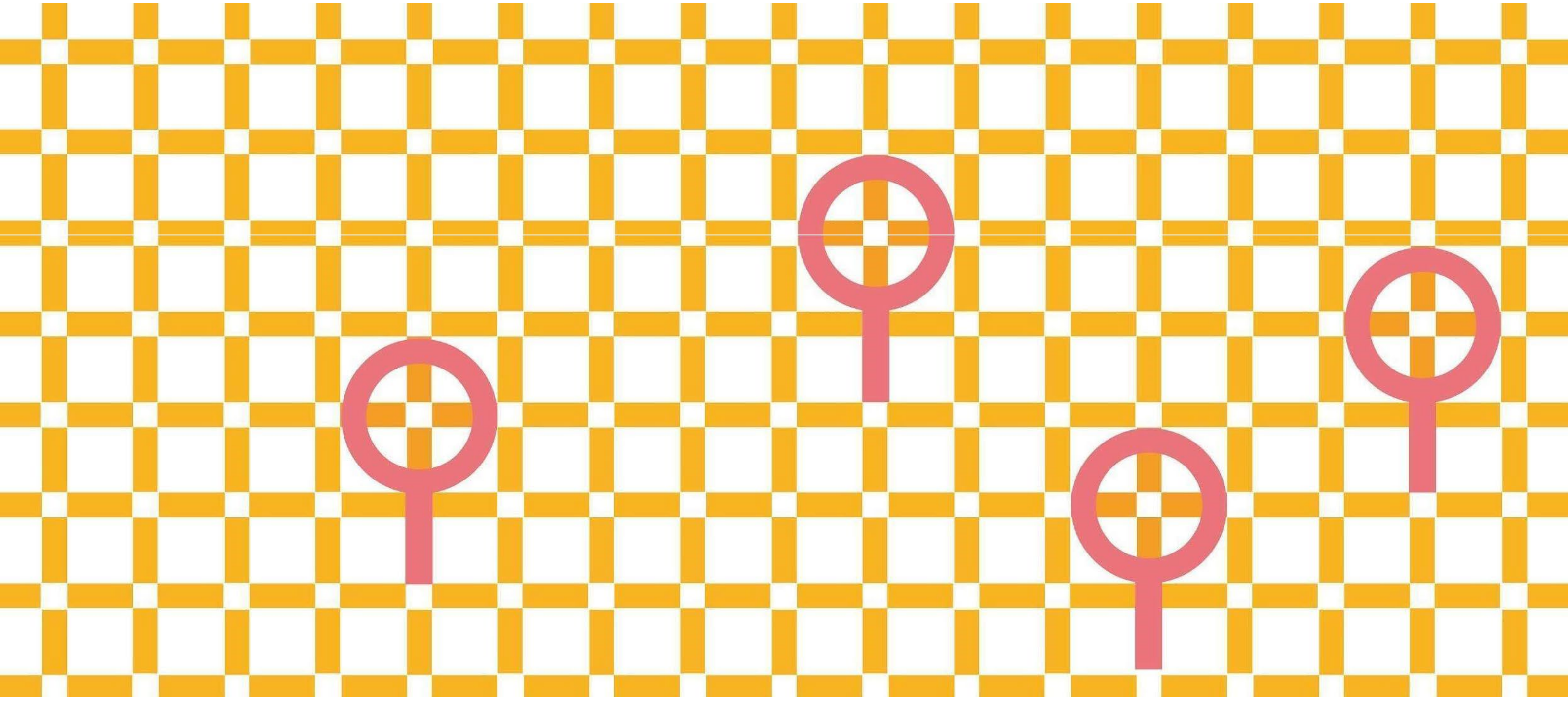

In brief

Global Implementation of Pillar II: narrow-scope amendments to IAS 12

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In brief INT2023-12

Key Points

On 23 May 2023, the IASB issued narrow-scope amendments to IAS 12 “Income Taxes”. The amendments provide temporary relief from accounting for deferred taxes arising from the implementation of the Pillar Two model rules.

What is the issue?

In October 2021, more than 130 countries – representing more than 90% of global GDP – agreed to implement a minimum tax regime for multinationals, ‘Pillar Two’. In December 2021, the Organisation for Economic Co-operation and Development (‘OECD’) released the Pillar Two model rules (the Global Anti-Base Erosion Proposal, or ‘GloBE’) to reform international corporate taxation. Large multinational enterprises within the scope of the rules are required to calculate their GloBE effective tax rate for each jurisdiction where they operate. 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 rate. It is the ultimate parent entity of the multinational enterprise that is primarily liable for the GloBE top-up tax in its jurisdiction’s territory.

On 23 May 2023, the IASB issued narrow-scope amendments to IAS 12. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements 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 also introduce targeted disclosure requirements for affected companies, and they require entities to disclose:

- the fact that they have applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes;
- their current tax expense (if any) related to the Pillar Two income taxes; and
- during the period between the legislation being enacted or substantially enacted and the legislation becoming effective, entities will be required to disclose known or reasonably estimable information that would help users of financial statements to understand an entity's exposure to Pillar Two income taxes arising from that legislation. If this information is not known or reasonably estimable, entities are instead required to disclose a statement to that effect and information about their progress in assessing the exposure.

The amendments to IAS 12 are required to be applied immediately (subject to any local endorsement processes) and retrospectively in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', including the requirement to disclose the fact that the exception has been applied if the entity's income taxes will be affected by enacted or substantively enacted tax law that implements the OECD's Pillar Two model rules. The disclosures relating to the known or reasonably estimable exposure to Pillar Two income taxes are required for annual reporting periods beginning on or after 1 January 2023, but they are not required to be disclosed in interim financial reports for any interim period ending on or before 31 December 2023.

What´s the impact and for whom?

The Pillar Two rules apply to multinational enterprises that have consolidated revenues (which, as defined by the OECD, include any form of income and are therefore not limited to revenue recognised in accordance with IFRS 15) of €750m in at least two out of the last four years.

After the amendments to IAS 12 become effective, it is clear that entities subject to Pillar Two rules must ignore the deferred tax implications of enacted or substantively enacted Pillar Two legislation in their IFRS financial statements. However, for annual reporting periods beginning on or after 1 January 2023, these entities will need to provide some additional disclosures about current taxes in their annual financial reports, as described above.

Entities that need to consider the Pillar Two requirements before the IAS 12 amendments are endorsed might still be able to avoid recognition of deferred tax; refer to In brief INT2023-05 Global implementation of Pillar Two: proposed amendments to IAS 12 – endorsement and enactment timing.

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