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## IASB meeting

Date	<b>April 2023</b>
Project	<b>International Tax Reform—Pillar Two Model Rules</b>
Topic	<b>Temporary exception to deferred tax accounting</b>
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## Introduction and purpose

1. As Agenda Paper 12 explains, this paper:
  - (a) summarises feedback on the proposal in the [Exposure Draft International Tax Reform—Pillar Two Model Rules](#) to introduce a temporary exception to the requirements in IAS 12 *Income Taxes* to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and
  - (b) provides our analysis of that feedback and recommendations.

## Structure of this paper

2. This paper includes:
  - (a) summary of staff recommendations (paragraph 4); and
  - (b) summary of feedback, staff analysis and recommendations on:
    - (i) the proposed temporary exception (paragraphs 5–28); and
    - (ii) the proposed disclosure that an entity has applied the exception (paragraphs 29–36).

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3. There are two appendices to this paper:
    - (a) Appendix A—other comments; and
    - (b) Appendix B—feedback from outreach activities.

## Summary of staff recommendations

4. Based on our analysis in this paper, we recommend the IASB:
  - (a) finalise its proposals to:
    - (i) introduce a temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes (the temporary exception);
    - (ii) require the temporary exception to be mandatory; and
    - (iii) not specify how long the temporary exception will be in place.
  - (b) not finalise the proposal to require an entity to disclose the fact that it has applied the temporary exception.

## Temporary exception to the accounting for deferred taxes

### *Proposals in the Exposure Draft*

5. The IASB proposes to add paragraph 4A to IAS 12, which would state:

4A This Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development, including tax law that implements qualified domestic minimum top-up taxes described in those rules.<sup>1</sup> Such tax law, and the

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<sup>1</sup> The Pillar Two model rules are available at <https://www.oecd.org/tax/beps/tax-challenges-arising-from-the-digitalisation-of-the-economy-global-anti-base-erosion-model-rules-pillar-two.htm>.

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income taxes arising from it, are hereafter referred to as ‘Pillar Two legislation’ and ‘Pillar Two income taxes’. As an exception to the requirements in this Standard, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

6. Paragraph BC15 of the Exposure Draft explains the reasons for this proposal:

BC15 The IASB proposes to introduce a temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. Introducing such a temporary exception would:

- (a) provide affected entities with relief from accounting for deferred tax assets and liabilities in relation to a complex new tax law to be enacted in multiple jurisdictions in a short period of time;
- (b) avoid entities developing diverse interpretations of IAS 12, which could result in the Standard being applied inconsistently; and
- (c) allow time for jurisdictions to enact new tax law, for stakeholders to assess how the rules have been implemented by those jurisdictions, for entities to assess how they are affected and for the IASB to consider whether it needs to undertake further work.

7. In addition:

- (a) paragraph BC16 of the Exposure Draft explains the reasons for the IASB’s proposal that the temporary exception be mandatory:

BC16 ... Making the exception mandatory would:

- (a) result in greater comparability between entities’ financial statements, and thus result in more useful information for users of financial statements; and
- (b) eliminate the risk that entities might inadvertently develop accounting policies that are inconsistent with the principles and requirements in IAS 12.

- (b) paragraph BC17 of the Exposure Draft discusses the duration of the exception:

BC17 Further work is needed to determine how entities apply the principles and requirements in IAS 12 to account for deferred taxes related to Pillar Two income taxes ..., which in turn depends on how jurisdictions implement the Pillar Two model rules. The IASB concluded that it is not possible to determine—at present—how much time such work will require. Consequently, the IASB proposes not to specify how long the temporary exception would be in place.

### ***Summary of feedback***

#### *Overall feedback*

8. Almost all respondents—across all types of stakeholders—agree with the proposed temporary exception. Most of these respondents agree for the reasons set out in the Exposure Draft. For example:

- (a) ACTEO, Afep and MEDEF say:

...we fully agree with the arguments developed in the Basis for Conclusions and we therefore support the exception. Pillar Two is a very complex mechanism which needs to be examined very closely to understand whether, and how, deferred tax should be recognized and/or measured by incorporating these new provisions. Companies, auditors and tax authorities, in particular, need sufficient time to assess the full impact of this unprecedented reform. We support the exception and appreciate the efforts made by the [IASB] to provide relief to preparers in this regard.

- (b) the Corporate Reporting Users' Forum (CRUF) says:

The CRUF agrees with a mandatory temporary exception as it will increase consistency and comparability between entities' financial statements.

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9. Almost all respondents also agree that the temporary exception should be mandatory. A few respondents say the exception should be optional to allow entities to provide deferred tax information if they are able to do so.
10. Most respondents agree with not specifying how long the temporary exception will be in place. However:
- (a) a few respondents suggest specifying how the long the temporary exception would be in place or, at least, specifying the earliest date on which the IASB would reconsider the temporary exception. For example:
    - (i) the European Association of Co-operative Banks (EACB) says such information would help entities prepare for the eventual removal of the temporary exception; and
    - (ii) Instituto de Contabilidad y Auditoria de Cuentas (ICAC) cautions that, if the temporary exception is kept in place for a long time, entities would not provide information even when they are able to do so.
  - (b) a few respondents say the exception should be permanent because recognising deferred taxes arising from Pillar Two legislation would be costly, complex and potentially misleading.
  - (c) while not disagreeing with the IASB's proposal to not specify how long the temporary exception will be in place, a few respondents suggest:
    - (i) monitoring future developments related to the implementation of Pillar Two legislation in various jurisdictions.
    - (ii) preparing and communicating a timeline and work plan for undertaking further work to determine whether to remove or make the exception permanent. A few respondents suggest prioritising such work.
11. Some respondents emphasise the importance of maintaining convergence with US GAAP on this matter. These respondents note the Financial Accounting Standard

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Board (FASB) staff response to a technical inquiry on the matter and suggest working together with the FASB and other national standard-setters.<sup>2</sup>

12. Many respondents appreciate the IASB's responsiveness and the timeliness in addressing the matter. Many respondents also reiterate the urgency of finalising the proposed amendments, particularly because jurisdictions may imminently enact or substantively enact Pillar Two legislation.

*Scope of the temporary exception*

13. Many respondents comment on the scope of the temporary exception. Respondents commented on the following areas:
- (a) the wording of proposed paragraph 4A;
  - (b) lack of clarity about when top-up taxes are incomes taxes;<sup>3</sup> and
  - (c) the effect on deferred taxes related to domestic tax regimes.

***The wording of proposed paragraph 4A***

14. Paragraph 4A of the Exposure Draft states:

This Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules...

15. Some respondents say this statement is ambiguous:
- (a) some read it as requiring an entity to first consider whether top-up taxes are income taxes (and thus whether those taxes are in the scope of IAS 12); while
  - (b) others read it as asserting that all top-up taxes are income taxes (and thus that those taxes are always in the scope of IAS 12).

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<sup>2</sup> The technical inquiry and FASB staff response are available [here](#). FASB staff concluded that 'the GloBE minimum tax as illustrated in the inquiry is an alternative minimum tax (AMT) as discussed in Topic 740, Income Taxes. As an AMT, deferred tax assets and liabilities would not be recognized or adjusted for the estimated future effects of the minimum tax.'

<sup>3</sup> All references to 'top-up taxes' in this paper relate to top-up taxes arising from Pillar Two legislation.

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***Lack of clarity about when top-up taxes are income taxes***

16. Some respondents say it is unclear whether top-up taxes are income taxes (and thus are in the scope of IAS 12) in some situations, including:
- (a) outside an ultimate parent entity's consolidated financial statements—for example:
    - (i) in an intermediate parent entity's consolidated financial statements when the intermediate parent entity is liable to pay top-up tax with respect to profits of entities that are not part of its reporting group (for example, with respect to a fellow subsidiary's profits); or
    - (ii) in a parent entity's separate financial statements when it is liable to pay top-up taxes with respect to profits of its subsidiaries.<sup>4</sup>
  - (b) when top-up taxes are charged under the UTPR or Subject to Tax Rule (STTR).<sup>5</sup>
  - (c) when a jurisdiction introduces a domestic minimum tax for which it is unclear whether it qualifies as a qualified domestic minimum top-up tax (QDMTT).<sup>6</sup>
17. To improve consistency in the accounting for top-up taxes—including consistency in whether the disclosure requirements proposed in the Exposure Draft would apply—some respondents suggest either:
- (a) providing further clarification or guidance to help an entity determine whether top-up taxes are income taxes; or
  - (b) specifying that all top-up taxes are in the scope of IAS 12.
18. Some respondents specifically agree with including QDMTTs in the scope of the temporary exception. However, while also agreeing to include these taxes in the scope

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<sup>4</sup> A few respondents also asked whether the parent entity would account for such payments as a capital contribution to its subsidiaries.

<sup>5</sup> The STTR is a treaty-based rule which will allow countries to retain their taxing right on certain payments made to related parties abroad, such as interest and royalties. Paragraph 11(a) of Agenda Paper 12 provides more information on the UTPR.

<sup>6</sup> Paragraph 12 of Agenda Paper 12 provides more information on QDMTTs.

of the temporary exception, PwC suggests monitoring the implementation of QDMTTs in various jurisdictions and reassessing whether the exception should continue to apply to QDMTTs as part of further work the IASB will undertake.

***Effect on deferred taxes related to domestic tax regimes***

19. A few respondents say it is unclear whether and how the temporary exception would affect the accounting for deferred taxes arising under domestic tax regimes (domestic deferred taxes). In particular:
- (a) the Autorité des Normes Comptables (ANC) says Pillar Two legislation could have ‘indirect effects’ on the measurement of domestic deferred taxes. The respondent describes an example where Pillar Two legislation may affect the measurement of existing deferred tax assets for tax losses. The respondent recommends expanding the temporary exception to capture those effects.
  - (b) the UK Financial Reporting Council (UK FRC) suggests the temporary exception should also cover the measurement of deferred taxes (in addition to recognition and disclosure) to address questions about whether domestic deferred taxes should be remeasured to reflect the minimum tax rate of the Pillar Two legislation.

***Staff analysis***

***Introducing the temporary exception***

20. Feedback from respondents overwhelmingly confirms the need for the temporary exception for the reasons set out in the Exposure Draft. Furthermore, most respondents also agree with the exception being mandatory and with not specifying how long the temporary exception will be in place, mostly for the reasons set out in the Exposure Draft. We continue to agree with these proposals for the same reasons.



21. Furthermore:
- (a) introducing the temporary exception would lead to greater consistency with the outcomes of the FASB staff conclusion on the deferred tax accounting for Pillar Two income taxes under US GAAP; and
  - (b) given the urgency for finalising the amendments—reinforced by feedback from respondents—we do not recommend discussing at this stage details about further work the IASB might undertake.
22. Therefore, we recommend that the IASB finalise its proposals to:
- (a) introduce a temporary exception to the requirements in IAS 12 to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes;
  - (b) require the temporary exception to be mandatory; and
  - (c) not specify how long the temporary exception will be in place.

#### Question 1 for the IASB

1. Does the IASB agree with our recommendation in paragraph 22?

#### *Scope of the temporary exception*

23. The IASB acknowledged stakeholders concerns about determining whether top-up taxes are income taxes. In explaining stakeholder concerns about how to apply IAS 12 to account for top-up taxes, paragraph BC9 of the Exposure Draft states:

Stakeholders generally agree that top-up tax is an income tax—in the scope of IAS 12 *Income Taxes*—in the consolidated financial statements of the ultimate parent entity of a group subject to the Pillar Two model rules. However, they said it was unclear whether top-up tax is an income tax in the financial statements of a group's subsidiaries—for example, if an entity is liable to pay such tax with respect to profits of entities that

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are not part of its reporting group (for example, with respect to a fellow subsidiary's profits).

24. In developing its proposals, the IASB did not discuss in which circumstances top-up taxes are income taxes (and thus whether those taxes are in the scope IAS 12), including whether top-up taxes are income taxes outside the context of a ultimate parent entity's consolidated financial statements.
25. The IASB's intention when drafting paragraph 4A (see paragraph 5 of this paper) was not to state that all top-up taxes are—or should be deemed to be—income taxes. Instead, the IASB's intention was to state that IAS 12 applies to *income taxes* arising from Pillar Two legislation (that is, for those top-up taxes arising from Pillar Two legislation that are income taxes). Therefore, similar to any other tax, an entity would first consider whether top-up taxes are income taxes based on the particular circumstances before applying the requirements in IAS 12.<sup>7</sup> We will consider clarifying the wording of paragraph 4A and any related discussion in the Basis for Conclusions when drafting final amendments.
26. Providing further clarifications or guidance to help entities assess the situations in which top-up taxes are income taxes would require significant additional technical analysis. In our view, it is not possible to do so without delaying the finalisation of the amendments. Similarly, we do not recommend requiring entities to deem all top-up taxes arising from Pillar Two legislation to be income taxes in the scope of IAS 12. In our view, doing so without undertaking further technical analysis could result in unintended consequences.
27. Finally, the temporary exception was designed to apply only to Pillar Two income taxes. Therefore:
- (a) we do not recommend expanding the scope of the exception to capture potential effects of Pillar Two legislation on the accounting for domestic deferred taxes. Doing so at this stage could result in unintended consequences.

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<sup>7</sup> We are not aware of questions related to how to account for top-up taxes when they are not in the scope of IAS 12.

- (b) in our view, it is unnecessary that the temporary exception covers ‘measurement’ to address questions about whether domestic deferred taxes should be remeasured. For example, if an entity were to remeasure an existing deferred tax liability to reflect additional Pillar Two income taxes it expects to pay when recovering (or settling) the related asset or liability, it would in effect be recognising a deferred tax liability related to Pillar Two income taxes, which is covered by the temporary exception—the liability would relate to future payments of top-up tax, not future payments of domestic income taxes.

28. Therefore, we recommend no change to the scope of the temporary exception.

Question 2 for the IASB

2. Does the IASB agree with our recommendation in paragraph 28?

## Disclosure that an entity has applied the exception

### *Proposal*

29. The IASB proposes to add paragraph 88A to IAS 12, which would state:

An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 4A).

### *Summary of feedback*

30. Some respondents say the proposed disclosure requirement would be unnecessary because the temporary exception is mandatory. Therefore, such disclosure would not provide any information not already covered by an entity’s statement of compliance with IFRS Accounting Standards, as required by paragraph 16 of IAS 1 *Presentation of Financial Statements*.

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31. However, some other respondents explicitly agree with the proposed disclosure requirement, saying disclosing this information would provide clarity and transparency that an entity has applied the exception.
  32. A few respondents suggest requiring instead that an entity disclose whether it expects to be affected by the Pillar Two model rules.

***Staff analysis***

33. Not all entities are in the scope of the Pillar Two model rules or are exposed to paying top-up taxes. Therefore, despite the temporary exception being mandatory, disclosing that an entity has applied the exception would provide entity-specific information. In other words, by disclosing this information, an entity would inform users of financial statements that it has not recognised deferred taxes related to Pillar Two income taxes, despite:
  - (a) being in the scope of the Pillar Two model rules; and
  - (b) potentially being exposed to paying top-up taxes.
34. We also agree with respondents who say disclosing this information would make the application of the exception clear and transparent.
35. However:
  - (a) if the IASB agrees with our recommendations in Agenda Paper 12B for this meeting, an entity would already be required to provide information about its exposure to Pillar Two income taxes when applying the proposed disclosure requirements. Therefore, an entity would provide the entity-specific information discussed above.

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- (b) IAS 1 requires an entity to disclose material accounting policy information and provides specific requirements an entity applies in determining what information to provide.<sup>8</sup>
- (c) an entity is not specifically required to disclose that they have applied other exceptions from recognising deferred taxes in IAS 12 (for example, the exceptions in paragraphs 15 and 24 of that Standard).
36. Based on our analysis, we recommend not finalising the proposal to require an entity to disclose that it has applied the temporary exception.

Question 3 for the IASB

3. Does the IASB agree with our recommendation in paragraph 36?

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<sup>8</sup> See paragraphs 117–117E of IAS 1.

## Appendix A—other comments

A1. The following table summarises other comments together with our analysis and recommendations.

Respondents' comments	Staff analysis and conclusions
<p><i>1. Definitions in the Exposure Draft</i></p> <p>A few respondents comment on the definition of ‘Pillar Two legislation’ in proposed paragraph 4A (see paragraph 5 of this paper). In particular:</p> <p>(a) a few respondents say the term ‘Pillar Two model rules’ is defined in paragraph BC1 of the Exposure Draft and suggest including that definition in paragraph 4A.<sup>9</sup></p> <p>(b) the Canadian Accounting Standards Board (AcSB) suggest clarifying, in the Basis for Conclusions, the meaning of the phrase ‘enacted...to implement the Pillar Two model rules’ to recognise that jurisdictions may tailor the rules to fit domestic tax law, and that the exception would still apply in those cases.</p>	<p><i>We recommend no further change</i></p> <p>In our view, neither paragraph 4A nor paragraphs in the Basis for Conclusion of final amendments should define the Pillar Two model rules by referring to a specific document published by the OECD. We think this would avoid unduly limiting the scope of legislation to which the temporary exception applies.</p> <p>Furthermore, we think the phrase ‘legislation enacted or substantively enacted to implement the Pillar Two model rules’ used in paragraph 4A to define ‘Pillar Two legislation’ would capture any legislation that implements the Pillar Two model rules even if there are differences between that legislation and the Pillar Two model rules.</p> <p>We also think the IASB should not expand the scope of the exception to capture ‘top-up taxes’ in general. Doing so would risk unintended</p>

<sup>9</sup> Paragraph BC1 of the Exposure Draft refers to the name of the publication that includes the Pillar Two model rules, while paragraph 4A refers only to ‘Pillar Two model rules published by the Organisation for Economic Co-operation and Development’ and include a link to the OECD website where the rules are available.

Respondents' comments	Staff analysis and conclusions
<p>(c) the UK FRC says linking the definition of ‘Pillar Two legislation’ to a specific publication could have unintended consequences. For example, jurisdictions may expand the scope of the rules when implementing them. It suggests defining ‘top-up taxes’ in general, and referring to the Pillar Two legislation as an example that results in such top-up taxes. It says a similar approach was used in the <i>Interest Rate Benchmark Reform</i> amendments.<sup>10</sup></p> <p>A few respondents provide drafting suggestions.</p>	<p>consequences—for example, it may capture other types of domestic minimum taxes that the IASB has not considered in developing its proposals.</p> <p>We will consider drafting suggestions when drafting final amendments.</p>
<p>2. <i>Exception to deferred tax disclosures</i></p> <p>A few respondents say the temporary exception should not cover disclosure of information about deferred taxes. These respondents say some entities may wish to disclose some information about deferred taxes related to Pillar Two income taxes, or that such information might become available in future periods. However, the temporary exception would prohibit entities from disclosing such information. The Dutch Accounting Standards Board (DASB)</p>	<p><i>We recommend no further change</i></p> <p>In our view, the exception should mandatorily apply to disclosure requirements for the same reasons it does to recognition requirements—that is, to ensure comparability and eliminate the risk that entities inadvertently develop accounting policies that are inconsistent with the principles and requirements in IAS 12. We note</p>

<sup>10</sup> Paragraph 6.8.2 of IFRS 9 *Financial Instruments* refers to ‘the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’, and includes a footnote with a link to the report.

Respondents' comments	Staff analysis and conclusions
<p>suggests exempting, rather than prohibiting, entities from disclosing that information.</p>	<p>this would not prevent an entity from disclosing other information about Pillar Two income taxes.</p>
<p><i>3. Splitting the proposals</i></p> <p>Given the urgent need for the temporary exception, a few respondents suggest the IASB separates its redeliberations on the proposed temporary exception from its redeliberations on the proposed disclosures. This, they say, would allow the IASB to finalise the temporary exception earlier and therefore help stakeholders in jurisdictions that are expected to enact legislation imminently.</p>	<p><i>We recommend no further change</i></p> <p>We acknowledge concerns about the urgency of finalising the amendments. However, we do not recommend splitting and separately redeliberating the proposals. In our view the proposal to introduce a temporary exception and to require additional disclosures are part of a single package that balances providing, among other things:</p> <ul style="list-style-type: none"> <li>(a) necessary and timely relief to affected entities; and</li> <li>(b) useful information to investors, in part due to the loss of information resulting from the temporary exception.</li> </ul> <p>Furthermore, in our view, it is possible to address the main concerns on the disclosure proposals without unduly delaying the publication of the amendments to IAS 12 (see Agenda Paper 12B for this meeting).</p>



Respondents' comments	Staff analysis and conclusions
<p><i>4. Clarifications in the Basis for Conclusions</i></p> <p>A few respondents suggest clarifications to the explanations in the Basis for Conclusion:</p> <p>(a) Mazars suggests clarifying the steps an entity would undertake in applying the requirements in IAS 12 prior to the introduction of the temporary exception, including that applying those requirements would require ‘significant interpretative work’. It says such a clarification would be useful for an entity operating in jurisdictions that enact Pillar Two legislation before the entity is authorised to apply the proposed amendments to IAS 12 (for example, due to endorsement processes).</p> <p>(b) Deloitte suggests changes to clarify that there are questions about whether Pillar Two legislation gives rise to temporary differences.</p>	<p><i>We recommend no further change</i></p> <p>The Basis for Conclusions of the Exposure Draft acknowledges questions about how to apply the requirements in IAS 12 in accounting for Pillar Two income taxes. Indeed, one of the main reasons for introducing the temporary exception is to ‘avoid entities developing diverse interpretations of IAS 12’. Therefore, we do not recommend further specific changes to these explanations.</p>
<p><i>5. Others</i></p> <p>The Australian Accounting Standards Board (AASB) says the use of IFRS-based accounting profit as the basis for levying Pillar Two taxes may result in common law courts interpreting IFRS Accounting Standards, which could lead to inconsistent application across jurisdictions. The AASB recommends:</p>	<p><i>We recommend no further change</i></p> <p>We understand respondents’ concerns. However, considering these concerns would be beyond the scope of the proposed amendments.</p>

Respondents' comments	Staff analysis and conclusions
<p>(a) identifying an alternative basis to prevent common law courts from interpreting IFRS Accounting Standards; and</p> <p>(b) engaging with the OECD to discuss the effects of the Pillar Two model rules on IFRS Standards and financial markets worldwide.</p> <p>Furthermore, the Norwegian Accounting Standards Board (NASB) says the matter in the Exposure Draft illustrates that there may be more fundamental issues concerning IAS 12.</p>	

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## Appendix B—feedback from outreach activities

B1. In addition to feedback through comment letters, we obtained feedback from members of the Global Preparers Forum (GPF) and the Capital Markets Advisory Committee (CMAC). The following paragraphs summarise that feedback.

### *Feedback from GPF members*

B2. GPF members generally welcomed the proposal to introduce the temporary exception.

B3. In addition, one GPF member:

- (a) disagreed with the proposed requirement for an entity to disclose that it has applied the exception. That member said that, since the temporary exception would be mandatory, the proposed disclosure requirement is unnecessary and may result in entities providing boilerplate information.
- (b) said the IASB should work together with the FASB and national standard-setters to maintain convergence with US GAAP and other GAAPs.

### *Feedback from CMAC members*

B4. CMAC members generally agreed with the proposal to introduce the temporary exception.