

Amendment IAS 12 – International Tax Reform – Pillar Two Model Rules Cover Note

Objective

- 1 The objective of this session is to:
 - (a) provide a summary of the proposals included in the [Exposure Draft International Tax Reform - Pillar Two Model Rules](#) (Proposed amendments to IAS 12);
 - (b) approve the DCL as recommended by the EFRAG FR TEG.

Background

Project Information

- 2 In October 2021, more than 135 countries – representing more than 90% of global GDP – agreed to implement a [minimum tax regime for multinationals, “Pillar Two”](#). In December 2021, the OECD released the Pillar Two model rules (the Global Anti-Base Erosion Proposal, or “GloBE”) to reform international corporate taxation. Pillar Two legislation aims to ensure that applicable multinationals - with a global turnover exceeding €750 million – are liable to a minimum effective corporate tax rate of 15%.
- 3 The OECD rules are due to be passed into national legislation based on each country’s approach. In Europe the Council Directive ([here](#)) has been approved and it is planned that the individual jurisdictions enact the related law before 31 December 2023. The law will apply in Europe for annual periods starting on 1 January 2024.
- 4 Large multinational enterprises within the scope of the OECD rules are required to calculate their GloBE effective tax rate for each jurisdiction (summary per jurisdiction) where they are operating. They will be liable to pay a top-up tax for the difference between their GloBE effective tax rate per jurisdiction and the 15% minimum tax rate.
- 5 Applying the GloBE rules and determining their impact on the IFRS financial statements are likely to be complex and result in a number of practical challenges. Top-up tax differs from income taxes that arise under known (local) tax regimes. Traditional income taxes are generally based on a company’s taxable profit, while top-up tax will arise only if a group pays an insufficient amount of income taxes at a jurisdictional level. The accounting practical challenges are:
 - (a) Is the top-up tax within the scope of IAS 12?;
 - (b) Do the GloBE model rules create additional temporary differences?;
 - (c) Which tax rate has to be applied to measure deferred tax impacts of top-up tax?; and
 - (d) Does a company need to remeasure its existing temporary differences in relation to deferred tax recognised?
- 6 With uncertainty on whether any jurisdiction (outside the EU) expects to implement the GloBE model rules as early as the first half of 2023, stakeholders were asking for urgent clarity. For these reasons, the IASB in its meeting in November 2022

decided on a fast-track project to do standard-setting in response to the imminent implementation of the Pillar Two model rules.

- 7 On 9 January 2023 the IASB published the Exposure Draft ED/2023/1 *International Tax Reform—Pillar Two Model Rules* (Proposed Amendments to IAS 12) (“[the ED](#)”) with a comment period ending 10 March 2023.
- 8 The ED would introduce:
 - (a) a (mandatory) temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules; and
 - (b) targeted disclosure requirements:
 - (i) before; and
 - (ii) after the Pillar two model rules are in effect.

EFRAG FR TEG Discussions

- 9 EFRAG FR TEG discussed the topic extensively. The following points highlight the major discussion points:
 - a) *FR TEG Discussions on a temporary exception to the accounting of deferred taxes*
- 10 EFRAG FR TEG members generally supported the IASB’s proposal to provide a mandatory temporary exception to the accounting of deferred taxes related to Pillar Two income taxes.
- 11 EFRAG FR TEG members disagreed with the EFRAG’s Secretariat proposal - that tax law that implements domestic qualified minimum top-up tax rules - should not be subject to this exception. Members noted that considering the current uncertainty about how this domestic top-up tax will interact with the general Pillar Two model rules it would provide relief to entities from the potential deferred tax computation.
- 12 Furthermore, members generally agreed with the IASB’s proposal not to include a sunset clause for the application of this exception.
 - b) *FR TEG discussions regarding proposed disclosures*
- 13 EFRAG FR TEG members considered the disclosure requirements were a reasonable compromise taking into account the urgency of the project and the transitional nature of the requirements. However, some EFRAG FR TEG members expressed doubts on whether the disclosure requirement included in paragraph 88C (b) of the ED is the most useful proxy for users of financial statements.
- 14 A few EFRAG FR TEG members proposed some alternative ways to inform users of financial statements about those jurisdictions that might be exposed to paying top-up tax. However, EFRAG FR TEG took the decision to support the proposal in the DCL and to concentrate outreach activities on the cost benefit considerations of such proposal and to understand potential alternatives. This decision also reflects the fact that these disclosure requirements are only relevant for a very short period of time.
- 15 A few EFRAG FR TEG members expressed some reservations on whether the disclosure requirements included in the ED are fit for purpose of separate financial statements (or the financial statements of sub-consolidated subsidiaries).
- 16 An EFRAG FR TEG member, who agreed with the disclosure requirements proposed in the ED, noted that IAS 1 requires entities to provide additional information when compliance with the requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions. Thus, even though there were no specific disclosure requirements, entities would need to disclose some relevant information.

- 17 An EFRAG FR TEG member shared the view that the ED should specify in paragraph 88C that it refers to any jurisdiction in which an entity operates.

c) *Effective date and transition*

- 18 EFRAG FR TEG were supportive of the proposals.

EFRAG Secretariat envisaged work plan

- 19 In December 2022 the EFRAG FR TEG and the EFRAG FRB received an introduction to the project and provided some initial feedback. In addition, the EFRAG FRB agreed to adopt a fast-track approval process of EFRAG’s comment letter in response to the IASB’s ED and of the endorsement advice on the IASB’s expected amendments. On 19 January, the EFRAG FR TEG discussed the ED and agreed on the key messages to be included in the DCL. The DCL itself was approved for recommendation to the FRB by using written procedure after the meeting.
- 20 To support a fast-track approval process of the DCL and the FCL, the EFRAG Secretariat envisages the following timetable:

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| EFRAG FRB approval of the DCL | 27 January 2023 |
| Public consultation of the DCL | From 30 January to 27 February 2023 |
| EFRAG FR TEG-FRB approval of the FCL (joint meeting) | 10 March 2023 |

- 21 To support a fast endorsement process, the EFRAG Secretariat will publish a pre-consultation document for the DEA together with or shortly after the publication of the FCL in March 2023. The content and publication of this document will be closely coordinated with the EC in order to address the relevant topics from the EC’s point of view in such pre-consultation document.
- 22 So far, the EC did not address any specific topics to be addressed during the endorsement process. EFRAG Secretariat discussed the ED on 13 January 2023 with the EC. The EFRAG Secretariat envisages to schedule additional meetings with the EFRAG FR TEG and the EFRAG FRB to ensure a fast-track approval process of the DEA and FEA. Such meetings will be scheduled as soon as the publication date of the Amendments and of the letter from the EC requesting endorsement advice are known. Currently, the IASB expects to publish the final Amendments at the end of May 2023.
- 23 First discussions with the EC indicate that the endorsement process would finish in October 2023. This is under the assumption that the IASB publishes the Amendments in May and EFRAG delivers its endorsement advice beginning of June 2023.
- 24 In order to obtain feedback from a wide range of stakeholders, the EFRAG Secretariat plans to discuss the topic with the following counterparties:
- (a) EFRAG Working Groups (EFRAG User Panel (3 February), EFRAG FIWG (30 January), EFRAG IAWG (1 February));
 - (b) EFRAG CFSS (6 February);
 - (c) potentially with ESMA’s representatives;
 - (d) EFRAG’s member organisations (e.g., BusinessEurope (21 February); potentially AccountancyEurope, ASCG tax working group (10 February)) and large audit firms;
 - (e) ASAF members (10 February).

Questions for EFRAG FRB members

- 25 Do EFRAG FRB members agree with the DCL as recommended by the EFRAG FR TEG?
- 26 Do EFRAG FRB members want to add any topics to the outreach plan?

Agenda Papers

- 27 In addition to this cover note, the DCL as recommended for approval by the EFRAG FR TEG is attached.