# Accounting for Pillar Two of BEPS 2.0

It is likely that various jurisdictions will enact tax laws to implement the Global Anti-Base Erosion model rules developed by the OECD/G20 in Pillar Two of BEPS 2.0. The application of these rules poses challenges in applying IAS 12. This article considers recent amendments to this standard to address these concerns.

The OECD/G20 developed Global Anti-Base Erosion ('GloBE') model rules in Pillar Two of BEPS 2.0 to address shortcomings in the current international tax system. These rules essentially aim to tax the profits of large multinationals at a minimum rate. The IASB recently amended IAS 12 *Income Taxes* ('IAS 12') to address accounting concerns stemming from these rules.

## What is Pillar Two of BEPS 2.0?

The international tax system is no longer considered fit for purpose in a globalised and digitalised economy. In 2021 more than 135 jurisdictions agreed to a plan to reform international tax rules. This culminated in the development of the GloBE Model Rules (Pillar Two). These rules provide a coordinated system to ensure that large multinational enterprises pay a minimum level of tax on the income arising in each of the jurisdictions where they operate. Individual jurisdictions must implement these rules in their domestic tax laws. The rules impose top-up taxes on profits arising in jurisdictions where the effective tax rate is below the minimum rate. The OECD has issued guidance and commentary on these rules.

## What are the accounting challenges?

Top-up taxes differs from traditional income tax imposed on an entity's profit. They only arise if entities in the group pay insufficient tax in other jurisdictions.  In principle, taxes imposed on the group's income fall within the scope of IAS 12 in consolidated financial statements. Questions about the scope of IAS 12 arise about taxes imposed in respect of entities that are not part of the group. The position in the separate financial statements is more contentious.

These taxes may also impact the tax consequences of recovering the carrying amount of assets or settling the carrying amount of liabilities in future. The fact that the obligation to pay top-up taxes depends on many factors that may impact effective tax rates and excess profits complicates this. There is further uncertainty about whether this tax consequence is attributable to any specific asset or liability.

## Amendments to IAS 12

The IASB published amendments to IAS 12 *International Tax Reform—Pillar Two Model Rules* in May 2023 to address these uncertainties. These amendments are:

- Clarification that tax law enacted to implement the GloBE rules is within the scope of IAS 12.
- Entities must not recognise or disclose any information about deferred tax assets and liabilities related to Pillar Two taxes. This temporary mandatory exception affords the IASB time to determine the appropriate deferred tax treatment.
- An entity must disclose the following:
  - The current tax effect of Pillar Two taxes separately in its current tax expense.
  - The fact that it applied the temporary exception. (This is only the case Pillar Two legislation affects an entity).
  - In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, known or reasonably estimable quantitative and qualitative information for users to understand the entity's exposure to Pillar Two taxes.

The scope and temporary exception amendments apply immediately, while the remaining amendments apply for financial years starting on or after 1 January 2023.



+27 83 417 5904 pieter@pvdz.co.za www.pvdz.co.za