

10 March 2023

Direct phone: 020 7007 0884
vepoole@deloitte.co.uk

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Dr Barckow

ED/2023/1 International Tax Reform—Pillar Two Model Rules

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ("the IASB") Exposure draft *International Tax Reform—Pillar Two Model Rules* ("the ED").

We welcome the responsiveness of the IASB in issuing this ED to provide a temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules and support finalisation of the proposed amendments without delay.

We agree that the proposals in the ED provide a reasonable solution to an urgent situation but have highlighted areas where further clarification would be useful as long as it does not hinder prompt finalisation of the project.

Our detailed responses to the questions in the ED are included in the Appendix.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7936 3000.

Yours sincerely



Veronica Poole
Global IFRS and Corporate Reporting Leader

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is 1 New Street Square, London, EC4A 3HQ, United Kingdom.

© 2023 . For information, contact Deloitte Touche Tohmatsu Limited.

Appendix

Question 1—Temporary exception to the accounting for deferred taxes (paragraphs 4A and 88A)

IAS 12 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 IASB proposes that, as an exception to the requirements in IAS 12, an entity neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

The IASB also proposes that an entity disclose that it has applied the exception.

Paragraphs BC13–BC17 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

We agree with the proposals for the reasons explained in the BC.

As noted in BC9 of the ED, it is debatable whether the top-up tax is always an income tax in the scope of IAS 12 in the financial statements of a group’s subsidiary, e.g. in the separate financial statements of an entity that is required to remit taxes in its jurisdiction as a result of under-taxation of the profits of group entities in a different jurisdiction. We believe that this is something that the IASB should consider as part of its subsequent project on how to apply IAS 12 to Pillar Two taxes. However, we do not believe that this should delay the finalisation of the ED. The statement in proposed paragraph 4A that “[t]his Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development, including tax law that implements qualified domestic minimum top-up taxes described in those rules” will promote consistency of presentation of the amounts arising from the implementation of the Pillar Two model rules.

Further, even if the top-up tax is an income tax in the scope of IAS 12, we believe that it would be appropriate for the subsequent project to be undertaken by the IASB to assess whether indeed the Pillar Two model rules give rise to temporary differences as defined in IAS 12. We suggest that this should be made clear by adding the bold underlined words to the Basis for Conclusions

*BC13 After considering stakeholders’ concerns, the IASB agreed that entities need time to determine **whether and** how to apply the principles and requirements in IAS 12 to account for deferred taxes related to top-up tax. 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.*

*BC 17 Further work is needed to determine **whether** the principles and requirements in IAS 12 to account for deferred taxes **apply** to Pillar Two income taxes, **and if so, how these should be applied** (see paragraph BC13). **This** in turn depends on how jurisdictions implement the Pillar Two model rules. The IASB concluded that it is not possible to determine—at present—how much time such work will require. Consequently, the IASB proposes not to specify how long the temporary exception would be in place.*

Question 2—Disclosure (paragraphs 88B–88C)

The IASB proposes that, in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity disclose for the current period only:

- (a) information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.
- (b) the jurisdictions in which the entity's average effective tax rate (calculated as specified in paragraph 86 of IAS 12) for the current period is below 15%. The entity would also disclose the accounting profit and tax expense (income) for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate.
- (c) whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:
 - (i) identified in applying the proposed requirement in (b) but in relation to which the entity might not be exposed to paying Pillar Two income taxes; or
 - (ii) not identified in applying the proposed requirement in (b) but in relation to which the entity might be exposed to paying Pillar Two income taxes.

The IASB also proposes that, in periods in which Pillar Two legislation is in effect, an entity disclose separately its current tax expense (income) related to Pillar Two income taxes.

Paragraphs BC18–BC25 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

We agree with the proposals for the reasons explained in the BC. We have highlighted below certain areas of the proposed amendments that could be clarified. However, for avoidance of doubt, we believe that the Board should finalise the amendments without delay and none of the clarifications that we propose should hinder this objective.

We believe that it would also be useful to include the following sentence from BC19 as a disclosure objective in the main body of the standard “[I]n periods before Pillar Two legislation is in effect, users of financial statements need information to help them assess an entity's exposure to paying top-up tax.” Establishing a disclosure objective would help preparers assess the extent to which the disclosure specified in proposed paragraph 88C applies to their situation. Indeed, we have been made aware of the related concerns by various stakeholders that the proposed disclosures may be onerous. Many of these concerns should be addressed through clear understanding of the disclosure objective and appropriate consideration of the materiality principle in IAS 1. We therefore believe that it would be helpful to include in the basis for conclusions the rationale for the disclosure requirements. In particular, it would be helpful to explain that the objective of the disclosure proposed in paragraph 88C(a) (i.e. information about such legislation enacted or substantively enacted in jurisdictions in which an entity operates) is to flag to the users of the financial statements that at least one jurisdiction in which an entity operates has enacted/substantively enacted the legislation, which triggers the application of the Pillar Two requirements to the taxes paid by the group worldwide. Focusing the disclosure through a clear objective would avoid entities having to provide potentially a long list of jurisdictions in which it operates with an explanation for each of these of how Pillar II requirements have been enacted.

As jurisdictions around the world enact (or substantively enact) the Pillar Two model rules, the entity(ies) within the group that would be required to remit taxes may change. Consistent with the disclosure objective proposed above, we suggest that it would be useful to clarify that the disclosure required in proposed paragraph 88C would be provided in the financial statements (separate and consolidated) of the entity(ies) within the ultimate parent's consolidated group that would be required to remit taxes based on enactment (and substantive enactment) of the legislation *at the reporting date* in the jurisdictions in which the group operates.

To avoid diversity in practice, we believe that it would be useful to specify whether the aggregate tax expense (income) and accounting profit required in proposed paragraph 88C(b) should reflect the elimination of transactions between entities included in the aggregated information, consistent with the requirements of Pillar Two.

To ensure that relevant information is provided in response to the requirements in proposed paragraph 88C(c) it would be useful to specify:

- The name of the jurisdiction(s) identified in (i) would be provided.
- For jurisdiction(s) identified in (ii), the information required by proposed paragraph 88C(b) would be provided.

Finally, if completion of the IASB's subsequent project on the application of the deferred tax requirements in IAS 12 to Pillar Two income taxes is delayed, we suggest the Board should review whether the proposed disclosure requirements in proposed paragraph 88B (i.e. the requirement to disclose separately the current tax amount related to Pillar income tax) will continue to be necessary to provides useful information to users.

Question 3—Effective date and transition (paragraph 98M)

The IASB proposes that an entity apply:

- (a) the exception—and the requirement to disclose that the entity has applied the exception—immediately upon issue of the amendments and retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- (b) the disclosure requirements in paragraphs 88B–88C for annual reporting periods beginning on or after 1 January 2023.

Paragraphs BC27–BC28 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you would suggest instead and why.

We agree with the proposals for the reasons explained in the BC.