Application of IAS 12 Income Taxes by leading companies in Bulgaria in the context of the international tax reform

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Abstract. The purpose of this article is to identify trends in the application of the new provisions of International Accounting Standard (IAS) 12 Income Taxes regarding the global reform to establish a minimum effective tax rate of 15% in Bulgaria for multinational companies with annual revenues exceeding 750 million euros. Specialized rankings were used to establish the sample. The study is based on the annual financial statements and their annexes for 2023, which provide a basis for assessing companies' readiness to adapt their practices by applying the new approaches to evaluation and disclosure. This article can serve as guidance for companies adapting to the new requirements, help raise awareness on the subject among stakeholders, and provide a foundation for identifying the challenges faced by enterprises in Bulgaria. Additionally, it offers a basis for further research on the impact of global tax reforms and contributes to the literature on international taxation and accounting standards.

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1. Introduction

The introduction of the global minimum tax under the framework of the OECD's Base Erosion and Profit Shifting (BEPS) initiative represents one of the most significant transformations in international tax regulation in recent decades. As part of the two-pillar approach, Pillar Two aims to ensure that multinational enterprises (MNEs) with annual revenues exceeding EUR 750 million are subject to a minimum effective tax rate of 15%, irrespective of the jurisdiction in which they operate. This reform seeks to counteract aggressive tax planning and restore fairness in global taxation by reducing the incentives for profit shifting to low-tax jurisdictions.

Following global changes, the International Accounting Standards Board introduces significant amendments to the reporting and application of International Accounting Standard (IAS) 12 Income Taxes, aimed at achieving greater transparency, flexibility, and clarity. In the context of the global minimum tax, the standard plays a key role in ensuring transparency and consistency in the accounting of tax liabilities. IAS 12 Income Taxes provides a framework for the recognition and disclosure of current and deferred taxes. In response to the adoption of the global minimum tax, amendments to IAS 12 have introduced specific disclosure requirements aimed at enhancing transparency and comparability in financial reporting.

In Bulgaria, the global minimum tax has been incorporated into the national legislation, effective January 1, 2024. This reform presents new challenges and opportunities for Bulgarian companies, particularly for those included in global supply chains and operating across multiple jurisdictions. The analysis of annual financial statements for 2023 offers a unique opportunity to assess the level of readiness of Bulgarian enterprises in to implement the new regulations and also provides valuable insights into their ability to adapt accounting practices to the international standards.

This article aims to analyse the application of IAS 12 in connection with the global minimum tax by examining the practices of leading companies in Bulgaria. The study will highlight the challenges faced by enterprises, identify best practices, and assess the extent to which the new requirements are reflected in the financial disclosures. Additionally, this research will provide insights into the impact of global tax reforms on Bulgarian enterprises and contribute to the academic and professional discourse on international taxation and financial reporting.

2. Introduction to the global minimum tax

The global minimum tax is part of an international tax reform developed by the OECD and supported by the G-20 member countries to address the growing issues of base erosion and profit shifting (BEPS)—strategies through which multinational companies shift profits to jurisdictions with low or zero taxes, thereby reducing their tax liabilities in the countries where they actually conduct business (OECD, 2021). On October 8, 2021, Bulgaria signed the agreement on the global minimum tax, also known as the Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy. The initiative's structure, where each "pillar" addresses different aspects of taxation, gives rise to its general designation as "Pillar Two."

Pillar One focuses on the redistribution of taxing rights among countries. It includes Amount A and Amount B. Amount A requires large multinational companies, particularly digital platforms and technology giants, to pay taxes where they generate their revenues, rather than solely in the countries where they have a physical presence. Amount B relates to the recognition of expenses for advertising and other consumer-targeted services in jurisdictions where multinational companies do not have a physical presence but generate revenues through digital services and advertising (Tax Foundation, 2024).

Pillar Two is aimed at introducing a global minimum tax of 15% on the profits of multinational companies. Its objective is to curb aggressive tax planning and profit shifting to jurisdictions with low or zero tax rates by implementing the following three mechanisms:

1. Qualified Domestic Minimum Top-up Tax (QDMTT): At their discretion, countries can introduce a domestic top-up tax on the profits of multinational companies that are part of a group with annual consolidated revenues exceeding 750 million euros, to ensure that they are taxed at the minimum rate of 15%. This means that the local jurisdiction has the right to collect the tax and retain these revenues domestically, instead of allowing another country to do so through one of the following mechanisms.
2. Income Inclusion Rule (IIR): This mechanism allows the country where the parent company operates to collect an additional tax when a subsidiary in another jurisdiction is taxed at a rate lower than 15%. This ensures that companies cannot benefit from low-tax jurisdictions to reduce their overall tax liabilities.
3. Undertaxed Profits Rule (UTPR): If the first two mechanisms are not applied, the UTPR allows other jurisdictions to collect additional taxes on the undertaxed profits of the multinational group. This adds another layer of protection against profit shifting to tax havens. As a last resort, other countries where the group operates can also impose additional taxes to reach the effective tax rate of 15%.

Pillar Two also includes specific exemptions aimed at real economic activity to alleviate the burden on companies that do not aim to achieve more favourable tax treatment by relocating their operations to another jurisdiction—namely, the substance-based income exclusion and the "de minimis" exemption.

The substance-based income exclusion allows companies to avoid additional taxes if they can demonstrate that their economic activities in low-tax jurisdictions are substantial and not established for the purpose of reducing their tax burden. This means that companies must prove that they operate in a given country due to genuine business needs and not merely to benefit from lower tax rates. To qualify for this exemption, companies must meet specific criteria based on costs related to employees and the value of tangible assets in the jurisdiction. The substantial economic activity exemption protects firms that genuinely conduct significant activities in a low-tax jurisdiction by allowing them to reduce their profit by a percentage of eligible expenses.

The "de minimis" exemption aims to exempt companies with minimal presence or very small profits in low-tax jurisdictions from additional taxation. It applies if the average eligible revenues of all entities within that jurisdiction are less than EUR 10 million, and the average eligible profits or losses of all constituent entities in that jurisdiction are either a loss or less than EUR 1 million.

Bulgaria is a member of the European Union and supports OECD initiatives. On October 8, 2021, Bulgaria signed the agreement on the global minimum tax, which is part of the OECD initiative to address base erosion and profit shifting (BEPS). Bulgaria's accession to this agreement resulted from extensive negotiations across European member states aimed at harmonizing tax rules within the EU. The directive to implement the global minimum tax in the European Union was officially adopted by the EU Council on December 15, 2022. It requires all member states to implement a tax rate of 15% on multinational companies with annual turnover exceeding EUR 750 million. The directive is part of the implementation of Pillar Two of the global tax reform agreed upon at the OECD/G20 level to prevent profit shifting to low-tax jurisdictions. According to the directive, member states must transpose the rules into their national legislation by December 31, 2023. The directive essentially follows the OECD rules to ensure that EU member states adhere as closely as possible to the model rules of the organization.

Bulgaria officially adopted the rules for the global minimum tax at the end of 2023, with these rules taking effect as of the beginning of 2024, according to legislative changes approved by the National Assembly. These amendments introduced a primary top-up tax in accordance with the Income Inclusion Rule, a secondary top-up tax in line with the Undertaxed Profits Rule, and a national top-up tax. Of these, only the secondary top-

up tax will come into effect on January 1, 2025, while the other two will be effective as of January 1, 2024 (PwCBulgaria, 2023).

Pillar Two is structured in a way that not only imposes a minimum global tax rate but also establishes safeguard mechanisms to ensure that the profits of multinational companies are subject to fair taxation regardless of their location. The Income Inclusion Rule (IIR) and the Undertaxed Profits Rule (UTPR), along with the possibility for national top-up taxes, are key elements that ensure the effectiveness of this global initiative to address tax base erosion and avoidance. Pillar Two represents significant progress in international tax policy and aims to create a fairer global economic environment. The primary objective of the reform is to prevent tax competition among countries by introducing a minimum global rate, leading to a level playing field in taxation, and increasing state revenues. According to OECD estimates, the reform could generate additional global revenues of between $100 billion and $240 billion annually.

3. IAS 12 Income Taxes and the amendments related to the global minimum tax

IAS 12 Income Taxes is a fundamental standard for tax reporting applied in all jurisdictions following international accounting standards. The main challenge in accounting for income taxes lies in addressing how to recognize the tax effects—both current and future—arising from the eventual recovery or settlement of the carrying amounts of assets and liabilities recorded in the statement of financial position, as well as from the transactions and events of the current period reflected in the financial statements (IASB, 2023).

To achieve the primary objective of the standard, the mechanisms of current tax accounting and deferred tax accounting are used. Current taxes represent the income taxes for the current period, based on the tax rate and the company's profits. Deferred taxes refer to future tax consequences arising from timing differences between when a transaction is recognized in accounting and when it is recognized for tax purposes. Deferred taxes are classified into deferred tax assets and deferred tax liabilities. Deferred tax assets are amounts of expected tax reductions in future periods arising from temporary differences or the carry forward of losses. This means that the entity has paid more taxes in the current period but can expect a reduction in its tax liability in the future. Deferred tax liabilities represent anticipated tax obligations in future periods, resulting from temporary differences between the book values and tax bases of assets and liabilities (IASB, 2023). This implies that the entity may have recorded a lower tax liability in the current period but will owe taxes in the future.

The accounting for deferred taxes "normalizes" the accounting financial result by adjusting the tax expense to align with the actual financial result. In this way, the effective tax rate is also "normalized." The idea is to fully reflect the current and expected future tax effects of all economic events occurring in the current or previous reporting period. The ultimate goal is for the tax expense for a given reporting period to correspond to the accounting financial result, adjusted only for permanent tax differences (Nikolov, 2019).

The accurate recognition and disclosure of current and deferred tax assets and liabilities provide a clearer view of the financial position of enterprises, thereby reflecting the future tax effects of current transactions and events. This information is useful not only for company management in terms of better planning of tax obligations but also for other stakeholders such as investors and owners, who can form a more accurate assessment of the financial position and tax efficiency.

The amendments to IAS 12 related to the global minimum tax reflect the need to adapt accounting practices to the new global tax rules. As of today, under paragraph 4A of IAS 12, entities are required to apply the standard for income taxes from its adoption in May 2023. However, as an exception, they are not required to recognize or disclose information regarding deferred tax assets and liabilities related to taxes under Pillar Two. The main reason for this exception is the complexity and uncertainty surrounding the application of the new tax rules across different jurisdictions (PwC, 2023).

The amendments to IAS 12, outlined in paragraphs 88A–88D, are specifically focused on the disclosures required from companies affected by Pillar Two. Their objective is to provide users of financial statements with information that enables them to understand the potential impact of the global minimum tax on the entity's financial position and performance. Paragraph 88A builds on paragraph 4A of the standard by requiring entities to state whether they have utilized the exception for recognising and disclosing deferred tax assets and liabilities associated with Pillar Two. Paragraph 88B mandates the separate disclosure of any current top-up taxes arising from the global reform. Paragraph 88C emphasizes the need for entities to provide known or reasonably estimable details to enable financial statement users to understand the entity's exposure to income taxes under Pillar Two. This disclosure obligation applies both to jurisdictions where the law has been enacted and to those where it has been substantively enacted, as is the case in Bulgaria. Disclosure is mandatory even when the legislation has been enacted but has not yet come into force, ensuring that users of financial statements are informed about potential impacts. Paragraph 88D provides guidance on how entities should structure their disclosures in relation to the previous paragraph and includes examples.

These newly introduced paragraphs adequately reflect the need for transparency and the provision of relevant information to users of companies' annual and interim reports. Entities are required to disclose more details about their tax strategies and how they are adapting to the evolving global tax environment. This enhances transparency for stakeholders by providing a better understanding of future tax obligations.

It is important to note that, for now, the disclosed information does not need to meet all specific Pillar Two requirements and can be presented in an indicative manner. For information that is not known or cannot be reasonably estimated, entities must provide disclosures explaining the impact and the progress made in assessing their position. This creates a potential risk that entities may avoid detailed disclosures, citing that the information is unknown or cannot be accurately assessed. Auditors have an additional responsibility to ensure that companies make objective efforts to evaluate the information and comply with disclosure requirements, even in cases of uncertainty or complexity. It should be emphasized that it is in the best interest of entities to approach such evaluations in good faith, considering that mandatory application in the future is highly likely. Allowing disclosures to be presented with less precision introduces flexibility, which can be beneficial in complex or unclear situations like the current one. This enables entities to adapt more smoothly and effectively.

As explained above in this study, entities are not permitted under IAS 12 to recognize or disclose the effects of applying Pillar Two. This temporary exemption allows companies to avoid the complex calculations of the new taxes until there is greater clarity and detailed guidance on the full implementation of the new rules. We consider that it is possible for the exemption to be removed once the new reform proves itself over time. Questions may arise regarding how long this provision is expected to remain in place and even about the reform itself. In our opinion, the likelihood of the reform being rejected is minimal, given the years of effort, resources, analyses, and discussions invested, leading to the point where 130 countries, including the European Union, the United Kingdom, Japan, and South Korea, have already enacted legislation for implementing Pillar Two. However, once its presence and application are established, changes can be expected to "normalize" the accounting and disclosures.

Although the amendments do not require adjustments to prior reporting periods, they provide the necessary transparency and awareness of the future effects of the global minimum tax on financial statements. The new requirements related to the global minimum tax and IAS 12 have several key impacts on corporate reporting. The application of Pillar Two rules is expected to be highly complex, which in turn is likely to lead to a range of practical challenges (PwC, 2023).

4. IAS 12 Analysis of the disclosures by leading companies in Bulgaria regarding the application of the new regulations

This section focuses on analysing the disclosures made by the leading companies in Bulgaria regarding the application of the new regulations. It evaluates the extent to which these companies have adhered to the requirements of IAS 12, with particular attention to the application of paragraphs 88A, 88C and 88D and the qualitative and quantitative information provided in their financial statements. By examining these disclosures, this analysis aims to highlight best practices, identify gaps, and provide insights into the challenges faced by Bulgarian companies in implementing the new provisions. An analysis was conducted on the leading 13 companies in Bulgaria based on their revenue from sales for 2023. The companies were identified after reviewing specialized rankings such as SEE TOP 100 by SeeNews, Coface CEE Top 500, and the ranking of the largest companies in Bulgaria for 2024 by the newspaper "Capital." The top ten companies from each ranking were extracted. These companies possess sufficient capital to employ highly qualified personnel, are subject to regular audits, and can serve as benchmarks for identifying best practices in Bulgaria when analysing the results.

The SEE TOP 100 ranking, published annually by the economic news agency SeeNews, presents the largest companies, banks, and insurers in Southeast Europe. It includes enterprises registered in Albania, Bosnia and Herzegovina, Bulgaria, Moldova, Romania, North Macedonia, Slovenia, Serbia, Croatia, and Montenegro. Based on the 2024 ranking, which lists companies according to their sales revenue for 2023 in millions of euros, the ten companies identified by SEE TOP 100 as the largest in Bulgaria for 2023 were extracted (table 1).

Table 1.

The ten largest companies in Bulgaria based on the SEE TOP 100 ranking by SeeNews

Number	Company
1	Lukoil Neftochim Burgas AD
2	Aurubis Bulgaria AD
3	Lukoil-Bulgaria EOOD
4	Astra Bioplant EOOD
5	Natsionalna Elektricheska Kompania EAD
6	BA Glass Bulgaria EAD
7	Bulgargaz EAD
8	AETs Kozloduy EAD
9	Kaufland Bulgaria EOOD & Co KD
10	Lidl Bulgaria EOOD and Co. KD

Source: Own calculations

The Coface CEE Top 500 is an annual study that ranks the 500 largest companies in Central and Eastern Europe (CEE) by turnover. It is prepared by Coface, an international company specializing in trade credit insurance and business risk management. The ranking provides an in-depth analysis of economic trends and market dynamics in the region, including additional indicators such as the number of employees, sector affiliation, and credit ratings of the companies. Coface collects financial data through its online platform iCON and provides individual credit ratings for the companies. The ranking includes non-financial enterprises with a turnover exceeding 300 million euros, with data converted into euros based on the exchange rate at the end of the respective year. The Coface CEE Top 500 serves as a valuable resource for businesses, investors, and analysts, offering insights into the economic state and market trends in Central and Eastern Europe. It reflects the resilience and adaptability of the region's leading companies, particularly in the context of challenging economic conditions. Based on the 2024 ranking, which lists companies according to their sales revenue for 2023 in millions of euros, the ten companies identified by Coface as the largest in Bulgaria for 2023 were extracted (table 2).

Table 2.

The ten largest companies in Bulgaria based on the Coface CEE Top 500 ranking by Coface

Number	Company
1	BULGARIAN ENERGY HOLDING JSC
2	LUKOIL NEFTOHIM BURGAS JSC
3	AURUBIS BULGARIA JSC
4	LUKOIL-BULGARIA LTD
5	ASTRA BIOPLANT LTD
6	NATSIONALNA ELEKTRICHESKA KOMPANIA JSC
7	BA GLASS BULGARIA JSC
8	EVROHOLD BULGARIA JSC
9	BULGARGAZ JSC
10	AEC KOZLODUI JSC

Source: Own calculations

The K100: Largest Companies in Bulgaria ranking is an annual publication by the newspaper Capital, which ranks the leading Bulgarian companies based on revenue. It provides an in-depth analysis of the corporate sector in the country, including financial indicators, sectoral analyses, and trends in business development. The K100 ranking serves as a valuable resource for businesses, investors, and analysts, offering insights into the economic state and market trends in Bulgaria. It reflects the resilience and adaptability of the country's leading

companies, especially in the context of challenging economic conditions. Based on the 2024 ranking, which lists companies according to their sales revenue for 2023 in thousands of BGN, the ten companies identified by Capital as the largest in Bulgaria for 2023 were extracted (table 3).

Table 3.

The ten largest companies in Bulgaria based on the K100: Largest Companies in Bulgaria ranking by the newspaper Capital

Number	Company
1	Lukoil Neftochim Burgas AD
2	Aurubis Bulgaria AD
3	Lukoil-Bulgaria EOOD
4	Astra Bioplant EOOD
5	Natsionalna Elektricheska Kompania EAD
6	BA Glass Bulgaria EAD
7	Bulgargaz EAD
8	AETs Kozloduy EAD
9	Akspo Bulgaria
10	Kaufland Bulgaria EOOD & Co KD

Source: Own calculations

As seen in the tables above, variations exist in some of the positions among the leading companies in Bulgaria regarding the determination of the study sample. These differences arise from the methodologies used in the rankings. All companies individually generated revenues exceeding 750 million euros and are therefore subject to the new regulations. For the purposes of the analysis, all extracted companies were reviewed to ensure the proper application of IAS 12 Income Taxes in relation to the global minimum tax, specifically the disclosures in their annual financial statements for 2023.

The key points monitored include the correct and clear explanation of the new rules, compliance with the requirements of paragraph 88A of IAS 12 regarding specific disclosures related to the application of the exception in paragraph 4A, and the inclusion of quantitative or qualitative information about the future effects of the global reform.

1. Lukoil Neftochim Burgas AD – The amendments to IAS 12 Income Taxes in connection with the global minimum tax are properly outlined and clearly explained. The company states that it falls within the scope of the new top-up tax, but since the tax legislation enacted the amendments effective January 1, 2024, there is no current tax impact. In compliance with the requirements of paragraph 88A of the standard, the entity has correctly disclosed that it is applying the exemption from recognising and disclosure for periods prior to the implementation of the new regulations. As of December 31, 2023, the entity is still in the process of assessing its potential exposure to income taxes under the Pillar Two model. The potential exposure as of the date of preparation and publication of the financial statements is unknown and cannot be reasonably estimated.

2. Aurubis Bulgaria AD – The amendments to IAS 12 Income Taxes in connection with the global minimum tax are properly outlined and clearly explained. The company states that it expects to be affected by the new changes in the Corporate Income Tax Act related to determining additional corporate tax under the new rules in accordance with the Pillar Two model. As of the date of preparation of the annual financial statements, the entity is in the process of analysing and assessing the impacts. There is no explicit statement indicating that the entity is applying the exemption from accounting and disclosure provided in paragraph 4A, as required by paragraph 88A.

3. Lukoil-Bulgaria EOOD - The amendments to IAS 12 Income Taxes in relation to the global minimum tax are accurately outlined and clearly explained. The company has stated that it expects to fall within the scope of the new top-up tax. In compliance with paragraph 88A of the standard, the entity has correctly disclosed that it is applying the exemption from recognising and disclosure for periods prior to the implementation of the new rules. The company is still in the process of assessing its potential exposure to income taxes under the Pillar Two framework. At the time of preparing and publishing the financial statements, the potential exposure remains unknown and cannot be reasonably estimated. It is stated in addition that there is no current tax impact for the reporting period.

4. Astra Bioplant EOOD – Although it is expected that the entity falls within the scope of the new regulations, there are no disclosures related to the global minimum tax, and consequently, the requirements of IAS 12 Income Taxes have not been met.

5. Natsionalna Elektricheska Kompania EAD – Significant disclosures have been provided regarding the amendments to IAS 12 Income Taxes and the reasons behind them to inform stakeholders. The company states that it expects to be subject to additional corporate tax and is in the process of analysing and assessing the impacts and quantitative effects of the amendments. The company has applied the exception for recognizing deferred tax assets and liabilities related to income taxes under Pillar Two, based on paragraph 4A of IAS 12. Additional information is disclosed regarding the application of the exception.

6. BA Glass Bulgaria EAD – The disclosures include substantial explanations regarding the amendments to IAS 12 Income Taxes and the reasons behind them to inform stakeholders. It has been stated that, to comply with the requirements of the standard, the company is obligated to disclose qualitative or quantitative information about its exposure to income taxes under Pillar Two in the annual financial statements starting on or after January 1, 2023. The company has applied the exception for recognizing deferred tax assets and liabilities related to income taxes under Pillar Two, based on paragraph 4A of IAS 12. Similar to other companies, it has only stated that it will be affected by the changes in the Corporate Income Tax Act concerning the introduction of income taxes and is in the process of assessing the effects of the new legislation, without having available or reasonably estimable quantitative information to disclose in this regard.

7. Bulgargaz EAD – The disclosures include substantial explanations regarding the amendments to IAS 12 Income Taxes and the reasons behind them to inform stakeholders on the topic. The company states that it expects to be subject to additional corporate tax and is in the process of analysing and assessing the impacts and quantitative effects of the amendments. The company has applied the exception for recognising deferred tax assets and liabilities related to income taxes under Pillar Two, based on paragraph 4A of IAS 12 and has included reporting regarding this matter in the annual financial statements for 2023.

8. AETs Kozloduy EAD – The disclosures provide detailed explanations about the amendments to IAS 12 Income Taxes and their rationale to keep stakeholders informed. The company indicates that it anticipates being subject to additional corporate tax and is currently analysing and evaluating the impacts and quantitative effects of the amendments. It has also applied the exception outlined in paragraph 4A of IAS 12 for recognizing deferred tax assets and liabilities related to income taxes under Pillar Two and has included reporting regarding this matter in its 2023 annual financial statements.

9. Akspo Bulgaria EAD – Although we consider that Akspo Bulgaria EAD should not be included in the list of the ten largest companies in Bulgaria, its presence in the Capital newspaper ranking and its revenues exceeding 750 million euros led to its inclusion in this analysis of the application of the amendments to IAS 12 related to the global minimum tax. Sufficient disclosure is observed regarding the main clarifications on the provisions. The entity states that it expects to be subject to additional corporate tax and is in the process of assessing its potential exposure to income taxes under the Pillar Two model. The company has applied the exception for recognizing deferred tax assets and liabilities related to income taxes under Pillar Two based on paragraph 4A of IAS 12. It also noted that as of December 31, 2022, no legislative changes for the application of the top-up tax had been adopted, and according to the company, the retrospective application for 2023 does not impact its financial statements.

10. Kaufland Bulgaria EOOD & Co KD – Sufficient disclosure is observed regarding the main clarifications on the provisions. The company states that it is in the process of assessing the effect of the amendments related to the global minimum tax but did not specify whether it applies the exception based on paragraph 4A of IAS 12.

11. Lidl Bulgaria EOOD and Co. KD – Sufficient disclosure is observed regarding the main clarifications on the provisions. The company states that it is in the process of assessing the effect of the amendments related to the global minimum tax and does not have available or reasonably estimable quantitative information to disclose in this regard. There is no indication of disclosure concerning the application of the exception in paragraph 4A of IAS 12.

12. Bulgarian Energy Holding JSC – Significant disclosures are observed regarding the amendments to IAS 12 and the reasons behind them to inform stakeholders. The entity stated that it expects to be subject to additional corporate tax and is in the process of analysing and assessing the impact and quantitative effects of the amendments. The company has applied the exception for recognizing deferred tax assets and liabilities related to income taxes under Pillar Two based on paragraph 4A of IAS 12 and has included reporting regarding this matter in its annual financial statements for 2023.

13. Evrohold Bulgaria JSC – Sufficient disclosure is observed regarding the main clarifications on the provisions. The company expects to be subject to additional corporate tax and is analysing the new requirements. The entity has applied the exception for recognizing deferred tax assets and liabilities related to income taxes

under Pillar Two based on paragraph 4A of IAS 12 and has included reporting regarding this matter in its 2023 annual financial statements.

The study revealed the key difficulties associated with the new IAS 12 provisions concerning the global minimum tax. Paragraph 88B will not be considered as it does not impact the annual financial statements of companies in Bulgaria for 2023. The results of the study indicate that all entities applied the recognition and disclosure exemption under paragraph 4A of IAS 12. All entities, except one, included disclosures related to the global minimum tax. However, the quality of disclosures on additional disclosures is notably low. The requirement from paragraph 88A to disclose the application of exemptions under paragraph 4A was met by 69.23% of the entities, while for the remaining ones, it is evident that the exemption was applied, but no specific disclosures were made on the topic. The application of paragraphs 88C-88D appears to be the most challenging, as none of the entities, in our opinion, sufficiently met the requirements of IAS 12. While 92% of the entities provided disclosures, the information lacks clarity and merely indicates that they are in the process of analysing the effects of the new provisions. Regarding the fact that one entity did not make any disclosures related to the new provisions, 8% of the sample can be categorized as having no disclosures.

Based on the conducted study, it was determined that most leading companies in Bulgaria, subject to additional taxation under the global minimum tax, have taken steps to disclose information in accordance with the amendments to IAS 12. The level of detail and completeness of these disclosures varies, with 31% of companies failing to meet the requirements of paragraph 88A and no disclosure regarding the applying of the retrospective exception for recognition and disclosure under paragraph 4A of the standard is identified. Furthermore, consistent with expectations outlined in the previous section, all companies except one have complied with the disclosure requirements under paragraphs 88C-88D. However, the information provided is qualitative and does not guide users of financial information regarding the exposure and effects of the new regulations. The opportunity to reduce administrative burdens is likely being used strategically to omit disclosures on the topic.

The new regulations bring significant changes to the way companies assess and disclose their tax liabilities. They lay the foundation for more transparent and consistent financial reporting, which is in the interest of investors and other stakeholders. The amendments to IAS 12 related to the global minimum tax require companies to adapt their practices by implementing new approaches to evaluation and disclosure. This is a key step toward harmonizing reporting at an international level and ensuring fairer tax rules.

5. Conclusion

The analysis of the application of IAS 12 in relation to the global minimum tax by leading companies in Bulgaria revealed several key findings. The changes to the standard and the introduction of paragraphs 4A and 88A-88D play a significant role in ensuring transparency and compliance with international tax requirements. Most companies have taken steps to disclose qualitative information, but there is a lack of specifics and quantitative assessments of the potential impact, which limits the usefulness for stakeholders. While the completeness and detail of disclosures vary, there is a general trend toward compliance with the standard's requirements. Companies that have not provided full disclosures face risks related to reduced transparency and trust from investors.

The new requirements represent an important step toward harmonizing accounting practices at an international level and addressing the challenges associated with globalization and the digitalization of the economy. However, enterprises need to make additional efforts to improve the quality of their disclosures and to better prepare for future tax obligations arising from the global minimum tax.

In conclusion, the amendments to IAS 12 provide a framework for accounting for the new requirements, but their implementation highlights the need for greater transparency, awareness, and comparability among companies' reports. This will ensure a better understanding of the financial position and tax strategies of companies and contribute to building a more sustainable global economic environment.

A focus for future research could be the analysis of the application of the provisions based on annual financial statements and their annexes for periods after January 1, 2024, when the rules of the global reform are adopted into Bulgarian legislation.

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