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ISCA Financial Reporting Bulletin 12

FRB 12:
Accounting Implications arising from the Multinational Enterprise (Minimum Tax) Act in Singapore

About the Institute of Singapore Chartered Accountants

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore with over 38,000 ISCA members making their stride in businesses across industries in Singapore and around the world. ISCA members can be found in over 40 countries and members based out of Singapore are supported through 12 overseas chapters in 10 countries.

Established in 1963, ISCA is an advocate of the interests of the profession. Complementing its global mindset with Asian insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards the advancement of the accountancy profession.

ISCA administers the Singapore Chartered Accountant Qualification programme and is the Designated Entity to confer the Chartered Accountant of Singapore – CA (Singapore) – designation.

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As the national accountancy body, ISCA is committed in supporting our members in their careers as they progress and rise to challenges faced along the way. ISCA's Professional Standards Division provides technical support in areas of audit & assurance, financial reporting, sustainability reporting, ethics and specialised industries such as capital markets, banking and finance and insurance; and communicates insights and views to our members and the wider accountancy community. Through our technical committees that comprise representatives from various stakeholders in the corporate reporting eco-system, we hear issues from the ground and conceive initiatives to promote and enhance quality, consistency and best practices to uphold technical excellence.

About ISCA's Financial Reporting Committee

ISCA's Financial Reporting Committee (FRC) comprises representatives from legal and accounting firms, corporate, regulators and academia in the financial reporting eco-system.

FRC's terms of reference include monitoring policy and implementation issues relating to the development of accounting standards internationally and in Singapore, and to identify, understand and address accounting issues faced by professional accountants in Singapore, and provide support through the issuance of guidances.

The terms of reference are executed through FRC with the support of two Sub-Committees, namely the Core Sub-Committee and the Valuation Sub-Committee.

Important note:

- References made to the publicly available information (including relevant regulations on Pillar Two legislation in Singapore) are accurate as at the date of issuance of this FRB.

- Although this FRB makes reference to Singapore Financial Reporting Standards (International) (SFRS(I)s), the guidance in this FRB is also applicable to entities applying Financial Reporting Standards (FRSs).

- This FRB is intended to share accounting implications arising from the implementation of Singapore's legislation relating to Pillar Two. For overseas subsidiaries, entities should consult or work with their tax advisors on the implications from the enactment of the Pillar Two legislation in their respective jurisdictions.

- In view that the Multinational Enterprise (Minimum Tax) Act is effective for financial years starting on or after 1 January 2025, it is anticipated that its implementation, along with Multinational Enterprise (Minimum Tax) Regulations, will lead to increased accounting implications. Hence, this FRB will be updated periodically to include these implications.

Table of Abbreviations

The following abbreviations are used often in this publication:

Abbreviation	Full Form
BEPS	Base Erosion and Profit Shifting
CE	Constituent Entity
DTT	Domestic Top-Up Tax
ETR	Effective Tax Rate
FY	Financial Year
GloBE	Global Anti-Base Erosion
IF	Inclusive Framework
IIR	Income Inclusion Rule
MNE	Multinational Enterprise
MMT Act	Multinational Enterprise (Minimum Tax) Act
MNE group	Multinational Enterprise group
MMT Regulation	Multinational Enterprise (Minimum Tax) Regulation
MTT	Multinational Enterprise Top-up Tax
OECD	Organisation for Economic Co-operation and Development
STTR	Subject-to-Tax Rule
UTPR	Undertaxed Profits Rule
UPE	Ultimate Parent Entity

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1. Background

1.1 Base Erosion and Profit Shifting (BEPS)[1]

Since 2013, there have been concerted efforts to strengthen international cooperation in taxation matters, to stamp out harmful practices and combat tax avoidance by multinational enterprises (MNEs). The Group of 20 (G20) had tasked the Organisation for Economic Co-operation and Development (OECD) to study and deal with the issue of BEPS by MNEs. BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to locations with no/low tax rates and no/little economic activity. To ensure a consistent and co-ordinated implementation of the BEPS recommendations and to make the project more inclusive, OECD/G20 subsequently broadened its BEPS discussions to include more jurisdictions through a platform called the OECD Inclusive Framework (OECD IF) on BEPS.

In October 2021, the OECD IF released a Statement on a Two-Pillar solution commonly known as BEPS 2.0 to address the tax challenges arising from the digitalisation of the global economy. Pillar One seeks to re-allocate some profits and in turn, taxes, from where the economic activities are conducted to where the markets (i.e. the customers) are. Pillar Two introduces a minimum effective tax rate (ETR) of 15% for large MNE groups via the Global Anti-Base Erosion (GloBE) Model Rules. If an affected MNE has an ETR of less than 15% in any jurisdiction in which the group operates, other jurisdictions can collect the difference of up to 15%.

1.2 BEPS 2.0: Pillar Two[2]

Pillar Two comprises two components – GloBE Model Rules (also known as GloBE Rules) and Subject-to-Tax Rule (STTR). As part of Pillar Two under BEPS 2.0, the GloBE Model Rules were released on 20 December 2021 and 14 March 2022, respectively.

The GloBE Rules comprise two rules - the Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR). The IIR is the primary rule. It imposes a top-up tax on a relevant parent entity of a MNE group with respect to its ownership interests in a low-taxed constituent entity (LTCE) that has an ETR (determined for the MNE group on a jurisdictional basis) below 15%. The UTPR serves as a backstop to the IIR, where a top-up tax would be collected in the jurisdictions which the MNE group operates and where UTPR has been adopted, if no top-up tax is collected from the parent entity under the IIR (as the parent entity jurisdiction does not or has not implemented the IIR). This is done by denying deductions or by imposing tax in the form of an equivalent adjustment.

The GloBE Rules also recognise that jurisdictions may introduce domestic minimum top-up taxes to bring the ETR of LTCEs operating in those jurisdictions up to 15%. Where such taxes are regarded as a Qualified Domestic Minimum Top-up Tax under the GloBE Rules, they would reduce the top-up tax in respect of those LTCEs that would otherwise be brought into charge under the IIR or UTPR.

[1] MOF website "BEPS Explainer" [link]
[2] IRAS website on GloBE Rules and Domestic Top-Up Tax [link]

1.3 Purpose and scope of this FRB

ISCA, through its Financial Reporting Committee, is issuing this FRB to aid entities in understanding the accounting implications arising from the Multinational Enterprise (Minimum Tax) Act (MMT Act) in Singapore. Following our issuance of the Statement on 22 January 2025, this FRB will provide further insights to the accounting implications relating to the enactment of the MMT Act.

2. Singapore's Implementation of BEPS 2.0

As announced in Singapore Budget 2024, the Government would be implementing the IIR and a domestic minimum top-up tax from businesses' financial years (FYs) starting on or after 1 January 2025. The implementation of the UTPR will be considered at a later stage.

The Multinational Enterprise (Minimum Tax) Bill was passed by the Singapore Parliament on 15 October 2024 and received Presidential assent on 8 November 2024. On 29 November 2024, the MMT Act[3] was gazetted.

The MMT Act is an act to implement the GloBE Model Rules (Pillar Two) relating to the top-up tax under the IIR to make provision for a domestic minimum top-up tax within the meaning of those Model Rules. It comprises 2 parts, namely Multinational Enterprise Top-Up Tax (MTT) that relates to the top-up tax under the IIR and the Domestic Top-Up Tax (DTT) that is intended to be a qualified domestic minimum top-up tax within the GloBE Model Rules.

On 30 December 2024, Singapore published the Multinational Enterprise (Minimum Tax) Regulations 2024 (MMT Regulations 2024)[4] as the subsidiary legislation under the MMT Act.

Both the MMT Act and MMT Regulations are effective for FYs starting on or after 1 January 2025 and are applicable to constituent entities (CEs) that are members of a MNE group that has annual revenue of EUR 750 million or more in the consolidated financial statements of the ultimate parent entity in at least two of the last four years.

In addition, the Inland Revenue of Singapore published an e-Tax guide *Multinational Enterprise Top-up Tax and Domestic Top-up Tax*[5] on 31 December 2024. Together with MMT Regulations, the e-Tax guide is intended to provide the details and guidance required for the implementation of MTT and DTT in Singapore.

Following which, the MMT Regulations 2024 were amended by the Multinational Enterprise (Minimum Tax) (Amendment) Regulations 2025 which was published on 24 February 2025 and came into operation on 25 February 2025. These amendments introduce certain key technical refinements and additional provisions to address specific scenarios such as group mergers, demergers, multi-parent group structures, and international shipping income exclusions.

[3] Multinational Enterprise (Minimum Tax) Act 2024 [link]
[4] Multinational Enterprise (Minimum Tax) Regulations 2024 [link]
[5] IRAS' e-Tax Guide on Multinational Enterprise Top-up Tax and Domestic Top-up Tax [link]

3. Accounting considerations

3.1 What are the applicable accounting requirements in relation to the income taxes arising from MMT Act and MMT Regulations?

Singapore reporting entities should apply SFRS(I) 1-12 *Income Taxes* to account for income taxes.

In May 2023, IASB issued amendments to IAS 12 *Income Taxes*[6] to provide timely relief for affected entities and avoid inconsistent interpretations in practice, in response to stakeholders' concerns about the potential implications of the jurisdictional implementation of these Pillar Two Model Rules on the accounting for income taxes applying IAS 12.

The amendments introduced:

(a) A temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and

(b) Targeted disclosure requirements:

   (i) Disclose that an entity has applied the temporary exception (as shared in (a) above);
   (ii) Disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect; and
   (iii) Disclose separately its current tax expense (income) related to Pillar Two income taxes when Pillar Two legislation is in effect;

The disclosure requirements are required for annual reporting periods beginning on or after 1 January 2023, except for (a) and (b)(i) which are effective immediately upon issuance of these amendments and retrospectively in accordance with IAS 8.

In Singapore, the above-mentioned amendments (paragraphs 4A, 88A to 88D and 98M) were made to SFRS(I) 1-12 and issued by the Accounting Standards Committee on 23 May 2023.

3.2 When is MMT Act considered as substantively enacted or enacted in Singapore before its effective date of 1 January 2025?

Paragraph 88C of SFRS(I) 1-12 states that "In periods in which Pillar Two 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's exposure to Pillar Two income taxes arising from that legislation."

With the publication of MTT Regulations and IRAS' e-Tax guide, these would provide sufficient details required for the computation of the estimated financial impact of DTT and MTT. Hence, MMT Act would have been enacted in Singapore before 31 December 2024 and impacted entities are required to comply with the applicable requirements in SFRS(I) 1-12 for reporting periods ended on 31 December 2024.

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[6] IFRS Project page on International Tax Reform - Pillar Two Model Rules [link]

3.3 How should impacted entities prepare themselves for the enactment or implementation of MMT Act in Singapore?

All impacted entities would need to consider accounting implications such as the impact to impairment assessments for cash-generating units as well as their going concern assessment with the tax impact arising from MMT Act in Singapore. In addition, these entities would need to consider the applicable SFRS (I) 1-1 *Presentation of Financial Statements* and SFRS(I) 1-12 requirements as illustrated below.

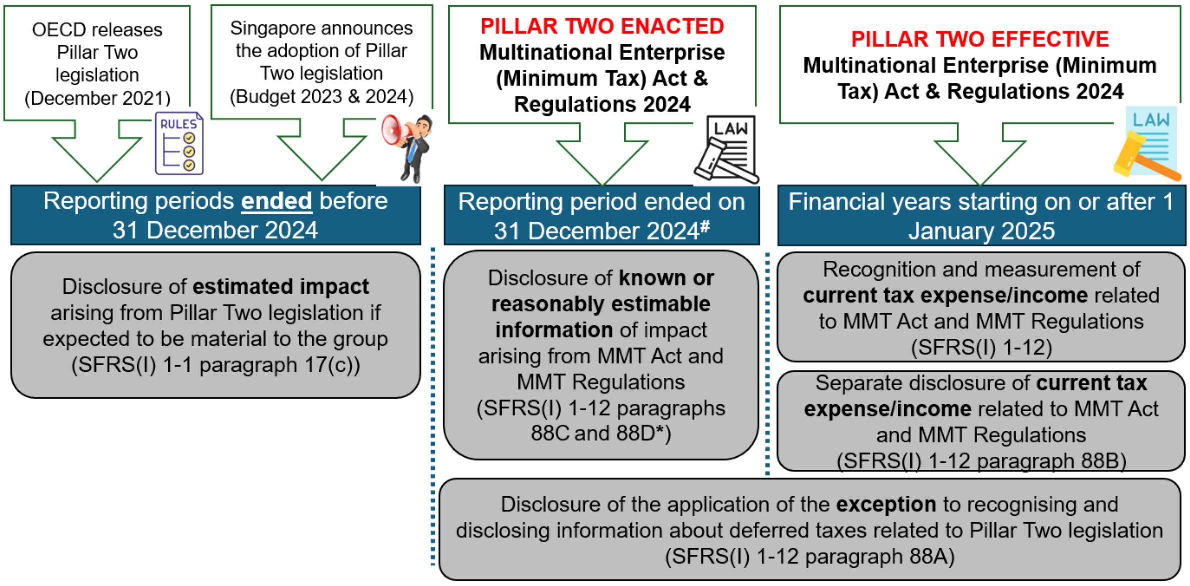
With reference to Section 8 of MMT Act, the Act is effective for an MNE group for FY beginning on or after 1 January 2025. For this purpose, the FY is generally determined based on the consolidated financial statements of its Ultimate Parent Entity (UPE). Accordingly, the applicable reporting period of a CE in the MNE group is dependent on its UPE's FY.

The following diagram illustrates the applicable accounting requirements (1) before the enactment of Pillar Two legislation, (2) when MMT Act is enacted, and (3) when MMT Act is effective.

For illustration:

(1) For an UPE with 31 December as its FY end, the MMT Act is enacted for the reporting period ended on 31 December 2024 and effective for the reporting periods from 1 January 2025 onwards.

(2) For an UPE with 30 June as its FY end, the MMT Act is enacted for the reporting periods ended on 31 December 2024 and 31 March 2025. The MMT Act is only effective for the reporting periods from 1 July 2025 onwards.



This is also applicable to both annual and interim reporting periods of entities with financial years starting before 1 January 2025..

* SFRS(I) 1-12 Income Taxes paragraph 88D:

- Disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range.
- To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Impacted entities would need to assess the impact on reporting systems and processes as well as the availability of data for the computation of DTT and MTT. All these could pose challenges given the complexity involved in the computation and collection of data across various jurisdictions.

For reference: ISCA Financial Reporting Codification Framework

In November 2019, ISCA issued the ISCA Financial Reporting Codification Framework (Framework). The Framework establishes a formalised categorisation, degrees of authority and a due process for future issuance of ISCA's technical documents. It provides credence to ISCA's technical content, promulgates ISCA's views on the application of accounting standards as well as promotes quality, consistency and best practices in financial reporting.

The Framework is summarised in the table below.

Category	Nature	Degree of authority	Due Process	Highest level of approval
1. Financial Reporting Practice (**FRP**)	Recommended best practices for financial reporting for specific industries, sectors or transactions	Expected to apply	Public consultation required	ISCA Council
2. Financial Reporting Guidance (**FRG**)	Technical guidance, views and insights on specific financial reporting issues for specific industries, sectors or transactions	Expected to follow or explain departures	Public consultation required	ISCA Financial Reporting Committee (FRC), with authority delegated by the ISCA Council
3. Financial Reporting Bulletin (**FRB**)	Technical bulletin containing discussions and highlight of emerging topical financial reporting issues	For information and educational purposes	Public consultation not required	ISCA FRC

For more details on the Framework and the guidance issued under the Framework, please refer to the following:

- Framework [link]
- FRG [link]
- FRB [link]