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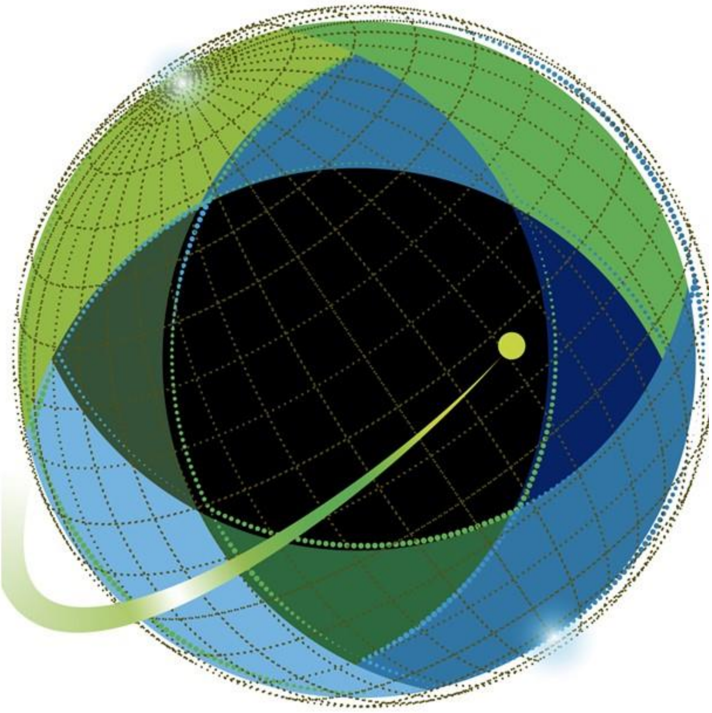


Audit readiness

Navigate Pillar Two with confidence

December 2023

Getting ready for the disclosure requirements – a Middle East perspective

Pillar Two signifies one of the biggest shifts in the international tax landscape in decades, creating a huge compliance and reporting challenge for all large Multinational Enterprise (MNE) Groups in addressing this.

Pillar Two impact

We are soon facing the Pillar Two legislation as many countries, especially in Europe, are expecting to (substantively) enact Pillar Two legislation before the end of 2023. This legislation is a national implementation of the OECD base erosion and profit shifting project and is aimed at implementing a global minimum tax of 15%.

Under most major accounting standards, a disclosure is required in relation to the expected Pillar Two impact in the year-end **2023 financial statements** in countries that have enacted Pillar Two legislation. For example, under International Financial Reporting Standards (IFRS), a specific disclosure requirement is introduced that requires a qualitative and quantitative disclosure on the expected Pillar Two impact. It is important to understand that such disclosure is not limited to exposure of low-taxed profits in countries where Pillar Two rules have been enacted.

Case study: Group A is a MNE group whose ultimate parent entity is in the United Arab Emirates (UAE) and 90% of Group A's profits are generated in the UAE. Group A has a subsidiary in the United Kingdom (UK). For financial year-end 2023 the UK has substantively enacted Pillar Two legislation including Income Inclusion Rule and Under-Taxed Profits Rule (UTPR). Under the UTPR, UAE profits can be taxed in 2025 and are thus exposed (despite the fact that the UAE has deferred implementation). Accordingly, considering the amount of profits in the UAE and taking into account that the Group A's effective tax rate (ETR) for the UAE is currently 0%, there will be a material impact. A disclosure to this effect is required.

Similarly, disclosure requirements will also apply to consolidated financial statements for Sovereign Wealth Funds or certain Excluded Entities as the groups would aggregate their underlying investments that could be subject to the Pillar Two rules.

UAE Corporate Tax

For groups with UAE operations, the introduced corporate tax (CT) regime will also trigger disclosure requirements that are to be assessed to provide stakeholders with material information on the impacts of UAE CT on a going-forward basis. It will be important to identify the interaction with Pillar Two and the disclosures during this year-end process.

Audit Readiness

It is recognized that this disclosure is an important element in many discussions among auditors at this time. Auditors will expect evidence supporting the disclosure in relation to Pillar Two. It is also important to be prepared to demonstrate to auditors that there is no (noteworthy) Pillar Two impact anticipated.

In their evaluations, auditors will focus on examining the effects of Pillar Two on various groups. Part of this might involve sharing a calculation of the expected Pillar Two impact based on the (temporary) safe harbour rules, complemented by an analysis for countries that do not follow these rules. In addition, auditors might ask broader questions regarding the approach to Pillar Two, including inquiries about data availability and how the Pillar Two process is incorporated into the existing accounting systems.

We can help you get ready for the tax provision process and the tax audit and are happy to support the full process.

2023 year-end: Auditors may ask questions on your company's Pillar Two approach

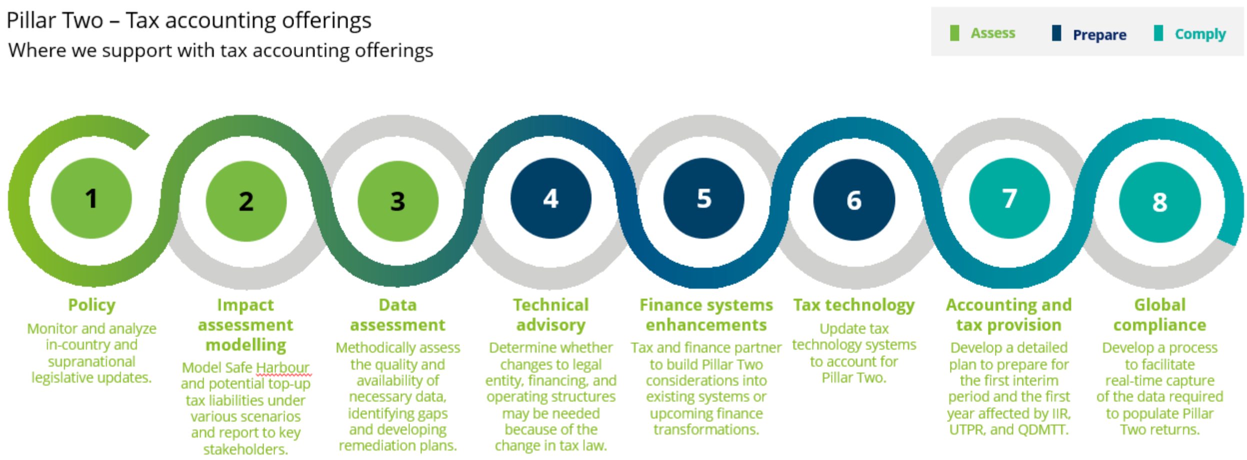
How Deloitte can help

Deloitte can promptly assist you in preparing for year-end audits by providing audit-ready documentation, relevant disclosure narratives to adhere to IFRS, and facilitating discussions with your auditors.

As we look forward to next year – the calendar year 2024 will be the first full year in which Pillar Two will apply. For most listed filers, this means that the 2024 interim reporting is the first time the Pillar Two tax expense should be included in the tax position as a separate tax line item. At year-end 2024, a full year position should be included in the financial statements, subject to audit.

Consequently, before the end of your first interim period in 2024, a process should be in place to calculate a Pillar Two tax position that is audit ready.

Our Tax Accounting team is available to discuss these additional Pillar Two and UAE CT related reporting requirements with you. They can provide additional insights in what we have been doing with Deloitte audit clients and provide more details about our tax audit readiness offering(s) for our advisory clients.



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