



International Accounting Standards Board (IASB)

Cc: EFRAG

Stockholm, 02 March 2023

Exposure Draft

International Tax Reform – Pillar Two Model Rules

Proposed amendments to IAS 12

The Swedish Enterprise Accounting Group (SEAG) is pleased to have the opportunity to respond to the IASB Exposure Draft International Tax Reform - Pillar Two Model Rules.

We support the proposal to introduce a temporary exception in IAS 12 for accounting of deferred taxes related to Pillar Two. However, we disagree with the proposal in paragraph 88A to require an entity to disclose that it has applied the exception.

We do not support the proposed disclosure requirements in paragraph 88C (a). We consider that information in the current period about Pillar Two legislation in jurisdictions where the entity operates is available from other open sources.

As for the proposed disclosure requirements in paragraph 88C (b) and (c), we consider that this information is not useful and potentially misleading. Some of the disclosure requirements are similar to specific tax reporting, e.g., Country-by-Country reporting. This type of information is more interesting for tax authorities rather than for users of information in financial statements. We believe that the disclosure objective should be to help investors understand the potential impact of Pillar Two taxes on the consolidated accounts. This will differ among entities. We consider that an application of the general requirement in IAS 1 to communicate on any significant event that might be material is sufficient to fulfil this objective. This is in line with the view FASB has adopted.

As for the requirement in paragraph 88B, we strongly question what the added value is of separate information about Pillar Two taxes in current tax expense (income) in periods when Pillar Two legislation is in effect. We also note that this information will not be available to the entity when the financial statements are finalized.

Our answers to the specific questions raised in the ED are provided in the Appendix.

Best regards

CONFEDERATION OF SWEDISH ENTERPRISE

Sofia Bildstein-Hagberg

Appendix

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 provide a temporary exception to accounting for deferred taxes related to Pillar Two taxes, due to the difficulties in assessing the impact on taxes on deferred taxes before this type of legislation becomes effective.

Although the exception is mandatory, an entity shall disclose that it has applied the exception. An entity may not state that it is compliant with IFRSs unless it complies with all requirements of IFRSs (IAS 1.16). A specific disclosure that the entity has applied the mandatory exception does not add anything to what is already required by IFRS. Therefore we do not support the proposed disclosure requirement.

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.**

Information about the Pillar Two legislation status is not entity specific, and the information is publicly available. Information about the countries and regions in which an entity operates are usually presented in the financial statements. Users can therefore easily access such information in other ways and with the necessary level of detail.

Information about legislative implementation procedures of jurisdictions outside the jurisdiction where the Ultimate Parent Entity (UPE) is located is only relevant for those constituent entities of multinational groups that must apply the Undertaxed Payment Rule (UTPR) according to Pillar Two. For multinational groups that are obliged to apply the Income Inclusion Rule (IIR), information about the legislation of the jurisdiction where the UPE is located is relevant and determines the details of the applicability of the GloBE rules. In such a case, information about legislation outside that jurisdiction is generally not relevant.

- 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.**

We do not support the requirement. This information does not give a faithful representation of the potential impact of Pillar Two legislation on the consolidated financial accounts. The required information seems to be a "weak proxy" for the future impact of Pillar Two legislation. A reason for this is that the calculation of the effective tax rate according to IAS 12 is significantly different from Pillar Two Model Rules.

Information based on calculation according to IAS 12 typically do not reflect current income tax implications when Pillar Two Model Rules are applied in future periods. The calculation of the average effective tax rate of IAS 12 paragraph 86 follows the underlying accounting approach of IAS 12, whereas the computation of the effective tax rate and the Top-up Tax for Pillar Two purposes is significantly different from IAS 12.

- 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.**

We note that the disclosure as drafted (only) requires an entity to state whether it has assessed if there are an indication of exposure to pay Pillar Two taxes. A literal reading of the requirement is that an entity must disclose if it has assessed the potential impact on jurisdictions, without providing any supporting information or calculations. If this is the intention of the Board, we believe that this should be clarified if the disclosure requirement is adopted.

We do not believe this information helps users to assess the potential impact of Pillar Two taxes. An entity must make two different calculations according to paragraph 88C (b) (IAS 12) and (c) (Pillar Two), to provide the required information. This might be very confusing for users of financial information and potentially mislead them.

In addition to this, there is a huge amount of data that needs to be gathered to be able to perform the Pillar Two calculation and the data gathering will not be complete when the financial statements are finalized. As Pillar Two is a completely new global tax system this will require development of processes and data systems, which are not yet complete for this purpose.

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.

We are not sure what the added value is of this information in the consolidated accounts of an IFRS applicant would be compared to the general information about income taxes.

Further, it should be noted that in some jurisdictions tax returns for Pillar Two taxes might be due significantly later than general corporate income tax returns for the period. A consequence is that an entity will not have the information available about if and, in such case, how much of the income tax expense (income) that is related to Pillar Two taxes, when the financial statements are finalized. This is also a reason why the first tax filing according to Pillar Two will be 18 months after the fiscal year and 15 months after the fiscal year for subsequent years.

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.

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 do not have any objections to the proposals.