

## Amendment IAS 12 – International Tax Reform – Pillar Two Model Rules Cover Note

### Objective

- 1 The objective of this session is to:
  - (a) provide a summary of the Exposure Draft *International Tax Reform - Pillar Two Model Rules* (Proposed amendments to IAS 12);
  - (b) discuss the preliminary assessment made by the EFRAG Secretariat; and
  - (c) seek EFRAG FR TEG views to inform the forthcoming draft comment letter.

### Background

#### *Project Information*

- 2 In October 2021, more than 135 countries – representing more than 90% of global GDP – agreed to implement a [minimum tax regime for multinationals, “Pillar Two”](#). In December 2021, the OECD released the Pillar Two model rules (the Global Anti-Base Erosion Proposal, or “GloBE”) to reform international corporate taxation. Pillar Two legislation aims to ensure that applicable multinationals - with a global turnover exceeding €750 million – are liable to a minimum effective corporate tax rate of 15%.
- 3 The OECD rules are due to be passed into national legislation based on each country’s approach. In Europe the Council Directive ([here](#)) has been approved and it is planned that the individual jurisdictions enact the related law before 31 December 2023. The law will apply in Europe for annual periods starting on 1 January 2024.
- 4 Large multinational enterprises within the scope of the OECD rules are required to calculate their GloBE effective tax rate for each jurisdiction (summary per jurisdiction) where they are operating. They will be liable to pay a top-up tax for the difference between their GloBE effective tax rate per jurisdiction and the 15% minimum tax rate.
- 5 Applying the GloBE rules and determining their impact on the IFRS financial statements are likely to be complex and result in a number of practical challenges. Top-up tax differs from income taxes that arise under known (local) tax regimes. Traditional income taxes are generally based on a company’s taxable profit, while top-up tax will arise only if a group pays an insufficient amount of income taxes at a jurisdictional level. The accounting practical challenges are:
  - (a) Is the top-up tax within the scope of IAS 12?;
  - (b) Do the GloBE model rules create additional temporary differences?;
  - (c) Which tax rate has to be applied to measure deferred tax impacts of top-up tax?; and
  - (d) Does a company need to remeasure its existing temporary differences in relation to deferred tax recognised?
- 6 With uncertainty on whether any jurisdiction (outside the EU) expects to implement the GloBE model rules as early as the first half of 2023, stakeholders were asking for urgent clarity. For these reasons, the IASB in its meeting in November 2022

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decided on a fast-track project to do standard-setting in response to the imminent implementation of the Pillar Two model rules.

- 7 On 9 January 2023 the IASB published the Exposure Draft ED/2023/1 *International Tax Reform—Pillar Two Model Rules* (Proposed Amendments to IAS 12) (“[the ED](#)”) with a comment period ending 10 March 2023.
- 8 The ED would introduce:
  - (a) a temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules; and
  - (b) targeted disclosure requirements.

### *EFRAG Secretariat envisaged work plan*

- 9 In December 2022 the EFRAG FR TEG and the EFRAG FRB received an introduction to the project and provided some initial feedback (see agenda paper 09-02 – Amendments to IAS 12 – Issues paper). In addition, the EFRAG FRB agreed to adopt a fast-track approval process of EFRAG’s comment letter in response to the IASB’s ED and of the endorsement advice on the IASB’s expected amendments
- 10 To support a fast-track approval process of the DCL and the FCL, the EFRAG Secretariat envisages the following timetable:

EFRAG Secretariat to send the DCL to EFRAG FR TEG	23 January 2023 (morning)
EFRAG FR TEG written approval of DCL to recommend to the EFRAG FRB	24 January 2023
EFRAG FRB approval of the DCL	27 January 2023
Public consultation of the DCL	From 30 January to 27 February 2023
EFRAG FR TEG-FRB approval of the FCL (joint meeting)	9 or 10 March 2023,

- 11 To support a fast endorsement process, the EFRAG Secretariat will publish a pre-consultation document for the DEA together with or shortly after the publication of the FCL in March 2023. The content and publication of this document will be closely coordinated with the EC in order to address the relevant topics from the EC’s point of view in such pre-consultation document. The EFRAG Secretariat envisages to schedule additional meetings with EFRAG FR TEG and EFRAG FRB to ensure a fast-track approval process of the DEA and FEA. Such meetings will be scheduled as soon as the publication date of the Amendments and of the letter from the EC requesting endorsement advice are known.
- 12 In order to obtain feedback from a wide range of stakeholders the EFRAG Secretariat plans to discuss the topic with the following counterparties:
  - (a) EFRAG Working Groups (EFRAG User Panel (3 February), EFRAG FIWG (30 January), EFRAG IAWG (1 February));
  - (b) EFRAG CFSS (6 February);
  - (c) EC and potentially with ESMA’s representatives (EC 13 January);
  - (d) EFRAG’s member organisations (e.g., AccountancyEurope, ASCG tax working group) and large audit firms;
  - (e) ASAF members (10 February).

**Agenda Papers**

- 13 In addition to this cover note, the agenda paper 09-02 – Amendments to IAS 12 – Issues paper is provided for this session.