
Accounting Standards Advisory Forum (ASAF) meeting

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| Date | 10 February 2023 |
| Project | International Tax Reform—Pillar Two Model Rules |
| Topic | Overview of the Exposure Draft |
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB update.

Purpose of this session

The purpose of this session is to:

- a) provide ASAF members with an overview of the proposals in the [Exposure Draft *International Tax Reform—Pillar Two Model Rules*](#) (proposed amendments to IAS 12);
- b) ask ASAF members for information about the implementation of the Pillar Two model rules in their countries or jurisdictions; and
- c) clarify any questions ASAF members may have about the proposals in the Exposure Draft.

Please note:

- We are **not** seeking ASAF members' views on the proposals in the Exposure Draft at this stage.
- We encourage ASAF members to share their views on the proposals by submitting a comment letter by 10 March 2023 via [this page](#).

Background

In December 2021, the Organisation for Economic Co-operation and Development (OECD) published its [Pillar Two model rules](#). The rules are part of a two-pillar solution 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 entities 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 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.

Stakeholders' 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.

Proposed amendments to IAS 12

In January 2023, the IASB published the [Exposure Draft *International Tax Reform—Pillar Two Model Rules*](#), which proposes amendments to IAS 12 *Income Taxes*.

The proposals in the Exposure Draft would 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 IASB expects the proposed amendments to provide timely relief for affected entities and avoid inconsistent interpretations of IAS 12 developing in practice. The proposed amendments would also require an entity to provide specific information to users of financial statements before and after the Pillar Two model rules are in effect.

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

Temporary exception to deferred tax accounting

The IASB proposes to:

- a) introduce a **temporary exception** to the requirement to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes (including any qualified domestic minimum top-up tax).
- b) require an entity to disclose that it has applied the exception.

The exception would apply until the IASB either removes the exception or makes it permanent.

Proposed effective date

- *Immediately upon issue of the amendments.*

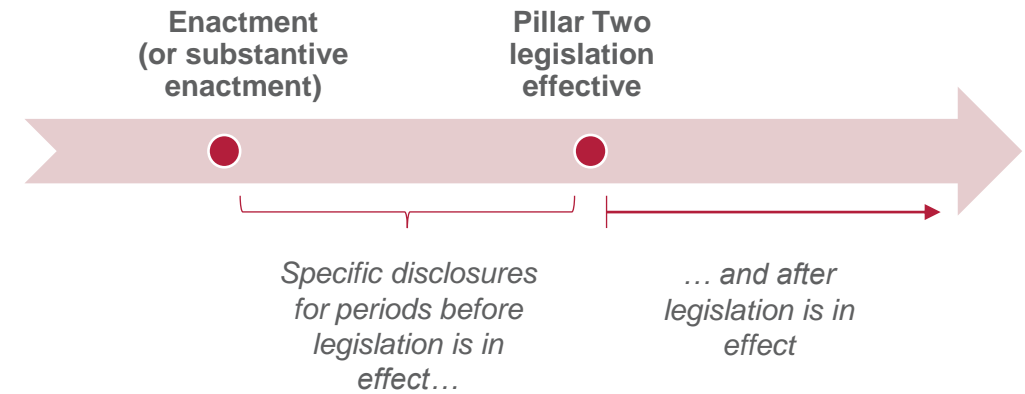


Disclosures

The IASB proposes to require an entity to disclose:

Before legislation is in effect

- a) information about legislation enacted (or substantively enacted) to implement Pillar Two model rules.
- b) the jurisdictions in which the entity's effective tax rate—calculated based on IAS 12—for the current period is below 15%. An entity would also disclose the tax expense and accounting profit for these jurisdictions in aggregate, and the resulting weighted average effective tax rate.
- c) whether work the entity has done in preparing to comply with Pillar Two legislation indicates anything different from (b).



After legislation is in effect

Current tax expense related to Pillar Two income tax.

Proposed effective date:

- *Annual reporting periods beginning on or after 1 January 2023.*

Questions for ASAF members

Implementation of the Pillar Two model rules

1. Is your country or jurisdiction expected to implement the Pillar Two model rules?
2. If the answer to question 1 is 'yes', please can you share information about the status of implementation in your country or jurisdiction, including when legislation implementing the rules is expected to be enacted (or substantively enacted)?

Questions about the proposals in the Exposure Draft

3. Do you have any questions about the proposals in the Exposure Draft?

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