

## Position paper on OECD Pillar Two with simplification proposals

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### **Insurance Europe views on OECD Pillar Two**

#### **A call for fairness and simplification**

In recent years, significant work has gone into developing a global tax framework, now being implemented in the EU. However, in the current context, where it is increasingly clear that some global players will not participate, it is more important than ever to ensure that the framework does not undermine the competitiveness of the European industry. Implementation of the OECD/G20 Pillar Two rules must remain practical, proportionate, and supportive of sustainable economic activity in Europe.

The United States (US) has recently voiced the need for a side-by-side implementation of the US and the OECD Pillar Two global minimum tax regimes. Pursuant to the withdrawal of prospective retaliatory measures from the One Big, Beautiful Act, a G7 agreement and a G20 statement pave the way for such a coexistence.

For globally active insurance groups, these developments towards a dual minimum tax regime pose tangible risks, such as exposure to duplicative or misaligned taxation, enhanced compliance burden or disruptions to capital flows. A coordinated, inclusive response by both the OECD Inclusive Framework and the European Commission is urgently needed to address these concerns and deliver the necessary simplifications to the OECD Pillar Two rules in order to preserve the competitiveness of European head-quartered multinational Enterprises (MNEs).

Accordingly, Insurance Europe encourages both the OECD and the European Commission to support a stop-the-clock procedure in conjunction with a targeted recalibration of the Pillar Two framework, through simplifications, clarifications, and proportionate implementation measures. While some proposals are directed at global rule design and interpretation, others can be advanced at EU level to ensure legal certainty and reduce unnecessary administrative burdens.

## Key recommendations

### ■ Introduce a “stop-the-clock” procedure to review the OECD Pillar Two rules

In light of ongoing international developments and the operational challenges linked to the implementation of a side-by-side coexistence of minimum tax regimes, the Inclusive Framework should have the necessary time to review the OECD Pillar Two rules in order to achieve a smooth coexistence of both set of rules.

If a full suspension of the European Union minimum tax directive is not realistic, then, as with the European Commission’s Omnibus I initiative, where only the application dates of certain requirements under the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive were postponed, a targeted “stop-the-clock” would delay the end of the transition period during which simplified transitional rules apply. In particular, this would extend the transitional Country by Country Reporting (CbCR) Safe Harbour and postpone the reporting requirement due on 30 June 2026.

Any rule adjustments should be introduced together, rather than incrementally, to ensure regulatory stability. In addition, any changes should come with sufficiently long transitional periods, preferably at least three years after publication.

### ■ Deliver broader simplification measures

It is paramount to address significant simplification needs across the Pillar Two framework. Given that the US will not implement a domestic top-up tax aligned with the OECD’s GloBE rules, and the treatment of the US GILTI regime remains under discussion, European companies may face a competitive disadvantage if implementation moves ahead unevenly across jurisdictions. Moreover, the simplifications needed should be applicable to all GloBE years, meaning for the transition year (2024 in principle) and subsequent years.

### ■ Promote equity and fairness in implementation

Engage the US and other key jurisdictions to ensure consistent application of global rules, including the recalibration of Pillar Two rules needed to ensure the coexistence of OECD designed global minimum tax and the international US tax measures.

### ■ Review the administrative burden

Evaluate whether the current compliance architecture of Pillar Two achieves its objectives without imposing disproportionate burdens.

### ■ Introduce proportional penalty caps

Given the complexity and evolving nature of the Pillar Two rules, the penalties levied by member states risk being excessive and inconsistent. Insurance Europe proposes the introduction of a proportional, EU-wide penalty cap to promote fairness and predictability during implementation. Such a cap should reflect the reality of legal uncertainty and the significant interpretation burden placed on taxpayers.

In addition to setting an upper limit for tax penalties, it would be justified to, at EU level, provide for the possibility of waiving penalties in situations where the group has acted diligently and made efforts to understand and comply with the rules in good faith.

### Priority simplifications

To improve the viability and legitimacy of the global minimum tax, the following technical and structural adjustments should be prioritised. These may be applied either within the Pillar Two Permanent Safe Harbour framework or under the full GloBE rules. While the primary objective is to reduce administrative burden, the proposals also aim to address inconsistencies between the GloBE rules and domestic tax legislations:

- **Develop the transitional CbCR-Safe-Harbour into a permanent Safe-Harbour mechanism** with targeted enhancements.

- Permit the use of financial accounts on a year-by-year basis by repealing the “once out, always out” rule, and ensure that failure to qualify in one year does not disqualify future eligibility, reflecting business cycle variability.
  - Provide for a retroactive use of the permanent safe harbour, allowing MNEs to apply it where it is more favourable than the transitional CbCR-Safe Harbour, while avoiding mandatory reassessment of prior fiscal years (e.g., FY2024) if not desired.
  - Remove capital gains/losses on share disposals and valuation adjustments, where such gains are not taxed under a participation exemption to preserve effective tax rate (ETR) neutrality.
- **Implement simplifications for insurance groups, along with financial services MNEs,** as regards capital detention through investment entities, thus reflecting their unique structural characteristics and regulatory oversight.
- Permit insurers and reinsurers to opt in for the inclusion of the annual mark-to-market movements of their interests in in-scope investment funds in the owner’s ETR calculation, regardless of the fund’s jurisdiction, where the investment is related to insurance business. As a guardrail, the option could be made contingent on a minimum nominal tax rate applicable to the fund owner, or its scope could be limited to Regulated Financial Services MNEs, or any relevant combination of both guardrails
  - Provide an alternate optional transparency treatment for in-scope collective investment vehicles, where such treatment is available under national law. A targeted version could focus on entities backing policyholder liabilities.
  - Extend the 4-year testing period under Article 7.6 to accommodate jurisdictions (eg, Germany and France) where taxation deferral periods are longer.
  - Allow carry forward of pre-GloBE fair value losses under Article 7.6.3, to avoid top-up tax from unrealised gains that merely reverse such losses.
  - Introduce an election for insurers to include all taxed dividends (portfolio and non-portfolio) in the GloBE base. This election should also accommodate national requirements, allowing for inclusion or, where required by law, exclusion of such dividends.
- **Introduce a whitelist of jurisdictions with expected effective tax rates at or above the 15% threshold.**
- **Reduce complexity in reporting and computation,** enabling use of existing accounting systems and processes.
- Enable companies to rely on existing accounting data sources (eg, reporting packages), reducing reporting granularity.
  - Promote the use of the parent company’s accounting rules for group-wide QDMTT-calculations across all EU countries to ease the administrative burden. Separate calculations for specific member states should only be required upon request or in a tax payment situation (e.g., as part of the whitelisting process).
  - Provide for a safe-harbour which allows an ETR test based on an EU-wide blending.
  - Treat all deferred tax liabilities (DTLs) or at least DTL’s that pose low-risk of ETR manipulation as covered taxes, eliminating burdensome recapture and re-computation obligations. This should include, in particular, DTLs related to assets backing insurance obligations. This would ensure consistency with the treatment of DTL related to the corresponding reserves. Such insurance reserves are exempt from the DTL recapture (Art. 4.4.5 (g) of the GloBE Model Rules) and should consequently be accepted as covered taxes under a permanent safe harbour without limitations



- **Exclude immaterial entities** from the GloBE Rules to focus compliance on material risks. In addition, it would be beneficial to establish clearer guidance on how materiality should be assessed, recognising that materiality thresholds may vary depending on the size and nature of the MNE group.
- **Minimise divergence between GloBE and financial accounting** to streamline reporting.
- **Revise Global Information Return requirements** for usability and reduced administrative burden.
- **Clarify and simplify treatment of tax incentives**, ensuring legitimate policy tools remain accessible and predictable.
- **Harmonise QDMTT templates and deadlines** to reduce duplicative reporting.
- **Establish a centralised EU reporting portal** enabling the parent company or another EU-resident group entity to submit local reports for the entire group through the tax authority of a single member state. This system would also enable the parent company to effectively monitor timely reporting and compliance across all local group companies.

We encourage ongoing efforts to minimise overlaps across jurisdictions and tax regimes. A coordinated approach to timing, documentation, and policy intent at international level will enhance the system's effectiveness and legitimacy.

Insurance Europe is the European insurance and reinsurance federation. Through its 39 member bodies — the national insurance associations — it represents insurance and reinsurance undertakings active in Europe and advocates for policies and conditions that support the sector in delivering value to individuals, businesses, and the broader economy.