

## IFRS Developments

# Amendments to IAS 12: International Tax Reform Pillar Two Model Rules

### What you need to know

- ▶ The Amendments introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from implementation of the OECD's Pillar Two Model Rules.
- ▶ The exception applies retrospectively and immediately upon issuance of the Amendments.
- ▶ Entities are required to disclose information on the potential exposure to Pillar Two income taxes for annual reporting periods beginning on or after 1 January 2023.
- ▶ Disclosure is not required in interim reports relating to periods ending on or before 31 December 2023.

### Highlights

The Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalisation of the global economy. BEPS Pillar Two model rules apply to multinational enterprises (MNEs) with revenue in excess of EUR 750 million per their consolidated financial statements. We provided background to the OECD's project in our [IFRS Developments 203 OECD BEPS Pillar Two - Global Anti-Base Erosion Rules: Accounting implications](#).

On 23 May 2023, the International Accounting Standards Board (the IASB or Board) issued *International Tax Reform—Pillar Two Model Rules - Amendments to IAS 12* (the Amendments). The Board amended the standard for the following reasons: 1) to provide timely relief for affected entities; 2) to avoid diverse interpretations of IAS 12 *Income Taxes* developing in practice; and 3) to improve the information provided to users of financial statements before and after Pillar Two legislation comes into effect. The Amendments introduce:

- ▶ A mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- ▶ Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception - the use of which is required to be disclosed - applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

## Amendments to IAS 12

### Temporary exception from recognition and disclosure of deferred taxes

The Amendments clarify that 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. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

The Amendments introduce a mandatory exception in IAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

The Amendments introduce a mandatory exception in IAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes. The Board did not expand the scope of the temporary exception to include the measurement of deferred taxes recognised under domestic tax regimes, as an entity would not remeasure such deferred taxes to reflect Pillar Two income taxes it expects to pay when recovering or settling a related asset or liability.

The Amendments note that the temporary exception provides entities with relief from accounting for deferred taxes in relation to this complex new tax legislation allowing stakeholders time to assess the implications. It also avoids entities developing diverse interpretations of IAS 12 that could result in inconsistent application of the standard.

The Board did not include a sunset date for the temporary exception, but will monitor the implementation of the Pillar Two model rules to determine when to undertake further work.

### Disclosure of application of the exception

The Amendments require an entity to disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

### Disclosure of current tax

An entity is required to separately disclose its current tax expense (income) related to Pillar Two income taxes, in the periods when the legislation is effective, as this helps users of financial statements understand the relative level of those taxes.

The IASB did not provide further clarifications on when a Pillar Two top-up tax is considered to be an income tax in the scope of IAS 12, nor to require entities to treat all top-up taxes as if they were income taxes. An entity is required to apply judgement in determining which top-up taxes it considers to be income taxes in the entity's circumstances.

### Disclosure in periods before legislation is in effect

The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example, an entity could disclose the following information to meet these requirements:

- (a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist.
- (b) Quantitative information such as:
  - ▶ an indication of the proportion of an entity's profits that risks being subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or

- ▶ an indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

The above information does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range. The IASB notes in the Basis for Conclusions '... that an entity would not have to disclose information about possible future transactions and other possible future events (forward-looking information) to meet this requirement. For example, an entity would not be required to forecast future profits, reflect mitigation actions it expects to take in future periods, or consider possible future changes in tax legislation.'

The Board observed that legislation in some jurisdictions was expected to be effective as early as 1 January 2024. Therefore, it expects many entities to have some information about their exposure available to them by the time the disclosure requirements are applicable. However, to the extent information is not known or reasonably estimable, an entity is instead required to disclose a statement to that effect and information about its progress in assessing its exposure.

### Transition and effective date

The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon issue of the Amendments.

The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

Entities that need to prepare annual or interim financial statements before the Amendments are endorsed for use in their jurisdiction should refer to our [IFRS Developments 214, Accounting for BEPS Pillar Two income taxes before IAS 12 is amended](#) for guidance on how to use judgement in developing and applying an accounting policy that results in information that is relevant and reliable.

### How we see it

Entities need to get ready to provide the additional disclosures required by the Amendments, which require that an entity discloses known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes. Furthermore, entities should be prepared to provide qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. To the extent that information is not known or estimable, entities will be required to make a statement to that effect and describe their progress in assessing their exposure.

Entities need to monitor the developments around the implementation and (substantive) enactment of the Pillar Two model rules in the relevant jurisdictions and, if appropriate, engage with advisors to determine the impact of Pillar Two model rules on their financial statements, audit and tax filings. We encourage entities to start considering whether they have established appropriate processes and procedures to obtain the information necessary to present the disclosures required by the Amendments in a timely manner.

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