



5x5 series: Insights and actions

Pillar Two Implications For State and Local Taxes

The influence of Pillar Two extends far beyond international and U.S. federal income taxes. Many state and local taxes are considered “covered taxes” within the Pillar Two framework, making state and local taxes an integral part of the overall Pillar Two analysis. This analysis typically include taking an inventory of current state and local tax profile, including policies and implications related to planning, tax reserves, credits, and incentives.



5 insights you should know

- 1 Many state and local taxes are considered “covered taxes” within the Pillar Two framework. As such, companies should understand their state tax profile to properly evaluate the impact of Pillar Two.
- 2 State regimes that tax foreign inclusions, such as GILTI or foreign dividends, as well as state worldwide taxing regimes, may result in the attribution of state and local taxes to non-U.S. entities under Pillar Two.
- 3 As companies react to Pillar Two through business or structural changes, these changes can have a direct and immediate impact on an organization's state and local tax profile.
- 4 “Adjusted Covered Taxes” do not include state and local tax reserves.
- 5 Covered tax is reduced by non-refundable tax credits. However, certain refundable tax credits or transferable tax credits do not reduce covered tax.

5 actions to take now

- 1 **Take inventory of your current state and local tax footprint.** Taxpayers should evaluate which state and local taxes are considered “covered taxes” and which entities in their structure bear the burden of that tax.
- 2 **Ensure open lines of communication.** Federal, state, and international tax professionals should communicate with each other and with the overall business to develop a coordinated response to Pillar Two.
- 3 **Understand how your business and structure may change in response to Pillar Two.** Consider the state and local tax implications of any structural or organizational changes as well as identify state and local tax planning considerations.
- 4 **Evaluate your strategy with respect to controversy.** The release of reserves through ruling requests, negotiated settlements, voluntary disclosure agreements, etc., can impact the calculation of the minimum tax rate under Pillar Two.
- 5 **Evaluate your strategy with respect to credits and incentives.** Inventory credit carryovers and additional credit and incentive opportunities, including refundable and non-refundable credits as well as transferability implications.

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