Pillar 2 GloBE and focus on deferred tax assets

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30 November 2023

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Agenda

1. Pillar 2 recap
2. Year-end 2023 – accounting and disclosures for GloBE
3. Year-end 2024 onwards – accounting and disclosures for GloBE
4. Importance of deferred tax asset recognition
5. Q&A

01

Pillar 2 recap

Pillar 2 GloBE – recap

Pillar 2 – applies 15% minimum tax by jurisdiction

Applies mainly to >€750m global gross revenue groups but will affect others.

Aims to ensure 15% minimum tax rate is charged on adjusted accounting profits in each jurisdiction the group operates in.

- **Income Inclusion Rule (IIR):**

  Applies tax in a parent entity where subs are low taxed.

- **Undertaxed Payments Rule (UTPR):**

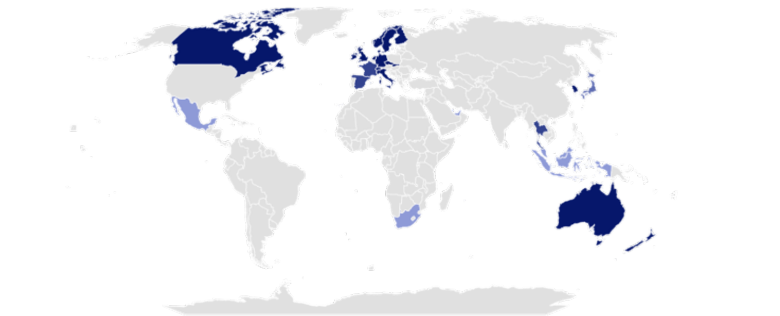
  Applies where IIR top up tax unallocated. Allocated to UTPR jurisdictions by formulary apportionment.

- **Qualified Domestic Minimum Top-up Tax (QDMTT):**

  Jurisdictions ensure 15% minimum tax captured there, so others do not take through IIR or UTPR.

- **Subject to Tax Rule (STTR):**

  Treaty-based rule, not limited to in-scope entities; applies to payments which are not taxed at a minimum of 9%.

Legislation & Announcements		
Current Status	Draft or implemented law	Proposal announced
2024 IIR/2025 UTPR	Australia, Bahamas, Canada, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Liechtenstein, Luxembourg, Netherlands, New Zealand, Norway, Slovakia, South Korea, Sweden, Switzerland, UK	Spain, other EU
2025 or later mostly IIR/UTPR	Japan	Bermuda (CIT), Gibraltar, Guernsey, Hong Kong, Indonesia, Isle of Man, Jersey, Malaysia, Mexico, Qatar, Singapore, South Africa, UAE

02

Year-end 2023 – accounting and disclosures for GloBE

Year-end 2023 – accounting and disclosures for GloBE

Amendments to IAS 12 and FRS 102 require disclosure in 2023 financial statements

What do we need to report?

- If a jurisdiction has substantively enacted Pillar 2 legislation (UK did so on 20 June 2023), revised IAS 12 applies.
- No deferred tax is required on top up tax amounts or timing differences arising from Pillar 2.
- Disclosure is required in the 2023 accounts:
    - ***Qualitative Information:*** The company is to disclose for jurisdictions in which the exposure arises, where the top-up tax is triggered and in which country it will need to be paid.
    - ***Quantitative Information:*** The amount of profits subject to Pillar 2 and the average effective tax rate applicable. In periods in which Pillar 2 legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity exposure to Pillar 2 income taxes arising from that legislation.

Pillar 2 GloBE
Year-end 2023 – accounting and disclosures for GloBE

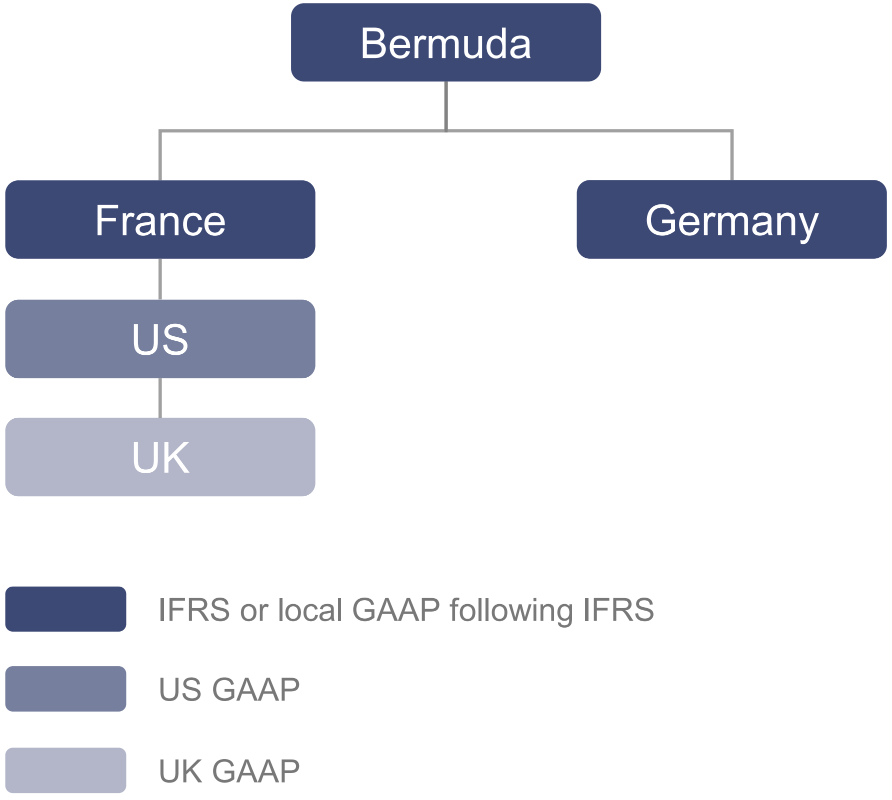
	IAS 12	US GAAP	UK GAAP	German GAAP	French GAAP
Group accounts					
Entity accounts					

Qualitative and quantitative disclosure required where entity or subs have (substantively) enacted Pillar 2 legislation

Qualitative and quantitative disclosure required only if information not in group Financial Statements

No disclosure required until tax becomes payable (Q1 2024 earliest)

Example:



Pillar 2 GloBE
Year-end 2023 – accounting and disclosures for GloBE

Year-end considerations

Groups will need to:

- Decide how much to disclose
- Discuss with accounting technical groups
- Develop procedures and methodologies
- Liaise with auditors
- Prepare documentation

03

Year-end 2024 onwards – accounting and disclosures for GloBE

Pillar 2 GloBE
Year-end 2024 onwards – accounting and disclosures for GloBE

Tax accounting

- FASB staff announced in February 2023 that they view the GloBE Minimum Tax as an alternative minimum tax, subject to AMT accounting as outlined in ASC 740
  - ➢ Current inclusion approach (period cost)
  - ➢ No deferred tax accounting
- IAS 12 and other local GAAPs follow the same treatment

Top-up tax is required to be reported as current tax as soon as Q1 2024 reporting begins
(or Q2 if Q1 is not external)

04

Importance of deferred tax asset and liability recognition

Pillar 2 GloBE
Importance of deferred tax asset and liability recognition

GloBE Effective Tax Rate is calculated as: (Current tax + Deferred tax movement) / Financial Accounting Net Income or Loss. Therefore, the deferred tax position on 31 December 2023 will form a key component of the GloBE ETR.

Utilisation of deferred tax asset set up pre-1 Jan 2024

- Debit to tax therefore increases the top line of the calculation.
- Increases the ETR.
- Reduces any top-up tax to get to 15%.

Set up of deferred tax asset post 1 Jan 2024

- Credit to tax therefore reduces the top line of the calculation.
- Decreases the ETR.
- Increases any top-up tax to get to 15%.

Utilisation of deferred tax liability set up pre-1 Jan 2024

- Credit to tax therefore reduces the top line of the calculation.
- Decreases the ETR.
- Increases any top-up tax to get to 15%.

Set up of deferred tax liability post 1 Jan 2024

- Debit to tax therefore increases the top line of the calculation.
- Increases the ETR.
- Reduces any top-up tax to get to 15%.

Q&A

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