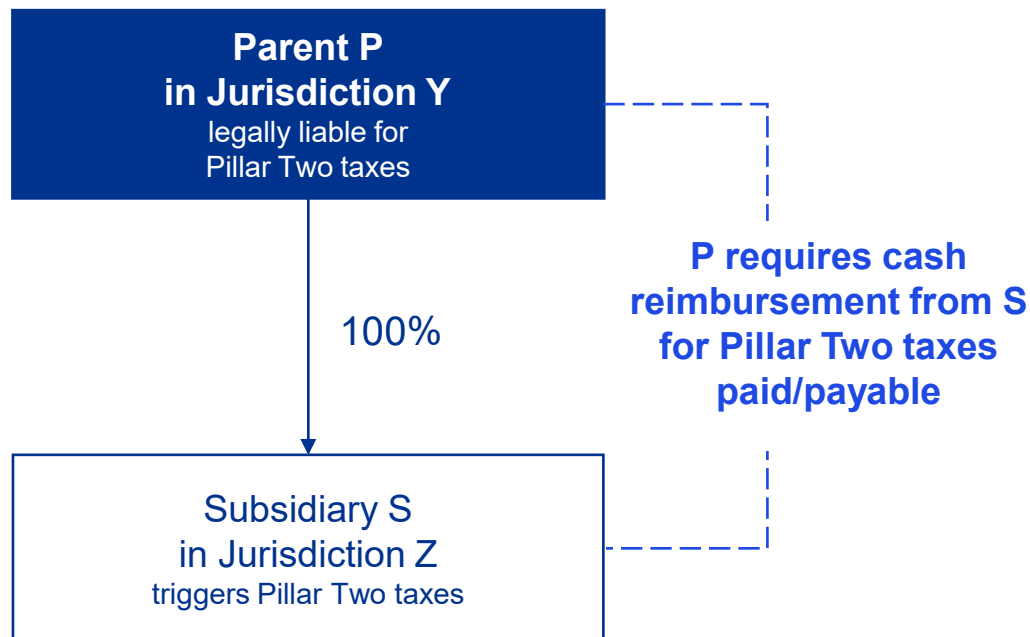


Recharges of Pillar Two taxes – Illustrative example (1/2)



Fact pattern

Parent P operates in Jurisdiction Y and has one wholly owned Subsidiary S in a low-tax Jurisdiction Z.

In 2024, Pillar Two tax legislation becomes effective in both Jurisdiction Y and Jurisdiction Z, and the group is subject to Pillar Two taxes under the income inclusion rule.

The following facts are also relevant for this example.

- In 2024, S has taxable profits subject to the local tax rate of 10%.
- Under the income inclusion rule, the tax authority in Jurisdiction Y levies Pillar Two taxes of 100 on P.
- P recharges the entire Pillar Two tax amount to S, to be settled in cash.

Question

How should P and S account for the Pillar Two taxes and the recharge arrangement in their separate financial statements?

Recharges of Pillar Two taxes – Illustrative example (2/2)

Answer

In our view, P and S may choose to account for the Pillar Two taxes and the recharge arrangement in their separate financial statements under either Approach 1 or Approach 2 as illustrated by the journal entries below.

P's separate financial statements			S's separate financial statements		
	Debit	Credit		Debit	Credit
Income tax expense (P&L)	X		No journal entry		
Income tax liability (B/S)		X			
To recognise the current tax liability for the Pillar Two taxes levied by tax authority in Jurisdiction Y					

Approach 1

Intercompany receivable (B/S)	X		Other expenses (P&L)	X	
Other income (P&L)		X	Intercompany payable (B/S)		X
To recognise other income (expenses) and a corresponding intra-group receivable (payable) when P recharges the Pillar Two taxes to S to be settled in cash					

Approach 2

Intercompany receivable (B/S)	X		Income tax expense (P&L)	X	
Income tax expense (P&L)		X	Intercompany payable (B/S)		X
To recognise a reduction (increase) in income tax expense and a corresponding intra-group receivable (payable) when P recharges the Pillar Two taxes to S to be settled in cash					



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