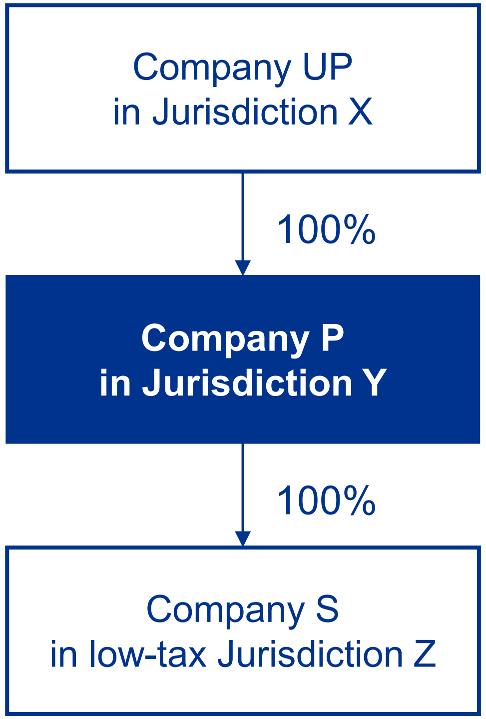
Interim reporting – Illustrative example (1/2)



Fact pattern

Multinational Group G operates in multiple jurisdictions and is subject to Pillar Two taxes. Ultimate Parent Company UP is located in Jurisdiction X and owns 100% of Intermediate Parent Company P, which is located in Jurisdiction Y. P has a wholly owned subsidiary Company S in low-tax Jurisdiction Z.

The following information is relevant for this example.

- In October 2023, Jurisdiction Y enacts Pillar Two tax laws with an effective date of 1 January 2024.
- In March 2024, the tax authorities in Jurisdiction X announce their plans to release Pillar Two tax laws in October 2024, but these new tax laws would apply retrospectively from 1 January 2024.
- At 30 June 2024, P is legally liable for Pillar Two top-up tax in relation to the group's operations in low-tax Jurisdiction Z. However, once Pillar Two tax laws are enacted in Jurisdiction X, UP will be liable for this top-up tax.
- The annual reporting date for all group companies is 31 December and the interim reporting date is 30 June. Both UP and P prepare separate and consolidated financial statements at the interim and year-end reporting dates. The interim financial statements are prepared on a condensed basis.
- Pillar Two taxes are determined on an annual basis for the calendar year and are payable to the relevant tax authority in the following year(s).

Interim reporting – Illustrative example (2/2)

Question

How should the Pillar Two taxes be accounted for in the interim and annual financial statements of P?

Answer

In our view, P should take the Pillar Two taxes into account when preparing its separate and consolidated interim financial statements for the six-month period ended 30 June 2024 because it is legally liable for the Pillar Two taxes at that date. P should consider it when estimating the weighted-average annual effective tax rate expected to apply for the full year, despite expecting UP ultimately to be liable for the Pillar Two taxes by the annual reporting date.

In addition, P should consider including an explanation in the interim financial statements of the changes expected by the year end if it is relevant to the users of the financial statements.

When the Pillar Two tax laws are subsequently enacted in Jurisdiction X in October 2024, P would reverse the Pillar Two tax impacts in preparing its separate and consolidated annual financial statements at 31 December 2024.

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