iGAAP in Focus
Financial reporting

IASB proposes amendments to the *IFRS for SMEs* for OECD tax reform

Contents

This *iGAAP in Focus* outlines Exposure Draft (ED) IASB/ED/2023/3 *International Tax Reform—Pillar Two Model Rules—Proposed amendments to the IFRS for SMEs Standard*, published by the International Accounting Standards Board (IASB) in June 2023.

- The IASB proposes amendments to Section 29 *Income Tax* of the *IFRS for SMEs* Standard to introduce a temporary exception to the requirement to recognise deferred tax assets and liabilities related to Pillar Two income taxes, and the requirement to disclose information about deferred tax assets and liabilities related to Pillar Two income taxes
- The proposed amendments would also introduce targeted disclosure requirements for affected SMEs in periods when Pillar Two legislation is in effect
- The exception would be effective immediately upon issue of the amendments and would apply retrospectively in accordance with Section 10 Accounting Policies, Estimates and Errors of the IFRS for SMEs Standard
- The comment period for the ED ends on 17 July 2023

Background

In March 2022, the Organisation for Economic Co-operation and Development (OECD) released **technical guidance** on its 15% global minimum tax agreed as the second 'pillar' of a project to address the tax challenges arising from digitalisation of the economy. This guidance elaborates on the application and operation of the Global Anti-Base Erosion (GloBE) Rules **agreed and released in December 2021** which lay out a co-ordinated system to ensure that multinational enterprises with revenues above €750 million pay tax of at least 15% on the income arising in each of the jurisdictions in which they operate.

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In May 2023, the IASB issued **amendments to IAS 12 *Income Taxes*** responding to stakeholders' concerns about the potential implications of the imminent jurisdictional implementation of these 'Pillar Two' rules on the accounting for income taxes applying IAS 12.

The IASB assessed that the Pillar Two rules are also relevant to some small and medium-sized entities (SMEs) and that there is an urgent need for clarification for these entities. The IASB therefore decided to propose amendments to Section 29 of the *IFRS for SMEs* Standard outside the IASB's periodic review of the Standard, which is currently underway.

The proposed amendments

The IASB proposes that, as a temporary exception to the requirements in Section 29 of the *IFRS for SMEs* Standard, an SME neither recognises deferred tax assets and liabilities related to Pillar Two income taxes nor discloses information that would otherwise be required by Section 29 about deferred tax assets and liabilities related to Pillar Two income taxes. An SME would be required to disclose that it has applied the exception.

Observation

The IASB agreed that SMEs affected by the Pillar Two legislation need time to determine how to apply the principles and requirements in the *IFRS for SMEs* Standard to account for deferred taxes related to top-up tax. The IASB also needs time to engage further with its stakeholders and to consider whether any action is needed to support the consistent application of the Standard. The IASB concluded that it was not feasible to complete these activities before jurisdictions enact new tax laws and, thus, before SMEs are required to reflect those laws in accounting for deferred taxes.

As it was not possible to determine how much time these activities would require, the IASB proposes not to specify how long the temporary exception will be in place. The IASB will monitor developments related to the implementation of the Pillar Two model rules to determine when to do further work. Any further work does not necessarily need to coincide with the next periodic review of the *IFRS for SMEs* Standard.

The IASB also proposes:

- To clarify that 'other events' in the disclosure objective in Section 29 include enacted or substantively enacted Pillar Two legislation
- Not to introduce new disclosure requirements in periods when Pillar Two legislation is enacted or substantively enacted but not yet in effect

In periods when Pillar Two legislation is in effect, the IASB proposes to require an SME to disclose separately its current tax expense (income) related to Pillar Two income taxes.

In addition, the IASB proposes to amend Section 35 *Transition to the IFRS for SMEs* so that a first-time adopter would be required to apply the exception retrospectively, regardless of the option to apply Section 29 prospectively from the date of transition to the *IFRS for SMEs.*

Effective date, transition and comment period

The IASB proposes that an SME applies:

- The exception from recognition of deferred tax assets and liabilities related to Pillar Two income taxes in Section 29 —and discloses it has applied the exception—immediately upon the issue of the amendments and retrospectively in accordance with Section 10 of the *IFRS for SMEs* Standard
- The amendments to Section 35 immediately upon the issue of the amendments
- The requirement to disclose separately the current tax expense (income) related to Pillar Two income taxes for annual reporting periods beginning on or after 1 January 2023

The comment period for the ED ends on 17 July 2023.

Further information

If you have any questions about the proposed amendments to the *IFRS for SMEs* Standard, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus.*

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