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ic/ac Instituto de Contabilidad y
Auditoría de Cuentas

Mr. Wolf Klinz
President of the EFRAG Financial Reporting Board
European Financial Reporting Advisory Group
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Belgium

Ref: Comment letter on the IASB's ED/2023/1 International Tax Reform - Pillar Two Model Rules Proposed amendments to IAS 12

Madrid, 27th February 2023

Dear Mr. Klinz,

In the present letter the ICAC gives its view on EFRAG's position presented in your draft comment letter on the IASB's ED/2023/1 *International Tax Reform-Pillar Two Model Rules Proposed amendments to IAS 12*, issued by the IASB on 9 January by 2023.

First of all, ICAC welcomes IASB's ED International Tax Reform – Pillar Two Model Rules to address in advance the potential accounting implications of the OECD Pillar Two model rules.

In view of the approval and importance of the new international tax regulations in the different jurisdictions in the near term, ICAC considers that the introduction of the amendments to IAS 12 proposed by the IASB results of vital importance in order to establish trust scenario that facilitates their application by stakeholders.

Our responses to the questions in the ED are explained below.

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Question 1

IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

The IASB proposes that, as an exception to the requirements in IAS 12, an entity neither recognize nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

The IASB also proposes that an entity disclose that it has applied the exception.

Paragraphs BC13–BC17 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

ICAC agrees with the introduction of a temporary exception to the accounting requirements of IAS 12 in relation to deferred taxes related to income taxes arising from implementation of Pillar Two model rules.

Both measures will allow entities to assess the impact of the new tax legislation and to consider the financial reporting consequences of accounting for such deferred taxes.

The IASB proposes to make the exception mandatory. As noted in paragraph BC16 of the Basis for Conclusions, this will enable greater comparability between entities' financial statements and eliminate the risk of entities developing inappropriate accounting policies that are inconsistent with the principles and requirements of IAS 12. The ICAC agrees with this approach as well as the benefits of making the amendments to IAS 12 mandatory. However, if the exemption is extended over time it may result in entities that are able to provide more specific information not providing it.

The ICAC shares EFRAG's view that there is a strong need for the IASB to clarify the scope of IAS 12 in situations outside the context of consolidated financial statements.





Question 2

The IASB proposes that, in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity disclose for the current period only:

(a) information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.

(b) the jurisdictions in which the entity's average effective tax rate (calculated as specified in paragraph 86 of IAS 12) for the current period is below 15%. The entity would also disclose the accounting profit and tax expense (income) for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate.

(c) whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:

(i) identified in applying the proposed requirement in (b) but in relation to which the entity might not be exposed to paying Pillar Two income taxes; or

(ii) not identified in applying the proposed requirement in (b) but in relation to which the entity might be exposed to paying Pillar Two income taxes.

The IASB also proposes that, in periods in which Pillar Two legislation is in effect, an entity disclose separately its current tax expense (income) related to Pillar Two income taxes.

Paragraphs BC18–BC25 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.





Disclosures before legislation is in effect.

ICAC agrees with the need to introduce disclosure requirements regarding the new tax legislation arising from the OECD's Pillar Two, whether the legislation has been enacted or substantially enacted and when it has entered into force.

Respect to the disclosure requirement contained in paragraph 88 C (b), as noted in paragraph BC 22 of the ED, the effective tax rate calculation, in accordance with paragraph 86 of IAS 12, differs from the calculation of the Pillar Two model rules. Therefore, the introduction of this disclosure requirement may not be useful to users of financial information.

ICAC agrees with the rest of the proposals made by EFRAG in its DCL.

Disclosures when legislation is in effect.

ICAC supports, once the Pillar Two legislation is in effect, requiring an entity to disclose current tax expenditure separately. As noted by IASB, this would provide users of financial information with adequate information on the impact of Pillar Two income taxes.

Question 3

The IASB proposes that an entity apply:

- (a) the exception-and the requirement to disclose that the entity has applied the exception-immediately upon issue of the amendments and retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- (b) the disclosure requirements in paragraphs 88B-88C for annual reporting periods beginning on or after 1 January 2023.

Paragraphs BC27-BC28 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

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ICAC supports to apply the temporary exception retroactively, considering that the enactment of Pillar Two laws in the jurisdictions is different. This would allow all jurisdictions to apply the exception irrespective of tax laws.

ICAC shares EFRAG's recommendation to recommend to the IASB to develop a work plan and an activity of review so that the exception can be terminated at the appropriate moment.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Santiago Durán Domínguez

Chairman of the ICAC

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