Chapter 1.1: Revenue Threshold Assessment

Learning Objective

After completing this chapter, you will be able to determine whether an MNE group meets the €750 million consolidated revenue threshold and document this assessment for compliance purposes.

Introduction

The revenue threshold test represents the gateway to Pillar Two—it determines which multinational groups must engage with this complex new layer of international tax compliance. Understanding this test is not merely a mechanical exercise; it reflects deliberate policy choices about where to draw the line between groups subject to the global minimum tax and those left outside its scope. The threshold was calibrated to capture the largest multinationals—those with the resources and sophistication to engage in the type of profit shifting that Pillar Two seeks to address—while excluding smaller groups for whom compliance costs would be disproportionate to any revenue benefit.

1. The Threshold Test

An MNE group falls within scope of the GloBE Rules if consolidated group revenue equals or exceeds **€750 million** in at least **two of the four fiscal years** immediately preceding the tested fiscal year *(Article 1.1.1)*.

This is a binary test applied at the group level—individual entity revenues are irrelevant for this purpose.

The €750 million threshold deliberately aligns with the Country-by-Country Reporting (CbCR) requirements introduced under BEPS Action 13. This alignment was intentional—groups already preparing CbCR reports possess the data infrastructure and compliance processes that Pillar Two builds upon. The "two of four years" mechanism prevents groups from oscillating in and out of scope due to single-year fluctuations, whether from economic cycles, one-off transactions, or currency movements. This smoothing mechanism provides compliance certainty while ensuring genuinely large groups cannot escape scope through temporary revenue dips.

2. Identifying the Revenue Figure

2.1 Which Line Item?

Use **total revenue** from the consolidated financial statements of the Ultimate Parent Entity. This is typically labelled as: - "Revenue" (IFRS 15) - "Net sales" or "Total revenues" (US GAAP) - Equivalent line under authorised local GAAP

Include: - Sales of goods and services - Royalty income - Interest and dividend income (if presented as revenue) - Other operating income included in the revenue line

Do not include: - Items presented below the revenue line (e.g., other comprehensive income) - Consolidation eliminations already reflected in the consolidated figure

2.2 Which Financial Statements?

Use the **audited consolidated financial statements** filed with regulators or prepared under statutory requirements *(Article 1.1.1; Commentary, para. 6)*. If audited statements are unavailable for a historic year, use the best available figures and document the source.

For groups reporting under multiple accounting standards (e.g., IFRS for group reporting, local GAAP for statutory accounts), use the figures from the **primary consolidated financial statements** used for external reporting.

The reliance on consolidated financial statements reflects a fundamental design principle of Pillar Two: leveraging existing financial reporting infrastructure rather than creating parallel tax-specific calculations. This approach reduces compliance burden and ensures consistency across jurisdictions, though it does create sensitivity to accounting policy choices. Groups near the threshold should be aware that changes in revenue recognition policies—particularly under IFRS 15's principal vs. agent guidance—can materially affect whether consolidated revenue crosses the €750 million line.

3. Currency Conversion

If the consolidated financial statements are prepared in a currency other than EUR, convert the revenue figure.

3.1 Conversion Methodology

Use the **average exchange rate for the fiscal year** being tested *(Commentary, para. 8)*.

Acceptable sources for exchange rates: - European Central Bank (ECB) annual average rates - Central bank of the reporting jurisdiction - Rate published in the group's audited financial statements

Formula:

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Revenue (EUR) = Revenue (local currency) × Average EUR/local currency r
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3.2 Practical Approach

Many groups already disclose EUR-equivalent figures in their annual reports for investor communication. Where available and sourced from the audited financials, these can be used directly.

Documentation requirement: Record the exchange rate used and its source for each converted year.

Currency conversion introduces an element of uncertainty that groups outside the Eurozone must actively manage. A UK-based group reporting in sterling, for instance, may find itself comfortably below the threshold in GBP terms yet pushed above it following EUR conversion in years when sterling weakens. This creates a form of "passive" scope entry—not driven by business growth but by macroeconomic factors beyond the group's control. For groups with revenues between €650 million and €850 million equivalent, currency scenario analysis should form part of annual planning to anticipate potential scope changes.

4. The Four-Year Look-Back

4.1 Determining the Relevant Years

For any fiscal year being tested, examine the **four fiscal years immediately preceding** it.

Tested Fiscal Year	Look-Back Period
FY ending 31 Dec 2025	FY 2021, 2022, 2023, 2024
FY ending 30 Jun 2026	FY ending Jun 2022, 2023, 2024, 2025
FY ending 31 Mar 2026	FY ending Mar 2022, 2023, 2024, 2025

4.2 Groups With Fewer Than Four Years of History

If the group has existed for fewer than four fiscal years, the test applies to the years that exist: - **Three years of history:** Must meet threshold in at least two of three years - **Two years of history:** Must meet threshold in at least two of two years (i.e., both years) - **One year of history:** Must meet threshold in that year

Newly formed groups from mergers are assessed based on the combined historical revenues of the predecessor groups as if they had been consolidated throughout the look-back period *(Article 6.1.1)*.

The treatment of newer groups reveals a deliberate anti-avoidance design: the rules prevent large established businesses from restructuring into nominally "new" groups to reset the clock on their threshold history. By requiring merged groups to look back at combined predecessor revenues, the framework ensures that genuine commercial combinations of large businesses immediately fall within scope. Conversely, the more lenient treatment of genuinely young groups—where one year of threshold-level revenue can trigger scope—acknowledges that rapidly scaling businesses (particularly in the technology sector) can grow to significant size within a short period.

5. Worked Example: Stratos Group

5.1 Background

Stratos Group plc is a UK-headquartered technology company with a 31 December year-end. The group CFO needs to determine whether Stratos is in scope for Pillar Two for FY 2025.

5.2 Data Gathering

The finance team extracts revenue figures from the past four years of audited consolidated financial statements:

Fiscal Year	Revenue per Audited Accounts	Currency
FY 2021	£625,400,000	GBP
FY 2022	£679,800,000	GBP
FY 2023	£744,600,000	GBP
FY 2024	£819,500,000	GBP

5.3 Currency Conversion

Stratos reports in GBP. The team obtains ECB annual average EUR/GBP rates:

Fiscal Year	ECB Average Rate (EUR/GBP)
FY 2021	1.1630
FY 2022	1.1729
FY 2023	1.1499

Fiscal Year	ECB Average Rate (EUR/GBP)
FY 2024	1.1453

5.4 Threshold Assessment

Fiscal Year	Revenue (GBP)	EUR/GBP Rate	Revenue (EUR)	≥ €750M?
FY 2021	£625.4M	1.1630	€727.3M	No
FY 2022	£679.8M	1.1729	€797.3M	**Yes**
FY 2023	£744.6M	1.1499	€856.2M	**Yes**
FY 2024	£819.5M	1.1453	€938.6M	**Yes**

5.5 Conclusion

Three of four years exceed the €750 million threshold. Stratos is **in scope for Pillar Two for FY 2025**.

5.6 Documentation

The tax team prepares a file note recording: - Source documents (audited financial statements for each year) - Exchange rates used and their source (ECB) - Calculation workings - Conclusion and date of assessment

6. Near-Threshold Situations

Groups with revenues close to €750 million require careful monitoring.

6.1 Revenue Between €700M and €800M

If consolidated revenue fluctuates around the threshold:

1. **Perform the assessment annually** — scope status can change year to year

2. **Monitor quarterly revenue trends** — early warning of potential scope entry
3. **Consider currency volatility** — a group below threshold in local currency may exceed it after EUR conversion in a weak currency year

6.2 Falling Out of Scope

A group can exit scope if revenue falls below €750 million in three of the four look-back years. However, this requires: - Genuine reduction in business activity, OR - Significant disposal of group entities

Reorganisations designed primarily to avoid the threshold may be challenged under anti-avoidance provisions.

The near-threshold zone creates strategic complexity that goes beyond mere compliance monitoring. Groups in this band face a genuine business dilemma: the costs of Pillar Two compliance are substantial—new data systems, advisory fees, filing obligations, potential Top-Up Tax liabilities—yet the revenue difference between being in scope and out of scope may be marginal. This is particularly acute for groups in competitive industries where pricing decisions, contract timing, or acquisition strategy could tip the balance. However, groups should approach threshold management with caution; while legitimate business decisions that happen to affect scope are permissible, arrangements with the primary purpose of avoiding the threshold invite scrutiny and may constitute abuse under general anti-avoidance rules or the specific provisions of Article 6.4.

7. Impact of Corporate Events

7.1 Acquisitions During Look-Back Period

When an entity is acquired mid-year: - Include its revenue **from the acquisition date only** - Do not annualise or gross up partial-year revenue - The acquiring group's look-back includes the target's post-acquisition revenue

Example: Stratos acquires TechStart on 1 July 2024. For the FY 2024 threshold assessment, include TechStart's revenue from 1 July to 31 December 2024 only (six months).

7.2 Disposals During Look-Back Period

When entities are disposed of: - Include their revenue up to the disposal date - The look-back reflects the group composition at each point in time

7.3 Mergers

When two groups merge: - Assess combined revenues as if the merged group had existed throughout the look-back period - Both predecessor groups' revenues are aggregated for each year

7.4 Demergers

When a group splits: - Each resulting group is assessed based on its own post-demerger revenue - The look-back for the first post-demerger year requires allocation of pre-demerger revenue to each resulting group on a reasonable basis

Corporate events create some of the most analytically challenging threshold assessments. The rules attempt to trace the economic reality of the business through legal restructurings—asking, in effect, "if this reorganised group had existed throughout the look-back period, would it have been in scope?" This substance-over-form approach prevents gaming but requires careful judgement in allocation exercises. For demergers in particular, there is no single "correct" method for allocating historical revenue to successor groups; the requirement for a "reasonable basis" necessitates documented rationale that can withstand regulatory scrutiny. Groups contemplating significant restructurings should model the threshold implications before execution and document the methodology contemporaneously.

8. Documentation Requirements

Maintain a threshold assessment file containing:

Document	Purpose
Audited consolidated financial statements (4 years)	Source of revenue figures

Document	Purpose
Revenue extraction workings	Shows which line item was used
Exchange rate source documentation	ECB printout or equivalent
Conversion calculations	Audit trail for EUR figures
Assessment conclusion memo	Formal record of scope determination
Annual review record	Evidence of ongoing monitoring

Retention period: Retain documentation for at least 7 years from the end of the relevant fiscal year, or longer if required by local tax authority record-keeping rules.

Thorough documentation serves purposes beyond mere compliance. In a regime where threshold status can change year to year, and where corporate events require retrospective analysis, contemporaneous records provide the institutional memory that enables consistent assessment over time. This is particularly valuable when key personnel change or when tax authorities raise queries years after the original determination. The threshold assessment file should be treated as a living document, updated annually and revisited whenever significant corporate events occur, rather than a one-time exercise completed and filed away.