

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

EFRAG FRB 24 April 2023

02-03 EFRAG's comment letter compared with the latest IASB's decisions



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# TEMPORARY EXCEPTION TO THE DEFERRED TAX ACCOUNTING

## EFRAG's comment letter

- EFRAG overall supported the IASB's proposal to introduce a mandatory temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities arising from the OECD's Pillar Two Model Rules
- EFRAG encouraged the IASB to clarify to which extent top-up taxes meet the definition of income taxes as defined in IAS 12 and whether top-up tax based on the Pillar Two model rules were in scope of IAS 12 in situations outside the context of consolidated financial statements of the ultimate parent entity. However, EFRAG highlighted the urgent need of the proposed amendments to IAS 12. Hence, the proposed changes or clarifications should not lead to a delay in finalising the Proposed Amendments
- EFRAG stated that disclosing that the entity is required apply the exception provides transparency about the fact that the entity might be impacted by top-up tax. However, EFRAG suggested that the IASB clarifies the underlying rationale asking for such a specific disclosure (e.g., it should inform users of financial statements whether the entity is in scope or not in scope of Pillar Two model rules)



## IASB's decision

- The IASB confirmed the proposal in the ED.

**Partially addressed** - Although the IASB acknowledged the concerns raised by the stakeholders regarding the scope, the IASB:

- confirmed no change to the scope of the exception but it will clarify the wording of paragraph 4A of the ED in the BC. The IASB clarified that the IASB's intention was to state that IAS 12 applies to income taxes arising from Pillar Two legislation (i.e., an entity has to assess whether those top-up taxes arising from Pillar Two rules are income taxes).
- Stated that it would be not possible providing further clarifications or guidance to help entities assess the situations in which top-up taxes are income taxes without delaying the finalisation of the amendments.
- **To be concluded**. The IASB confirmed the proposal in paragraph 88A of the ED and decided to add the principles-based objective of disclosure requirements. We will not see whether the IASB clarifies the underlying rationale of this disclosure in the BC until the Amendments are published.

# TARGETED DISCLOSURE

## EFRAG's comment letter




- EFRAG encouraged the IASB to add a disclosure objective that describes the needs of users of financial statements. EFRAG noted that the disclosure objective included in BC19 should become part of the main body of the Amendments. →
- EFRAG was of the view that the IASB should apply a more principle-based approach. The IASB should enable entities to provide their own quantitative assessment of their exposure to paying top-up tax prepared under Pillar Two model rules. This should be the primary option to meet the disclosure objective if an entity has reliable information; →
- If such Pillar Two information is not available or is not sufficient to meet the disclosure objective, an alternative quantitative estimate that satisfies the disclosure objective should be provided; →

## IASB's decision

- The IASB agreed adding a disclosure objective based on paragraph BC19 of the ED.
- The IASB agreed that in meeting the disclosure objective, an entity discloses known or reasonably estimable information about its exposure to paying top-up tax. To meet the disclosure objective an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The information does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range.
- **Not addressed** - The IASB envisages the possibility that an entity might not have known or reasonably estimable information while EFRAG considered that an entity should have alternative information to satisfy the disclosure objective.

# EFFECTIVE DATE AND TRANSITION

## EFRAG's comment letter

- EFRAG agreed with the transition provisions included in the ED 
- EFRAG encouraged the IASB including in the main body of the Standard (i.e., in paragraph 98M (a) of the ED) the clarification included in paragraph BC27 highlighting that the Proposed Amendments, once effective, will be applicable to any financial statements not yet authorised for issue at that date. Such an approach would be consistent with that already applied by the IASB (e.g., paragraph C1C of the amendments to IFRS 16 'Covid-19-Related Rent Concessions beyond 30 June 2021' issued in March 2021); and 
- EFRAG recommended that the IASB schedules in its workplan an activity of review, so that the exception may be terminated, or retained as permanent, at the appropriate moment. 

## IASB's decision

- The IASB confirmed the proposal in the ED. In addition, the IASB decided to clarify in the body of the standard that the disclosure requirements will be not applicable to the interim reporting ending in 2023.
- **Not addressed** - The IASB confirmed the proposal in the ED
- **Partially addressed** - The IASB discussed including in the BC how it is going to evaluate the existence of the temporary exception on an ongoing basis

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