International Tax Reform—Pillar Two Model Rules

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Background

In December 2021, the Organisation for Economic Co-operation and Development (OECD) published its Pillar Two model rules. The rules aim to address the tax challenges arising from the digitalisation of the economy, and were agreed by more than 135 countries and jurisdictions representing more than 90% of global GDP.

The Pillar Two model rules provide a template for the implementation of a minimum corporate tax rate of 15% that large multinational companies would pay on income generated in each jurisdiction in which they operate. We have been informed that some jurisdictions are expected to enact the rules as early as the first half of 2023, although this is still uncertain.

This fact sheet developed by the OECD summarises the operation of the model rules.

Potential implications on income tax accounting

Stakeholders have informed us of concerns about the implications of the imminent implementation of the Pillar Two model rules on the accounting for income taxes. Stakeholders' concerns relate to:

a) how an entity would apply IAS 12 to account for top-up tax arising from the Pillar Two model rules—in particular:
   i. whether top-up tax is in the scope of IAS 12 and, if so:
   ii. how an entity accounts for deferred taxes with respect to top-up tax.

b) the usefulness of the information that could result from accounting for deferred taxes with respect to top-up tax; and

c) the urgent need for clarity given the imminent implementation of the Pillar Two model rules by some countries and jurisdictions.

Agenda Paper 12A for the IASB's November 2022 meeting— and the addendum to that paper—provide further information about these concerns and the staff analysis of them.

Narrow-scope amendments to IAS 12

At its November 2022 meeting, the IASB decided to add to its work plan a project proposing narrow-scope amendments to IAS 12 *Income Taxes*.

The IASB's project responds to stakeholders' concerns about the potential implications of the imminent implementation of the Pillar Two model rules on the accounting for income taxes. In particular, the IASB has decided to propose:

a) a temporary exception from accounting for deferred taxes arising from the implementation of the rules; and

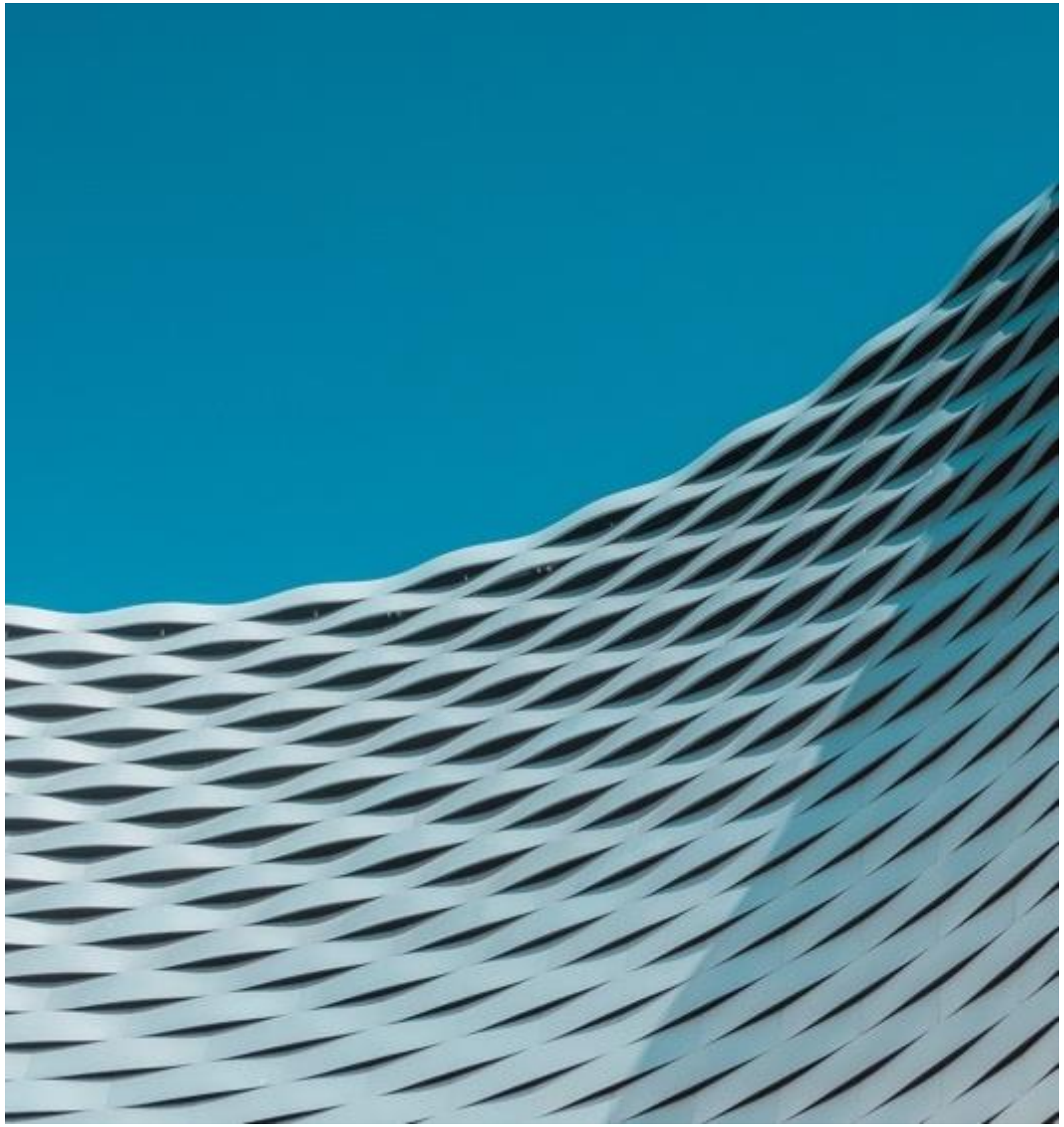
b) targeted disclosures requirements for affected entities.

The following slides include further details about the IASB's decisions.

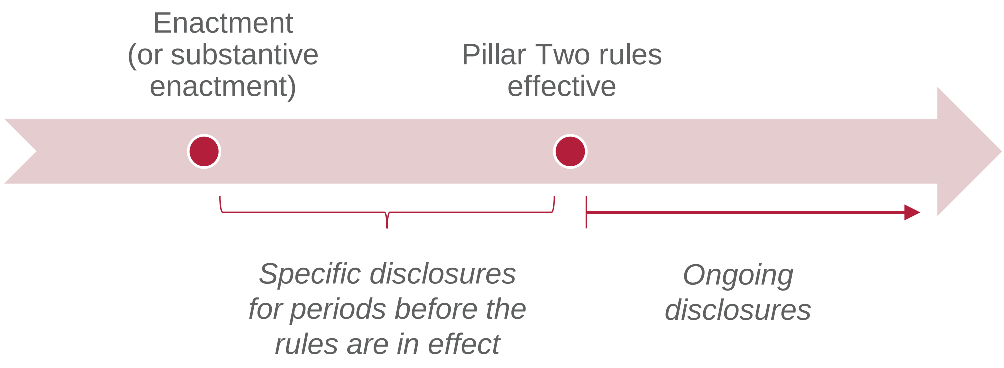
Temporary exception from deferred tax accounting

a) Introduce a **temporary exception** from the requirement to account for deferred taxes arising from the implementation of the Pillar Two model rules (including any qualified domestic minimum top-up tax). The exception would apply until the IASB either removes the exception or makes it permanent.

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



Disclosures



Before the rules are in effect

a) Information about legislation enacted to implement the Pillar Two model rules in jurisdictions in which an entity operates.

b) Either (i) whether it operates in jurisdictions in which it reasonably expects to be taxed below the minimum rate in accordance with the Pillar Two model rules; or (ii) whether it operates in jurisdictions in which its effective tax rate—calculated based on IAS 12 requirements—is below 15% for the current period.

c) The jurisdictions in which its effective tax rate—calculated based on IAS 12 requirements—is below 15% as well as accounting profit before tax, income tax expense and resulting weighted-average effective tax rate for these jurisdictions in aggregate.

d) Whether the work it has already done in preparing to comply with the Pillar Two model rules indicates anything different from the information provided in (c).

Ongoing disclosures

The current tax expense related to Pillar Two top-up tax.

Effective date

a) Immediately effective: the proposed amendments to introduce the temporary exemption, and to require an entity to disclose that fact; and

b) For annual reporting periods beginning on or after 1 January 2023: the remaining proposed disclosure requirements.

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