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IASB/ED/2023/1, International Tax Reform—Pillar Two Model Rules
Proposed amendments to IAS 12

Dear Mr Klinz,

We welcome the opportunity to contribute to EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB's Exposure Draft ED/2023/1 *International Tax Reform—Pillar Two Model Rules, Proposed amendments to IAS 12* (herein referred to as the 'ED').

Overall, we fully agree with EFRAG's observations and conclusions in the DCL and have no specific remarks. Regarding our detailed comments on the questions set out in the ED we refer to our comment letter to the IASB attached hereinafter.

If you would like to discuss our comments, please do not hesitate to contact Thomas Höppel (thomas.hoeppel@allianz.com) or us for further exchange on any matters raised in our comment letter.

Yours sincerely,

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IASB/ED/2023/1, International Tax Reform—Pillar Two Model Rules
Proposed amendments to IAS 12

Dear Andreas,

We appreciate the opportunity to respond to the IASB's Exposure Draft ED/2023/1 *International Tax Reform—Pillar Two Model Rules, Proposed amendments to IAS 12* (herein referred to as the 'ED').

We fully support the IASB's proposed amendment of the scope of IAS 12 to include a temporary (mandatory) exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules. Furthermore, we want to point out that the implementation of the Pillar Two model rules in the committed jurisdictions will most likely be enacted by the end of 2023 and be effective from 2024 onwards. Hence, reporting entities have to evaluate and understand the implications of the challenging tax rules on accounting and reporting within a very short timeframe. We believe it is meaningful for the IASB to establish a dedicated project to provide clarifying guidance in this regard to ensure consistent application among IFRS preparers. As it is not possible for the IASB at this stage to assess and to provide a robust forecast how much time this work might require, we fully support the IASB's proposal not to specify how long the temporary exception will be in place.

We generally support the IASB's proposed approach to include additional disclosure requirements on an reporting entity's exposure to paying top-up tax. We understand that the IASB's proposals are driven by the trade-off between the information needs of the users of financial statements and the costs and efforts necessary for the reporting entity to provide the respective information. However, we believe the proposed additional disclosures are not well balanced at present and should be further adjusted before finalizing the proposed amendments to IAS 12.

The appendix to this letter sets out our view on the specific questions posed in the ED.

We hope our feedback is helpful for your future deliberations. Please feel free to contact Thomas Höppel (thomas.hoeppel@allianz.com) or us to discuss any matters raised in this letter.

Yours sincerely,

Dr. Roman Sauer
Head of Group Accounting & Reporting

Andreas Thiele

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Question 1—Temporary exception to the accounting for deferred taxes (paragraphs 4A and 88A)
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 recognise 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.

We agree with the proposal to add **IAS 12.4A** that, as an exception to the requirements in IAS 12, an entity neither recognizes nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Rationale:

- The concept for the accounting of deferred taxes according to IAS 12 and the concept to calculate top-up taxes pursuant to the Pillar Two model rules are different:
  - Deferred taxes according to IAS 12 are calculated based on temporary differences between tax base and the IFRS carrying amount of individual units of account per entity, measured with the tax rate (substantively) enacted. In contrast, Pillar Two model rules calculate the top-up tax for a jurisdiction as a whole based on the overall effective tax rate of the affected entity being lower than 15% taking into account certain adjustments compared to IFRS accounting when determining the components underlying the effective tax rate. Due to the complexity and still existing interpretation difficulties of the Pillar Two model rules and the before mentioned different concepts it is not yet clear how to reflect the Pillar Two model rules in the calculation of deferred taxes pursuant to IAS 12 (e.g. definition of tax base, applicable tax rate, etc.).
  - Additionally, operational challenges arise as any top-up tax would need to be allocated to individual units of account (for example to cope with the disclosure requirements according to IAS 12.81(g)), measured with a tax rate that could change on a year-by-year basis depending on whether – due to specific cases and/or jurisdictional blending – a top-up tax would be due.
- Pillar Two model rules prescribe that for the effective tax rate calculation any top-up taxes accounted for based on the GloBE rules have to be excluded (see Art. 4.4.2 of the OECD model). Otherwise the agreed minimum tax rate of 15% would be undermined because those accounted top-up taxes would effectively increase the effective tax rate being the basis for the top-up tax calculation (circularity). In case deferred taxes would need to reflect future top-up tax amounts this would cause operational challenges insofar as for the top-up tax calculation the amount of deferred taxes reflecting Pillar Two model rules would need to be excluded again.

In summary, further analysis and experience is necessary to assess and resolve uncertainties about how to apply IAS 12 consistently in accounting for top-up tax based on Pillar Two model rules.

We are of the opinion that the proposed disclosure requirement in **IAS 12.88A** that an entity has applied the temporary exception is not necessary because it is mandatory for every reporting entity applying IFRS Standards.

Question 2—Disclosure (paragraphs 88B–88C)
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.

We generally agree with the proposed disclosure requirement in **IAS 12.88B** to require an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes for periods in which Pillar Two legislation is in effect. Rationale:

- We acknowledge that users of financial statements might be interested in understanding the impacts of the Pillar Two model rules in relation to the total income tax expense. This holds especially true for financial years in which the Pillar Two model rules are not yet integrated in full in IAS 12. However, if the Pillar Two income taxes are considered to be an income tax, it should be combined with the usual current income taxes of the reporting entity like any other kind of income tax.
- Therefore, we believe it is sufficient to consider a separate disclosure of the Pillar Two income taxes only in case they are significant.
- Instead of a separate disclosure, information needs of users of financial statements could be satisfied as well when explaining the reasons for the deviation of the effective tax rate from the expected tax rate of a reporting entity (tax rate reconciliation pursuant to IAS 12.81C).

We agree with the IASB's view that users of financial statements have a valid interest to understand the implications of the Pillar Two legislation and specifically a reporting entity's potential exposure to paying top-up tax for periods the Pillar Two legislation is (substantively) enacted, but not yet in effect. We acknowledge that the proposed disclosure requirement in **IAS 12.88C** would provide users of financial statements with insights in this regard. However, we have certain concerns that the proposed disclosure requirements of IAS 12.88C are not well balanced when considering the operational efforts for preparers and incremental benefits for users of financial statements. We note the following in this regard:

- We disagree with the proposed disclosure requirement in **IAS 12.88C(a)** that an entity discloses information about the Pillar Two legislation enacted or substantively enacted in jurisdictions in which the entity operates. This extensive disclosure should not be required in case the jurisdiction in which the ultimate parent entity of a group is located has implemented the Pillar Two model rules. In this situation the ultimate parent entity would be obliged by locally implemented Pillar Two model rules to pay additional taxes for those jurisdictions it operates in having an effective tax rate below 15% irrespective of the fact whether those low taxed jurisdictions have implemented Pillar Two model rules or not. Further disclosure requirements about other jurisdictions (the entity operates in) having implemented the Pillar Two model rules would therefore be less relevant for users but would be burdensome to collect and to update for reporting entities.
- We disagree with the proposed disclosure requirement in IAS **12.88C(b) and (c)** to the extent these disclosures are to be made for each jurisdiction in which the reporting entity's average effective tax rate (calculated as specified in paragraph 86) for the current period is below 15%. Rationale:
  - Once the Pillar Two legislation is effective, the ED proposes to disclose the current tax expense (income) related to the Pillar Two legislation as a whole (paragraph 88B of the ED). However, for periods before the Pillar Two legislation is effective, IAS 12.88C(b) and (c) require calculations and disclosures of the potential top-up tax for individual jurisdictions. At present, entities are neither obliged by tax laws nor by current provisions of IAS 12 to maintain a reporting structure by jurisdictions, but would be required to do so to cope with the proposed disclosure requirements before the Pillar Two model rules are effective. Hence, it will be complex and burdensome for reporting entities to prepare the relevant data before the effective date of the Pillar Two legislation.
  - Furthermore, we are concerned that the disclosure requirements as proposed in the ED are decision useful to investors and other users of the financial statements. In particular, the calculation pursuant to IAS 12.86 is not based on Pillar Two model rules and could therefore wrongly indicate an exposure to top-up taxes in specific jurisdictions. Hence, reporting entities will be forced to provide clarifying explanations, i.e. additional disclosures based on IAS 12.88C(c) by describing deviations in the calculation pursuant to IAS 12.86 and calculations based on the Pillar Two model rules. This would lead to additional operational efforts.
  - Therefore, we suggest to limit the proposed disclosure requirements in IAS 12.88C(b) and (c) to a reasonably assessed range of expected top-up tax including a disclosure of the jurisdictions that are expected to significantly contribute to the envisaged range of top-up tax. A practicable example would be in our view to disclose those jurisdictions the reporting entity is operating in having a nominal tax rate of below 15% including the aggregated amounts of profit/loss and income taxes for those jurisdictions.

Question 3—Effective date and transition (paragraph 98M)
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.

We agree with the proposed disclosure requirement in **IAS 12.98M(a)** to apply the proposed amendment of IAS 12.4A immediately upon issue of the proposed amendments and retrospectively in accordance with IAS 8. Regarding the proposed disclosure requirement in IAS 12.98M(a) to disclose that the entity has applied the exception, we refer to our response to question 1.

We agree with the proposed disclosure requirement in **IAS 12.98M(b)** to apply the disclosure requirements in paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023 with the caveat that it is sufficient to provide the proposed disclosures for annual periods before the effective date of the Pillar Two legislation based on reasonable estimates as otherwise an early application of the Pillar Two model rules would be required which is expected to be effective only for periods beginning on or after 1 January 2024. This would be a reasonable trade-off between the valid interest of users of the financial statements and costs and efforts of a reporting entity to provide such information.