



Project:	International Tax Reform – Pillar Two Model Rules	Meeting:	June 2023 (M196)
Topic:	Ballot Draft AASB 2023-Y Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules for Board Voting	Agenda Item:	9.1
		Date:	6 June 2023
Contact(s):	Kim Carney kcarney@asb.gov.au	Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Ballot draft for Board voting

Objective of this paper

- The objective of this paper is to provide the Board with:
 - an update on the IASB’s International Tax Reform – Pillar Two Model Rules project; and
 - a ballot draft version of amending Standard AASB 2023-Y *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* for voting.

Attachments

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| Agenda paper 9.2 | Ballot Draft: AASB 2023-Y <i>Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules</i> |
| Agenda paper 9.3 | Submission received on AASB Exposure Draft ED 323 <i>International Tax Reform – Pillar Two Model Rules</i> [supporting material folder] |
| Agenda paper 9.4 | AASB Comment Letter on IASB ED/2023/1 <i>International Tax Reform—Pillar Two Model Rules</i> [supporting material folder] |

Background

- In 2021, 136 countries and jurisdictions representing more than 90% of global gross domestic product agreed to a major international tax reform introducing a global minimum tax for large multinational enterprises (MNEs).¹
- These countries and jurisdictions joined the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework Statement on the [Two-Pillar Solution to Address the Tax Challenges Arising from the Digitisation of the Economy](#). The two-pillar solution comprises:
 - Pillar One – which aims to ensure a fairer distribution of profits and taxing rights among countries for the largest MNEs by reallocating certain amounts of taxable income to market

¹ [International community strikes a ground-breaking tax deal for the digital age - OECD](#)

jurisdictions resulting in a change in effective tax rate and cash obligations as well as having an impact on current transfer pricing arrangements; and

- (b) Pillar Two – aims to put a floor on tax competition by introducing a global minimum corporate tax rate set at 15% for large MNEs.²

- 4 In December 2021, the OECD published its Pillar Two model rules. The Pillar Two model rules provide a template for implementing a minimum corporate tax rate of 15% that large MNEs would pay on income generated in each jurisdiction in which they operate.
- 5 In response to stakeholders' concerns about the potential implications and imminent implementation of the Pillar Two rules on the accounting for income taxes, the IASB issued [Exposure Draft/2023/1 International Tax Reform—Pillar Two Model Rules](#). ED/2023/1 was issued in Australia as ED 322.
- 6 ED/2023/1 proposed amendments to IAS 12 *Income Taxes* that would introduce:
 - (a) a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of the rules; and
 - (b) targeted disclosure requirements for affected companies.
- 7 The Board received limited feedback on ED 322, receiving only one formal submission (see Agenda Paper 9.3) and verbal feedback from the AASB's User Advisory Committee.
- 8 After considering the proposals and feedback received, in March 2023, the Board finalised its comment letter for submission to the IASB. The comment letter supported the IASB's response to the Model Rules, suggested some improvements to the proposals and outlined the Board's observations on the OECD's use of accounting profit.

Project update

- 9 After considering stakeholder feedback on ED/2023/1, in May 2023, the IASB finalised its proposals and issued *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)*.
- 10 In finalising the proposals, the IASB amended the disclosure requirements proposed in the Exposure Draft for periods where the legislation is enactive or substantively enacted but is not yet effective.
- 11 In the amending Standard, for periods where the legislation is enacted or substantively enacted but not yet effective, entities are required to disclose information that:
 - (a) helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.
 - (b) meets a disclosure objective by disclosing known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period. The information does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity would instead be required to disclose a statement to that effect and would also be required to disclose information about the progress the entity has made in assessing its exposure to Pillar Two income taxes.
- 12 All other requirements in the amending Standard are consistent with the proposals in the Exposure Draft.

Due process requirements

- 13 As per the [AASB For-Profit Entity Standard-Setting Framework](#), "In accordance with the Financial Reporting Council's broad strategic directions to the AASB, the AASB sets Standards that:
 - (a) enable 'publicly accountable' private sector entities to maintain IFRS compliance;

2 The Pillar Two model rules are also known as the Global Anti-Base Erosion Model Rules (GloBE).

(b) for other entities, use IFRS Standards (where they exist) and the principle of transaction neutrality (modified as necessary), or develop Australian-specific Standards and guidance ...".³

- 14 Additionally, per the *AASB For-Profit Entity Standard-Setting Framework*, "differences between Accounting Standards issued in Australia and New Zealand for for-profit entities should be minimised wherever possible to reduce the costs for entities operating trans-Tasman."⁴
- 15 Staff note, "Only in rare and exceptional circumstances will additions to IFRS Standards be justified. The AASB disagreeing with the IASB's treatment is unlikely to provide a good reason, in and of itself, for changing the requirement in an IFRS Standard."⁵

Staff recommendation

- 16 Staff recommend that Board members vote to make *AASB 2023-Y Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* (including any revisions agreed by the members).
- 17 If Board members vote to make the proposed amending Standard, the content of the Standard will be finalised by replacing "AASB 2023-Y" with the next Standard number in the sequence and the various dates formally inserted into the Standard as indicated. The Standard would then be registered on the Federal Register of Legislation and published on the AASB website.
- 18 Although the Board suggested in its comment letter that the IASB consider some clarifications and additional disclosure requirements, and these suggestions have not been reflected in the amending Standard, staff consider that the revised requirements in the final amendments sufficiently address the Board's concerns.

Question to Board members

- Q1: Do Board members have any questions or comments on the ballot draft?
- Q2: Do Board members vote in favour of making *AASB 2023-Y Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules*?

Possible amendments to AASB 1060

- 19 Subject to Board members agreeing with the staff recommendation in paragraph 16, staff consider it is also necessary for the Board to consider whether similar amendments to [AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities](#) are required as some Tier 2 entities might be affected by the Pillar Two Model Rules.⁶
- 20 The *AASB For-Profit Entity Standard-Setting Framework* and [AASB Not-For-Profit Entity Standard-Setting Framework](#) outline the Board's approach when considering amendments to AASB 1060 following amendments made by the IASB to full IFRS Standards.
- 21 Staff note that the IASB has recently added a project to its work plan to "consider an urgent amendment to Section 29 Income Tax of the IFRS for SMEs Standard to align with similar amendments to IAS 12 Income Taxes." The IASB issued an Exposure Draft⁷ on 1 June 2023 that proposes amendments to the *IFRS for SMEs* Standard to:
- (a) introduce a mandatory temporary exception to the requirements to:
- (i) recognise deferred tax assets and liabilities related to Pillar Two income taxes; and

3 *AASB For-Profit Entity Standard-Setting Framework* paragraph 3.

4 *AASB For-Profit Entity Standard-Setting Framework* paragraph 27.

5 *AASB For-Profit Entity Standard-Setting Framework* paragraph 37.

6 Paragraph BC96 of AASB 1060 states that "a review of the disclosures will need to take place any time ... amendments are made to existing Australian Accounting Standards or Interpretations".

7 IASB/ED/2023/3 *International Tax Reform—Pillar Two Model Rules—Proposed Amendments to the IFRS for SMEs Standard*.

- (ii) disclose information that would otherwise be required by the *IFRS for SMEs* Standard⁸ about deferred tax assets and liabilities related to Pillar Two income taxes;
 - (b) introduce targeted disclosure requirements for affected SMEs in periods when Pillar Two legislation is in effect; and
 - (c) clarify that 'other events' in the disclosure objective in paragraph 29.38 of the *IFRS for SMEs* Standard include enacted or substantively enacted Pillar Two legislation.
- 22 Due to the structure of Australian Accounting Standards, the Board does not need to consider a mandatory temporary exception for Tier 2 entities. This is because the exception (subject to Board decisions) will be introduced into AASB 112 *Income Taxes*, and Tier 2 entities are required to apply the recognition and measurement requirements of AASB 112 (including the amendment).

AASB due process requirements

- 23 The [AASB Due Process Framework for Setting Standards](#) sets out the principle that, to maximise Australia's input and influence on international accounting Standard-setting, the AASB issues IASB consultation documents concurrently in Australia to seek Australian input and prepares formal submissions on issues likely to be of interest to Australian entities.⁹
- 24 Staff recommend that the Board does not issue IASB/ED/2023/3 as an Australian Exposure Draft. Although the *IFRS for SMEs* Standard was used as a basis to develop AASB 1060, because the *IFRS for SMEs* Standard is not currently in use in Australia, staff consider the Exposure Draft as issued by the IASB as likely to be of limited interest to Australian stakeholders.
- 25 However, staff consider that the disclosure amendments proposed in IASB/ED/2023/3 could be relevant to Australian stakeholders in respect of Tier 2 entities.

AASB standard-setting Frameworks

- 26 In determining the Board's approach, the standard-setting frameworks first consider whether the amendments introduce a significant recognition and measurement difference between full IFRS Standards and the *IFRS for SMEs* Standard. If they don't, the standard-setting frameworks state that no further action is required unless the disclosures address a matter of public policy, the disclosures are of particular relevance in the Australian environment, or the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.¹⁰
- 27 Whilst staff do not consider that the amendments introduce a significant recognition and measurement difference because the IASB is proposing amendments that will align the *IFRS for SMEs* Standard and Full IFRS in relation to Pillar Two, and in Australia there will be no recognition and measurement difference between Tier 1 and Tier 2 entities, staff do consider that permitting Tier 2 entities to apply the exception without including any disclosures in their financial statements would be unhelpful for users. It would also be inconsistent with the IASB's approach to amending the *IFRS for SMEs* Standard (i.e. the IASB introduced the mandatory temporary exception for SMEs and introduced new disclosures too).
- 28 Although staff have been unable to determine whether any Tier 2 entities will be affected in Australia, staff consider it possible that Tier 2 entities may be affected, especially given the IASB's evidence about SMEs being affected in other jurisdictions.

8 The disclosures that are the subject of the proposed exception are set out in paragraphs 29.39–29.41 of the *IFRS for SMEs* Standard.

9 Paragraph 5.1(c) of the due process framework. Paragraph 7.4.3 of the due process framework also states that when the IASB issues an ED, the AASB reissues the ED in Australia along with Australian-specific commentary, if necessary. AASB strategic objective 3 is also relevant and requires that the AASB "actively influence IASB ... standards and other international accounting and external reporting standards and guidance, by demonstrating thought leadership and enhancing key international relationships".

10 See paragraph 56 of the For-Profit Entity Standard-Setting Framework and paragraph 43 of the Not-for-Profit Entity Standard-Setting Framework,

29 Therefore, staff suggest the Board issues an Exposure Draft proposing adding specific disclosures to AASB 1060 for circumstances where a Tier 2 entity is affected by the Model Rules and applies the mandatory temporary exception.

30 Subject to the Board agreement, staff suggest the following next steps:

Task	Timing
Staff to draft Exposure Draft proposing amendments to AASB 1060 to add additional disclosure/s for the Pillar Two Model Rules. Staff will align the proposed disclosures in the Exposure Draft with the proposed IFRS for SMEs Standards Exposure Draft disclosures.	by 6 July 2023
OPTIONAL: Board to consider the Exposure Draft <i>If the Board wishes to consider the content of the Exposure Draft, this will delay the following steps by approximately one month.</i>	
Staff to finalise the Exposure Draft out of session via the Chair and publish the Exposure Draft.	by 6 July 2023
Comments on the Exposure Draft due (45-day comment period) Staff consider this a narrow-scope, urgent amendment; therefore, a shorter comment period is justified. ¹¹	Approximately 45 days from the issuance of the Exposure Draft (by 22 August)
Staff to analyse any feedback received and discuss with the Board at the September 2023 AASB meeting.	September 2023
Staff to finalise and issue the amending Standard after incorporating any feedback from Stakeholders and Board members at the September AASB meeting. ¹²	End of September 2023

Question to Board members

- Q3: Do Board members have any questions or comments on possible amendments to AASB 1060 for the Pillar Two Model Rules?
- Q4: Do Board members agree with the staff recommendation in paragraph 24 not to issue IASB/ED/2023/3 as an Australian Exposure Draft? If not, what do Board members suggest?
- Q5: Do Board members agree with the staff recommendation in paragraph 29 to issue an Australian Exposure Draft proposing amendments to AASB 1060 for the Pillar Two Model Rules? If not, what do Board members suggest?
- Q6: Do Board members have any comments on the suggested next steps?

11 The AASB Due Process Framework for Setting Standards paragraph 6.5(d) sets out the AASB's approach to due process when proposing narrow scope, urgent amendments to Australian Accounting Standards.

12 Staff note, however, that if the Board decides that a comment period of longer than 60 days is needed, the proposed timeline will require adjustment.