Pillar Two - Middle East insights

Accounting considerations and disclosures

Key Pillar Two considerations

Why should you think of accounting considerations from now?

If you are a multinational entity ("**MNE**") that meets the Pillar Two criteria, then you should be assessing your **Pillar Two profile in 2024 and 2025** to be ready to address the impact of Pillar Two in your **Consolidated Financial Statements** in accordance with applicable accounting standards (updates were made to IAS12 to facilitate Pillar Two reporting and disclosures).

Pillar Two will have an impact on your upcoming financial audits, as the process begins well before Top-up Tax calculations to provide relevant information for your stakeholders. Ensuring compliance with the associated statutory accounting requirements and tax obligations can pose significant challenges in terms of changes to processes and controls to facilitate jurisdictional calculations, especially if your group is decentralised.

Timely assessment of your current and deferred taxes (completeness and accuracy) is also crucial for Pillar Two given their impact on the Top-up Tax calculations and potential access to safe harbours.

Accounting considerations and disclosures

We have highlighted below some of the key considerations that you need to be aware of in a Pillar Two context:

01 Disclosures may be required in FY24 even if you are only subject to the Pillar Two rules in FY25

For MNEs affected in FY24, necessary disclosures and/or Pillar Two taxes (current tax) must be included in the consolidated financial statements for FY24 accounts, if substantively enacted. This includes if the MNE group is only subject to Pillar Two in FY25.

02 Impact on Consolidated Financial Statements

It is critical to incorporate relevant taxes that will be used for Pillar Two amounts into the consolidated financial statements before closing, as errors discovered later cannot be amended without reopening those statements. The consolidated financial statements are relevant for determining the application of Pillar Two and Top-up Tax in all jurisdictions, not just the jurisdiction of the ultimate parent.

03 Deferred taxes assessment

The GloBE rules rely on deferred tax accounting principles to address timing differences. Accurate and complete reflection of deferred taxes is essential for mitigating the effects of temporary differences; failure to do so could result in unintended Top-up Tax liabilities. Further, understanding the value of deferred tax assets and liabilities is important for transactions (e.g. mergers and acquisitions).

04 The undertaxed profits rule ("UTPR")

UTPR has application in implementing jurisdictions in FY25. If an MNE group operates in any jurisdiction in FY25 that has implemented the UTPR, the entire under-taxed profits of the group will become subject to Top-up Tax (not just profit of entities operating in that jurisdiction). For example, if a group has an entity in the UK, all undertaxed profits of the entire group, including profits in the UPE jurisdiction if it has not implemented Pillar Two, are potentially subject to tax in the UK under its UTPR. At least 17 countries have enacted the UTPR for application in FY25, with more expected to follow.

05 Immediate next steps

You may need to urgently prioritise certain actions to meet your FY24 statutory reporting requirements (where applicable). This should begin with an expedited impact assessment and provisional safe harbour testing to determine the materiality of Pillar Two's potential impact on the FY24 financial statements. You should also consider specific areas in the FY24 financial statements that affect FY25 Pillar Two calculations, such as a health check for deferred taxes.

Since the rules and respective calculations are extremely complicated, it is important to start engaging tax experts well in advance to ensure that reporting on Pillar Two in the financial statements does not adversely affect the timing of your audit.

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