Quarterly tax developments

Things to know about this quarter's tax developments and related IFRS accounting implications

December 2023

Building a better working world

Welcome to our December 2023 Quarterly tax developments publication, which focuses on income tax developments that could affect IFRS accounting.

Here we describe certain tax developments previously summarized in EY Tax Alerts or other EY publications or identified by EY tax professionals or EY foreign member firms. These developments may affect your tax provision or estimated annual effective tax rate.

We compile this information because we recognize that, for many companies, the most challenging aspect of accounting for income taxes is identifying changes in tax law and other events when they occur so the accounting can be reflected in the appropriate period. However, this publication is not a comprehensive list of all changes in tax law and other events that may affect income tax accounting.

This edition covers certain substantively enacted, enacted and effective tax legislation, as well as regulatory developments, legislative proposals and other items identified through 15 December 2023, except as noted, primarily related to later developments on the Organisation for Economic Co-operation and Development's (OECD) global minimum tax rules under Pillar Two.

We list EY publications that you can access through our Tax News Update website.

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Tax developments

Legislation substantively enacted (or enacted) in the fourth quarter of 2023

Companies are required to account for the effects of tax law changes on their deferred tax assets and liabilities in the period the legislation is substantively enacted. Similarly, companies must reflect the effects of a change in tax laws or rates in their annual effective tax rate computation in the period the changes are substantively enacted. If an interim change is significant, temporary differences may need to be estimated as of the substantive enactment.

Bermuda – On December 18, the House of Assembly passed legislation substantively enacting a 15% corporate income tax that would apply only to Bermuda businesses that are part of multinational enterprise (MNE) groups with annual revenue of €750 million or more. The legislation is applicable for tax years beginning on or after 1 January 2025.

The intent of the law is to align the corporate income tax with the OECD's global minimum tax rules under Pillar Two, so that the tax will mitigate the top-up tax payable to other jurisdictions on profit earned in Bermuda. The tax also leverages certain key scoping elements and definitions in the global minimum tax rules, such as the definitions of entity, group, MNE group, constituent entity and ultimate parent entity (UPE). See **Tax Alert 2023-1728**, dated 17 October 2023, and **Tax Alert 2023-1941**, dated 22 November 2023.

Austria - On 14 December 2023, the Upper Chamber of the Parliament of Austria approved the legislation to introduce Pillar Two into domestic law. The legislation closely follows the EU Minimum Tax Directive and implements an Income Inclusion Rule (IIR) and a Qualified Domestic Minimum Top-up Tax (QDMTT) for fiscal years starting on or after 31 December 2023. Likewise, the legislation implements an Undertaxed Payment Rule (UTPR) for fiscal years starting on or after 31 December 2024.

Belgium - On 14 December 2023, the Belgian Parliament approved the legislation implementing Pillar Two. The legislation introduces an IIR and a QDMTT applicable for fiscal years starting on or after 31 December 2023. The legislation also introduces a UTPR applicable for fiscal year starting on or after 31 December 2024. See **Tax Alert 2023-2094**, dated 19 December 2023.

Bulgaria - On 12 December 2023, the Bulgarian Parliament approved the legislation introducing Pillar Two into domestic law. The legislation is generally aligned with the EU Minimum Tax Directive. It includes an IIR and a QDMTT for fiscal years starting on or after 31 December 2023 and a UTPR for fiscal years starting on or after 31 December 2024.

Costa Rica – On 2 October 2023, Costa Rica enacted legislation changing its foreign-source income exemption regime, which allows it to be removed from the European Union (EU) list of non-cooperative countries in tax matters. (For discussion of that removal, see the "Other considerations" section of this publication).

Changes in the new law include:

- Clarifying that income tax applies to income from Costa Rican sources and that Costa Rican sources are those within the national territory
- Taxing certain foreign-source passive income obtained by entities that belong to a multinational group and lack adequate economic substance
- Outlining the criteria an entity must meet to have adequate economic substance
- Aligning Costa Rica's definition of a permanent establishment (PE) with the PE definition of the OECD

The changes are effective upon enactment. See **Tax Alert 2023-1636**, dated 2 October 2023.

Czechia - On 1 December 2023, the Czech Parliament approved the Pillar Two legislation. The legislation is generally aligned with the EU Minimum Tax Directive. It includes an IIR and a QDMTT for fiscal years starting on or after 31 December 2023 and a UTPR for fiscal years starting generally on or after 31 December 2024.

Denmark - On 7 December 2023, the Danish Parliament approved the legislation implementing Pillar Two into domestic law. The legislation closely follows the EU Minimum Tax Directive and incorporates an IIR and a QDMTT for fiscal years starting on or after 31 December 2023 and a UTPR for fiscal years starting on or after 31 December 2024. See **Tax Alert 2023-2014**, dated 7 December 2023.

Finland – On 11 December 2023, the Finnish Parliament approved the Minimum Tax Act (the Act) that generally follows the OECD Model Rules. The Act introduces an IIR and a QDMTT for financial years starting on or after 31 December 2023 and a UTPR for financial years starting on or after 31 December 2024.

France – On 21 December 2023, the French Parliament approved the Finance Bill for 2024 (the Bill). The Bill is generally aligned with the EU Minimum Tax Directive. It includes an IIR and a QDMTT for fiscal years starting on or after 31 December 2023 and a UTPR for fiscal years starting generally on or after 31 December 2024. **See Tax Alert 2023-2126**, dated 22 December 2023.

Germany - On 15 December 2023, the German Federal Council approved the legislation on Pillar Two. The legislation closely follows the EU Minimum Tax Directive and incorporates an IIR and a QDMTT for fiscal years starting on or after 31 December 2023 and a UTPR for fiscal years starting on or after 31 December 2024. The legislation also implements the February 2023 and July 2023 OECD Administrative Guidance and foresees accompanying amendments to the German Commercial Code, the Financial Administration Act and the General Tax Code.

Hungary[1] — On 30 November 2023, Hungary enacted legislation on the OECD's Pillar Two initiative. The legislation includes an IIR, a 15% QDMTT and a UTPR. The IIR and QDMTT are introduced for tax years beginning on or after 1 January 2024, while the UTPR applies for tax years beginning on or after 1 January 2025. A QDMTT Safe Harbor is also available.

Other changes include:

- Allowing companies to include local business tax, innovation contribution (also known as R&D tax) and energy suppliers' income tax when calculating their Effective Tax Rate (ETR) for Hungary
- Allowing companies to exclude 8% of the carrying value of tangible fixed assets and 10% of eligible payroll costs from their 2024 calculation of excess profit (i.e., granting them a substance-based income exclusion), effectively lowering their top-up tax liability
- Allowing companies to elect to exempt gains from shares or participations from tax if they did not previously opt into the exemption regime for capital gains by the due date of their 2023 income tax return, but requiring them to pay 9% income tax on 20% of the positive difference between the shares' fair market value and book value on 31 December 2023
- Introducing a new research and development (R&D) credit that is designed to be a qualifying refundable tax credit under Pillar Two
- Introducing the concept of deferred taxation or deferred tax accounting into local accounting rules for Pillar Two purposes

Hungary will not, however, introduce domestic withholding taxes or eliminate its holding regime, which exempts dividends and capital gains from tax. Unless otherwise indicated, the changes are effective 31 December 2023.

Ireland - On 12 December 2023, Ireland's Finance (No. 2) Bill 2023, which includes legislation implementing the EU Minimum Tax Directive, passed through all stages in the Dáil (Irish Houses of

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[1] A Tax Alert has not been published on this development. For discussion of the bill's content upon introduction to Parliament, see **Tax Alert 2023-1846**, dated 7 November 2023.

Parliament). The legislation introduces an IIR and a QDMTT effective for fiscal years starting on or after 31 December 2023 as well as a UTPR effective for fiscal years starting on or after 31 December 2024.

In the 2024 budget, the Minister for Finance announced that Ireland's R&D tax credit, which is a refundable credit, would increase to 30% of qualifying expenditures, net of grant assistance, from 25%. This will be effective for accounting periods commencing on or after 1 January 2024. See **Tax Alert 2023-1713**, dated 13 October 2023.

Italy – On 19 December, the Italian government approved significant measures as a first phase of the upcoming comprehensive tax reform (International Tax Decree). The measures include implementation of the EU Minimum Tax Directive, introducing an IIR and a QDMTT for financial years starting on or after 31 December 2023 and a UTPR for financial years starting on or after 31 December 2024. In addition to the announced Pillar Two rules, other measures of interest to multinationals with Italian operations include:

- Introduction of BEPS Pillar Two provisions
- Penalty protection regime for European Union (EU) Anti-Tax Avoidance Directive n. 2017/952 (ATAD 2) hybrid mismatches
- Coordination of Controlled Foreign Corporation (CFC) rules with Pillar Two provisions
- Reshoring income exemption
- Review of tax residence rules for corporations

See **Tax Alert 2023-2125**, dated 22 October 2023.

Liechtenstein - On 10 December 2023, Liechtenstein published in its State Law Gazette new law passed by the Landtag of Liechtenstein on Pillar Two. The law adopts an IIR and a QDMTT effective for fiscal years beginning on or after 1 January 2024 and a UTPR effective for fiscal years beginning on or after 1 January 2025.

Luxembourg - On 20 December 2020, the Luxembourg Parliament voted and adopted the Draft Law as recently amended by the Luxembourg government. The Draft Law aims at implementing the Pillar Two Global Minimum Tax rules as laid down in the Minimum Tax Directive, including an IIR and a QDMTT effective in 2024 and a UTPR effective in 2025. See **Tax Alert 2023-2114**, dated 21 December 2023.

Malaysia - On 27 December 2023, Malaysia received Royal Assent of the Finance Bill that includes legislation on Pillar Two. Broadly mirroring the OECD Model Rules, the legislation includes an IIR and a QDMTT, both applicable for fiscal years starting on or after 1 January 2025. The UTPR is not part of this legislation.

Netherlands — On 19 December 2023, the Dutch Senate approved the 2024 tax plan that amends the Dutch corporate income tax act and Dutch personal income tax act, in part by including a withholding tax on share buybacks, changes to the entity classification rules and (further) restrictions on the 30% facility (expat regime).

The Senate also approved the Minimum Tax Act 2024. The Minimum Tax Act 2024, which is based on the EU Directive, introduces an IIR and a QDMTT, both for reporting years starting on or after 31 December 2023, and a UTPR for reporting years starting on or after 31 December 2024. In October 2023, the Netherlands also published a Memorandum of Amendment to the Minimum Tax Act 2024, which included a Safe Harbor for QDMTT and a Transitional UTPR Safe Harbor. See **Tax Alert 2023-2098**, dated 19 December 2023.

Romania – On 29 December 2023, the President promulgated the Pillar Two implementation law adopted by the Parliament of Romania. The legislation closely follows the EU Minimum Tax Directive and implements an IIR and a QDMTT for fiscal years starting on or after 31 December 2023. Likewise, the legislation implements a UTPR for fiscal years starting on or after 31 December 2024.

Slovakia - On 8 December 2023, the Slovak Parliament approved the legislation implementing Pillar Two into domestic law. The legislation aligns closely with the EU Minimum Tax Directive but does not

incorporate the IIR or the UTPR. These rules are deferred until 2029 as allowed under Article 50 of the EU Minimum Tax Directive. The legislation introduces a QDMTT for fiscal years starting on or after 31 December 2023.

Slovenia – On 13 December 2023, the Parliament of Slovenia approved the legislation to introduce Pillar Two into domestic law. The legislation introduces an IIR and a QDMTT for fiscal years starting on or after 31 December 2023 as well as a UTPR for fiscal years starting on or after 31 December 2024.

Separately, the Parliament of Slovenia also approved a temporary increase to Slovenia's corporate income tax to 22% from 19% to raise funds to support areas affected by recent flooding. The increased rate applies from 2024 through 2028.

South Korea - As of 29 December 2023, South Korea enacted changes to its existing Pillar Two law, including the delay of the UTPR effective date to fiscal years beginning on or after 1 January 2025 and the introduction of the Presidential Decree of Pillar Two regulations.

Sweden - On 13 December 2023, the Parliament of Sweden passed legislation to introduce Pillar Two into domestic law. The legislation closely follows the EU Minimum Tax Directive and implements an IIR and a QDMTT for fiscal years starting on or after 31 December 2023. Likewise, the legislation implements the UTPR for fiscal years starting on or after 31 December 2024.

Switzerland – On 22 December 2023, the Swiss Federal Council officially declared the entry into force of the Swiss implementation of the BEPS 2.0 Project's Pillar Two rules beginning 1 January 2024. However, only the QDMTT will apply from 1 January 2024. The application of an IIR and a UTPR has been delayed and will be revisited at a later point in time. According to the explanatory statement released with the Pillar Two ordinance, the IIR and UTPR are likely to be introduced on 1 January 2025. See Tax Alert 2023-2133, dated 28 December 2023.

United States, including territories

Massachusetts — On 4 October 2023, Massachusetts enacted legislation requiring all industries to use a single sales factor apportionment formula for corporate excise tax purposes. The new legislation also changes how financial institutions source receipts from investment and trading activity for sales factor purposes. These changes take effect 1 January 2025. See **Tax Alert 2023-1655**, dated 5 October 2023.

Wisconsin — On 25 October 2023, Wisconsin enacted legislation specifying which Internal Revenue Code (IRC) updates from 2020 and 2021 will apply for Wisconsin income tax purposes. IRC updates to which Wisconsin will conform include:

- Repealing the election to allocate interest on a worldwide basis,
- Treating a partnership's forgiven loan advances as tax-exempt for purposes of IRC Sections 705 and 1366,
- Exempting targeted advances of economic injury disaster loans from income tax while allowing deductions for expenses paid with those funds, among other things.

IRC updates to which Wisconsin will not conform include:

- Extending the $1 million limitation on deductions for compensation paid to executives of publicly traded corporations to include compensation paid to the eight highest-paid individuals (rather than three highest), plus the chief executive officer and the chief financial officer,
- Extending the excess business loss limitation to 31 December 2026 for noncorporate taxpayers,
- Extending excess business losses, through 31 December 2028 for noncorporate taxpayers.

Effective dates vary by provision. See **Tax Alert 2023-1926**, dated 21 November 2023

Vietnam - On 29 November 2023, Vietnam's National Assembly approved Resolution No. 107/2023/QH15 on the implementation of Pillar Two in Vietnam. The Resolution includes an IIR and a QDMTT. Both rules will be applicable for fiscal years starting on or after 1 January 2024. As a next step, the Vietnamese Government will promulgate a decree providing more details for the implementation of the Resolution.

In response to comments from members of the Parliament, the Standing Committee of the National Assembly acknowledges that the Government needs to introduce the UTPR in the proposed amendment to the Corporate Income Tax Law in the 2024 Law and Ordinance Building Program, which is expected to be effective from 2025. See **Tax Alert 2023-2035**, dated 8 December 2023.

Other considerations

Court decisions, regulations issued by tax authorities and other events may constitute new information that could trigger a change in judgement in recognition, derecognition or measurement of a tax position. These events may also affect your current or deferred tax accounting.

Colombia — The Council of State annulled a 2020 tax ruling that prevented a Colombian company from claiming a foreign tax credit for withholding taxes paid on interest income stemming from a loan to a foreign company. The Council reasoned that the ruling's facts differed from the 2011 case on which the ruling's conclusion was based. See **Tax Alert 2023-1944**, dated 22 November 2023.

European Union — The EU added Antigua and Barbuda, Belize, and Seychelles to Annex I of its list of noncooperative jurisdictions for tax purposes, which identifies jurisdictions whose tax policies fail to meet EU standards by the required deadline. It also removed the British Virgin Islands, Costa Rica and the Marshall Islands. There are 16 countries on the Annex I list.

The Council added Costa Rica to Annex II while removing Jordan, Qatar, Montserrat and Thailand. Annex II identifies jurisdictions that are making progress on reforming their tax policies to meet EU standards but remain subject to close monitoring. There are 14 countries on Annex II list. See **Tax Alerts 2023-1730**, dated 17 October 2023, **2023-1739**, dated 18 October 2023; and **2023-1755**; dated 20 October 2023.

India — The Supreme Court held that taxpayers cannot invoke the most-favored-nation (MFN) clause in an Indian income tax treaty (the first state) based on more favorable terms with another country (second state) unless the Indian government confirms that the first state is entitled to the beneficial provisions. The court also held that taxpayers could not invoke the MFN clause if the second state was not an OECD member when the treaty became effective.

The decision overrules prior Indian case law, which permitted taxpayers to invoke the MFN clause even though the second state was not an OECD member when its treaty with India became effective. It is consistent, however, with a 2022 circular requiring notification to the first state of the favorable benefits subsequently granted to the second state before the MFN clause could apply. See **Tax Alert 2023-1776**, dated 25 October 2023.

Mexico — In a presidential decree, the government granted temporary tax benefits to companies engaging in the production, manufacture and export of certain categories of goods. The benefits include:

- Accelerated tax depreciation for investments in new fixed assets acquired from 12 October 2023 through 31 December 2024,
- An additional tax deduction for tax years 2023, 2024 and 2025 equivalent to 25% of any increase in workforce training expenses compared to the average training expense for tax years 2020, 2021 and 2022.

See **Tax Alert 2023-1711**, dated 13 October 2023.

United States, including territories

Federal — In a notice, the Internal Revenue Service (IRS) detailed the requirements that eligible contractors must meet to claim the IRC Section 45L credit for new energy-efficient homes. The credit applies to new energy-efficient residences acquired after 31 December 2022 and before 1 January 2033. See **Tax Alert 2023-1741**, dated 19 October 2023.

In another notice, the IRS outlined guidance on the interaction of the foreign tax credit (FTC) rules and dual consolidated loss (DCL) rules with top-up taxes imposed by a foreign jurisdiction via an IIR or a QDMTT under such jurisdiction's version of the OECD's Pillar Two Global Anti-Base Erosion (GloBE) Rules. According to the IRS, a QDMTT is generally creditable for FTC purposes, whereas an IIR may or may not be creditable depending on whether the taxpayer's US federal income tax liability may be included in its computation. Additionally, the GloBE rules will not cause the foreign use of a DCL incurred in a pre-GloBE tax year, subject to an anti-abuse provision. Forthcoming regulations will align with this new guidance.

Until further guidance is issued, the notice also extends the temporary relief from the application of FTC creditability regulations described in Notice 2023-55. See **Tax Alert 2023-2082**, dated 15 December 2023.

The IRS issued additional interim guidance (**Notice 2024-10**) on applying the corporate alternative minimum tax (CAMT) to shareholders of controlled foreign corporations (CFCs) with respect to covered CFC distributions. The Notice also modifies and clarifies prior guidance on determining the applicable financial statement (AFS) of an affiliated group of corporations filing a consolidated return for any tax year. Taxpayers may rely on the interim guidance in the Notice for covered CFC distributions received on or before the date forthcoming proposed regulations are published. Similarly, taxpayers may rely on the interim guidance in the Notice for determining the required AFS for tax years ending before the date forthcoming proposed regulations are published. See **Breaking Tax News 2023-9012**.

The Tax Court held that corporate income tax applied to revenue that a hotel chain received from its loyalty rewards program. The Court reasoned that the hotel could not exclude the revenue from its income under the trust fund doctrine, as argued by the hotel, because it did not meet the doctrine's requirements. It also concluded that the hotel could not defer paying tax until it incurred costs under its rewards program because it did not qualify under Treas. Reg. Section 1.451-4 for the trading stamp exception to the all events test. See **Tax Alert 2023-1821**, dated 1 November 2023.

A US district court denied a company's dividends-received deduction under IRC Section 245A from an integrated out-from-under transaction. Applying the codified economic substance doctrine under IRC Section 7701(o), the court concluded that certain steps supporting the deduction should be disregarded for tax purposes. See **Tax Alert 2023-1857**, dated 8 November 2023.

California — An appeals court upheld the 2012 voter-approved Proposition 39 (Prop. 39), which mandated the use of a singles sales factor apportionment formula, eliminated the option to use a three factor (property, payroll and sales) formula and allowed certain cable companies to exclude a portion of in-state sales in apportioning their income. In upholding Prop. 39's validity, the court rejected an out-of-state company's refund claim based on the argument that Prop. 39 violated the single-subject rule for ballot initiatives by addressing two unrelated subjects: special treatment for cable companies and creating clean energy jobs. See the **State and Local Tax Weekly for 27 October 2023 and 3 November 2023**.

Colorado — In response to recent litigation, the Department of Revenue repealed regulations that clarified that Colorado's definition of IRC incorporates federal changes on a prospective basis only. **State and Local Tax Weekly for 10 November 2023 and 17 November 2023**.

Mississippi — In a notice, the Department of Revenue (DOR) provided guidance on a law change enacted earlier in the year that permits taxpayers to deduct specified research or experimental expenditures that they paid or incurred during the tax year in their trade or business. Taxpayers may also elect to deduct 100% of those expenditures and/or depreciate them in accordance with IRC Section 174 as it existed on 1 January 2021. The change would apply for tax years beginning after 31 December 2022.

Additionally, taxpayers may claim 100% bonus depreciation for tax years beginning after 31 December 2022 for business assets that are qualified property or qualified improvement property (as defined by IRC Sections 168(k) and 168(e)(6), respectively, as they existed on 1 January 2021) and may deduct the expense during the tax year in which the property was placed in service. Alternatively, taxpayers may elect to claim bonus depreciation and/or depreciate those assets under IRC Section 168.

Taxpayers may also effectively elect to deduct the cost of IRC Section 179 property in the year it was placed in service. See the **State and Local Tax Weekly for 27 October 2023 and 3 November 2023**.

New Jersey — In response to recently enacted corporation business tax reform, the Division of Taxation issued guidance on:

- The state's conformity to IRC Section 1502 (federal consolidated return rules) for combined returns
- Income reporting and accounting methods of non-US corporate members of a combined group
- Net operating losses (NOLs) and combined groups
- General information on the NOL regime for tax years ending on and after 31 July 2019
- Changes to the dividend exclusion and the historic ordering of NOLs, the dividend exclusion itself and the deduction for international banking facilities

- Gross income tax allocation and uniformity with corporation business tax sourcing of business income
- Captive investment companies, captive real estate investment trusts (REITs), captive regulated investment companies and combined groups

Additionally, the Division updated its guidance on included and excluded business entities in the combined group and the minimum tax of a taxpayer that is a member of a combined group. See the **State and Local Tax Weekly for 13 October 2023 and 20 October 2023** and the **State and Local Tax Weekly for 10 November 2023 and 17 November 2023**.

Pennsylvania — In a bulletin, the DOR updated prior guidance on applying the limitation on net loss deductions under IRC Sections 381 and 382 when computing Pennsylvania's corporate net income tax (CNIT). The updated guidance provides a detailed discussion on the appropriate application of IRC Section 382 and how much IRC Section 163(j) carryforward interest can be deducted. See the **State and Local Tax Weekly for 13 October 2023 and 20 October 2023.**

In a separate bulletin, the DOR updated its guidance on the CNIT treatment of IRC Section 163(j) to allow taxpayers to fully deduct current-year separate company interest expenses on their CNIT return if they have an IRC Section 163(j) limitation on their interest expense deduction from an earlier period and participate in a current-year federal consolidated return with no IRC Section 163(j) limitation on current-year interest expenses. These taxpayers may also fully deduct carryforwards of interest expense that was limited and not deductible in prior years under IRC Section 163(j). While expecting exceptions to this policy to be uncommon, the DOR noted that exceptions could arise under other code sections, such as IRC Section 382, or if the current/former year limitation is determined at the partnership level.

The DOR also noted that taxpayers would have to add back carryforwards of related party interest for CNIT purposes in the same year that they deducted their remaining federal interest expenses on their federal pro forma Form 1120. See the **State and Local Tax Weekly for 13 October 2023 and 20 October 2023**.

National, state and local governments regularly change tax laws and administrative guidance to achieve fiscal objectives. Companies should monitor these developments. This section summarizes some of these potential changes.

Things we have our eyes on

Canada – In the Fall Economic statement, the Finance Minister proposed additional details for the clean hydrogen ITC, including new requirements that companies must satisfy to claim the ITC for equipment that converts clean hydrogen into ammonia. Other proposals include:

- Expanding the 30% clean technology ITC and the 15% clean electricity ITC to include systems that generate electricity, heat or both electricity and heat from waste biomass,
- Allowing Canadian resident companies to claim the tax exemption for international shipping income.

See **Tax Alert 2023-1969**, dated 28 November 2023.

The House of Commons is considering a bill that would limit deductions for net interest expense to 40% of tax earnings before interest, taxes, depreciation and amortization (EBITDA) for tax years beginning on or after 1 October 2023 and 30% of tax EBITDA for tax year 2024 and onward. The bill generally defines tax EBITDA as taxable income before taking interest income and expense, income tax and deductions for depreciation and amortization into account.

Other proposals in this bill include:

- Implementing the new ITC for capital investments in carbon capture, utilization and storage (CCUS), which consists of two components (a cumulative CCUS development tax credit and a CCUS refurbishment tax credit), with accompanying labor requirements that taxpayers must meet to claim the maximum credit rates
- Denying financial institutions deductions for dividends from Canadian company shares that are mark-to-market property unless the shares are taxable preferred shares
- Implementing anti-hybrid mismatch arrangement rules that would generally align with the recommendations in the OECD's Action 2 report under its Base Erosion and Profit Shifting (BEPS) initiative
- Extending the phase-out and expiration dates of the 7.5% rate on eligible income of qualifying manufacturers of zero-emission technology by three years, so the reduced rate will be phased out for tax years beginning in 2032 and the general 15% rate will apply for tax years beginning after 2034, and broadening eligibility for the rate to include certain nuclear manufacturing and processing activities
- Imposing a 2% corporate tax on the net value of share buybacks by Canadian public corporations, similar to the stock buyback measure recently enacted in the US
- Implementing the new tax credit for investment in clean technology equipment, with accompanying labor requirements that taxpayers must meet to claim the maximum credit rate
- Introducing new capital cost allowance classes 59 and 60, which would permit accelerated depreciation rates (100% for class 59 and 30% for class 60) for intangible exploration expenses and development expenses from storing captured carbon
- Expanding the critical mineral exploration tax credit and flow-through share regime to include eligible expenses from exploration and development activities for lithium from brines
- Amending the general anti-avoidance rule (GAAR) by lowering the threshold for considering a transaction to be an avoidance transaction, adding an economic substance test for determining whether abusive tax avoidance exists, introducing a penalty equal to 25% of the tax benefit for undisclosed transactions and extending the normal period for GAAR assessments by three years for undisclosed transactions.

See **Tax Alert 2023-2002**, dated 5 December 2023.

Ecuador — The recently elected Ecuadorian President has introduced a tax reform bill that would exempt new investments in renewable energy projects from income tax for 10 years. Other proposals include replacing Special Economic Development Zones with Free Trade Zones, which would offer a 0% income tax rate for five years on income earned by a business operating in a Free Trade Zone and a 15% rate for the remainder of the time the business operates in the zone.

The bill is subject to change, and its final wording depends on the legislature. The bill is expected to be enacted before the end of 2023 and effective beginning 1 January 2024. See **Tax Alert 2023-2008**, dated 6 December 2023.

Hong Kong — The government introduced a bill that would expand the scope of disposal gains to cover more asset classes under Hong Kong's foreign-sourced income exemption regime, effective from 1 January 2024. The revised regime would also:

- Exclude traders' disposal gains without requiring them to have substantial business activities in Hong Kong
- Allow tax to be deferred following an intra-group transfer if certain conditions are satisfied (e.g., requiring sellers and buyers to be subject to Hong Kong profits tax for two years)
- Use the nexus ratio to determine the tax-exempt portion of foreign-sourced gain from an intellectual property disposal following a tax-free transfer within an affiliated group.

In another bill, the government proposed creating a safe harbor that would consider Hong Kong-sourced equity disposal gains derived from 1 January 2024 to be nontaxable capital gains in Hong Kong, provided certain conditions were met. The bill would also clarify certain definitions for determining equity holding conditions and the circumstances in which the safe harbor rules will not apply, such as when an equity interest is classified as "trading stock" or an investee is engaged in a property-trading business. See **Tax Alert 2023-1820**, dated 1 November 2023.

Italy — In a draft decree, the Minister of Economy and Finance proposed implementing the Investment Management Exemption regime, which allows eligible foreign investment vehicles and their direct or indirect subsidiaries to qualify for a presumption that they have no Italian PE even though an asset or investment manager, or an advisor operates in Italy on their behalf or for their benefit.

The draft decree defines foreign investment vehicle and outlines the criteria that the investment vehicle must meet to qualify as an independent vehicle. Satisfaction of these requirements, among others, may allow the foreign investment company to qualify for the presumption. See **Tax Alert 2023-1745**, dated 19 November 2023.

In draft guidelines, the Revenue Agency outlined the transfer pricing methods that foreign investment management companies must use to demonstrate that remuneration paid to a related party asset/investment manager, whether an Italian tax resident or the Italian PE of a foreign company, was at arm's length. Satisfaction of the arm's length requirement may allow the foreign investment company to qualify for a presumption that it does not have a PE in Italy. See **Tax Alert 2023-1819**, dated 1 November 2023.

Norway — In the 2024 fiscal budget, the government proposed to extend the income tax liability of foreign entities participating in certain exploration or extraction business activities on the Norwegian continental shelf and in the 200-nautical-mile zones. The proposal also covers various types of ship transport, supply services and service activities connected with these exploration-related activities (e.g., transport of personnel and catering activities), as well as activities connected with the construction and maintenance of facilities. The Ministry of Finance would be authorized to exempt certain types of ship transport from tax liability.

The government also proposed a 35% resource-rent tax on onshore wind power, which would apply alongside the ordinary corporate income tax. The 35% tax is designed as a cash flow tax with deductions for new investments, losses on the realization of fixed assets, certain operating expenses, property taxes and certain corporate income taxes. Finance expenses, sales and marketing expenses, and voluntary payments to municipalities are not deductible.

Other proposals include:

- Exempting cross-border mergers of mutual funds from tax if certain conditions are met

- Changing the tax base of receivables from mergers and demergers so they do not trigger taxable gains or deductible losses when realized (retroactively effective to tax year 2023)
- Limiting deductions for interest expense on certain related party debt
- Increasing the limit on immediate deductions for non-substantial fixed assets to NOK 30,000 from NOK 15,000.

See **Tax Alert 2023-1725**, dated 16 October 2023.

OECD — The OECD released the text of a Multilateral Convention (MLC) to implement Amount A under Pillar One of its BEPS initiative. The MLC's objective is to create a coordinated agreement on reallocating the profits of in-scope MNEs among market jurisdictions. See **Tax Alert 2023-1802**, dated 30 October 2023.

Subsequently,[2] the OECD announced plans to finalize the Pillar One MLC by the end of March 2024, "with a view to hold[ing] a signing ceremony of the end of June 2024. "Separately, the OECD released the text of a Multilateral Instrument (MLI) on the Subject to Tax Rule under Pillar Two of the BEPS 2.0 initiative. Jurisdictions can use this MLI to implement the STTR in all their relevant tax treaties. See **Tax Alert 2023-1698**, dated 12 October 2023.

Regarding Pillar Two,[3] the OECD/G20 Inclusive Framework on BEPS released the third set of Administrative Guidance, which clarifies, among other things, the application of the Transitional CbCR Safe Harbor and the treatment of hybrid arbitrage arrangements, purchase price accounting adjustments, and the definition of revenues when determining whether an MNE group falls within the GloBE rules. The new Administrative Guidance also outlines:

- How to apply the GloBE rules when a constituent entity's fiscal years or financial and tax years are mismatched
- How to Allocate taxes from a blended CFC tax regime when some constituent entities
- A Simplified Calculations Safe Harbor for Non-material constituent entities.

Saudi Arabia — In a draft law, Zakat, Tax and Customs Authority proposed a new income tax to replace Saudi Arabia's existing income tax. Features of the new tax include:

- Exempting certain income from tax and changing the computation of capital gains tax
- Exempting income or losses from mergers or demergers from tax, subject to certain conditions
- Allowing companies to offset 100%, rather than 25%, of taxable profit with approved carry-forward losses in the year following the loss
- Limiting interest deductibility to 30% of taxable profit
- Treating gains from indirect sales of shares in Saudi companies as Saudi-source income
- Treating payments for services performed remotely through electronic means as Saudi-source income
- Adopting the straight-line method of depreciation
- Lowering the threshold for establishing a PE to 30 days within any 12-month period from 183 days within any 12-month period
- Defining "agency PE" so that the term aligns with the definition in the 2021 United Nations Model Tax Convention
- Denying deductions for losses from hedging financial instruments, payments that are made to related parties in preferential tax regimes and are not arm's length, and cash payments that exceed the regulatory limit

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[2] A Tax Alert on this announcement is forthcoming.

[3] A Tax Alert on this guidance is forthcoming.

- Introducing tax incentives for "green" investments
- Imposing withholding taxes on certain payments made to nonresidents.

See **Tax Alerts** **2023-1861**, dated 9 November 2023, and **2023-1877**, dated 10 November 2023.

Singapore — In draft legislation introduced in Parliament, the government proposed simplifying the approved royalty incentive. The proposal would replace the current approved royalty incentive (ARI) scheme (which links the incentive to individual agreements) with an activity-based ARI. The activity-based ARI would cover royalties, technical assistance fees, contributions to R&D costs payable to nonresident person(s) for purposes of the approved activities. A prerequisite of the incentive is that a headline tax rate greater than 0% would have to apply in the income recipient's home country.

Other proposed changes include:

- Extending ARI approvals until 31 December 2028
- Allowing more than one activity to be covered under the ARI
- Authorizing the Minister to specify different tax incentives (including different concessionary tax rates) for different classes, categories or descriptions of:
  - Approved activities
  - Relevant royalties, fees or contributions for an approved activity
  - Nonresident persons to whom relevant royalties, fees or contributions for an approved activity are payable.

The current ARI scheme would sunset effective 31 March 2023, with the new regime taking effect 1 April 2023. See **Tax Alert 2023-1812**, dated 31 October 2023.

Slovenia[4] **—** In a draft bill revising the Corporate Income Tax Act, the government proposed implementing the interest expense provisions in the EU's Anti-Tax Avoidance Directive, which would limit interest expense deductions to 30% of EBITDA or EUR 1 million, with no ability to carry unused interest forward. Other changes include:

- Lowering the threshold for establishing a construction PE to 6 months from 12 months
- Precluding companies from using exemptions for specific activities to avoid PE status by fragmenting their business into several small operations and arguing that each part is merely engaged in preparatory or auxiliary activities
- Treating a foreign company as having an agency PE in Slovenia when a person acting on the company's behalf concludes contracts in the country or takes the lead in concluding contracts that the business does not materially change

United Kingdom — In his Autumn Statement, the UK Chancellor of the Exchequer proposed the following income tax measures:

- Making permanent a three-year temporary provision that permits immediate capital expensing for firms investing more than £1 million a year on plants and machinery (currently effective for qualifying new plant and machinery purchased from 1 April 2023 until 31 March 2026)
- Modifying the R&D tax credit regime by merging the two existing schemes and introducing a 20% general rate of credit and a notional 19% tax rate for loss-makers
- Extending the expiration date of the tax benefits from Investment Zones by five years until 2031 and announcing five new Investment Zones

[4] A Tax Alert has not been published on the proposal to implement the limitation on interest expense deductions or the proposed increase in the corporate income tax rate. For discussion of the proposed PE changes, see **Tax Alert 2023-1861**, dated 9 November 2023.

Separately, a revised version of Autumn Finance Bill 2023 includes changes to the rules for REITs, including exempting certain investors from rules requiring REIT holdings of 10% or more to be fragmented. See **Tax Alert 2023-1945**, dated 22 November 2023.

United States, including territories

Credits for clean vehicles — In proposed regulations and an accompanying revenue procedure, the IRS and Treasury outlined how buyers can transfer clean vehicle credits under IRC Sections 30D (clean vehicles) and 25E (previously-owned vehicles) to eligible dealers at the time of purchase. For vehicles purchased on or after 1 January 2024, eligible dealers would receive advance payment of the credits from the IRS and could give the buyers cash or put the credit toward a down payment. See **Tax Alert 2023-1723**, dated 16 October 2023.

IRC Section 987 foreign currency gain or loss — The IRS and Treasury proposed regulations under IRC Section 987 on determining taxable income or loss and currency gain or loss with respect to a qualified business unit whose functional currency differs from its tax owner. The proposed regulations would limit taxpayers' ability to recognize IRC Section 987 losses from terminations of qualified business units on or after 9 November 2023. They would also permit taxpayers to make simplifying elections to ease compliance burdens but may result in loss deferral and limit the taxpayer's ability to control the timing of IRC Section 987 losses.

The proposed regulations would apply to tax years beginning after 31 December 2024, with a new transition rule that depends on whether and how taxpayers historically complied with IRC Section 987. See **Tax Alert 2023-1898**, dated 15 November 2023.

Investment tax credits — In proposed regulations, the IRS clarified what assets are included in energy property and, therefore, eligible for the IRC Section 48 investment tax credit (ITC) after the Inflation Reduction Act added new technologies, including standalone energy storage, biogas property and microgrid controllers. While the proposed regulations would allow flexibility in grouping energy property into one or more projects, the guidance requires the grouping to be consistent for all matters: begun construction, energy communities, prevailing wage and apprenticeship requirements, etc. See **Tax Alert 2023-1936**, dated 21 November 2023.

US-Taiwan Expedited Double Taxation Relief Act — The Senate Finance Committee unanimously approved a bill that would reduce the tax on US-source interest, royalties and gains paid to or received by a qualified resident of Taiwan to 10% from 30%. Tax on US-source dividends paid to or received by a qualified resident of Taiwan would generally decrease to 15%. A 10% rate would apply for certain owners of at least 10% of the shares of stock in a corporation, subject to limitations. The provisions would only become effective if corresponding tax reductions applied to US residents. See **Tax Alert 2023-1980**, 1 December 2023.

OECD BEPS Developments

Our **Latest on BEPS and Beyond** (most recent edition dated 19 December 2023) is updated regularly with OCED BEPS developments. See also our **Pillar Two developments tracker** which tracks legislative developments globally, by jurisdiction.

IASB update

Overview of new pronouncements issued as at 15 December 2023

The table below provides an overview of the new pronouncement issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) as of 15 December 2023 that will be effective for the first time for reporting periods ended at that date or thereafter.

New pronouncement	Effective date
IFRS 17 *Insurance Contracts*	1 January 2023
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Definition of Accounting Estimates – Amendments to IAS 8	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	1 January 2023
International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12	Note 1
Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to IAS 1	1 January 2024
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	1 January 2024
Disclosures: Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	1 January 2024
Lack of exchangeability – Amendments to IAS 21	1 January 2025

Note 1 – The amendments are effective immediately upon issuance. Certain disclosure requirements are effective for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

More details on the above pronouncements can be found in our publication *IFRS Core Tools - IFRS Update of standards and interpretations in issue at 30 September 2023*.

Overview of the key requirements of new income tax pronouncements, interpretations and agenda decisions

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

For simplicity, the basis for the amendments is explained using leases as an example. This explanation applies equally to similar transactions and events, such as decommissioning obligations.

Determining the tax base of assets and liabilities

An entity that applies IFRS 16 *Leases* recognizes a right-of-use asset (lease asset) and a lease liability at the commencement date of a lease. On initial recognition, the entity needs to assess the tax base of the lease asset and liability by identifying the amounts attributable to them for tax purposes. In a jurisdiction where an entity receives tax deductions when it makes lease payments, it applies judgement in determining whether those tax deductions are attributable to:

- The lease asset (and interest expense) because the deductions relate to the expenses (i.e., depreciation and interest expense) arising from the lease

  Or

- The lease liability (and interest expense) because the deductions relate to the repayment of the lease liability and interest expense.

If the tax deductions are attributed to the lease asset, the tax bases of the lease asset and lease liability equal their carrying amounts, and no temporary differences arise on initial recognition. However, if the tax deductions are attributed to the lease liability, the tax bases of the lease asset and lease liability are

nil, giving rise to taxable and deductible temporary differences in respect of the asset and the liability, respectively. If those gross temporary differences are equal, the amendments require that a deferred tax liability and a deferred tax asset are recognized.

The IASB decided not to provide application guidance to help entities assess whether tax deductions are attributable to the lease asset or lease liabilities, as the costs of doing so would outweigh the benefits. An entity will need to make a judgement, having considered the applicable tax law, whether tax deductions relate to the lease asset or lease liability.

Changes to the initial recognition exception

International Accounting Standard (IAS) 12 *Income Taxes* contains exceptions from recognizing the deferred tax effects of certain temporary differences arising on the initial recognition of some assets and liabilities, generally referred to as the "initial recognition exception" or "initial recognition exemption," sometimes abbreviated to "IRE." Exception is the more accurate description, since a reporting entity is required to apply it, rather than having the option to do so implicit in the term exemption.

Before the amendments were issued, views differed on whether (and to what extent) the IRE applied to transactions and events, such as leases, that lead to the recognition of an asset and a liability. To address this problem, the IASB decided to narrow the scope of the recognition exception so that it does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

Only if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal, would the IRE be applied.

The amendments do not change the fact that the initial recognition exception applies only to temporary differences arising on initial recognition of an asset or liability. It does not apply to new temporary differences that arise on the same asset or liability after initial recognition. When the exception has been applied to the temporary difference arising on initial recognition of an asset or liability, and there is a different temporary difference associated with that asset or liability at a subsequent date, it is necessary to analyze the temporary difference at that date between:

- Any amount relating to the original temporary difference (on which no deferred tax is recognized)

  And

- The remainder, which has implicitly arisen after initial recognition of the asset or liability (on which deferred tax is recognized).

When the deferred tax asset and deferred tax liability are not equal

The amendments require entities to recognize a separate deferred tax asset (DTA) and deferred tax liability (DTL) when the temporary differences arising on the initial recognition of an asset and liability are equal. Nevertheless, it is possible that those DTAs and DTLs are not equal, for example, because:

- An entity may recognize a deferred tax liability, but is unable to recognize an equal and offsetting deferred tax asset if it is unable to benefit from the tax deductions

  Or

- Different tax rates may apply to the taxable and deductible temporary differences.

In the above scenarios, which the IASB expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

Advance lease payments and initial direct costs

Having initially measured a lease liability at the present value of the lease payments not yet made at the commencement date and recognized a related component of the lease asset, entities will adjust the measurement of the lease asset for any advance lease payments or initial direct costs incurred. The IASB notes that these adjustments could result in additional taxable temporary differences associated with the lease asset, to which an entity would apply the relevant requirements in IAS 12.

Transition and effective date

An entity should apply the amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted, but an entity should disclose that fact.

An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also:

- Recognize a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset
  - Recognizing the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The above transitional provisions also apply to first-time adopters at the date of their transition to IFRS.

EY publications

IFRS Developments Issue 191: *IASB clarifies deferred tax accounting for leases and decommissioning obligations* (May 2021) EYG No. 004619-21Gbl

How we see it

Entities are required to recognize deferred tax assets and liabilities for temporary differences, if any, arising from the initial recognition of a lease and subsequently. An entity would typically offset these deferred tax assets and liabilities in the statement of financial position, but the ability to do so should be confirmed by reference to the applicable tax law.

The amendments could, in some cases, lead to the recognition of unequal amounts of deferred tax assets and liabilities, despite the gross deductible and taxable temporary differences being equal. In such cases, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss. This outcome is much less complicated than the original capping proposals, which would have given rise to significant complexity in the application of IAS 12.

International Tax Reform — Pillar Two Model Rules — Amendments to IAS 12

Temporary exception from recognition and disclosure of deferred taxes

The amendments clarify that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as Pillar Two legislation and Pillar Two income taxes, respectively.

The amendments introduce a mandatory exception in IAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes. The IASB did not expand the scope of the temporary exception to include the measurement of deferred taxes recognized under domestic tax regimes, as an entity would not remeasure such deferred taxes to reflect Pillar Two income taxes it expects to pay when recovering or settling a related asset or liability.

The amendments note that the temporary exception provides entities with relief from accounting for deferred taxes in relation to this complex new tax legislation, allowing stakeholders time to assess the implications. It also avoids entities developing diverse interpretations of IAS 12 that could result in inconsistent application of the standard.

The IASB did not include a sunset date for the temporary exception but will monitor the implementation of the Pillar Two model rules to determine when to undertake further work.

Disclosure of application of the exception

The amendments require an entity to disclose that it has applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Disclosure of current tax

An entity is required to separately disclose its current tax expense (income) related to Pillar Two income taxes, in the periods when the legislation is effective, as this helps users of financial statements understand the relative level of those taxes.

The IASB did not provide further clarifications on when a Pillar Two top-up tax is considered to be an income tax in the scope of IAS 12, nor to require entities to treat all top-up taxes as if they were income taxes. An entity is required to apply judgement in determining which top-up taxes it considers to be income taxes in the entity's circumstances.

Disclosure in periods before legislation is in effect

The amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example, an entity could disclose the following information to meet these requirements:

- Qualitative information, such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist
- Quantitative information, such as either:
  - An indication of the proportion of an entity's profits that risks being subject to Pillar Two income taxes and the average effective tax rate applicable to those profits
  - An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

The above information does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range. The IASB notes in the Basis for Conclusions "… that an entity would not have to disclose information about possible future transactions and other possible future events (forward-looking information) to meet this requirement. For example, an entity would not be required to forecast future profits, reflect mitigation actions it expects to take in future periods, or consider possible future changes in tax legislation."

The IASB observed that legislation in some jurisdictions was expected to be effective as early as 1 January 2024. Therefore, it expects many entities to have some information about their exposure available to them by the time the disclosure requirements are applicable. However, to the extent information is not known or reasonably estimable, an entity is instead required to disclose a statement to that effect and information about its progress in assessing its exposure.

Transition and effective date

The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception apply immediately and retrospectively upon issue of the amendments.

The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

Entities that need to prepare annual or interim financial statements before the amendments are endorsed for use in their jurisdiction should refer to our IFRS Developments 214, *Accounting for BEPS Pillar Two income taxes before IAS 12 is amended*, for guidance on how to use judgement in developing and applying an accounting policy that results in information that is relevant and reliable.

EY publications

Applying IFRS — *International Tax Reform — Pillar Two Disclosures* (November 2023) EYG No. 011096-23Gbl

IFRS Developments Issue 218: *Amendments to IAS 12: International Tax Reform Pillar Two Model Rules* (May 2023) EYG No. 005193-23Gbl

IFRS Developments Issue 214: *Accounting for Pillar Two income taxes before IAS 12 is amended* (April 2023) EYG No. 03721-23Gbl

How we see it

Entities need to get ready to provide the additional disclosures required by the amendments, which require that an entity discloses known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes. Furthermore, entities should be prepared to provide qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. To the extent that information is not known or estimable, entities will be required to make a statement to that effect and describe their progress in assessing their exposure.

Entities need to monitor the developments around the implementation and (substantive) enactment of the Pillar Two model rules in the relevant jurisdictions and, if appropriate, engage with advisors to determine the impact of Pillar Two model rules on their financial statements, audit and tax filings. We encourage entities to start considering whether they have established appropriate processes and procedures to obtain the information necessary to present the disclosures required by the amendments in a timely manner.

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