IFRS Accounting

FASB | IASB Education Meeting

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Project International Tax Reform—Pillar Two Model Rules

Topic IASB Update

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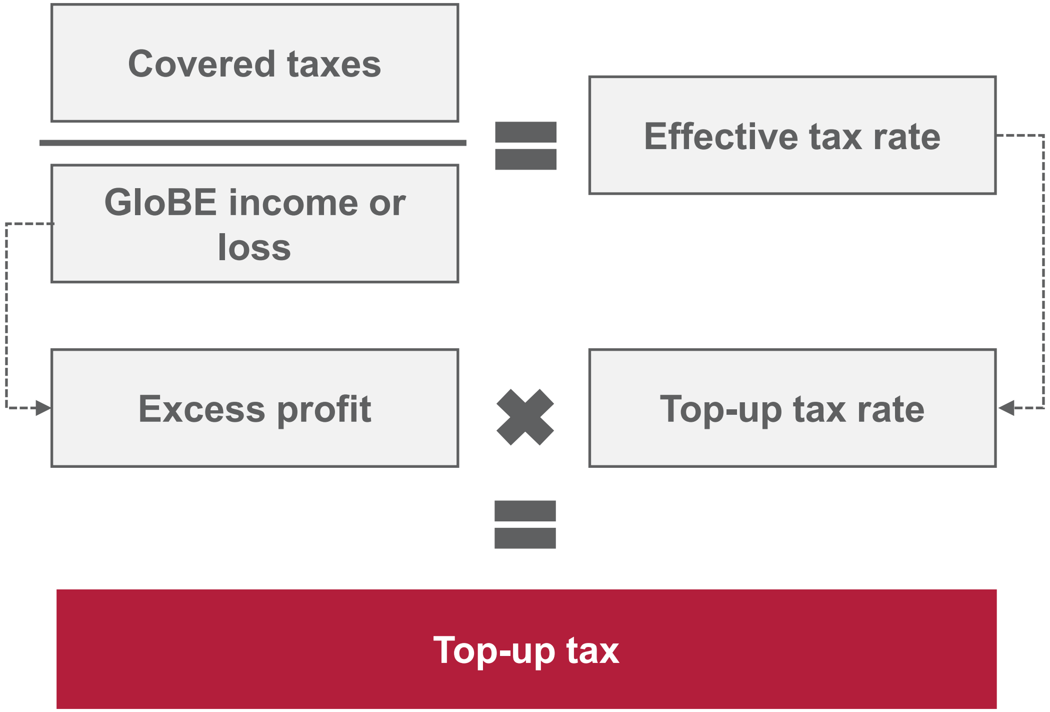
Background

The Pillar Two model rules

In December 2021, the OECD published its **Pillar Two model rules**. The rules:

a) were agreed by more than 135 countries and jurisdictions representing more than 90% of global GDP.

b) provide a template for the implementation of a **minimum corporate tax rate of 15%** that large multinational entities would pay on income generated in each jurisdiction in which they operate.



Simplified diagram illustrating the computation of top-up tax in a jurisdiction

Potential implications for income tax accounting

Stakeholders informed the IASB of concerns about the implications of the imminent implementation of the Pillar Two model rules for income tax accounting. These concerns relate to:

a) how an entity would **account for top-up tax** arising from the Pillar Two model rules.

b) the **usefulness of the information** that could result from accounting for deferred taxes related to top-up tax.

c) the **urgent need for clarity** in the light of the imminent enactment of tax law to implement the rules in some jurisdictions.

Amendments to IAS 12

Amendments to IAS 12 *Income Taxes*

In May 2023, the IASB issued *International Tax Reform—Pillar Two Model Rules*, which amended IAS 12.

The amendments introduce:

a) a **temporary exception** to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules; and

b) targeted **disclosure requirements**.

The following slides include further details.

Temporary exception

The amendments:

a) introduced a **temporary exception** to the requirement to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

b) require an entity to disclose that it has applied the exception.

The temporary exception applies until the IASB either removes it or makes it permanent.

Effective date

Immediately upon issue of the amendments.

Disclosures

Before legislation is in effect

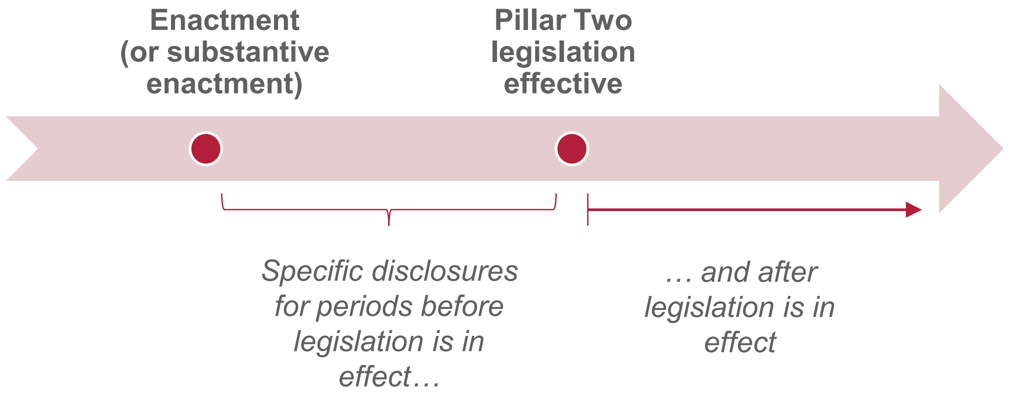
- **Disclosure objective**

  An entity discloses known or reasonably estimable information that helps users of financial statements understand the entity's **exposure to Pillar Two income taxes**.

- **Meeting the objective**
  - an entity discloses **qualitative** and **quantitative** information about its exposure to Pillar Two income taxes at the end of the reporting period.
  - to the extent information is not known or reasonably estimable, an entity discloses a statement to that effect and information about the entity's progress in assessing its exposure.

After legislation is in effect

An entity discloses current tax expense related to Pillar Two income tax.



Effective date

Annual reporting periods beginning on or after 1 January 2023 (disclosures are not required for interim periods ending in 2023).

Amendments to the *IFRS for SMEs* Accounting Standard

At its supplementary meeting in August 2023 the IASB tentatively decided to finalise its proposals in the Exposure Draft *International Tax Reform—Pillar Two Model Rules—Proposed amendments to the* IFRS for SMEs *Accounting Standard* to align with IAS 12.

The amendments:

(a) introduce a temporary exception to the requirements:

- (i) to recognise deferred tax assets and liabilities related to Pillar Two income taxes; and
- (ii) to disclose information that would otherwise be required by paragraphs 29.39–29.41 of the *IFRS for SMEs* Standard about deferred tax assets and liabilities related to Pillar Two income taxes;

(b) introduce targeted disclosure requirements for affected SMEs in periods when Pillar Two legislation is in effect; and

(c) clarify that 'other events' in the disclosure objective in paragraph 29.38 of the Standard include enactment or substantive enactment of tax rates and tax laws, such as Pillar Two legislation.

The IASB expects to issue the amendments at the end of September 2023.

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