



INTERNATIONAL TAX REFORM - PILLAR TWO MODEL RULES: PROPOSED AMENDMENTS TO IAS 12

Issued 10 March 2023

ICAEW welcomes the opportunity to comment on the International Tax Reform - Pillar Two model rules: proposed amendments to IAS 12 published by IASB on 9 January 2023, a copy of which is available from this [link](#).

For questions on this representation please contact our Financial Reporting Faculty team at frf@icaew.com quoting REP 24/23.

We support the proposed amendments set out in ED/2023/1 *International Tax Reform – Pillar Two Model Rules*. The imminent enactment of tax law to implement the Pillar Two model rules in some jurisdictions necessitates urgent action by the IASB and the proposed temporary exception requirements provides an appropriate solution. We do, however, have concerns that the proposed disclosure requirements, as drafted, may not meet their intended purpose. In our view, a better approach would be for the IASB to set a disclosure objective which would more likely lead to the provision of clear, relevant, and useful information for users of the financial statements.

We strongly support the proposed effective dates and urge the IASB to finalise the proposed amendments as quickly as possible to enable entities to take up the exception at the earliest opportunity.

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KEY POINTS

SUPPORT FOR THE PROPOSED EXCEPTION

1. As outlined in ED/2023/1 *International Tax Reform – Pillar Two Model Rules: proposed amendments to IAS 12 Income Taxes*, there continues to be significant uncertainty over the accounting for deferred taxes arising from the Pillar Two model rules. This uncertainty will undoubtedly result in differing interpretations arising in practice, with the resulting information likely to provide limited use to users of the financial statements.
2. While the accounting for deferred taxes arising from the Pillar Two model rules is clearly a complex matter requiring careful consideration by the IASB, the imminent enactment of tax law to implement these rules in some jurisdictions necessitates urgent action now. We support the proposed temporary exception, which we believe provides an appropriate solution in these circumstances.

FURTHER CONSIDERATION FOR DISCLOSURES

3. We do, however, have concerns with the proposed disclosure requirements which could result in lengthy disclosures that do not provide meaningful information. In our view, a better approach would be for the IASB to set a disclosure objective, which would more likely lead to the provision of clear, relevant, and useful information for users of the financial statements.

EFFECTIVE DATES

4. We strongly support the proposed effective dates and, notwithstanding our concerns regarding the proposed disclosures, urge the IASB to finalise the amendments as quickly as possible to enable entities to take up the exception at the earliest opportunity.

ANSWERS TO SPECIFIC QUESTIONS

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.

5. We are supportive of the proposal to include an exception in IAS 12 that an entity neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. We are also supportive of a requirement for entities to disclose their application of this exception.
6. We agree with the IASB that there is likely to be diversity in the accounting applied when accounting for deferred tax arising from the Pillar Two income taxes due to the complexity of the rules and the unresolved interpretative issues that have and will continue to arise. In our view, the proposed temporary exception provides an appropriate solution in these circumstances.
7. While we agree with the need for the exception, and for the accelerated timetable for application (see question 3), we nevertheless consider this to be a temporary solution which is necessary under these particular circumstances. That is, there will still be a need for the

IASB to consider the accounting for deferred tax arising on Pillar Two model rules in more detail in order to establish a longer-term plan, including the removal of the exception over time.

8. It is our understanding from ED/2023/1 that the IASB intends for all taxes arising from the Pillar Two model rules to be within the scope of IAS 12, not only for consolidated financial statements, but also in the financial statements of a group's subsidiaries. However, we have deliberated whether this is sufficiently clear on reading proposed paragraphs 4A and BC9.
9. In order to remove any uncertainty, we suggest that the IASB makes clear within paragraphs 4A and BC9 that all Pillar Two taxes are to be accounted for in accordance with the amended IAS 12, and thus (a) classified and presented as income taxes, (b) excepted from the requirements of deferred tax accounting and related disclosures, and (c) subject to the IASB's proposed disclosures in paragraphs 88A to 88C of the ED.

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.

10. We are aware of concerns that the proposed disclosures, as drafted, could be onerous for preparers to compile and may not provide meaningful or helpful information to users of the financial statements. In particular:
 - Paragraph 88C(a) requires 'information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.' There is a risk that the proposed disclosure, as drafted, may result in lengthy disclosure outlining the legislation across all the jurisdictions in which an entity operates, rather than highlighting those jurisdictions which are relevant for the purpose of understanding the entity's exposure to Pillar Two taxes.
 - The disclosures proposed in paragraphs 88C(b) and (c) are based on the calculation of the average effective tax rate calculated in accordance with IAS 12, as opposed to the effective tax rate required in accordance with the Pillar Two model rules. We understand that there are significant differences between the two methodologies such that using the IAS 12 effective tax rate as the basis for disclosures would result in disclosures which are not indicative of an entity's exposure to top-up taxes.
 - Proposed paragraph 88(c) allows entities to explain why the effective tax rates are not relevant to their liabilities, but only in jurisdictions where they have started to assess their new tax position. This could be very late in the process for various reasons,

including the need to have an estimate that is accurate enough for financial statement disclosure purposes.

11. While some of these concerns would be addressed by reference to the requirements in IAS 1 *Presentation of Financial Statements* regarding materiality, we nevertheless consider that on balance the proposed disclosures would likely cause confusion to preparers and could result in lengthy disclosures which have limited use to users of the financial statements.
12. In our view, a better approach would be for the IASB to adopt a more principles-based approach, and to set a disclosure objective outlining the need for information which will provide users of the financial statements with details of how the Pillar Two legislation has affected the current period tax charge, and enables them to assess how it might affect the tax charge in the future, both in terms of the amount and variability.
13. We accept that taking this approach might mean that entities that have not yet performed a detailed assessment of the impact of enacted or substantively enacted Pillar Two model legislation may struggle to meet the disclosure objective. In this case, we suggest that the existing proposed disclosures could be applied by these entities. For example, it might be that some of the disclosures set out in ED/2023/1 could be repurposed as examples of how to meet that objective, rather than as a detailed set of prescriptive rules.
14. We are keenly aware of the urgency on this matter and that there is a strong demand and need for the proposed accounting exception. However, we would nevertheless urge the IASB to reconsider the disclosure proposals within its existing timeframe for finalising the proposals. Otherwise, there is a risk that the resulting proposals may fall short on the overall need to provide clear and useful information to users of the financial statements.

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.

15. We agree with the IASB’s proposal for immediate application of the exception in paragraph 4A. We think that immediate, retrospective application of the measurement exemption is the most effective way to provide clarity and reduce diversity in accounting practice in this complex area.
16. We also agree with the proposal for the effective date for the disclosures in 88B-88C. We do not think these should become effective immediately as this would result in some entities having insufficient time to prepare.
17. It is also important to proceed as quickly as possible to reduce the risk of worse outcomes, such as entities reporting deferred tax for top-up taxes in one period, or making efforts to do so, and removing them in a subsequent period.