Staff paper

Agenda reference 1

Due Process Oversight Committee

Date	**December 2022**
Project	**International Tax Reform—Pillar Two Model Rules**
Topic	**Approval for a shortened comment period for an exposure draft**
Contacts	**Gustavo Olinda (golinda@ifrs.org)**

Purpose

1. The purpose of this paper is to seek the approval of the Due Process Oversight Committee (DPOC) for a shortened comment period for an exposure draft of proposed narrow-scope amendments to IAS 12 *Income Taxes*.

2. In accordance with paragraph 6.7 of the *Due Process Handbook*, the International Accounting Standards Board (IASB) normally allows a minimum period of 120 days for comment on an exposure draft. If the matter is narrow in scope and urgent the IASB may set a comment period of less than 120 days (but no less than 30 days) after consulting and obtaining approval from the DPOC.

Proposed narrow scope-amendments to IAS 12

Background

3. In October 2021, more than 135 countries and jurisdictions—representing more than 90% of global GDP—agreed to major international tax reform that introduces a global minimum tax for large multinational enterprises (MNEs). These countries and jurisdictions joined the OECD/G20 *Inclusive Framework on Base Erosion and Profit Shifting* statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. The two-pillar solution comprises:

    (a) *Pillar One*—which aims to ensure a fairer distribution of profits and taxing rights among countries for the largest MNEs; and

    (b) *Pillar Two*—which aims to put a floor on tax competition by introducing a global minimum corporate tax rate set at 15% for large MNEs.

4. In December 2021, the OECD released the Pillar Two model rules. These rules aim to ensure large MNEs—entities with revenue in their consolidated financial statements of more than EUR 750 million—pay a minimum amount of tax on income arising in each jurisdiction in which they operate. The rules provide a template that jurisdictions can translate into domestic tax law.

5. The Pillar Two model rules are intended to be implemented as part of an agreed-upon common approach and are expected to be introduced via domestic tax law in 2023. We have been informed that some jurisdictions are expected to enact legislation to implement the rules as early as the first half of 2023, although this is still uncertain.

Potential implications on the accounting for income tax

6. Stakeholders have informed us of concerns about the implications of the imminent implementation of the Pillar Two model rules on the accounting for income tax. Stakeholders' concerns relate to:
   (a) how an entity would apply IAS 12 to account for income tax arising from implementing the rules;
   (b) the usefulness of the information that could result from accounting for deferred taxes with respect to that tax; and
   (c) the urgent need for clarity given the imminent implementation of the rules by some countries and jurisdictions.[1]

A temporary exception from the recognition of deferred taxes

7. The staff agree with stakeholders that it is not immediately apparent how an entity would apply the principles and requirements in IAS 12 in accounting for income tax (in particular, deferred taxes) arising from implementing the Pillar Two model rules. Further work is needed to determine how IAS 12 applies in this context. However, undertaking such work could require some considerable time. Given the pace at which the rules are expected to be implemented in some jurisdictions, in our view it would not be feasible to complete the work needed before new tax laws are enacted and, consequently, before entities are required to reflect them in accounting for income tax.

8. Accordingly, in the light of stakeholders' concerns and the urgency of the matter, the staff recommended that the IASB introduce a temporary exception from accounting for deferred taxes arising from legislation enacted to implement the Pillar Two model rules, as well as targeted disclosures for affected entities. The exception would apply until such time that the IASB decides to either remove it or make it permanent. At its November 2022 meeting, the IASB agreed with our recommendation and decided to propose narrow scope amendments to IAS 12.

9. For the exception to be effective in addressing the concerns raised, it would need to be introduced as soon as possible and preferably before jurisdictions implement the Pillar Two model rules. As mentioned in paragraph 5, it is expected that some jurisdictions will enact legislation to implement the

[1] Please see Agenda Paper 12A for the IASB's November 2022 meeting for further information.

rules as early as the first half of 2023. Therefore, any standard-setting would have to be completed urgently.

Recommended comment period

10. The IASB decided in November 2022 to allow a comment period of 60 days for the exposure draft, subject to approval by the DPOC. The staff is therefore asking the DPOC to approve a shortened comment period of 60 days. This should enable the IASB to finalise any amendments to IAS 12 in the second quarter of 2023.

11. While a 60-day comment period is short, in the IASB's view it would still enable stakeholders to respond to the proposed amendments. The IASB considered the following in reaching its decision to allow a 60-day comment period:

    (a) the IASB would need to finalise any amendments expeditiously for them to be effective;

    (b) the proposed amendments are narrow in scope—they would be limited to introducing (i) a temporary exception from accounting for deferred taxes and (ii) targeted disclosure requirements; and

    (c) the proposed amendments respond to stakeholders' concerns about the urgent need for clarity given the imminent implementation of the Pillar Two model rules in various jurisdictions around the world.

Question for the DPOC

12. **Does the DPOC give its approval for a shortened comment period of 60 days for an exposure draft of proposed narrow-scope amendments to IAS 12 explained in paragraph 8?**