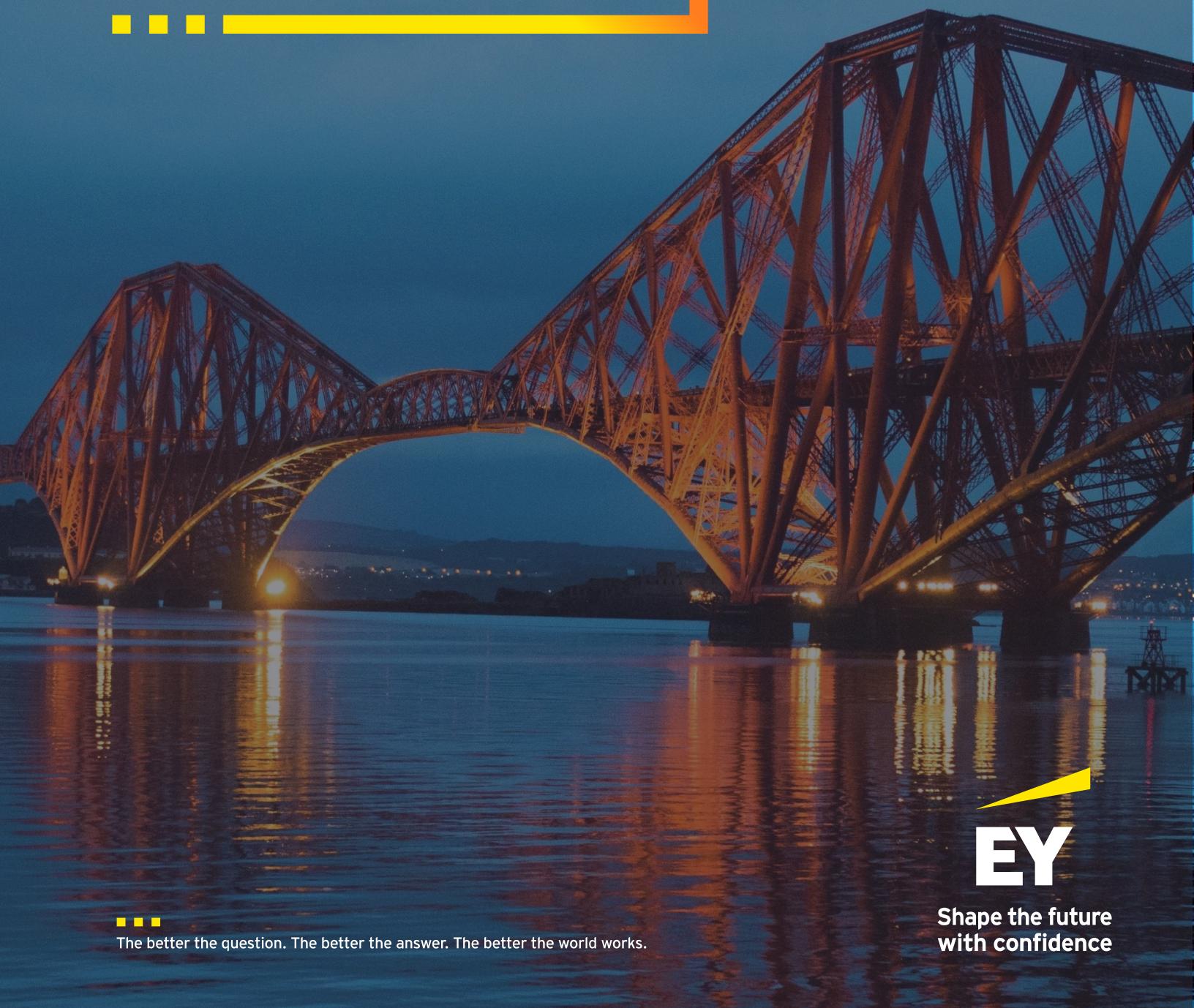


Quarterly Tax Developments

Things to know about Q4 tax developments and related IFRS accounting implications

December 2025



The better the question. The better the answer. The better the world works.



Shape the future
with confidence



Welcome to our Q4 2025 Quarterly Tax Developments publication, which focuses on income tax developments that could affect International Financial Reporting Standards (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, a significant 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. This publication, however, 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, including developments on the Organisation for Economic Co-operation and Development (OECD) global minimum tax rules under Pillar Two, identified through 4 December 2025, except as noted.

You can access the EY publications referenced in this document through our [Global Tax News Update website](#) for more information.

In this issue:

Tax developments	3
Other considerations	5
Things we have our eyes on	8
IASB update	12
Appendix A: Overview of Pillar Two implementation across the world	17

Tax developments

Legislation substantively enacted (or enacted) in the fourth quarter of 2025

Brazil¹ – On 26 November 2025, Brazil enacted a 10% withholding tax on dividends distributed to nonresident companies, among others. The change is effective 1 January 2026.

United States: California – On 1 October 2025, California enacted legislation that updates the state's conformity to the Internal Revenue Code (IRC) as of 1 January 2025. California continues to selectively decouple from significant provisions of the Tax Cuts and Jobs Act (P.L. 115-97), including modifications to:

- IRC Section 174 on research and experimental (R&E) expenditures
- IRC Section 163(j) on the limitation on business interest expense deductions
- IRC Section 168(k) on a special depreciation allowance for qualified property and qualified improvement property
- IRC Section 179 on expensing certain business property or computer software
- IRC Sections 250 and 951A on global intangible low-taxed income (GILTI) and foreign-derived intangible income (FDII)

California does not conform to changes made by H.R. 1, the tax legislation signed into law by President Trump on 4 July 2025 (commonly known as the One Big Beautiful Bill Act) after the date of IRC conformity.

The changes became effective upon enactment.

On the same day, California also enacted legislation that temporarily suspends the state's taxation of federal refunds based on certain environmental credits and payments received in exchange for transferring those credits. The changes apply to tax years beginning on or after 1 January 2026 and before 1 January 2031. See Tax Alerts [2025-2021](#), dated 6 October 2025, and [2025-2032](#), dated 7 October 2025.

On 7 October 2025, California enacted legislation clarifying the grounds on which the California Franchise Tax Board may not preclude a disregarded single-member limited liability company from assigning the Motion Picture and Television Production Tax Credit 3.0 to affiliated corporations. The legislation applies to credits that were assigned and claimed on a timely filed tax return with the California Franchise Tax Board for tax years beginning on or before 1 January 2025. See the [State and Local Tax Weekly for 10 October 2025 and 17 October 2025](#).

On 10 October 2025, California enacted legislation allowing taxpayers to elect to sell low-income housing tax credits, as outlined by the California Tax Credit Allocation Committee (CTCAC), rather than requiring taxpayers to sell their credits to the CTCAC. The change is effective 1 January 2026. See the [State and Local Tax Weekly for 10 October 2025 and 17 October 2025](#).

United States: Delaware² – On 19 November 2025, Delaware enacted legislation decoupling from changes made by H.R. 1 to the following provisions in the IRC:

- IRC Sections 174 and 174A on R&E expenditures
- IRC Section 168(k) on a special depreciation allowance for qualified property and qualified improvement property
- IRC Section 168(n) on a special depreciation allowance for qualified production property
- IRC Section 179 on expensing certain business property or computer software

¹ A Tax Alert has not been published on the legislation's enactment. For discussion of the proposed legislation, see [Tax Alert 2025-2232](#), dated 6 November 2025.

² A Tax Alert has not been published on this development.

The changes have varying effective dates.

United States: District of Columbia – On 3 December 2025, the District of Columbia enacted emergency legislation decoupling from changes made by H.R. 1 to the following IRC provisions:

- IRC Sections 174 and 174A on R&E expenditures
- IRC Section 163(j) on the limitation on business interest expense deductions
- IRC Section 168(k) on a special depreciation allowance for qualified property and qualified improvement property
- IRC Section 168(n) on a special depreciation allowance for qualified production property
- IRC Section 179 on expensing certain business property or computer software

The emergency legislation also specifies criteria that must be met for investments in a qualified opportunity fund after 31 December 2026 to receive certain benefits.

The emergency legislation is effective for 90 days and will expire on 3 March 2026. These changes need to be introduced through a separate bill that goes through the full legislative process, including a mandatory 30-in-session-day review period by Congress, to be permanently enacted. See [Tax Alert 2025-2409](#), dated 3 December 2025.

United States: Michigan – On 7 October 2025, Michigan enacted legislation updating the state's conformity to the IRC as of 1 January 2025. The legislation decouples from the following IRC provisions:

- IRC Section 174A on domestic R&E expenditures
- IRC Section 168(k) on a special depreciation allowance for qualified property and qualified improvement property
- IRC Section 168(n) on a special depreciation allowance for qualified production property

The legislation also effectively decouples from the H.R. 1 changes to the following IRC provisions:

- IRC Section 163(j) on the limitation on business interest expense deductions
- IRC Section 174 on R&E expenditures
- IRC Section 179 on expensing certain business property or computer software

The changes are generally effective for corporate income tax years beginning after 31 December 2024.

United States: Pennsylvania – On 12 November 2025, Pennsylvania enacted legislation decoupling from changes made by H.R. 1 to the following IRC provisions:

- ▶ IRC Sections 174 and 174A on R&E expenditures
- ▶ IRC Section 163(j) on the limitation on business interest expense deductions
- ▶ IRC Section 168(n) on a special depreciation allowance for qualified production property

Other state tax incentives were also enacted. The changes have various effective dates. See [Tax Alert 2025-2403](#), dated 2 December 2025.

Other considerations

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

European Union – The Council of the European Union (EU) added Greenland, Jordan, Morocco and Montenegro to Annex II of its list of noncooperative jurisdictions for tax purposes and removed Vietnam. 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 11 countries on the Annex II list. See [Tax Alert 2025-2087](#), dated 15 October 2025.

Germany – The Düsseldorf Tax Court held that the head of a German fiscal unity (i.e., the parent of a consolidated group) could not use losses incurred by a liquidated Belgian entity, which was treated as a permanent establishment (PE) for German tax purposes, against income in Germany. The Court reasoned that the Germany-Belgium tax treaty exempts the Belgian PE's profits and losses from German taxation, even if Germany applied a "subject-to-tax" condition allowed under the treaty. The Court also noted that EU law does not require Germany to recognize final losses incurred abroad. See [Tax Alert 2025-2295](#), dated 14 November 2025.

India – The Supreme Court held that a French drilling company could deduct administrative expenses and carry forward unused depreciation on tax returns filed during the five years that the company was in between customer contracts. The Court reasoned that the company had not ceased operations during the five-year gap based on its continued bids for new work. The Court also rejected a lower court's determination that the business needed an Indian PE to be considered ongoing, noting that Indian income tax can apply to nonresidents that do not have a PE in India. See [Tax Alert 2025-2295](#), dated 14 November 2025.

Israel – In a circular, the tax authority clarified the transfer pricing method (typically the transactional net margin method) that Israeli research and development (R&D) centers need to use when providing routine services to foreign related parties. The tax authority also limited markup adjustments to 14% unless certain approvals are obtained. Additionally, the circular provided supporting language for a 6% capital gains tax rate on the exit of certain intellectual property (IP) from Israel, rather than a 23% IP exit tax. See [Tax Alert 2025-2276](#), dated 12 November 2025.

United States, federal: The Internal Revenue Service (IRS) finalized regulations modifying the interest capitalization requirements for improvements to property temporarily withdrawn from service. The final regulations eliminate the associated property rule, which previously included the value of certain related property (e.g., land or existing structures) in the accumulated production expenditures used to determine the amount of interest required to be capitalized. As a result, the amount of interest required to be capitalized has decreased. See [Tax Alert 2025-2039](#), dated 8 October 2025.

In two notices, the IRS outlined how the corporate alternative minimum tax (CAMT) applies to domestic corporate transactions, financially troubled companies and tax consolidated groups. Applicability dates and adjustments to financial statement income were also addressed. The IRS also announced its intent to partially replace the proposed CAMT regulations issued in September 2024 with new proposed regulations based on the guidance in the two notices and previous notices from summer 2025. See [Tax Alert 2025-2143](#), dated 23 October 2025.

In another notice, the Treasury Department (Treasury) and the IRS announced that forthcoming proposed regulations would source "borrow fees" or "negative rebates" from securities lending and sales-repurchase transactions to the recipient's residence. Taxpayers may rely on rules in the notice until the forthcoming regulations are published. See [Tax Alert 2025-2195](#), dated 30 October 2025.

In four notices, Treasury and the IRS announced their intent to issue proposed regulations that would implement changes made to international tax rules by H.R. 1. The forthcoming regulations would address:

- The allocation of certain foreign income taxes that accrue during the mandatory, one-month "short year" caused by the repeal of the one-month deferral election for controlled foreign corporations



- The transition rule for dividends in the context of applying the new pro rata share rule under IRC Section 951(a)
- The effective date and application of IRC Section 960(d)(4), which disallows a foreign tax credit for 10% of any foreign income taxes paid or accrued (or deemed paid) on previously taxed earnings and profits
- New rules for calculating foreign-derived deduction-eligible income, as well as discussion of the meanings of intangible property, “any other property of a type” and sale or other disposition for purposes of IRC Section 250

See Tax Releases [2025-2381](#), dated 26 November 2025, and [2025-2425](#), dated 4 December 2025. Tax Alerts on the notices are forthcoming.

In a revenue procedure, Treasury and the IRS created a safe harbor allowing certain US exchange-traded products that hold digital assets and are investment and grantor trusts for US federal income tax purposes to stake their digital assets without jeopardizing their tax status. To qualify for the safe harbor, trusts must meet 14 requirements, including listing and trading their interests on a national securities exchange, owning only cash and one type of proof-of-stake digital asset, and conducting staking activities through custodians with strict controls. See [Tax Alert 2025-2345](#), dated 21 November 2025.

United States: Iowa – The Department of Revenue certified that the corporate income tax rate will not decrease for tax year 2026 because the revenue threshold for recalculating the rate was not met. See the [State and Local Tax Weekly for 24 October 2025 and 31 October 2025](#).

United States: Kansas – In a notice, the Director of Budget announced that previously enacted reductions in the corporate income tax rate, among others, will not occur in tax year 2026. The Director noted that the revenue thresholds on which the rate reductions depended were not met. See the [State and Local Tax Weekly for 26 September 2025 and 3 October 2025](#).

United States: Massachusetts – In amendments to regulations, the Department of Revenue outlined how the addition of certain internet cookies by an out-of-state vendor to the computers or other electronic devices of Massachusetts customers could fall outside the scope of P.L. 86-272 and subject the vendor to Massachusetts tax. See the [State and Local Tax Weekly for 10 October 2025 and 17 October 2025](#).

United States: Nebraska – The Department of Revenue issued guidance on a recently enacted law that prohibits “foreign adversarial companies” from claiming Nebraska tax incentives, such as income tax credits. The prohibition extends to any credits or incentives from past years that are carried forward. See [Tax Alert 2025-2317](#), dated 18 November 2025.

United States: – The following states have released guidance for state corporate income tax purposes addressing conformity to certain provisions in H.R. 1:

- Alabama
- Iowa
- Massachusetts
- New Jersey
- Tennessee
- Texas

See [Tax Alert 2025-2365](#), dated 25 November 2025, and the [State and Local Tax Weekly for 24 October 2025 and 31 October 2025](#).

Tax amnesties

This table shows tax amnesties that were announced or went into effect in the fourth quarter of 2025.

Jurisdiction	Amnesty period	Taxes covered	Reference
New Hampshire	1 December 2025 through 15 February 2026	Business profits tax, among others	https://www.revenue.nh.gov/tax-amnesty-program

Things we have our eyes on

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.

Argentina – In a draft general resolution, the tax authority proposed significant changes to Argentina's transfer-pricing regime, including:

- Tightening rules on comparables used in transfer pricing analysis
- Introducing new definitions for hard-to-value intangibles
- Adding clear guidelines for export commodity contracts
- Updating de minimis thresholds

See [Tax Alert 2025-2402](#), dated 2 December 2025.

Belgium – The Parliament is considering a bill that would amend Belgium's Pillar Two global minimum tax rules to clarify key concepts, among other things. Proposed changes include:

- Treating joint ventures entities and their affiliates as separate categories of entities for Pillar Two purposes rather than constituent entities
- Extending the application of Belgium's qualified domestic minimum top-up tax (QDMTT) to joint venture entities and their affiliates
- Shortening the statute of limitations under Belgium's Pillar Two rules to six years from 10 years
- Aligning and harmonizing Belgium's Pillar Two rules with some of the general tax concepts and procedures under its income tax code

See [Tax Alert 2025-2139](#), dated 23 October 2025.

Canada – Parliament is considering legislation that would reinstate accelerated rates of depreciation for most capital investments. The legislation would allow for an immediate write-off of the full cost of certain manufacturing and processing (M&P) machinery and equipment, clean energy equipment, and zero-emission vehicles acquired after 2024 and available for use before 2030. M&P machinery and equipment, clean energy equipment, and zero-emission vehicles available for use from 2030 through 2033 will be eligible for an accelerated first-year rate of depreciation, allowing for 75% of the cost to be written off for property available for use in 2030 or 2031 and 55% of the cost to be written off for property available for use in 2032 or 2033.

The legislation would also allow 100% expensing for certain other types of property (e.g., patents, data network infrastructure equipment, computer equipment and systems software) acquired after 15 April 2024 and available for use before 2027. Additionally, most other categories of depreciable property acquired after 2024 and available for use before 2034 are eligible for accelerated depreciation in the form of an enhanced first-year deduction. For companies in the resource sector, a similar enhanced first-year deduction would also allow for a faster write-off of certain Canadian development expenses and Canadian oil-and-gas-property expenses.

Other proposals in the legislation would:

- Temporarily increase to 10% from 4% the depreciation rate for certain rental housing construction projects that begin after 15 April 2024 and before 2031.
- Increase tax incentives for scientific research and experimental development (SR&ED) by reinstating the income deduction for capital expenses related to SR&ED and incurred after 15 December 2024.
- Replace Canada's transfer pricing adjustment and recharacterization rules with a single adjustment application rule that would apply if the actual conditions of the relevant transaction or series differ from arm's-length conditions (proposed to apply to tax years beginning after 4 November 2025).
- Strengthen the foreign affiliate rules by preventing Canadian companies from avoiding current taxation of their foreign affiliates' undistributed profits from passive businesses.

- Strengthen anti-avoidance rules that deny deductions for inter-corporate dividends received under a synthetic equity arrangement by removing certain exceptions.
- Strengthen the conditions that must be met for a corporation to qualify as a mutual fund corporation.
- Exempt from tax certain capital gains from international shipping and adjust the calculation of tax depreciation on a vessel used to earn exempt international shipping income in some tax years and non-exempt income in other tax years.
- Make technical amendments that would affect, among others, foreign affiliate share-for-share exchanges, foreign mergers, the limitation on excessive interest and financing expenses, and the definition of foreign accrual property income.

In the 2025 federal budget, the government proposed allowing immediate expensing for eligible M&P buildings acquired after 3 November 2025 and first used in M&P before 2030. Eligible M&P buildings first used from 2030 through 2033 will be eligible for an accelerated first-year rate of depreciation (similar to M&P machinery and equipment). The government also proposed an accelerated depreciation rate for eligible liquefied natural gas equipment and related buildings acquired after 3 November 2025 and before 2035. Other proposals would:

- Narrow the definition of Canadian exploration expenses by excluding expenses related to determining the economic viability or engineering feasibility of a mineral resource (proposed to apply as of 4 November 2025).
- Tax investment income earned by a foreign affiliate of the Canadian insurer from property used to back the insurer's Canadian risks as foreign accrual property income (proposed to apply to tax years beginning on or after 4 November 2025).

See Tax Alerts [2025-2240](#), dated 6 November 2025, [2025-2293](#), dated 14 November 2025, and [2025-2401](#), dated 2 December 2025.

France – Parliament is considering the draft Finance Bill for 2026, which would extend the temporary corporate income tax surcharge for an additional year (i.e., through fiscal year 2026 for companies with a calendar year-end). The extended surcharge would apply to companies with revenue of EUR1 billion or more, with reduced rates of 10.3% (currently 20.6%) for companies with revenue realized in France equal to or greater than EUR1 billion but less than EUR3 billion, and 20.6% (currently 41.2%) for companies with revenue realized in France equal to or greater than EUR3 billion.

Other proposals would:

- Incorporate guidelines from the Organisation for Economic Co-operation and Development (OECD) on the treatment of deferred tax liabilities into French law
- Adjust the French QDMTT rules, particularly for undertaxed investment companies or insurance investment companies
- Align terms and definition under the French Global anti-Base Erosion rules with the specificities of certain industries

See [Tax Alert 2025-2102](#), dated 17 October 2025.

Ghana – In its 2026 Budget, the government proposed aligning Ghana's income tax act with the leading practices of the OECD and other organizations. It also indicated its intent to strengthen rules taxing the income of nonresidents providing digital services in Ghana. See [Tax Alert 2025-2380](#), dated 26 November 2025.

Ireland – In its 2026 Budget/Finance Bill 2025 (as initiated), the government proposed amending the R&D tax credit by increasing the credit's rate to 35% from 30% and increasing the first-year payment threshold to EUR87,500 from EUR75,000. Additionally, it proposed expanding eligibility for the dividend participation exemption (i.e., a corporate income tax exemption for dividends from foreign subsidiaries in certain jurisdictions) to include qualifying dividends from jurisdictions that impose a nonrefundable withholding tax upon the dividends when distributed. Other proposals include:

- Limiting balancing allowances (i.e., a deduction that arises when an asset's depreciation value exceeds its sales price on disposal) to 80% of the relevant trading profits in any one accounting period (applies retroactively to any disposal occurring on or after 8 October 2025)
- Increasing the film corporation tax credit for eligible visual effects works produced in Ireland by applying a 40% rate for expenditures ranging from EUR1 million to EUR10 million and the standard 32% rate for expenditures over EUR10 million to EUR125 million, subject to EU State Aid approval
- Introducing a dividend withholding tax exemption for Investment Limited Partnerships and equivalent EU/European Economic Area partnerships that are beneficially entitled to not less than 51% of the Irish distributing company's ordinary share capital, subject to the outbound-payment rules

See [Tax Alert 2025-2048](#), dated 9 October 2025.

Israel – The Ministry of Finance, the Israel Tax Authority and the Israel Innovation Authority outlined a comprehensive tax reform package for the high-tech sector. Income tax incentives to be offered under the reform include:

- A capital gains tax exemption for foreign investors on investments in Israeli tech companies
- Passive income classification (and correspondingly lower tax rates) for certain Israeli fund investors
- Reduced withholding tax on interest and dividends for certain fund investors and technology investments
- Transfer pricing guidance for R&D centers

See [Tax Alert 2025-2228](#), dated 5 November 2025. See the Other considerations section of this publication for discussion of related guidance on the reform's transfer pricing proposals.

Italy – In draft legislation, the government proposed tax measures affecting banks, other financial intermediaries and insurers, including:

- Increasing the exemption from the regional tax on productive activities (IRAP) to 95% from 50% for intra-EU dividends that meet certain requirements (would not apply to fund management companies and investment companies)
- Allowing banks, other qualifying financial intermediaries and insurers that paid IRAP based on the 50% exemption in prior years to apply for refunds of any excess IRAP paid in the last 48 months
- Increasing the IRAP rate by two percentage points for fiscal years 2026 through 2028 to 6.65% from 4.65% for banks (up to 7.57% regionally) and to 7.90% from 5.90% for insurance companies (up to 8.82% regionally)
- Limiting deductions for interest expense (currently fully deductible) for banks – and financial intermediaries other than fund management companies and investment companies – at differentiated rates from 96% to 99% for fiscal years 2026 through 2029 (as of 2030 full deduction should be reinstated)
- Limiting the use of tax losses and excess notional interest deductions for corporate income tax purposes for FY 2026 and FY 2027
- Requiring certain deferred-tax-asset-related deductions for FY 2027 to be claimed over multiple years

For companies in general, the government proposes, among other things:

- Conditioning dividend eligibility for the 95% exemption from corporate income tax on whether the Italian parent directly or indirectly owns at least 10% of the dividend payor's stock
- Allowing taxpayers to recognize capital gains from the sale of certain assets over three years instead of five years, provided certain requirements are met

See [Tax Alert 2025-2137](#), dated 22 October 2025.

Turkey – In a draft communique, the Revenue Administration details how Turkey's QDMTT, Income Inclusion Rule and Undertaxed Profits Rule will apply to affected companies. See [Tax Alert 2025-2012](#), dated 3 October 2025.

United Kingdom – In the 2025 budget, the UK Chancellor of the Exchequer proposed decreasing the main rate of capital allowance (allowable tax depreciation) under the writing down allowance to 14% from 18%. The Chancellor also proposed a new 40% first-year allowance (another form of depreciation) beginning January 2026. Other changes include:

- Simplifying the UK transfer pricing rules
- Aligning the UK's PE definition and rules on allocating PE profits with OECD principles
- Amending the UK's Pillar Two rules to incorporate recent updates
- Broadening eligibility criteria under the enterprise management incentive rules beginning 6 April 2026
- Amending the anti-avoidance provisions that apply to share exchanges and company reorganizations with effect from 26 November

See [Tax Alert 2025-2397](#), dated 2 December 2025.

United States, federal: The IRS and Treasury Department proposed regulations that would remove the domestic corporation look-through rule for determining domestic control of a qualified investment entity (QIE). With the change, QIEs could more easily qualify for exemption from taxes on gains from the sale of interests in US real property under the Foreign Investment in Real Property Tax Act. See [Tax Alert 2025-2230](#), dated 5 November 2025.

United States, Florida: The state sued California in the US Supreme Court, challenging the constitutionality of California's exclusion of proceeds from the sale of certain fixed assets or property from its single sales factor apportionment provisions, which allocate the income of multistate companies to California for income tax purposes. Florida alleges that the exclusion violates the Commerce Clause, the Import-Export Clause and the Due Process Clause and seeks to enjoin California from enforcing it. See the [State and Local Tax Weekly for 24 October 2025 and 31 October 2025](#).

IASB update

Overview of new pronouncements issued as of 11 December 2025

The table below provides an overview of the pronouncement issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) effective 11 December 2025.

New pronouncements	Effective dates
International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12	Note 1
Amendments to Illustrative Examples on IFRS 7, IFRS 18, IAS 1, IAS 8, IAS 36 and IAS 37 – <i>Disclosures about Uncertainties in the Financial Statements</i>	Note 2
Lack of exchangeability – Amendments to IAS 21	1 January 2025
Annual Improvements Volume 11	1 January 2026
Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7	1 January 2026
Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7	1 January 2026
IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>	1 January 2027
IFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i>	1 January 2027
Translation to a Hyperinflationary Presentation Currency – Amendments to IAS 21	1 January 2027

Note 1 – The amendments were effective immediately upon issuance.

Note 2 – Materials accompanying IFRS Accounting Standards do not have an effective date or transition requirements.

More details on the above pronouncements can be found in our publication [IFRS Core Tools – IFRS Update of standards and interpretations in issue 30 September 2025](#).

Reminder of the key requirements of 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, or on whether to require entities to treat all top-up taxes as if they were income taxes. An entity is required to apply judgment in determining which top-up taxes it considers to be income taxes in the entity's circumstances.

An entity with operations in a jurisdiction where Pillar Two tax legislation applies will be required to disclose Pillar Two current tax expenses in its annual financial statements. IAS 12 does not provide how such information should be presented, but our publication *International Tax Reform - Pillar Two disclosure in practice* offers some practical examples of these disclosures.

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.

Disclosure in periods before (substantively) enacted legislation takes 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.

As countries around the world enacted Pillar Two legislation, in some jurisdictions that legislation was already effective in 2024, while in other jurisdictions the legislation will be effective in 2025 (or later years). In the latter case, a group may still need to make the above disclosures in its financial statements regarding Pillar Two legislation that is (substantively) enacted but not yet effective.

In some cases (e.g., when the ultimate parent entity is already in scope of Pillar Two tax legislation), the (substantive) enactment of Pillar Two tax legislation in additional jurisdictions might shift the Pillar Two tax liability within the group but not materially affect the group's overall exposure. However, in other cases, the (substantive) enactment of Pillar Two tax legislation in additional jurisdictions may bring more group entities within scope of Pillar Two and affect the group's overall exposure.

We expect that the requirement to disclose qualitative and quantitative information about an entity's exposure to Pillar Two income taxes will continue to be relevant in the future.

EY publications

[International Tax Reform - Pillar Two disclosures in practice](#) (June 2024) EYG No. 005234-24Gbl

[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

Overview of the key requirements of new pronouncements effective in future periods

Translation to a Hyperinflationary Presentation Currency – Amendments to IAS 21

Effective for annual periods beginning on or after 1 January 2027.

Key requirements

The amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* require translation from a non-hyperinflationary functional currency into a hyperinflationary presentation currency at the closing rate.

An entity whose functional currency and presentation currency are the currency of a hyperinflationary economy, restates the comparative amounts of a foreign operation, whose functional currency is that of a non-hyperinflationary economy, by applying the general price index, in accordance with paragraph 34 of IAS 29 *Financial Reporting in Hyperinflationary Economies*, to the foreign operation's comparative figures.

The amendments introduce certain additional disclosures.

EY publications

[Translation to a Hyperinflationary Presentation Currency \(Amendments to IAS 21\)](#) (November 2025)
EYG no. 009757-25Gbl

Disclosures about Uncertainties in the Financial Statements

Illustrative examples accompanying IFRS Accounting Standards are not an integral part of those Standards and do not have an effective date or transition requirements.

Key requirements

Increasingly, investors and regulators expect that the financial statements, management reports and sustainability-related disclosures will tell a coherent and connected story. Entities, therefore, need to provide relevant and transparent information and disclosures that coherently enable primary users of financial statements to understand them.

Determining what needs to be disclosed about uncertainties in the financial statements involves judgement. The illustrative examples issued by the IASB are intended to help entities with this determination using existing requirements in IFRS accounting standards and the definition of materiality, including the considerations in Practice Statement 2 *Making Materiality Judgements*.

Determining what is material requires judgement and an assessment of an entity's specific facts and circumstances. Since the examples apply equally to all uncertainties, not just those illustrated, entities should carefully consider the logic underlying the examples to be able to apply the guidance to their own circumstances.

EY publications

[IASB issues Disclosures about Uncertainties in Financial Statements](#) (November 2025) EYG no. 009872-25Gbl

IFRS 18 – Presentation and Disclosure in Financial Statements

Effective for annual periods beginning on or after 1 January 2027.

Key requirements

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaces IAS 1 *Presentation to Financial Statements*. IFRS 18 introduces new categories and subtotals in the statement of profit or loss. It also requires disclosure of management-defined performance measures (as defined) and includes new requirements for the location, aggregation and disaggregation of financial information.

Statement of profit or loss

An entity will be required to classify all income and expenses within its statement of profit or loss into one of five categories: operating, investing, financing, income taxes, and discontinued operations. In addition, IFRS 18 requires an entity to present subtotals and totals for “operating profit or loss,” “profit or loss before financing and income taxes” and “profit or loss.”

Income tax category

An entity is required to classify in the income taxes category tax expense or tax income that are included in the statement of profit or loss applying IAS 12, and any related foreign exchange differences. Income and expenses classified in the income tax category are not subject to the requirements for classifying income and expense in the operating, investing and financing, categories. The IASB clarified that the presentation of income and expenses related to income tax in that category complies with the presentation requirements of IAS 12. Although this category does not result in a required subtotal, generally entities present profit before income taxes as a subtotal when it is applicable.

Main business activities

For the purposes of classifying its income and expenses into the categories required by IFRS 18, an entity will need to assess whether it has a ‘main business activity’ of investing in assets or providing financing to customers, as specific classification requirements will apply to such entities.

Determining whether an entity has such a specified main business activity is a matter of fact and circumstances, which requires judgment. An entity may have more than one main business activity.

Management-defined performance measures

IFRS 18 introduces the concept of a management-defined performance measure (MPM), which it defines as a subtotal of income and expenses that an entity uses in public communications outside of financial statements, to communicate management’s view of an aspect of the financial performance of the entity as a whole to users. IFRS 18 requires disclosure of information about all of an entity’s MPMs within a single note to the financial statements and requires several disclosures to be made about each MPM, including how the measure is calculated and a reconciliation to the most comparable subtotal specified by IFRS 18 or another IFRS accounting standard.

Location of information, aggregation and disaggregation

IFRS 18 differentiates between “presenting” information in the primary financial statements and “disclosing” it in the notes, and it introduces a principle for determining the location of information based on identified “roles” of the primary financial statements and the notes. IFRS 18 requires aggregation and disaggregation of information to be performed with reference to similar and dissimilar characteristics. Guidance is also provided for determining meaningful descriptions, or labels, for items that are aggregated in the financial statements.

Transition

IFRS 18, and the amendments to the other accounting standards, is effective for reporting periods beginning on or after 1 January 2027 and will apply retrospectively. Early adoption is permitted and must be disclosed.

EY publications

[Applying IFRS: A closer look at IFRS 18](#) (July 2025) EYG No. 005700-25Gb1

[Good Group IFRS 18 illustrative financial statements](#) (December 2025) EYG No. 009858-25Gb1

IFRS 19 – Subsidiaries without Public Accountability: Disclosures

Effective for annual periods beginning on or after 1 January 2027.

Key requirements

In May 2024, the IASB issued IFRS 19 Subsidiaries without Public Accountability: Disclosures (IFRS 19), which allows eligible entities to elect to apply reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in other IFRS accounting standards. Unless otherwise specified, eligible entities that elect to apply IFRS 19 will not need to apply the disclosure requirements in other IFRS accounting standards.

EY publications

[IFRS Developments Issue 226: IASB issues IFRS 19 Subsidiaries without public accountability: Disclosures](#) (May 2024) EYG No. 004381-24Gb1

[IFRS Developments Issue 241: The IASB issues amendments to IFRS 19](#) (August 2025) EYG No. 006819-25Gb1

Other EY publications

[Good Group illustrative financial statements \(December 2025\)](#) EYG No. 007314-25Gb1

[Good Group Interim Financial Statements June 2025](#) EYG No. 001722-25Gb1

[International GAAP® Disclosure Checklist for Annual Financial Statements](#) (August 2025) EYG No. 007295-25Gb1

[International GAAP® Disclosure Checklist for Interim Financial Statements](#) (August 2025) EYG No. 007296-25Gb1

Appendix A

Overview of Pillar Two implementation across the world



Final legislation	
Jurisdiction	Rules covered
European Union	QDMTT, IIR, UTPR
Australia	QDMTT, IIR, UTPR
Austria	QDMTT, IIR, UTPR
Bahamas	QDMTT
Bahrain	QDMTT
Barbados	QDMTT
Belgium	QDMTT, IIR, UTPR
Brazil	QDMTT
Bulgaria	QDMTT, IIR, UTPR
Canada	QDMTT, IIR
Croatia	QDMTT, IIR, UTPR
Cyprus*	DMTT, IIR, UTPR
Czech Republic	QDMTT, IIR, UTPR
Denmark	QDMTT, IIR, UTPR
Finland	QDMTT, IIR, UTPR
France	QDMTT, IIR, UTPR
Germany	QDMTT, IIR, UTPR
Gibraltar	QDMTT, IIR
Greece	QDMTT, IIR, UTPR
Guernsey	QDMTT, IIR
Hong Kong	QDMTT, IIR, UTPR
Hungary	QDMTT, IIR, UTPR
Indonesia	QDMTT, IIR, UTPR
Ireland	QDMTT, IIR, UTPR
Isle of Man	QDMTT, IIR
Italy	QDMTT, IIR, UTPR
Japan	QDMTT, IIR, UTPR
Jersey	DMTT, IIR

Final legislation	
Jurisdiction	Rules covered
Kenya	QDMTT
Kuwait	QDMTT
Liechtenstein	QDMTT, IIR, UTPR
Luxembourg	QDMTT, IIR, UTPR
Malaysia	QDMTT, IIR
Mauritius	QDMTT
Netherlands	QDMTT, IIR, UTPR
New Zealand	IIR, UTPR
North Macedonia	QDMTT, IIR, UTPR
Norway	QDMTT, IIR, UTPR
Oman	QDMTT, IIR
Poland	QDMTT, IIR, UTPR
Portugal	QDMTT, IIR, UTPR
Qatar	QDMTT, IIR
Romania	QDMTT, IIR, UTPR
Singapore	QDMTT, IIR
Slovakia	QDMTT
Slovenia	QDMTT, IIR, UTPR
South Africa	QDMTT, IIR
South Korea	IIR, UTPR
Spain	QDMTT, IIR, UTPR
Sweden	QDMTT, IIR, UTPR
Switzerland	QDMTT, IIR
Thailand	QDMTT, IIR, UTPR
Turkey	QDMTT, IIR, UTPR
United Arab Emirates	QDMTT
United Kingdom	QDMTT, IIR, UTPR
Uruguay**	QDMTT
Vietnam	QDMTT, IIR

Draft legislation	
Jurisdiction	Rules covered
Cabo Verde	QDMTT
Curaçao	QDMTT, IIR
Iceland	QDMTT, IIR
Israel	QDMTT
Lithuania	QDMTT, IIR, UTPR
Montenegro	QDMTT
South Korea	QDMTT

Indicates new in Q4

Acronyms: IIR (Income Inclusion Rule), UTPR (Undertaxed Profits Rule), DMTT (Domestic Minimum Top-up Tax), QDMTT (Qualified Domestic Minimum Top-up Tax).

*Cyprus has introduced DMTTs, which are not anticipated to meet QDMTT status as part of the peer review.

**For additional information on Uruguay, see [EY Tax Alert 2025-2467](#), dated 10 December 2025, and [EY Tax Alert 2025-2453](#), dated 8 December 2025.

Source: EY BEPS Developments Tracker [Base Erosion and Profit Shifting \(BEPS\) 2.0 | EY - global](#)

Note: Developments Tracker cut-off date – as of 10 December 2025.



Last quarter's EY IFRS publication and webcast:

EY IFRS Quarterly Tax Developments publication – September 2025

Webcast replay: What you need to know about Q3 2025 IFRS Quarterly Tax Developments

EY publications:

Good Group illustrative financial statements (December 2025)

EY ASC 740 Guide (September 2025)

IFRS Core Tools – IFRS Update of standards and interpretations in issue 30 June 2025

Applying IFRS: A closer look at IFRS 18 (Updated July 2025)

Applying IFRS – International Tax Reform - Pillar Two Disclosures in practice (June 2024)

Applying IFRS – International Tax Reform – Pillar Two Disclosures (November 2023)

IFRS Developments Issue 218: Amendments to IAS 12: International Tax Reform Pillar Two Model Rules (May 2023)

Our latest thinking:

Seven essentials for Pillar Two readiness

Three strategies to prepare tax teams for 2025 year-end

Six steps to prepare for the operational impact of Pillar Two

Contact us:

EY Tax Accounting and Risk Advisory Services

Global

Brian Foley, EY Global Tax Accounting and Risk Advisory Services Leader brian.foley@hk.ey.com

Japan

Takehiro Furukawa
takehiro.furukawa@jp.ey.com
Maki Tayama maki.tayama@jp.ey.com

Australia

Michelle Mori michelle.mori@au.ey.com

Korea, Republic of

Jang Kyu Shin jang-kyu.shin@kr.ey.com

Canada

Jeremy Shnaider jeremy.shnaider@ca.ey.com

Netherlands

Ryan van Zalen ryan.van.zalen@nl.ey.com

France

Brigitte Auberton brigitte.auberton@ey-avocats.com

Anne-Lyse Blandin anne.lyse.blandin@fr.ey.com

Singapore

Wai Fook Chai Wai-Fook.Chai@sg.ey.com

Germany

Carsten Harborth carsten.harborth@de.ey.com

Martin Ellerbusch martin.ellerbusch@de.ey.com

Spain

Juan Angel Cobo De Guzman Pison
juanangel.cobodeguzmanpison@es.ey.com

Greater China

Iris Tao iris.tao@cn.ey.com

Sweden

Jonatan Villanueva
jonatan.j.villanueva@se.ey.com

Latin America

Carlos Cavalieri carlos.cavalieri@br.ey.com

Oscar Mondragon Tamaturgo

Oscar.mondragon@mx.ey.com

Switzerland

Sarah Drye sarah.drye@ch.ey.com
Philipp Kuhli philipp.kuhli@ch.ey.com

India

Dinesh Agarwal dinesh.agarwal@in.ey.com

United Kingdom

Sophie Coleman scoleman2@uk.ey.com

Italy

Massimo Milcovich massimo.milcovich@it.ey.com

United States

Adam C Sweet adam.sweet@ey.com

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2025 EYGM Limited.
All Rights Reserved.

EYG no. 010466-25GbI
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com