IFRS Adviser Alert

IASB amends IAS 12 to help entities respond to the Pillar Two Tax Rules

June 2023

Executive summary

The International Accounting Standards Board (IASB) has issued amendments to IAS 12 *Income taxes* to give entities temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments introduce both a temporary exception and some targeted disclosure requirements.

Background

The OECD published its Pillar Two Model Rules in December 2021 to ensure that large multinational companies (i.e., groups with revenue of EUR 750 million or more in two of the last four years) would be subject to a minimum 15% tax rate. The reform is expected to apply in most jurisdictions for accounting periods starting on or after January 1, 2024.

However, while the reaction from jurisdictions around the world to implement the changes has been positive, there have been major stakeholder concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of these rules. Those concerns mainly refer to identifying and measuring deferred taxes because determining whether the Pillar Two Rules will create additional temporary differences is very difficult and also which tax rate will be applicable (considering the number of factors affecting its determination). Therefore, the IASB has acted quickly to address these concerns and provide direction on what they expect entities to disclose.

The amendments

- Provide a temporary recognition exception to accounting for deferred taxes arising from the implementation of the international tax reform (Pillar Two Model Rules). The aim of this exception is to provide some consistency in applying IAS 12 when preparing financial statements as the rules are phased in.

- Additional disclosure requirements – these are targeted at a reporting entity's exposure to income taxes arising from the OECD reforms during periods in which the Pillar Two Model legislation is enacted or substantively enacted but not yet in effect. The aim of these disclosures is to help investors with their understanding of the reporting entity's exposure to these tax reforms, particularly before any domestic offshore legislation takes effect. The amendments provide guidance on how this information could be disclosed to meet the above objective.

Entities are able to benefit from the temporary exception immediately as soon as the amendments are published. Although, in providing this exemption, they are required to provide the disclosures to investors for annual reporting periods beginning on or after January 1, 2023. However, in some jurisdictions, such as Europe, the endorsement process will probably not be completed before June 30, 2023, resulting in reporting entities operating in jurisdictions where the Pillar Two Rules have been enacted or quasi-enacted, being in a situation that the amendments are aiming to avoid.

We are of the view that if this happens, reporting entities are able to develop their own accounting policy in accordance with the guidance of Paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We consider that the value of the information being provided (i.e., relevancy, reliability, faithful presentation) is outweighed by the costs of attempting to update the deferred tax balances for Pillar Two Model Rules. Put another way, given these amendments to IAS 12 make it clear that no deferred tax is required to be recognized as a result of Pillar Two Model Rules, trying to identify and estimate any deferred tax for one period (i) in a way that might not be consistent with how other reporting entities would do it and (ii) with the only perspective to reverse it in a following period, may not end up providing reliable, consistent and decision-useful information for the users of the financial statements.

Our thoughts

We welcome these amendments because many of our clients around the world have indicated they are concerned with the amount of time, cost and effort that will be required to assess the accounting implications associated with the tax consequences arising from the implementation of the Pillar Two Model Rules. Considering some jurisdictions around the world have already substantially enacted the Pillar Two Model Rules, we commend the IASB for the speed at which they published these amendments and encourage reporting entities to consider what new disclosures are now required well ahead of any reporting obligations they might have. Listed entities in particular should take into account any views expressed by their local regulator in developing their accounting policy on this matter.