EXPLANATORY MEMORANDUM TO

THE MULTINATIONAL TOP-UP TAX (PILLAR TWO TERRITORIES, QUALIFYING DOMESTIC TOP-UP TAXES AND ACCREDITED QUALIFYING DOMESTIC TOP-UP TAXES) (AMENDMENT) REGULATIONS 2025

2025 No. 783

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury (HMT) and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 James Murray MP, Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Richard Thomas, Deputy Director for Base Protection Policy, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Jonathan Spittles at HMRC email: pillar2.consultation@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Instrument supports the UK's implementation of the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework Pillar Two model rules.

4.2 Specifically, it amends the 'Multinational Top-up Tax (Pillar Two Territories, Qualifying Domestic Top-up Taxes and Accredited Qualifying Domestic Top-up Taxes) Regulations 2025' (S.I.2025/406) ("the 2025 Regulations") to enable an HMRC notice that specifies additions to the lists of Pillar Two territories, qualifying domestic top-up taxes, and accredited qualifying domestic top-up taxes to take effect from a date before the notice is published.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 This Instrument forms part of the legislative framework applying the OECD/G20 Inclusive Framework's Pillar Two rules within the UK.

5.2 Pillar Two is a global tax reform coordinated by the OECD/G20 Inclusive Framework which aims to ensure that large multinational enterprises pay an effective tax rate of at least 15% in every jurisdiction in which they operate.

5.3 To do this, it sets out a common framework for calculating the effective tax rate in each relevant jurisdiction.

5.4 Where the effective tax rate is less than the minimum rate of 15%, the difference between the effective tax rate and the minimum rate of 15% is applied to a measure of profits for the jurisdiction to arrive at an amount of top-up tax. Any top-up tax for a jurisdiction is then allocated to members of the multinational group.

5.5 To ensure the intended distribution of taxing rights and prevent double taxation, the rules respect taxes paid under other jurisdictions' income inclusion rules and domestic minimum top-up taxes.

5.6 This is achieved by recognising those taxes and territories which have met internationally agreed standards. The OECD/G20 Inclusive Framework first published the central record of internationally agreed qualifying territories and taxes on 15 January 2025, providing a basis for the UK Government to make decisions about recognising rules in other jurisdictions. The recognition of rules that were on the central record at that time took effect via the 2025 Regulations. The 2025 Regulations also provided for HMRC to specify additions to the lists in the 2025 Regulations via a notice.

5.7 Since the 2025 Regulations were laid, the OECD/G20 Inclusive Framework has published additions to the central record of internationally agreed qualifying territories and taxes.

5.8 The central record generally recognises qualified status from a date before the updated record is published by the OECD/G20 Inclusive Framework.

5.9 This Instrument amends the 2025 Regulations to enable the specification of territories and taxes in an HMRC notice to take effect from a date set out in the notice, which may be on or before the date the notice was published.

What was the previous policy, how is this different?

5.10 The Pillar Two rules do not replace any previous policy.

5.11 The power enabling HMRC to publish a notice specifying additions to the lists of territories and taxes already exists.

5.12 The amendments made by this Instrument enable the additions in such a notice to take effect from a date or dates before the notice is published.

5.13 Currently, this retrospective recognition would be achieved by making numerous additional statutory instruments following each change to the international recognition of the territories and taxes by the OECD/G20 Inclusive Framework.

6. Legislative and Legal Context

How has the law changed?

6.1 Multinational Top-up Tax and Domestic Top-up Tax are new taxes that were introduced in the Finance (No.2) Act 2023.

6.2 As required by the rules governing those taxes, the 2025 Regulations specify territories as Pillar Two territories, taxes which are qualifying domestic top-up taxes, and taxes that are accredited qualifying domestic top-up taxes. This is governed by section 241, section 256, and schedule 16A Finance (No.2) Act 2023.

6.3 Regulation 2 of this Instrument amends regulations 2, 3, and 4 of the 2025 Regulations to enable specifications made in a notice published under the 2025 Regulations to have effect before the date the notice is published. This is authorised by section 241(3), section 256(4), and paragraph 2(1C) of schedule 16A Finance (No.2) Act 2023.

Why was this approach taken to change the law?

6.4 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 As an integral part of the Pillar Two Rules, this Instrument forms part of the implementation of the outcome of the Government's earlier consultation on the introduction of Pillar Two in the UK. A report of the earlier consultation and summary of responses is available on the GOV.UK website.[1] In the consultation, respondents included a number of trade bodies, accounting firms, law firms, universities and various large businesses.

7.2 There has been no specific consultation on this Instrument.

8. Applicable Guidance

8.1 This Instrument does not implement or require specific guidance. Guidance relating to Pillar Two is currently available in draft form and in due course will be available in the form of an HMRC internal manual, 'The Multinational Top-up Tax and Domestic Top-up Tax Manual'.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this Instrument because it does not alter the impacts set out in the Tax Information and Impact Note for the 2025 Regulations.[2]

[1] Consultation response on implementation of Pillar 2: https://assets.publishing.service.gov.uk/media/62d6f9fed3bf7f28643ca4e3/Pillar_2_Summary_of_Responses_for_20_July_2022.pdf

[2] The 2025 Regulation Tax Information and Impact Note: https://www.gov.uk/government/publications/the-multinational-top-up-tax-pillar-2-territories-qualifying-domestic-top-up-taxes-and-accredited-qualifying-domestic-top-up-taxes-regulations-2025/the-multinational-top-up-tax-pillar-2-territories-qualifying-domestic-top-up-taxes-and-accredited-qualifying-domestic-top-up-taxes-regulations-20

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because this Instrument ensures the intended working of the Pillar Two rules. Therefore, any impact has already been assessed under the implementation of the wider Pillar Two rules.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because governmental entities are excluded entities for the purposes of the Pillar Two rules.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is to review the qualifying territories in line with the OECD review process for Pillar Two qualifying status. When the OECD/G20 Inclusive Framework updates its central record, HMRC will review whether any changes are required in UK legislation or if a notice should be published.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This Instrument enables an HMRC notice that specifies additions to the lists of Pillar Two territories, qualifying domestic top-up taxes, and accredited qualifying domestic top-up taxes to apply retrospectively. This is wholly relieving for the taxpayer and is authorised by section 241(3), section 256(4), and paragraph 2(1C) of schedule 16A Finance (No.2) Act 2023.

12. European Convention on Human Rights

12.1 As the Instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).