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Accounting Implications of the OECD Pillar Two Global Minimum Tax: A Systematic Literature Review

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Abstract

The OECD/G20 Inclusive Framework's Pillar Two Global Anti-Base Erosion (GloBE) rules introduce a 15% global minimum effective tax rate for large multinational enterprises (MNEs), operationalised through the Income Inclusion Rule, the Undertaxed Profits Rule, and Qualified Domestic Minimum Top-up Taxes. Because GloBE Income is derived directly from the financial accounting net income used in consolidated financial statements, Pillar Two embeds an unusually deep interdependence between tax law and financial reporting. This paper presents a systematic literature review (SLR) of the accounting implications of Pillar Two, synthesising academic, standard-setting, and professional literature published between December 2021 and mid-2026.

Guided by a conceptual framework linking GloBE design features, standard-setter response, and accounting and market outcomes, and following PRISMA-informed screening and thematic synthesis, the review adopts a critical realist research philosophy and an abductive approach to qualitative, document-based synthesis.

The review identifies five interlocking themes: (1) the use of financial accounting income as a tax base and its implications for reporting quality; (2) the mechanics and complexity of the Total Deferred Tax Adjustment Amount; (3) the divergent but currently converged treatment of Pillar Two top-up taxes under IAS 12 and ASC 740, both of which rely on temporary recognition exceptions; (4) disclosure, interim-reporting, and systems-integration burdens; and (5) emerging effects on effective-tax-rate volatility, earnings-management incentives, and capital-market valuation. Empirical evidence on real-world implementation outcomes remains scarce, concentrated instead in conceptual, regulatory, and early observational work, with the first dedicated peer-reviewed SLR on Pillar Two (focused on digital-reporting infrastructure rather than accounting recognition) appearing only in early 2026.

The synthesis is constrained by the limited volume of peer-reviewed empirical scholarship available as of mid-2026 and leans more heavily on conceptual and regulatory sources than a mature-topic SLR would. The paper closes with an agenda for archival, cross-country, and capital-market research that the 2024–2026 implementation period now makes feasible.

This is the first systematic review to synthesise the accounting-recognition, measurement, and reporting-quality dimension of Pillar Two, as distinct from the adjacent and more developed literature on digital-reporting compliance infrastructure, and it offers implications for standard-setters, preparers, auditors, and investors.

Keywords: Pillar Two; global minimum tax; GloBE rules; deferred tax; IAS 12; ASC 740; financial reporting; book-tax conformity; systematic literature review

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1. Introduction

Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting (BEPS) 2.0 project culminated in the October 2021 political agreement on a two-pillar solution to the tax challenges of a digitalised, globally integrated economy. Pillar Two establishes the Global Anti-Base Erosion (GloBE) rules, which require in-scope MNE groups, generally those with consolidated revenues of €750 million or more in at least two of the four preceding fiscal years, to be subject to a minimum 15% effective tax rate (ETR) on a jurisdiction-by-jurisdiction basis. Top-up tax is collected primarily through the Income Inclusion Rule (IIR), the Undertaxed Profits Rule (UTPR), and domestically legislated Qualified Domestic Minimum Top-up Taxes (QDMTTs).

A distinctive and, in the history of international tax reform, largely unprecedented feature of the GloBE rules is their reliance on financial accounting information as the starting point for the tax base. GloBE Income begins with the financial accounting net income or loss used in the ultimate parent entity's consolidated financial statements, subject to a defined set of adjustments. Covered Taxes likewise begin from current tax expense and are adjusted by a Total Deferred Tax Adjustment Amount that draws on deferred tax accounting principles but modifies them substantially, most notably by recasting deferred tax movements to the lower of the 15% minimum rate or the domestic statutory rate.

This deliberate coupling of tax base and financial accounting income raises questions that sit squarely within accounting research and practice rather than tax policy alone. How do the GloBE rules interact with existing deferred tax standards under IAS 12 and ASC 740? What are the implications for deferred tax assets and liabilities, valuation allowances, interim reporting, and disclosure?

Does anchoring a minimum tax to accounting numbers create incentives that could impair the quality and information content of financial reporting, echoing older debates about book-tax conformity? And how have preparers, auditors, and standard-setters responded operationally in the first reporting cycles since January 2024?

1.1 Research gap

Despite an expanding volume of practitioner guidance from the Big Four accounting networks, the IASB, the FASB, and successive rounds of OECD Administrative Guidance issued through 2024–2026, rigorous academic synthesis of the accounting dimension of Pillar Two remains limited relative to its practical significance. Only one closely related systematic review has been published to date, and it addresses the digital-reporting infrastructure that supports GloBE compliance, XBRL, Country-by-Country Reporting, and the IFRS Taxonomy (Anjarwi et al., 2026), rather than accounting recognition, measurement, or reporting quality. No dedicated systematic literature review has yet synthesised the accounting-recognition dimension of Pillar Two: how GloBE Income interacts with IAS 12 and ASC 740, what the resulting deferred tax and disclosure consequences are, and what these imply for reporting quality and capital markets. This gap is the specific problem the present paper addresses.

1.2 Contribution

This paper closes that gap by making three contributions to the accounting and tax literature:

- A structured synthesis of the fragmented conceptual, regulatory, and early observational literature on Pillar Two accounting, organised through an explicit conceptual framework (Figure 1) rather than presented as an unstructured narrative.
- An explicit mapping of convergence and residual divergence between IAS 12 and ASC 740 treatments of Pillar Two top-up taxes, clarifying why the two frameworks currently produce aligned outcomes through different doctrinal routes, and how durable that alignment is likely to be.

- A concrete research agenda for the archival, cross-country, and capital-markets studies that the 2024–2026 implementation period now makes feasible for the first time, building on the gap identified in Section 1.1.

1.3 Research questions

These contributions are organised around four research questions that structure the synthesis in Section 4:

- RQ1: How does the use of consolidated financial accounting income as the GloBE tax base affect financial reporting quality and preparer incentives?
- RQ2: What recognition, measurement, and disclosure choices have the IASB and the FASB made for Pillar Two top-up taxes under IAS 12 and ASC 740, respectively, and how durable is the current convergence between them?
- RQ3: What operational and disclosure burdens does GloBE compliance impose on preparers and auditors, and how are these documented in the literature to date?
- RQ4: What effects does Pillar Two have, or is it expected to have, on effective-tax-rate volatility, earnings-management incentives, and capital-market valuation?

1.4 Structure of the paper

Section 2 provides institutional and regulatory background on the GloBE mechanics most relevant to accounting. Section 3 sets out the review methodology and the conceptual framework guiding the synthesis. Section 4 presents the thematic findings, organised around RQ1–RQ4. Section 5 discusses the findings in light of accounting theory and the existing empirical gap. Section 6 draws out implications for key stakeholder groups. Section 7 sets a future research agenda, and Section 8 concludes.

2. Institutional and Regulatory Background

Before turning to the accounting literature, it is necessary to set out the GloBE mechanics in enough technical detail to make the accounting issues in Section 4 legible, and to fix the institutional timeline against which that literature has developed, since the accounting treatment of Pillar Two has itself evolved rapidly and unevenly across jurisdictions and standard-setters.

2.1 Scope and charging mechanism

The GloBE rules apply to MNE groups with consolidated revenue of €750 million or more in at least two of the four fiscal years immediately preceding the tested year, as reported in the ultimate parent entity's consolidated financial statements (OECD, 2021). Three charging rules operate in a deliberate hierarchy. The Income Inclusion Rule (IIR) is the primary mechanism: it requires the ultimate parent entity (or, where the parent's jurisdiction has not implemented the IIR, the next intermediate parent that has) to bring to tax its allocable share of any low-taxed income arising in a constituent entity located in a low-tax jurisdiction.

The Undertaxed Profits Rule (UTPR) operates as a backstop, reallocating any residual top-up tax not collected under an IIR among UTPR-implementing jurisdictions, using a substance-based allocation key (broadly, tangible assets and headcount) and collecting it through a denial of deduction or an equivalent domestic mechanism. Qualified Domestic Minimum Top-up Taxes (QDMTTs) sit ahead of both: a jurisdiction that has legislated a QDMTT collects any top-up tax attributable to low-taxed income arising within its own borders before that amount would otherwise be picked up by a foreign parent's IIR, which is the principal reason QDMTT adoption has spread quickly, it allows the taxing jurisdiction, rather than a foreign parent jurisdiction, to retain the associated revenue.

2.2 Computation of GloBE income and the jurisdictional effective tax rate

The ETR test that drives the entire mechanism is performed jurisdiction-by-jurisdiction, not at the consolidated group level, so that a blended group ETR above 15% provides no protection against a top-up charge in an individual low-tax jurisdiction. For each jurisdiction, GloBE Income or Loss is the aggregate of the constituent entities' financial accounting net income or loss, adjusted for a defined list of items (net taxes, excluded dividends and equity gains, certain international shipping income, and asymmetric foreign-currency gains and losses, among others), and the jurisdictional ETR is calculated as Adjusted Covered Taxes divided by Net GloBE Income for that jurisdiction. Where the jurisdictional ETR is below 15%, a Top-up Tax Percentage equal to 15% minus the jurisdictional ETR applies to the jurisdiction's Excess Profit to determine the top-up tax due.

2.3 The substance-based income exclusion

A commercially significant feature of the design is the Substance-Based Income Exclusion (SBIE), which reduces Net GloBE Income to Excess Profit before the top-up percentage is applied, and thereby shields income attributable to genuine local activity rather than mobile profit. The SBIE is the sum of a payroll carve-out (a percentage of eligible payroll costs for employees performing activities in the jurisdiction) and a tangible-asset carve-out (a percentage of the carrying value of eligible tangible assets located there), both measured from consolidated financial accounting data.

At steady state the carve-out settles at 5% of payroll and 5% of tangible assets, but a ten-year transition period beginning in fiscal year 2023 applies materially higher rates — 10% of payroll and 8% of tangible assets in the first transition year, stepping down annually to the 5%/5% steady state by 2033. Any unused SBIE cannot be carried forward, and a group may elect annually not to claim it for a given jurisdiction.

Because both carve-out bases are drawn from carrying values and payroll costs recognised under the group's financial accounting policies, ordinary accounting choices around asset recognition, componentisation, and lease capitalisation feed directly into the top-up tax calculation, a further, and less widely discussed, channel through which financial accounting judgement now has direct cash-tax consequences.

2.4 Covered taxes and the deferred tax adjustment

Two structural features of Covered Taxes are central to everything that follows in Section 4. First, GloBE Income is a book-based, not a tax-based, construct: it starts from consolidated financial accounting income and layers on the comparatively short list of adjustments described in Section 2.2, rather than being built up from local tax-return concepts as under prior international tax regimes such as the U.S. GILTI rules.

Second, Covered Taxes are not simply current tax expense; they incorporate a Total Deferred Tax Adjustment Amount that recasts existing deferred tax movements to the lower of the 15% minimum rate and the applicable domestic rate, and carves out specific categories (uncertain tax positions, uncontrollable equity gains and losses, and taxes on excluded income, among others), as progressively clarified through successive rounds of OECD Administrative Guidance (OECD, 2022–2026). Together with the SBIE mechanics in Section 2.3, these features mean that ordinary changes in accounting estimates, valuation allowances, useful-life assumptions, revenue-recognition timing, and asset carrying values, can, for the first time, move a group's cash tax liability under a supranational minimum tax regime.

2.5 Regulatory timeline

The pace and sequencing of standard-setting and jurisdictional enactment is itself a finding of relevance to Section 4, since it explains why the accounting literature remains concentrated in conceptual and regulatory work rather than archival empirical studies.

Table 1. Regulatory timeline for Pillar Two accounting standard-setting.

Date	**Development**
Dec 2021	OECD/G20 Inclusive Framework publishes the GloBE Model Rules (Pillar Two), setting a 15% minimum effective tax rate for in-scope MNE groups with consolidated revenue of €750 million or more.
May 2023	IASB issues narrow-scope Amendments to IAS 12, introducing a mandatory temporary exception from recognising and disclosing deferred taxes arising from Pillar Two legislation, together with targeted interim disclosures.
2023	FASB staff concludes that the GloBE minimum tax functions as an alternative minimum tax under ASC 740; deferred tax assets and liabilities are not recognised or adjusted for anticipated Pillar Two effects, and top-up tax is treated as a period cost.
Jan 2024	Income Inclusion Rule and Qualified Domestic Minimum Top-up Taxes take effect in most early-adopting jurisdictions (e.g., EU member states, UK); transitional CbCR safe-harbour rules become operative.
2024–2025	Progressive enactment of the Undertaxed Profits Rule across jurisdictions; OECD issues successive rounds of Administrative Guidance clarifying deferred tax recasting, purchase-accounting

Date	Development
	adjustments, and safe-harbour mechanics.
2025–2026	First annual reporting cycles incorporating Pillar Two current-tax disclosures; over half of large listed groups reviewed in market surveys report quantified Pillar Two impacts; simplified ETR safe-harbour thresholds rise to 16% (2025) and 17% (2026).

3. Methodology

This review follows a structured approach informed by PRISMA guidelines and recent methodological practice for systematic literature reviews in accounting and management research, consistent with the approach recently applied to the adjacent question of digital-reporting infrastructure for Pillar Two. Following Saunders, Lewis and Thornhill's (2019) research-onion logic, the chapter first sets out the philosophical and methodological choices underpinning the review (Sections 3.1–3.2) before describing the search, screening, and synthesis procedures through which those choices were operationalised (Sections 3.3–3.6) and the conceptual framework that resulted from them (Section 3.7).

3.1 Research philosophy and paradigm

A systematic literature review is itself a piece of research and therefore carries philosophical commitments that need to be made explicit rather than assumed. Two objects of study are combined in this review, and each pulls toward a different position on Saunders et al.'s (2019) research-onion continuum from positivism to interpretivism. On one hand, the review catalogues verifiable, document-based facts: the text of the OECD Model Rules, the IASB's Amendments to IAS 12, the FASB staff's ASC 740 conclusions, and the findings reported in peer-reviewed articles are treated as an external, observable reality that exists independently of the reviewer and can, in principle, be checked by any other researcher consulting the same primary sources.

This element of the review sits closest to an objectivist ontology and a positivist epistemology, in which knowledge is accumulated through the systematic, replicable observation of documented fact.

On the other hand, the process of grouping those facts into themes, deciding, for example, that Hanlon's (2023) reporting-quality concerns and the pre-existing book-tax conformity literature belong to the same analytical category, necessarily involves interpretive judgement that a different reviewer, working from the same source material, could in principle organise differently. This element of the review is more consistent with an interpretivist epistemology, in which meaning is constructed through the researcher's engagement with the material rather than simply read off it.

Rather than resolve this tension by denying one half of it, the review adopts the moderate, or critical realist, position increasingly favoured in accounting and management systematic reviews (Tranfield, Denyer, & Smart, 2003; Denyer & Tranfield, 2009): an objective regulatory and academic reality is assumed to exist and to constrain what can legitimately be claimed, while the thematic structure imposed on that reality is acknowledged as an interpretive construction that is made transparent, through the explicit search protocol in Section 3.3, the inclusion and exclusion criteria in Section 3.4, and the conceptual framework in Section 3.7, precisely so that it can be audited and, if necessary, contested by other researchers.

3.2 Research approach and methodological choice

The review adopts an abductive research approach, moving iteratively between the literature and an evolving conceptual structure rather than following a purely deductive path (testing a framework fixed in advance) or a purely inductive one (allowing themes to emerge with no prior structure at all).

In practice, initial candidate themes were drawn deductively from the institutional and regulatory background developed in Section 2, the expectation, grounded in the mechanics of GloBE Income and the Total Deferred Tax Adjustment Amount, that accounting recognition, disclosure, and reporting-quality issues would dominate the literature, and were then refined inductively through line-by-line thematic coding of the retained sources, broadly following the thematic-analysis logic set out by Braun and Clarke (2006) for qualitative synthesis. This abductive movement between framework and evidence is what ultimately produced the conceptual framework in Section 3.7 and Figure 1: an ex-ante structure was proposed, tested against the coded material, and revised before being presented as the organising device for Section 4.

Methodologically, the review is a qualitative, document-based systematic review rather than a meta-analysis. A meta-analytic strategy, which statistically pools effect sizes across studies, was not methodologically appropriate given the near-total absence of archival empirical studies identified in Section 3.5, there is, at present, no comparable set of quantitative effect sizes to pool. A narrative or qualitative synthesis strategy was therefore the only choice consistent with the current state of the literature, a limitation that is itself part of the review's contribution, since it documents precisely where the empirical gap lies for the research agenda in Section 7.

3.3 Search strategy

Searches were conducted across Scopus, Web of Science, SSRN, and Google Scholar, supplemented by targeted searches of the technical repositories of the IASB, the FASB, the OECD, and the Big Four professional-services networks (Deloitte, EY, KPMG, PwC). Search strings combined the terms “Pillar Two” OR “GloBE” OR “global minimum tax” with “accounting” OR “deferred tax” OR “IAS 12” OR “ASC 740” OR “financial reporting” OR “effective tax rate” OR “book-tax conformity.” Coverage was restricted to material published between December 2021, when the OECD Model Rules were released, and mid-2026.

3.4 Inclusion and exclusion criteria

Table 2. Inclusion and exclusion criteria applied during screening.

Inclusion criteria	Exclusion criteria
Peer-reviewed journal articles and high-quality working papers (SSRN, NBER) addressing accounting recognition, measurement, presentation, or disclosure aspects of Pillar Two	Papers addressing only tax-policy, revenue-estimation, or trade-competitiveness aspects of Pillar Two with no accounting content
Official standard-setter pronouncements and basis-for-conclusions documents (IASB, FASB, OECD Inclusive Framework)	Marketing collateral or software-vendor material with no substantive technical analysis
Major professional-services technical publications (Big Four and comparable networks) offering substantive interpretive analysis	Non-English-language sources without an available translation
Publications dated between the release of the OECD Model Rules (December 2021) and mid-2026	Duplicate publications or successive reissues of the same technical alert without new analytical content

3.5 Screening, quality appraisal, and synthesis

Titles and abstracts were first screened for relevance to accounting recognition, measurement, presentation, or disclosure; full texts of retained records were then reviewed in detail. Because peer-reviewed empirical studies on Pillar Two accounting remain scarce — most jurisdictions began applying the rules only from fiscal years beginning on or after 1 January 2024 — the review deliberately combines three literature strata: (i) conceptual and analytical academic papers, most prominently the discussion papers by Hanlon (2023) and Hanlon and Nessa (2023); (ii) authoritative regulatory and standard-setting material, including IASB and FASB pronouncements and OECD Administrative Guidance; and (iii) high-quality practitioner technical analysis used, cautiously, as a proxy for implementation practice where peer-reviewed evidence is not yet available.

Consistent with the abductive approach described in Section 3.2, themes were developed inductively through iterative coding and then cross-checked against the structure of the one closely related published SLR identified in the search (on digital-reporting infrastructure for the global minimum tax), to ensure the present review's thematic boundaries are complementary rather than duplicative.

3.6 Limitations of the search

The review's principal limitation is temporal: because widespread application of the GloBE rules began only in 2024, and UTPR application followed in 2025, the archival empirical literature that would normally anchor an accounting SLR is still emerging. The synthesis therefore leans more heavily on conceptual and regulatory sources than a mature-topic SLR would, a feature that is itself one of the review's findings rather than merely a constraint on it.

3.7 Conceptual framework guiding the synthesis

To organise the coding process described in Section 3.5 and to structure the presentation of findings in Section 4, the review adopts the conceptual framework in Figure 1. The framework treats three GloBE design features, the use of financial accounting income as the tax base, the substance-based income exclusion, and the Total Deferred Tax Adjustment Amount, as the inputs that standard-setters have had to accommodate.

It treats the IAS 12 temporary exception and the ASC 740 alternative-minimum-tax characterisation as the mediating standard-setter response through which those inputs are translated into reported numbers. It treats reporting quality, effective-tax-rate volatility, disclosure and systems burden, and capital-market valuation effects as the accounting and market outcomes that the literature has begun to theorise and, to a limited extent, observe.

Finally, the framework treats agency theory, institutional theory, and information economics, developed further in Section 5, as moderating lenses that shape how the input–response–outcome chain is interpreted, rather than as an additional empirical construct. Sections 4.1 through 4.5 are organised to move systematically from left to right across this framework.

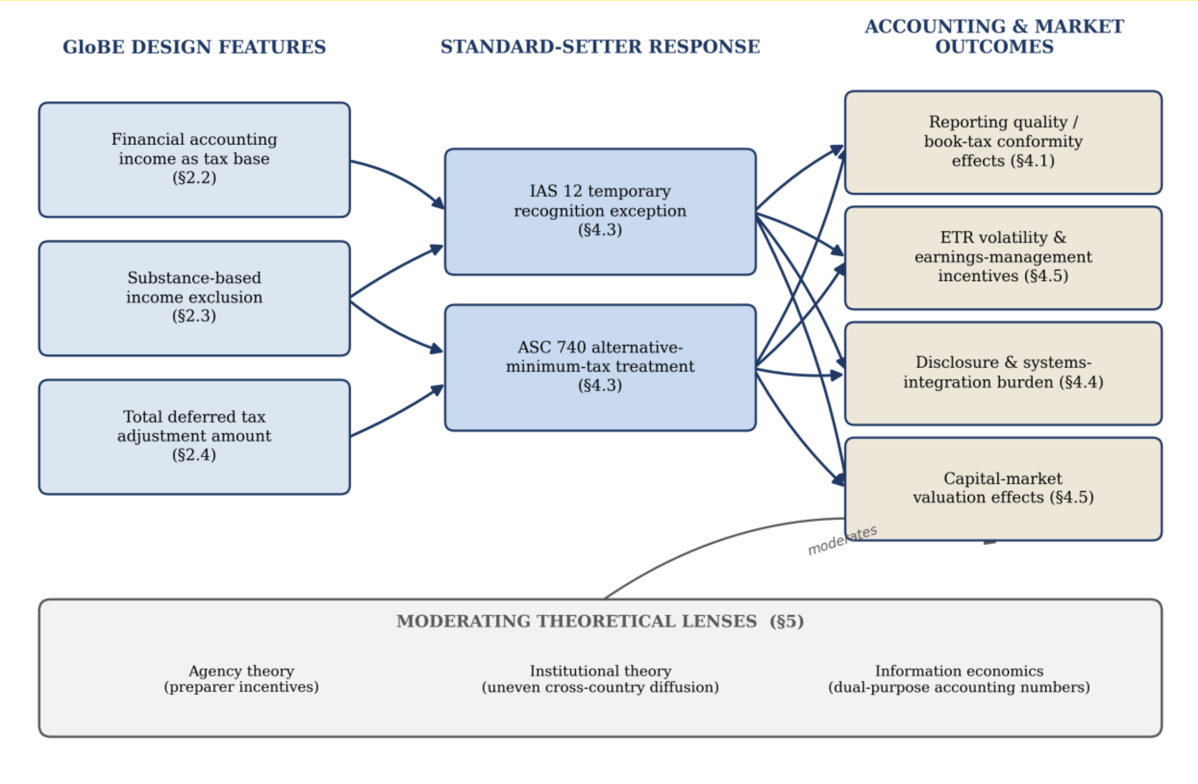

Figure 1. Conceptual framework linking GloBE design features, standard-setter response, and accounting/market outcomes.

4. Thematic Findings

Consistent with the conceptual framework in Figure 1, this section synthesises the literature in five parts, moving from the design features that make Pillar Two an accounting problem (Sections 4.1–4.2), through the standard-setter response that currently governs recognition and measurement (Section 4.3), to the disclosure, market, and reporting-quality consequences documented or anticipated in the literature (Sections 4.4–4.5). Each subsection is mapped to the research question it primarily addresses, and Table 3 summarises the studies most central to each theme before the narrative synthesis follows.

Table 3. Literature synthesis matrix by theme.

Theme (RQ)	**Key source(s)**	**Focus**	**Contribution / gap addressed here**
Accounting income as tax base (RQ1)	Hanlon (2023); Hanlon & Nessa (2023)	Conceptual analysis of reporting-quality and complexity risks from using book income as a supranational tax base	Anchors Section 4.1; extended here by linking explicitly to the pre-existing book-tax conformity literature
Book-tax conformity (RQ1)	Hanlon & Shevlin (2005); Hanlon, Maydew & Shevlin (2008)	Empirical evidence that greater book-tax conformity reduces earnings informativeness	Provides the theoretical baseline against which Pillar Two's partial conformity effect can be tested empirically
Recognition under IAS 12 / ASC 740 (RQ2)	IASB (2023); FASB staff (2023); EY (2023); PwC (2025)	Standard-setting response: temporary IAS 12 exception; ASC 740 alternative-minimum-tax characterisation	Anchors Section 4.3; mapped here as a formal input–response relationship in Figure 1 rather than described separately by framework
Disclosure & systems burden (RQ3)	Anjarwi, Che Azmi, Hidayat, Ranatarisza & Ningsih (2026)	PRISMA-guided review of digital-reporting infrastructure (XBRL, CbCR, IFRS Taxonomy) supporting GloBE	Closest existing SLR; this review treats it as a complementary systems-level companion to the

Theme (RQ)	Key source(s)	Focus	Contribution / gap addressed here
		compliance	accounting-recognition synthesis in Section 4
ETR volatility, incentives, valuation (RQ4)	Faulhaber (2023); Devereux, Vella & Wardell-Burrus (2022); Tørsløv, Wier & Zucman (2023)	Substance-based income exclusion as an "escape hatch"; jurisdictional incentive responses; scale of pre-existing profit shifting	Anchors Section 4.5; used here to motivate the archival research agenda in Section 7

4.1 Financial accounting income as the GloBE base (RQ1)

GloBE Income begins with the financial accounting net income or loss of constituent entities, the input at the top-left of Figure 1. Hanlon (2023) provides the most cited discussion of the problems this creates, arguing that using accounting numbers as an explicit component of a supranational tax base risks degrading the quality and capital-market usefulness of financial accounting information, and that it introduces new complexity and compliance cost while placing additional pressure on preparers' judgement in areas involving estimates and accruals. Hanlon and Nessa (2023) extend this analysis, examining the auditor, standard-setter, and financial-statement-user implications of a regime in which materiality thresholds calibrated for general-purpose financial reporting may be inappropriate for a tax base.

This concern connects to an older and well-established literature on book-tax conformity. Hanlon and Shevlin (2005) frame the foundational trade-off: increasing the alignment between taxable income and book income can reduce opportunities for aggressive tax-motivated accounting, but Hanlon, Maydew and Shevlin (2008) show empirically that greater book-tax conformity is also associated with a loss of earnings informativeness, because managers facing a shared base have weaker incentives, and less latitude, to convey private information through accounting choices. Pillar Two effectively creates a novel and partial form of book-tax conformity at the level of a supranational minimum tax rather than the domestic tax base, and the SLR finds that this parallel has not yet been systematically tested — the central empirical gap that motivates RQ1 and, in turn, the first item of the research agenda in Section 7.

4.2 Deferred tax adjustments under the GloBE rules (RQ1)

The second design-feature input in Figure 1, the Total Deferred Tax Adjustment Amount, compounds the reporting-quality concern raised in Section 4.1 rather than operating independently of it. Covered Taxes are adjusted by this amount, which recasts deferred tax assets and liabilities to the lower of the 15% minimum rate and the applicable domestic rate, excludes specific categories (deferred taxes on excluded income, uncertain tax positions, and certain accruals), and imposes distinct rules for pre-transition-year deferred tax attributes and recapture. Successive OECD Administrative Guidance releases (2023–2026) have progressively addressed divergences between accounting carrying values and GloBE carrying values, purchase-accounting adjustments following business combinations, and the treatment of intra-group transactions.

The literature converges on the view that these rules impose significant computational complexity, requiring MNEs to maintain a parallel, GloBE-specific deferred tax ledger alongside existing tax-provision and consolidation systems, a point professional commentary has likened to maintaining a third set of books. For the reporting-quality question raised in Section 4.1, this matters beyond mere compliance cost: because the recasting calculation is itself judgement-laden (it depends on existing deferred tax balances that are, in turn, a product of accounting estimates), the deferred tax adjustment amount is a second, largely unexamined channel through which preparer judgement now has direct cash-tax consequences, alongside the SBIE channel identified in Section 2.3.

4.3 Recognition and measurement under IAS 12 and ASC 740 (RQ2)

Both the IASB and the FASB have treated Pillar Two top-up taxes as income taxes within the scope of their respective standards, but through different technical routes that currently produce converged outcomes, the standard-setter response node in Figure 1. In May 2023 the IASB issued narrow-scope Amendments to IAS 12 introducing a mandatory temporary exception from recognising and disclosing deferred taxes arising from Pillar Two legislation, including QDMTTs, together with targeted disclosure of current tax expense related to Pillar Two. The Amendments carry no specified end date; the IASB's Basis for Conclusions notes that it was not possible, at the time of issuance, to determine how much further work would be needed before entities could reliably apply ordinary IAS 12 principles to Pillar Two deferred taxes.

Under U.S. GAAP, the FASB staff separately concluded that the GloBE minimum tax operates as an alternative minimum tax within the meaning of ASC 740. As a consequence, reporting entities do not recognise or adjust deferred tax assets and liabilities for the estimated future effects of Pillar Two, and top-up tax is instead recognised as a period cost affecting the effective tax rate in the year the GloBE obligation arises; valuation-allowance assessments generally need not incorporate anticipated Pillar Two effects.

The durability question posed in RQ2 can now be answered directly: because the IAS 12 exception has no sunset date, the two frameworks are expected to remain practically converged on this point for the foreseeable future, even though they arrive at that convergence through different doctrinal reasoning — a mandatory exception under IFRS versus an AMT characterisation under U.S. GAAP. This is a convergence of outcome rather than of principle, and it is fragile in one specific sense: an AMT characterisation under ASC 740 is a factual, not a permanent, conclusion, so that any future redesign of the GloBE rules that made them look less like a minimum tax and more like an ordinary income tax could, in principle, force FASB staff to revisit the classification independently of whatever the IASB does with its exception.

4.4 Disclosure, interim reporting, and operational challenges (RQ3)

Entities applying the IAS 12 exception must disclose that they have applied it and must separately disclose current tax expense related to Pillar Two once legislation is in effect, alongside qualitative and quantitative exposure disclosures before that point. U.S. public companies must additionally consider Pillar Two effects within effective-tax-rate reconciliations under ASU 2023-09 and related MD&A and risk-factor discussions. Market-level review evidence indicates that the first full reporting cycle incorporating quantitative Pillar Two disclosures occurred in 2025–2026, with more than half of large listed groups surveyed already reflecting quantified impacts in their financial statements.

The operational literature emphasises data and systems challenges: mapping data across multiple ERPs and charts of accounts, obtaining entity-level financial data at the granularity required for jurisdictional ETR calculations, integrating consolidation systems with dedicated tax-provision engines, and managing elections under the transitional CbCR safe harbour (with its simplified ETR threshold rising from 15% in FY2024 to 16% in FY2025 and 17% in FY2026).

A newly published systematic review of digital-reporting infrastructure for the global minimum tax, drawing on 54 peer-reviewed studies through PRISMA-guided synthesis, corroborates this theme from an information-systems perspective, finding that XBRL, CbCR, and IFRS Taxonomy infrastructure function as compliance enablers whose robustness varies sharply with jurisdictional governance capacity, a concern with particular relevance for multinational groups operating across both high- and low-capacity tax administrations. Read against RQ3, this evidence base remains largely descriptive: it documents that burden exists and where it concentrates, but not yet how it varies systematically with group size, industry, or existing systems maturity, a gap noted again in Section 7.

4.5 Reporting quality, incentives, and capital-market implications (RQ4)

Because raising a jurisdiction's ETR to avoid top-up tax mechanically reduces reported accounting income under some structuring responses, MNEs face a trade-off between tax-minimisation and capital-market reporting objectives. Faulhaber (2023) argues that Pillar Two's substance-based income exclusion, itself the product of three earlier strands of international tax reform, functions as a built-in escape hatch that allows jurisdictions with genuine economic substance to retain competitively low headline tax rates, tempering claims that Pillar Two ends tax competition outright. Devereux, Vella and Wardell-Burrus (2022) analyse how the ordering of the IIR and UTPR interacts with jurisdictions' incentives to adjust domestic tax design, including through QDMTT adoption, which in turn feeds back into the deferred tax recasting mechanics discussed in Section 4.2.

The scale of the profit-shifting problem that Pillar Two is designed to address is itself well documented empirically: Tørsløv, Wier and Zucman (2023) estimate that roughly a third of multinational profits are shifted to low-tax jurisdictions globally, a baseline against which the SBIE's dampening effect on the regime's revenue and behavioural impact can be judged.

Early market-facing analysis has also begun to examine equity-valuation consequences, asking which listed multinationals face material cash-tax and earnings-per-share effects as UTPR and QDMTT rules phase in, and noting that investors may not receive granular disclosure of these effects until top-up tax obligations actually crystallise.

Taken together with the reporting-quality concerns in Section 4.1, the literature anticipates increased effective-tax-rate volatility as jurisdictions phase in rules at different speeds and as transitional safe harbours expire, alongside new, as yet empirically untested, incentives around the timing of temporary differences and substance-based income exclusion calculations. For RQ4 specifically, the review finds a marked asymmetry in the evidence base: the incentive-based, analytical literature (Faulhaber, 2023; Devereux et al., 2022) is comparatively mature, while the archival, capital-markets literature that would actually test these incentives against reported outcomes has not yet appeared, the single largest evidence gap identified across all four research questions.

Taken together, Sections 4.1–4.5 answer RQ1–RQ4 at the level the current literature allows: conceptually and regulatorily for RQ1 and RQ2, where standard-setters and analytical theorists have already produced developed positions, and only provisionally for RQ3 and RQ4, where the underlying archival and market evidence has not yet caught up with the rules themselves. Section 5 interprets this pattern of findings against the conceptual framework in Figure 1 and the theoretical lenses introduced in Section 3.1.

5. Discussion

5.1 Synthesis across themes

Mapped back onto the conceptual framework in Figure 1, the findings in Section 4 trace a coherent input–response–outcome chain rather than five unrelated observations. Read together, the five themes converge on three structural observations. First, Pillar Two creates an unprecedented interdependence between tax and financial accounting systems, in which ordinary accounting judgement now has direct cash-tax consequences at a supranational level through at least two distinct channels, the substance-based income exclusion (Section 2.3) and the Total Deferred Tax Adjustment Amount (Section 4.2), a dynamic accounting theory would predict to generate exactly the kind of book-tax conformity trade-off documented in the pre-Pillar-Two literature on earnings informativeness.

Second, the deferred tax mechanics are highly technical and compliance-intensive, and standard-setters on both sides of the Atlantic have responded not with permanent redesign of deferred tax recognition principles but with temporary, open-ended exceptions. This is a pragmatic response that has, for now, successfully avoided the two boards diverging in reported outcomes, a genuinely positive finding for comparability that should not be understated, but it is also a conceptually unresolved position that leaves open how entities should eventually account for Pillar Two deferred taxes once, or if, the exceptions are withdrawn, and it rests, as Section 4.3 notes, on a factual AMT characterisation under U.S. GAAP that is less durable in principle than the open-ended IAS 12 exception.

Third, empirical evidence on behavioural responses and capital-market effects remains scarce, not because researchers lack interest but because widespread application only began in 2024–2025, with the first UTPR cycles and the first full year of quantitative disclosure only recently completed.

This scarcity is itself asymmetric, as Section 4.5 shows: it is most acute for RQ3 and RQ4, where testable archival evidence should now be obtainable, and least acute for RQ1 and RQ2, which have already attracted sustained conceptual and regulatory attention.

5.2 Theoretical interpretation

Several theoretical lenses recur, explicitly or implicitly, across the literature reviewed, corresponding to the moderating band in Figure 1. Agency theory helps explain preparer incentives when tax-minimisation and capital-market reporting goals diverge under a book-based minimum tax: preparers face a genuine trade-off, documented conceptually in Section 4.1 and 4.5 but not yet tested against actual reported behaviour.

Institutional theory is useful for understanding the uneven diffusion of QDMTT adoption and digital-reporting infrastructure across jurisdictions with differing governance capacity, a point reinforced by the parallel 2026 SLR on digital-reporting infrastructure (Anjarwi et al., 2026) and consistent with the jurisdictional-incentive analysis in Devereux et al. (2022).

Information economics motivates the reporting-quality concern at the centre of the book-tax conformity literature: when accounting numbers are made to serve a dual purpose, informing capital markets and determining a supranational tax liability, their information content for either purpose may be compromised, echoing the empirical finding in Hanlon, Maydew and Shevlin (2008) that conformity reduces earnings informativeness.

5.3 Positioning relative to the existing literature

The present review's central contribution relative to the adjacent, systems-focused 2026 SLR is to locate the recognition-and-measurement, reporting-quality dimension of Pillar Two within the broader accounting literature, rather than treating Pillar Two solely as a compliance-infrastructure problem.

The two reviews are complementary rather than competing: Anjarwi et al. (2026) document how the data required for GloBE compliance flows through digital-reporting systems, while the present review documents what that data means once it is recognised, measured, and disclosed under IAS 12 and ASC 740. A reader interested in the full life cycle of a Pillar Two number, from source system to recognised deferred tax balance to disclosed effective tax rate, needs both reviews rather than either in isolation.

A final caveat on the strength of the evidence underlying this synthesis is warranted. The conclusions reached for RQ1 and RQ2 rest on a comparatively strong evidentiary base: authoritative standard-setter text for RQ2, and a well-established pre-Pillar-Two empirical literature on book-tax conformity that offers a tested analogy, if not yet a direct test, for RQ1. The conclusions reached for RQ3 and RQ4, by contrast, rest substantially on practitioner survey evidence and analytical argument rather than peer-reviewed archival findings, and should be read as plausible hypotheses that the research agenda in Section 7 is designed to test, not as established empirical results.

6. Implications

For standard-setters, the priority is to monitor how the temporary IAS 12 and ASC 740 exceptions perform in practice and to consider, once sufficient implementation experience accumulates, whether permanent guidance on the interaction between ordinary deferred tax principles and Pillar Two deferred taxes is warranted, particularly given that the IAS 12 exception currently carries no sunset date.

For preparers and auditors, the literature points toward sustained investment in integrated data platforms that connect consolidation, tax-provision, and CbCR systems; in internal controls specifically designed around GloBE calculations and elections (including safe-harbour elections); and in disclosure processes capable of meeting both the qualitative exposure disclosures required before legislation takes effect and the quantitative current-tax disclosures required once it does.

For investors and analysts, the expectation of increased effective-tax-rate volatility as jurisdictions phase in UTPR and QDMTT rules at different speeds, combined with the complexity of the new tax footnote disclosures, implies a need for revised models of what constitutes a sustainable, comparable ETR across multinational peer groups.

For researchers, the 2024–2026 implementation period offers what is, in effect, a natural experiment for studying book-tax interactions under a supranational minimum tax: archival researchers can now observe actual reported ETRs, deferred tax balances, and disclosure choices under a regime whose accounting treatment was, until recently, only theorised.

7. Limitations and Future Research Agenda

This review is itself constrained by the limited volume of peer-reviewed empirical scholarship available as of mid-2026, a constraint that mirrors the immaturity of the underlying literature rather than a gap in search execution. Five priorities emerge for future research:

- Archival studies of the impact of Pillar Two on reported effective tax rates, deferred tax balances, and earnings quality using the 2024–2026 reporting cycles now available.
- Cross-country comparisons of QDMTT design choices and their accounting consequences, extending the theoretical work of Devereux, Vella and Wardell-Burrus (2022) into empirical territory.
- Qualitative and survey research on implementation costs, systems investment, and organisational responses within tax and finance functions.
- Event-study and valuation research examining capital-market reactions to Pillar Two-related disclosures, building on early practitioner analysis of equity-valuation exposure.
- Research on the interaction of Pillar Two with adjacent reforms — public country-by-country reporting, the EU's CSRD tax-transparency requirements, and domestic digital-services taxes, an area where the digital-reporting infrastructure literature and the accounting-recognition literature reviewed here are likely to increasingly intersect.

8. Conclusion

This paper set out to close a specific gap identified in Section 1.1: the absence of a dedicated systematic review of the accounting-recognition dimension of the OECD's Pillar Two global minimum tax, as distinct from the adjacent and more empirically developed literature on digital-reporting compliance infrastructure. Guided by the conceptual framework in Figure 1 and organised around the four research questions set out in Section 1.3, the review has shown that Pillar Two's defining feature , anchoring a supranational minimum tax base directly in consolidated financial accounting income, creates an unprecedented interdependence between tax law and financial reporting (RQ1), that the IASB and FASB have so far responded with temporary, open-ended recognition exceptions that converge on outcome but diverge in doctrine (RQ2), that this has generated substantial disclosure and systems-integration burden for preparers and auditors (RQ3), and that effective-tax-rate volatility, earnings-management incentives, and capital-market effects remain largely anticipated rather than empirically documented (RQ4).

In addressing these questions, the paper makes the three contributions set out in Section 1.2: a structured synthesis of a literature that had not previously been organised around an explicit conceptual framework; an explicit mapping of where IAS 12 and ASC 740 currently converge and where that convergence may prove fragile; and a research agenda that identifies precisely where archival, cross-country, and capital-markets evidence is now obtainable but has not yet been produced. Taken together, these contributions reposition Pillar Two from a topic treated primarily as a compliance and systems problem, the framing of the one existing adjacent SLR, to one that is squarely an accounting-recognition and reporting-quality problem, with its own theoretical grounding in agency theory, institutional theory, and information economics (Section 5).

Pillar Two represents one of the most significant developments in international taxation in decades, and its consequences for financial accounting and reporting are equally significant. The regime creates simultaneous technical challenges for preparers and auditors and genuine opportunities for accounting researchers, and it does so at a moment, the 2024–2026 implementation period, when the archival data needed to study those opportunities empirically is, for the first time, becoming available. The research agenda set out in Section 7 is intended as a starting point for that empirical programme, not a substitute for it.

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