

# Pillar Two - Middle East insights



## Are your accounts Pillar Two ready?

### Key Pillar Two considerations

#### Why should you think of accounting considerations from now?

Beyond the evident implications on deferred taxes accounting (under IAS 12) that can impact cash tax under Pillar Two through inaccurate or incomplete reporting, the implementation of Pillar Two introduces additional considerations and financial reporting requirements for those within its remit. Pillar Two regulation utilises financial accounting numbers only as a baseline, and requires numerous jurisdictional adjustments to align with its framework. For many companies, this effectively introduces an additional layer of accounting complexity, akin to implementing a new GAAP standard.

For multinationals operating in the MENA region, ensuring the accuracy and availability of financial data is non-negotiable. Most jurisdictions in the region have already or are set to introduce a 15% Domestic Minimum Top-up Tax (DMTT) for large multinational enterprises starting January 2025, and multinationals must be prepared for the consequential financial reporting requirements. This development underscores the necessity for multinational entities to review consolidation adjustments, unify accounting policies and assess technical accounting aspects to ensure compliance. Proactive engagement with these elements will facilitate a seamless transition and adherence to the new regulatory landscape - and we are here to help!

### Key reporting considerations

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

#### 01 Readiness of financial information

Given the complexity of Pillar Two, entities will be required to ensure financial data is available across all jurisdictions, and prepared in a format suitable for consolidation. For example, permanent establishments may face challenges if financial data is not maintained on a jurisdictional basis or if the ERP system lacks identifiers for each jurisdiction, making data extraction and compliance with Pillar Two requirements more complex. Without the required information, groups may not be eligible for transitional safe harbours and put themselves at material risk of a tax audit

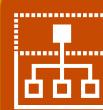
#### 02 Additional layer of accounting principle

Pillar Two calculations often introduce an additional layer of complexity, akin to adopting an additional GAAP on top of local GAAP, group consolidation GAAP, and local tax accounting. While there is no strict requirement to incorporate adjustments directly into the financial accounts, these adjustments must be determined, documented, and aligned for Pillar Two compliance purposes. Without such adjustments, groups could be materially exposing themselves to Pillar Two liabilities that would not otherwise arise.

#### 03 Assessment of technical accounting aspects

Evaluate technical accounting treatments, including the correct classification of transactions and intercompany arrangements, to ensure compliance with the Pillar Two framework. Pillar Two relies on pre-consolidation adjustment amounts, meaning that intra-group transactions and previously immaterial items, often excluded due to immateriality. A thorough understanding of technical accounting treatments may facilitate the efficiencies from a tax/accounting perspective, whilst maintaining Pillar Two compliance

#### Bite-size reporting issues



**Have you undertaken any Purchase Price Accounting Adjustments?** Entities who have undertaken purchase price allocation may be required to unwind such impact within their financial statements



**Do you have any joint ventures or permanent establishments (PE)?** Pillar Two requirements may require fully prepared financial statements for joint ventures or PEs



**Are you applying the IFRS 10 exemption?** Pillar Two may create additional reporting requirements for sub-groups with no financial information on a jurisdictional basis

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