iGAAP in Focus
Financial reporting
IASB proposes amendments to IAS 12 to introduce a temporary exception from accounting for deferred taxes arising from OECD Pillar Two model rules

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This *iGAAP in Focus* outlines the proposed amendments to IAS 12 *Income Taxes* set out in Exposure Draft (ED) IASB/ED/2023/1 *International Tax Reform—Pillar Two Model Rules*, published by the International Accounting Standards Board (IASB) in January 2023.

- The IASB proposes amendments to IAS 12 to introduce a temporary exception from accounting for deferred taxes arising from the implementation of the OECD Pillar Two model rules, together with targeted disclosure requirements for affected entities
- Applying the exception, an entity would not recognise deferred tax assets and liabilities related to the OECD Pillar Two income taxes. It would also not disclose any information about these deferred tax assets and liabilities
- In periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity would disclose:
  - Information about the legislation enacted or substantively enacted in jurisdictions where the entity operates
  - The jurisdiction(s) in which the entity's current period average effective tax rate is below 15%
  - Whether there are jurisdictions where the entity expects either to pay Pillar Two income taxes although the 15% threshold does not apply, or not to pay Pillar Two income taxes although the 15% threshold applies
- The IASB proposes that an entity applies the exception—and the requirement to disclose that it has applied the exception—immediately upon issuance of the amendments and retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The remaining disclosure requirements would be required for annual reporting periods beginning on or after 1 January 2023
- Comments on the proposed amendments are requested by 10 March 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.

The IASB decided to respond 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 proposed amendments

The IASB proposes to amend the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

The amendments would introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Observation

The IASB acknowledges that further work is needed to determine how entities apply the principles and requirements in IAS 12 to account for deferred taxes related to Pillar Two income taxes. The IASB also needs time to engage further with stakeholders and consider whether, for example, any action is needed to support the consistent application of IAS 12.

The IASB therefore concluded that it is not possible to determine—at the time of publishing the ED—how much time such work will require. Consequently, the IASB proposes not to specify how long the temporary exception would be in place.

An entity would be required to disclose that it has applied the exception.

In periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity would have to disclose the following for the current period:

- Information about the legislation enacted or substantively enacted in jurisdictions in which the entity operates
- The jurisdictions in which the entity's average effective tax rate (i.e. the tax expense or income divided by the accounting profit) for the current period is below 15%. The entity would also disclose the tax expense or income and accounting profit for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate
- Whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:
  - Where the effective tax rate is below 15% but the entity might not be exposed to paying Pillar Two income taxes
  - Where the effective tax rate is above 15% but the entity might be exposed to paying Pillar Two income taxes

Once the Pillar Two legislation is in effect, the entity would disclose separately its current tax expense or income related to Pillar Two income taxes.

Effective date, transition and comment period

The IASB proposes that an entity applies the exception—and the requirement to disclose that it has applied the exception—immediately upon issuance of the amendments and retrospectively in accordance with IAS 8.

The remaining disclosure requirements would apply for annual reporting periods beginning on or after 1 January 2023.

Observation

Substantive enactment of the Pillar Two model rules has not occurred in most countries and jurisdictions as at the end of 2022. This means that tax balances calculated under IAS 12 as at 31 December 2022 are not affected. However, it should be noted that IAS 10 *Events after the Reporting Period* gives as an example of non-adjusting events that generally require disclosure "changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities."

Accordingly, entities should assess whether the OECD technical guidance together with the level of commitment of the applicable governments to its implementation constitute the announcement of a change in tax laws in the jurisdictions in which they operate. If this is the case and if the entity concludes that the rules may have a significant effect on its operations, it would disclose that fact in its financial statements along with an estimate of the impact or a statement that such an estimate cannot be made.

The comment period for the ED ends on 10 March 2023.

Further information

If you have any questions about the proposed amendments to IAS 12, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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