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Mr Matthew Evans
International, Support and Programs
Australian Taxation Office

Email: Pillar2Project@ato.gov.au

29 August 2025

Dear Matthew,,

Draft Practical Compliance Guideline PCG 2025/D3 Global and domestic minimum tax lodgment obligations - transitional approach

CPA Australia is Australia's leading professional accounting body and one of the largest in the world. We represent the diverse interests of more than 175,000 members in over 100 countries and regions. We make this submission in response to the ATO's consultation on **Draft Practical Compliance Guideline PCG 2025/D3 Global and domestic minimum tax lodgment obligations - transitional approach** (PCG) to global and domestic minimum tax lodgment obligations on behalf of our members.

We welcome the ATO for issuing this guidance, which aims to provide a "soft landing" during the initial years of Pillar Two implementation in Australia, aligning with the OECD's guidance on transitional penalty relief. This is a crucial step towards assisting multinational enterprise (MNE) groups in navigating the complex new rules.

Our comments and key points below are intended to further clarify and improve the efficacy of the draft PCG, addressing areas of concern and seeking greater certainty for taxpayers.

If you have any queries, contact me at jenny.wong@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor on bill.leung@cpaaustralia.com.au.

Yours sincerely,

Jenny Wong
Tax Policy Lead

Detailed Discussions

Clarifying "reasonable measures"

The PCG emphasises that taxpayers must take "reasonable measures" to comply, and that penalty relief is contingent on providing sufficient supporting information. What is 'reasonable' is a central theme throughout the PCG. To enhance clarity, we propose the following:

- The ATO's expectation for specific evidence to demonstrate "reasonable measures" includes consideration of**:** internal policy documents, a documented implementation plan with funding and resourcing, senior-level approval, new process documentation, a gap analysis of existing systems, evidence of external advice, modifications to staff roles and responsibilities, updated internal control testing plans, and records of positions taken including evidence that offshore information has been sought. We recommend that the ATO provides further illustrative guidance, beyond the current examples, to delineate between what is considered a reasonable effort for groups at different stages of their implementation journey, especially concerning the detail required for each point.

- The PCG confirms that the expectation for "reasonable measures" is the same for both Australian and foreign-headquartered MNE groups. We note that differing standards of "reasonableness" can exist across jurisdictions, as observed with initial drafting of the ATO Pillar Two notification being more detailed than those in other countries such as the UK. While not directly relevant to penalties, this does suggest differing standards of reasonableness. We seek the ATO's ongoing commitment to balancing its local standards with the broader international consensus to avoid inherent conflicts for global groups.

Evolving international tax landscape

- The evolving international landscape is marked by significant uncertainty and presents considerable challenges for multinational enterprise (MNE) groups particularly around decisions at the Board level of whether certain investment should be undertaken for technology upgrades for Pillar Two. The recent G7 announcement concerning a proposed "side-by-side" solution for US-parented groups, which could exempt them from the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR), is a prime example of this. While Australian Pillar Two rules currently remain in force for all groups, including US-parented ones, there is little detail on how this "side-by-side" system may work in practice. This creates considerable ambiguity, raising questions about whether US-headquartered groups will still be required to lodge a full GloBE Information Return (GIR) and the implications for other foreign-headquartered entities whose parent is located in a jurisdiction that does not implement Pillar Two.

- Given this dynamic environment, it seems unreasonable to expect MNE groups to continue expending significant time and resources to meet an obligation that may ultimately not apply to them, or one that could be materially changed.

- The ATO's updated guidance on private rulings also indicates that the Commissioner may decline to issue a private ruling where the OECD/G20 Inclusive Framework has published, or is drafting, guidance that Australia plans to incorporate, or where it requires considering foreign tax law application. This further restricts avenues for MNE groups to gain certainty. We agree that further guidance is ideally needed from the ATO on how it will administer the regime until this uncertainty is resolved, especially considering potential differences in "reasonableness" standards between jurisdictions that could create inherent conflicts for global groups.

- The PCG states that if a foreign entity lodges the GIR on behalf of an Australian entity, it must be lodged by the Australian due date in the foreign jurisdiction. If the GIR is not exchanged within the specified timeframe, the Commissioner will generally seek it from the foreign government first, but may subsequently require Australian Group Entities to lodge the GIR locally within 21 days of receiving written notice. As the group has complied

with its obligation, requiring further action due to some issue between tax authorities is not reasonable.

Definition of the transition period

The ATO defines the Transition Period as Fiscal Years commencing on or before 31 December 2026 and ending on or before 30 June 2028.

The transition period appears based on the lodgement due date occurring on or before the OECD's stated end date of 30 June 2028, rather than the relevant fiscal year when the rules apply.

Thus, it would appear that December year ends would be granted three years of transitional relief as the last year of relief will be 31 December 2026 (as the lodgements are due by 30 June 2028) but June year ends would only be granted two years of transitional relief, as the last year of relief would be 30 June 2026 (as the lodgements are due by 31 December 2027).

We request clarification on the application of transitional relief across all fiscal year-ends,