KPMG

IFRS Today

Our series on the most topical issues in IFRS® Accounting Standards and financial reporting

2 April 2024

VIDEO TRANSCRIPT

Pillar Two taxes in 2024 interim reports

Irina Ipatova
Associate Partner, KPMG International Standards Group

Are you preparing your 2024 interim report? If so, your group may be impacted by the new global minimum top-up taxes. They're known as Pillar Two, and became effective in some jurisdictions from 1st January 2024.

Here are three steps that will help you navigate the challenges as you prepare your 2024 interim report.

Step one | Determine who is legally liable for Pillar Two tax

Step one – Check the status of Pillar Two implementation in countries where your group operates and identify the company in the group which is legally liable for the top-up tax at the interim reporting date.

Different countries are at different stages of implementing this tax legislation. In some countries, some mechanisms are already effective. In other countries, some mechanisms are enacted but will become effective in 2025 or later. Or they're still under development. So ask yourself, are all three of the Pillar Two mechanisms already effective in all of the jurisdictions where your group operates?

Is it 'business as usual' for your group? If not, then the liability for the top-up tax may move up and down the group during the transition period. This means that one company in the group may be legally liable for the top-up tax at the end of the interim period, and a different company may be liable for the top-up tax at the year end.

Also, consider if safe harbour applies. So in preparing your interim report, make sure that the company legally liable for the top-up tax at the interim reporting date considers it in determining its current tax expense for the interim period.

Step two | Calculate the interim current tax expense

Step two – Work together with your tax experts to calculate the interim current tax expense. Remember – the top-up taxes are incredibly complex and require joint efforts of tax and financial reporting teams.

The fact that Pillar Two taxes are not yet business as usual around the world may also pose additional challenges If they are effective in any jurisdiction where your group operates, then you need to calculate your current income tax expense. Make sure that you work together with your tax experts when estimating your weighted average annual effective tax rate. You will need this rate to calculate your interim current tax expense.

Step three | Provide relevant disclosures

Step three – Determine which disclosures you need to provide in your interim report. The list of disclosures and their level of detail will depend on the status of the implementation of Pillar Two taxes in countries where your group operates and also the expected impact of these taxes on your group. If you are subject to these taxes in 2024, then you will need to disclose the amount of the current top-up tax separately from your ordinary corporate income tax.

And don't forget about the disclosure about the mandatory exception from deferred tax accounting for Pillar Two taxes. If these taxes are not yet business as usual in all jurisdictions where your group operates, then users may benefit from additional disclosures explaining how their potential impact may change going forward. For example, if an intermediate parent company is legally liable for the top-up tax at the interim reporting date and the ultimate parent company is legally liable for the full year at the annual reporting date then users may benefit from an additional disclosure.

Why? Because the intermediate parent company reflects the current top-up tax in its interim financial statements, but ultimately it may not need to pay it.

In summary

To sum up...

- First, check the status of Pillar Two implementation and determine which company in the group is legally liable for the top-up tax at the interim reporting date.
- Second, work together with your tax experts to calculate your first current top-up tax charge for the interim period.
- And last but not least, engage with your users to determine which disclosures about your Pillar Two exposure would be relevant for them and ensure that you tell a meaningful story.

Publication name: *Pillar Two taxes in 2024 interim reports*

Publication date: April 2024

kpmg.com/ifrs