Transitional County by Country Reporting (CbCR) Safe Harbour, including Country by Country (CbC) Reports prepared using consolidated financial data and the application of the hybrid arbitrage rules to intragroup arrangements within tax consolidated groups.
- Draft *Legislative Instrument (LI) 2025/D17* regarding Australian Pillar Two lodgment exemptions released for consultation.
- *Practice Statement (PSLA) 2005/2* updated to include record-keeping requirements for Pillar Two and penalties for not keeping records.
- *Taxation Ruling (TR) 2006/11* updated to include Pillar Two provisions and a decline to rule provision.
- *Taxation (Multinational -- Global and Domestic Minimum Tax) Amendment (2025 Measures No. 1) Rules 2025* released for consultation.
- *Taxation (Multinational – Global and Domestic Minimum Tax) (Qualified GloBE Taxes) Determination 2025* registered on the Federal Register of Legislation.

Implications for taxpayers

Under Australia's implementation of the OECD Pillar Two rules, the first Pillar Two returns for in-scope multinational enterprise groups (MNE Groups) with a December year-end are due by 30 June 2026, which is 18 months after the end of the FY2024 fiscal year. MNE Groups must act now to consider the impact of these recent Pillar Two developments on their organisation, including whether certain entities are eligible for an exemption from lodging Pillar Two returns in Australia and if they can elect to apply the Transitional CbCR Safe Harbour (TSH), as this may streamline the compliance process and mitigate risks.

PCG 2025/4 Global and domestic minimum tax lodgment obligations – Transitional approach published

On 26 November 2025, the ATO released final PCG 2025/4 which outlines the ATO's transitional approach to penalties and expectations in relation to the four new Pillar Two lodgment obligations introduced for applicable MNE Groups, and the ATO's approach to failure to lodge penalties and statement penalties during the transition period.

The four new lodgment obligations are the Australian DMT Tax Return (DMTR), the Australian IIR/UTPR Tax Return (AIUTR), the GloBE Information Return (GIR) and the foreign lodgment notification where the GIR has been filed overseas. The ATO plans to consolidate the DMTR, the AIUTR and the foreign notification form into a single Combined Global and Domestic Minimum Tax Return (CGDMTR) for simplicity, while the GIR remains a standalone form.

The final PCG remains largely unchanged from the draft PCG (PCG 2025/D3). The transitional period, consistent with OECD guidance, applies to fiscal years starting on or before 31 December 2026 and ending on or before 30 June 2028. During this time, the ATO will adopt a supportive transitional compliance approach to penalties where entities act in good faith and take reasonable measures to understand and comply with their obligations. However, failure to take such measures may result in penalties.

To demonstrate reasonable measures, MNE Groups should implement strong governance and planning frameworks including documented compliance policies, implementation plans with resourcing considerations and senior-level approval. Operational readiness is also critical, including updating processes, conducting system gap analyses, and adjusting roles to support compliance. Early engagement with the ATO and maintaining robust records will help mitigate risks.

After the transition period, the ATO will no longer apply a facilitative transitional approach, so businesses must ensure their systems are ready to capture the necessary Pillar Two data and apply the Rules correctly to meet their compliance obligations.

ATO website guidance on Pillar Two includes new webpages on the Transitional CbCR Safe Harbour (TSH)

On 22 October 2025, the ATO updated its website guidance regarding the TSH. The revised guidance provides further background on the TSH eligibility criteria, including confirmation that a MNE Group must specifically elect for the TSH to apply within its GIR. It also outlines the requirements for accessing the TSH, notably that the relevant jurisdiction must not be subject to any specific exclusions from the TSH.

The ATO's guidance incorporates a dedicated section addressing the data sources permissible when applying the TSH under Pillar Two. Typically, this is information derived from a qualified CbC report. Under Section 8-35 of the Rules, a 'Qualified CbC Report' is defined as a CbC Report prepared for a particular jurisdiction and filed using Qualified Financial Statements (QFS). QFS refer to accounts or statements that satisfy the standards set out in Section 8-70 of Australia's Pillar Two Rules. When amounts are sourced from a Qualified CbC Report or QFS, the ATO guidance confirms that they must directly reflect the reported figures, with no adjustments permitted unless expressly allowed.

ATO website guidance on CbC Reports prepared using consolidated financial data

The ATO website guidance acknowledges that in Australia, CbC reports are permitted to be prepared using consolidated financial data at the jurisdictional level where the CbC reporting parent is the head entity of a tax consolidated group, the consolidated data is reported for each jurisdiction in Table 1 of the CbC report, and the consolidation approach is consistently used across fiscal years.

In a CbC report prepared using consolidated financial data, items of income and expense that arise from intra-group transactions between entities that are CbC reporting resident in the same jurisdiction are eliminated.

The guidance states that foreign-headquartered MNEs that file their CbC report in another jurisdiction instead of Australia may also prepare their CbC reports using consolidated data at the jurisdictional level, where the filing jurisdiction permits the use of consolidated data.

The ATO guidance stipulates that, where CbC reports are prepared on a consolidated jurisdictional basis in accordance with the filing jurisdiction's requirements, the QFS for the purposes of the TSH are those prepared on a consolidated basis for the relevant jurisdiction, subject to compliance with all other conditions outlined in Section 8-70 of the Australian Rules.

ATO website guidance on intragroup arrangements within tax consolidated groups

The ATO guidance also covers the application of hybrid arbitrage arrangements within an Australian tax consolidated group and the impact associated with TSH. Specifically, the guidance relates to whether a deduction/non-inclusion arrangement under Section 8-120 could arise with respect to certain transactions occurring within an Australian tax consolidated group (TCG), such as intra group financing arrangements, where the CbC data is reported on an aggregated basis. This is because an expense will be reflected in the stand-alone qualified financial statements of the borrower, but the counterparty is not reasonably expected to have a commensurate increase in its taxable income over the life of the arrangement as the arrangement is disregarded for Australian local tax purposes under the Single Entity Rule.

If the hybrid arbitrage arrangement rules were to apply to such arrangements, the expenses associated with the arrangement would be excluded and therefore increase the MNE Group's profit or loss before income tax for Australia, which may result in a lower effective tax rate (ETR) under the Simplified ETR test.

The ATO acknowledges that where the MNE Group's CbC report is prepared using consolidated data at the jurisdictional level, there would be no expense (or income) relating to the intra-group arrangement between members of the TCG. As such, the hybrid arbitrage arrangement rules should not have any practical operation in these circumstances.

Notwithstanding the technical position set out above, the ATO will not apply compliance resources to test the application of Section 8-120 (and, consequently, Section 8-110) to an intra-group financing arrangement where:

- The MNE Group prepares its qualified CbC report for Australia on an aggregated basis.
- An intra-group arrangement involving the provision of credit or making of an investment by an investor occurs between members of an Australian TCG or multiple entry consolidated (MEC) group and results in an expense in the qualified financial statements.
- The net effect of the intra-group financing arrangement on the profit or loss before income tax for Australia for the fiscal year in the qualified CbC report is the same as it would have been had the qualified CbC report been prepared and filed using consolidated data for the jurisdiction.

The proposed compliance approach is welcomed and should eliminate unnecessary compliance burden which may arise if such arrangements resulted in the Simplified ETR test not being satisfied.

Draft LI 2025/D17 regarding Australian Pillar Two lodgment exemptions released for consultation

On 27 August 2025, the ATO released Draft LI 2025/D17 Taxation Administration (Exemptions from Requirement to Lodge Australian IIR/UTPR tax return and Australian DMT tax return) Determination 2025.

The draft LI outlines exemptions for certain types of entities from lodging the DMTR and AIUTR, specifically aimed at reducing unnecessary compliance for entities that would only ever report a nil liability under Australia's Pillar Two rules. However, the LI does not exempt such entities from the lodgment of the GIR where local lodgment is required, nor the foreign lodgment notification where the GIR is lodged in a foreign jurisdiction.

The exemption categories from lodging the DMTR include certain subsidiary members of TCGs or MEC groups, entities that are not GloBE located in Australia other than a stateless Constituent Entity created in Australia or a GloBE Main Entity of a GloBE Permanent Establishment located in Australia, certain GloBE securitisation entities and certain flow-through entities that cannot have an Australian DMT tax liability.

Given the AIUTR covers both Australian IIR tax and Australian UTPR tax liabilities, entities will only be exempt from lodging an AIUTR for a fiscal year under specific circumstances in which both these liabilities will always be nil.

The following entities cannot have an Australian IIR tax liability and may therefore be exempt from filing an AIUTR:

- Entities which are not parent entities (i.e., entities that do not hold ownership interests in another entity).
- Parent entities which are not GloBE located in Australia.
- Parent entities that are GloBE located in Australia, but which only hold ownership interests in other entities or GloBE Joint Ventures that are themselves GloBE located in Australia.
- Parent entities that are GloBE located in Australia, but which cannot have an Australian IIR liability greater than zero because a higher-tier parent entity is required to apply a qualified IIR.

However, to benefit from the exemption, these entities must also fall into one of the following UTPR exemption categories:

- Certain subsidiary members of TCGs or MEC groups.
- Entities that are not GloBE located in Australia other than a GloBE Main Entity of a GloBE Permanent Establishment located in Australia.
- Entities that would have an Australian UTPR tax liability of nil due to the application of a qualified IIR or the transitional UTPR safe harbour.
- Certain GloBE investment entities, insurance investment entities and GloBE securitisation entities.

Consultation closed on 24 September 2025. The ATO is considering submissions and working to finalise the LI. Once it is released in final, it must be registered on the Federal Register of Legislation.

PSLA 2005/2 updated to include record-keeping requirements for Pillar Two

The ATO has updated PSLA 2005/2 to include guidance on the record-keeping obligations for entities subject to minimum tax law, including the IIR, UTPR and DMT. Entities must now retain comprehensive records for at least eight (8) years, ensuring that all relevant transactions, elections, calculations, and determinations are clearly documented and readily accessible in English.

Failure to comply with these record-keeping requirements may result in significant penalties. The ATO may also impose additional penalties if poor record-keeping leads to incorrect tax reporting. However, the ATO has discretion to remit penalties in cases where entities have made genuine attempts to comply, or where records were lost or destroyed due to circumstances beyond their control and have been reconstructed.

These updates reinforce the importance of robust documentation and proactive compliance for all entities affected by the new minimum tax regime.

TR 2006/11 updated to include private rulings on Pillar Two and a decline to rule provision

TR 2006/11 provides updated guidance on private rulings to include the new minimum tax provisions, including the IIR, UTPR and DMT. While taxpayers can generally seek private rulings on how these rules apply to their circumstances, the ATO may decline to rule in certain cases.

Specifically, the Commissioner may refuse to issue a private ruling where the request involves interpretation of foreign tax law, relies on hypothetical or incomplete facts or relates to matters subject to evolving OECD or international guidance. Examples include scenarios where the government is yet to incorporate OECD guidance into domestic law, or where the ruling would require consideration of how other jurisdictions apply their own minimum tax regimes.

As a result, taxpayers should be aware that private rulings may not be available for complex cross-border or uncertain Pillar Two scenarios. The ATO's approach reinforces the importance of maintaining robust documentation and compliance processes for the IIR, UTPR and DMT, even where a private ruling cannot be obtained.

Taxation (Multinational–Global and Domestic Minimum Tax) Amendment (2025 Measures No.1) Rules 2025 (Amending Rules) released for consultation

On 27 October 2025, the Australian Treasury released Amending Rules as a draft legislative instrument as part of the Government's periodic update to the Rules. The Explanatory Statement (ES) to the instrument indicates that these minor periodic changes, along with future minor changes, are to maintain consistency with the OECD Model Rules and to ensure Australia achieves and preserves "qualified" status under the OECD/GloBE framework.

The amendments include:

- The introduction of the Equity Investment Inclusion Election to allow certain accounting gains, profits, and losses associated with equity investments to be included in GloBE Income. This change also introduces modified treatment for qualified flow-through ownership interests and proportional amortisation method cases, reflecting a more tailored approach for specific investment structures.
- Clarification as to the limited circumstances under which securitisation entities may be subject to UTPR Top-up Tax and ensures that that both employee and tangible asset values of securitisation entities are appropriately considered when allocating UTPR Top-up Tax liabilities.
- Minor technical corrections to the DMT rules, such as replacing references to "final Australian withholding tax" with simply "withholding tax," aligning terminology more closely with the OECD Model Rules.
- Clarification that regulated mutual insurance companies may elect to be treated as tax transparent, provided they meet specific requirements.

Consultation on the draft legislative instrument closed on 21 November 2025. The legislative instrument will come into effect the day after its registration on the Federal Register of Legislation. These changes all apply retrospectively from 1 January 2024 consistent with the OECD's co-ordinated approach.

Taxation (Multinational – Global and Domestic Minimum Tax) (Qualified GloBE Taxes) Determination 2025 registered

The Qualified GloBE Taxes Determination was registered on 26 August 2025 and tabled in Parliament on 27 August 2025. The Determination sets out the jurisdictions which have a Qualified IIR and Qualified DMT (QDMTT), along with those jurisdictions whose QDMTT has qualifying QDMTT Safe Harbour status.

The recognition of this qualified status is important for determining the order in which the Pillar Two Rules apply. For example, in the case of a jurisdiction that has QDMTT Safe Harbour status, the application of the IIR or UTPR of other jurisdictions is prevented by deeming the Top-up Tax payable in other countries under these rules to be zero. This means the MNE Group only needs to undertake one calculation with respect to the QDMTT Safe Harbour jurisdiction.

The Determination is intended to align with the OECD Central Record of Legislation with Transitional Qualified Status which reflects those jurisdictions with transitional qualified status based on self-certification, pending full OECD peer review.

It is expected that the Determination will be periodically updated to include new jurisdictions based on the OECD Central Record.

Act now! First Pillar Two filings due in Australia by 30 June 2026

The introduction of PCG 2025/4 and updated ATO guidance marks a significant step forward in the administration of Australia's Pillar Two rules. MNE Groups face new compliance obligations, more stringent record-keeping standards and a transitional penalty regime.

The ATO has also indicated that it will continue to increase its engagement with stakeholders through the release of additional guidance, information sharing sessions and the development of the necessary compliance infrastructure, including new forms and guidance.

To respond effectively, MNE Groups must take a structured approach to Pillar Two compliance. This starts with a comprehensive assessment of how the rules apply to their operations in Australia and globally, followed by identifying any available exemptions or safe harbour provisions that may reduce complexity and risk. It is equally important to ensure that compliance processes and record-keeping systems are robust, technology-enabled, and meet ATO expectations.

By acting now, organisations can transform Pillar Two compliance from a regulatory burden into an opportunity to improve systems, processes and governance.

How EY can help

Our EY team of BEPS Pillar Two advisors can support you with:

- Preparing for the upcoming compliance obligations, including the preparation, review and filing of the GloBE Information Return and the Australian Combined Global and Domestic Minimum Tax Return using the EY GloBE Engine.
- Conducting a current-state assessment of your data availability, systems and processes, assisting with technology implementation and redesign of tax processes to meet Pillar Two compliance needs.
- Establishment and ongoing management of a compliance calendar to monitor and track your global Pillar Two compliance obligations.
- Understanding the financial reporting implications for both local and group financial statements, ensuring that your reporting aligns with the latest regulatory requirements.
- Providing technical advice on Australia's Pillar Two Rules, as well as guidance on how these rules interact with Australia's domestic income tax legislation.
- Delivering tailored training sessions for your internal tax teams and other key stakeholders to ensure readiness and understanding of the new requirements.
- Considering the impact of Pillar Two on your commercial arrangements, transactions and M&A activity to help you manage potential risks and opportunities.
- Supporting you with early and direct engagement with the ATO to address any compliance or administrative challenges.
- Assisting with the process of obtaining Private Binding Rulings from the ATO on specific Pillar Two matters relevant to your organisation.
- Developing tax funding agreements to facilitate the recharge of Pillar Two taxes across your group entities.

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