
IASB[®] meeting

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| Date | August 2023 |
| Project | Pillar Two Model Rules—Amendments to the <i>IFRS for SMEs</i>[®] Accounting Standard |
| Topic | Cover paper |
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Introduction and purpose

1. In June 2023, the International Accounting Standards Board (IASB) published the [Exposure Draft International Tax Reform—Pillar Two Model Rules—Proposed Amendments to the IFRS for SMEs Standard](#) (Exposure Draft). The comment period ended on 17 July 2023.
2. The purpose of this meeting is to:
 - (a) provide the IASB with:
 - (i) a summary of feedback on the Exposure Draft; and
 - (ii) our analysis and recommendations on how to proceed; and
 - (b) ask the IASB whether it agrees with our recommendations.

Agenda papers for this meeting

3. This cover paper includes:
 - (a) background (paragraphs 5–13); and

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- (b) feedback overview (paragraphs 14–20); and
 - (c) next steps (paragraph 21).
4. In addition to this paper, there are three agenda papers for this meeting:
- (a) Agenda Paper 12A—temporary exception to deferred tax accounting;
 - (b) Agenda Paper 12B—disclosure requirements; and
 - (c) Agenda Paper 12C—effective date, transition and due process.

Background

Pillar Two model rules

5. In October 2021 more than 135 jurisdictions agreed to the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting’s *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*. Since then, the OECD has published model rules and other documents related to the second pillar of this solution (the Pillar Two model rules).
6. The Pillar Two model rules provide a template that jurisdictions can translate into domestic tax law and implement as part of an agreed common approach. The rules:
- (a) aim to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate;
 - (b) would achieve that aim by applying a system of top-up taxes that results in the total amount of taxes payable on excess profit in each jurisdiction representing at least the minimum rate of 15%; and
 - (c) typically require the ultimate parent entity of a group to pay top-up tax—in the jurisdiction in which it is domiciled—on profits of its subsidiaries that are taxed below 15%.

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7. The rules apply to multinational groups with revenue in their consolidated financial statements exceeding €750 million in at least two of the four preceding fiscal years. The rules specify inclusion thresholds for some jurisdictions and exclude some types of entities from their scope.

Potential implications for income tax accounting

8. Stakeholders informed the IASB of concerns about the implications for income tax accounting resulting from jurisdictions implementing the Pillar Two model rules within a short period of time. In particular, stakeholders said it was unclear how to apply IAS 12 *Income Taxes* when accounting for deferred taxes related to the rules; and they also said that there was an urgent need for clarity because of the imminent implementation of the rules in some jurisdictions.
9. After considering these concerns the IASB published an exposure draft of proposed amendments to IAS 12 (*International Tax Reform—Pillar Two Model Rules*). Having considered the feedback on the proposed amendments to IAS 12, in May 2023 the IASB issued amendments to IAS 12.
10. As the requirements for accounting for income taxes in Section 29 of the *IFRS for SMEs* Accounting Standard (the Standard) are based on those in IAS 12, the IASB considered whether to amend Section 29. In considering whether and how to amend the *IFRS for SMEs* Accounting Standard for amendments to full IFRS Accounting Standards, the IASB applies its alignment approach.¹

Relevance to SMEs and urgency

11. The staff consulted the SME Implementation Group (SMEIG) and the large accounting firms to obtain evidence about the relevance of the Pillar Two model rules (and the amendments to IAS 12 proposed in the Exposure Draft *International Tax*

¹ The alignment approach applies three principles: relevance to SMEs, simplicity and faithful representation.

Reform—Pillar Two Model Rules) to small and medium-sized entities (SMEs).² The feedback provided evidence that the Pillar Two model rules could have a material effect on the financial statements of a subset of SMEs, particularly some subsidiaries of large multinational groups.

12. Moreover, because of the urgent need for clarification, the IASB decided to propose amendments to Section 29 *Income Tax* of the Standard as a separate standard-setting project outside the Second Comprehensive Review of the *IFRS for SMEs Accounting Standard* (the IASB's current periodic review of the Standard).

Proposals in the Exposure Draft

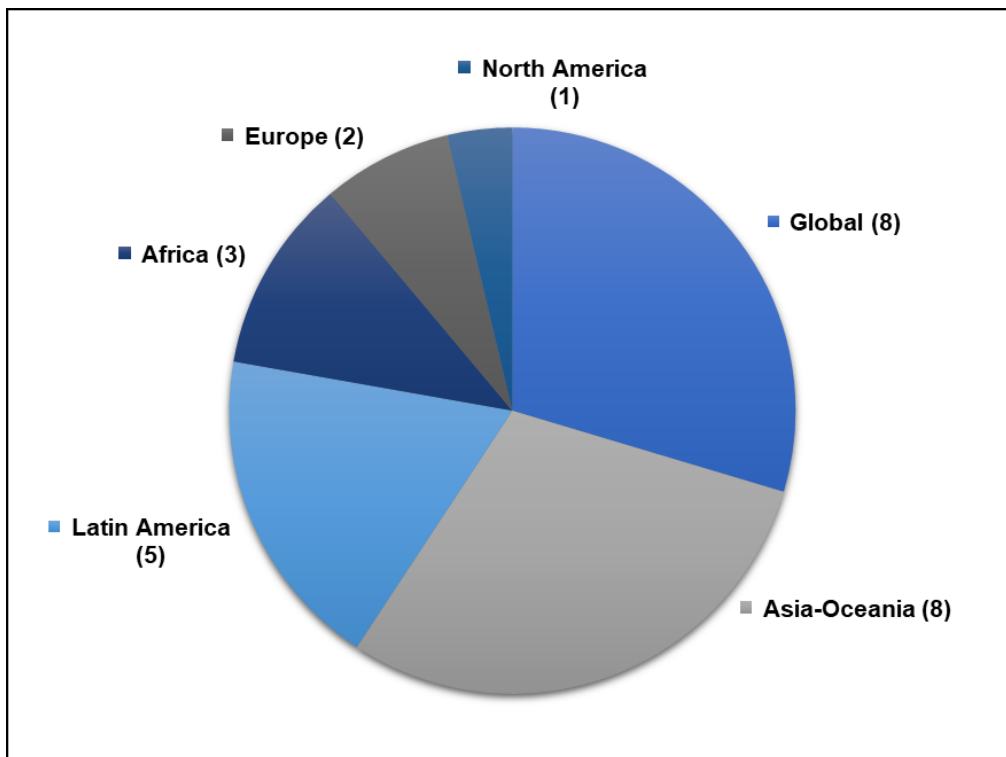
13. The proposals in the Exposure Draft would:
 - (a) introduce a temporary exception to the requirements to recognise deferred tax assets and liabilities related to Pillar Two income taxes; and to disclose information that would otherwise be required by paragraphs 29.39–29.41 of the *IFRS for SMEs Accounting 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 Pillar Two legislation.

² In this and other agenda papers for the meeting, the term 'SMEs' refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs Accounting Standard* (that is, SMEs are entities that do not have public accountability and that publish general purpose financial statements for external users). The terms 'SME' and 'entity' are used interchangeably.

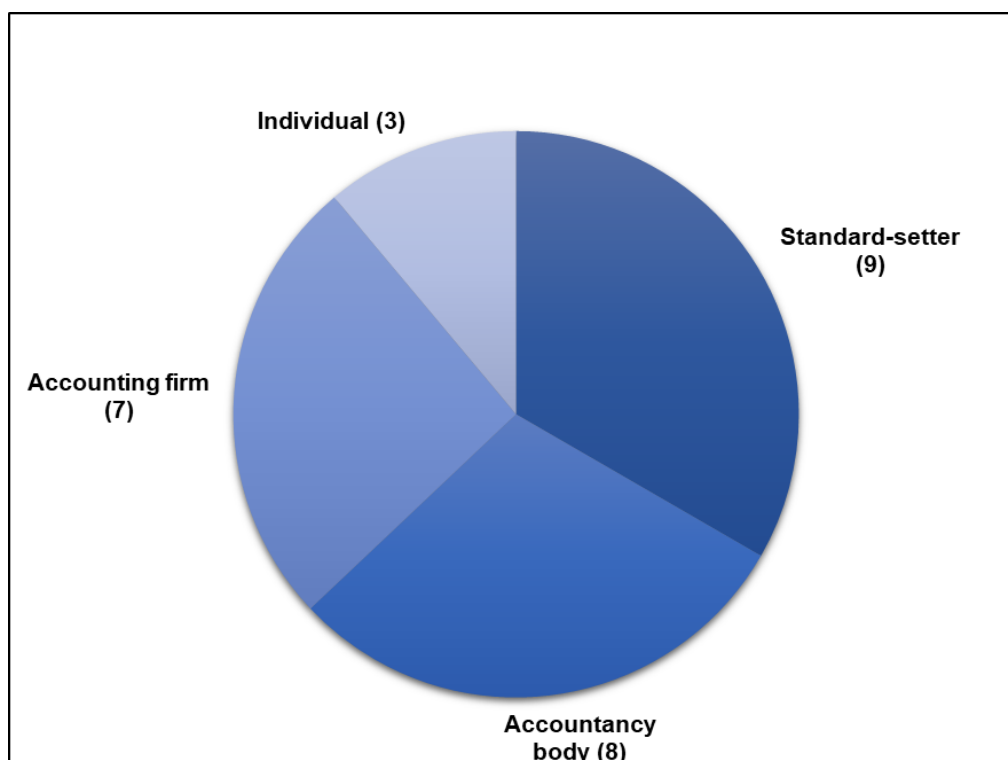
Feedback overview

Overview of respondents

14. The IASB received 27 comment letters (including one survey response) by the comment letter deadline. Responses were received from national standard-setters, accountancy bodies, accounting firms and individuals. All comment letters are available on our [website](#).
15. We also consulted with SMEIG at its meeting in July 2023. Feedback from individual SMEIG members was consistent with the feedback in the comment letters.
16. The following chart presents the analysis of comment letters by region:



17. The following chart presents the analysis of comment letters by stakeholder type. Of nine standard-setters, most (mainly from Latin America and some from Asia-Oceania) require or permit the application of the *IFRS for SMEs* Accounting Standard.



Summary of feedback

18. In this paper and other agenda papers for this meeting the staff use the following terms to quantify the feedback:

| Term | Extent of response among respondents |
|------------|---|
| Almost all | All except a very small minority |
| Most | A large majority, with more than a few exceptions |
| Many | A small majority or large minority |
| Some | A small minority, but more than a few |
| A few | A very small minority |

19. Feedback on the proposals in the Exposure Draft can be summarised as:
- (a) *temporary exception to accounting for deferred taxes*—all respondents agreed with the proposed mandatory temporary exception. Almost all respondents agreed with the requirement to disclose that an SME has applied the exception; a few of these respondents suggested clarifications to the drafting. Some

respondents suggested the IASB reconsider the need for the exception when there is sufficient clarity about how jurisdictions implemented the rules and when the IASB has decided to revisit the temporary exception in IAS 12.

(b) *disclosure requirements:*

- (i) almost all respondents agreed, or did not disagree, with the IASB's proposal not to introduce new disclosure requirements in periods when Pillar Two legislation is enacted or substantively enacted, but not yet in effect.
- (ii) most respondents agreed with the proposed clarification that 'other events' in the disclosure objective in paragraph 29.38 of the Standard include enactment or substantive enactment of Pillar Two legislation. A few respondents suggested the IASB provide illustrative examples or guidance to help SMEs meet the disclosure objective. A few respondents suggested using more generic terms in paragraph 29.38 instead of referring specifically to Pillar Two legislation.
- (iii) all respondents agreed, or did not disagree, with the IASB's proposal for an entity to disclose separately its current tax expense (income) related to Pillar Two income taxes.

(c) *effective date and transition*—all respondents agreed, or did not disagree, with the proposals for the effective date of the exception and the disclosure requirement in the proposed new paragraph 29.42. Almost all respondents agreed, or did not disagree, with the IASB's proposed effective date for the requirement to separately disclose its current tax (expense) income related to Pillar Two income taxes (proposed new paragraph 29.43). Of those who commented, almost all agreed with the proposal to make a consequential amendment to paragraph 35.10(h) of the Standard.

20. Agenda papers 12A–12C for this meeting provide detailed feedback on the proposals.

Next steps

21. If the IASB agrees with our recommendations in the agenda papers for this meeting, given that the amendments are narrow in scope and urgent, we plan to begin the balloting process shortly and publish the final amendments in September 2023.