

# **International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures**

Comments to the AASB by 22 August 2023



**Australian Government**

**Australian Accounting  
Standards Board**

## Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 22 August 2023.

### Formal submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website ([www.aasb.gov.au/current-projects/open-for-comment](http://www.aasb.gov.au/current-projects/open-for-comment)) as a PDF document and, if possible, a Word document (for internal use only).

### Other feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: [standard@aaasb.gov.au](mailto:standard@aaasb.gov.au)

Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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## Introduction

### Australian Accounting Standards

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The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

### Exposure Drafts

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The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

### Why we are making these proposals

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In October 2021, more than 135 jurisdictions agreed to the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting's Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy. Since then, the OECD has published model rules and other documents related to the second pillar of this solution (the Pillar Two model rules). The Pillar Two model rules provide a template that jurisdictions can translate into domestic tax law and implement as part of an agreed common approach.

The model rules:

- (a) aim to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate;
- (b) would achieve that aim by applying a system of top-up taxes that results in the total amount of taxes payable on "excess profit" in each jurisdiction representing at least the minimum rate of 15%; and
- (c) typically require the ultimate parent entity of a group to pay top-up tax – in the jurisdiction in which it is domiciled – on profits of its subsidiaries that are taxed below 15%.

The rules are aimed at multinational groups with revenue in their consolidated financial statements exceeding €750 million in at least two of the four preceding fiscal years. The rules specify inclusion thresholds for some jurisdictions and exclude some types of entities from their scope.

In response to stakeholder concerns about the implications of the Pillar Two model rules on income tax accounting, in June 2023 the AASB issued AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules*. This Standard amended AASB 112 *Income Taxes* to introduce:

- (a) a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the OECD; and
- (b) targeted disclosure requirements to help financial statement users better understand an entity's exposure to income taxes arising from the reform, particularly in periods before legislation implementing the rules is in effect.

The mandatory temporary exception and related disclosures apply to both Tier 1 and Tier 2 entities.

However, to ensure that Tier 2 entities are required to comply with disclosure requirements set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* rather than in AASB 112, the Board proposes to amend:

- (a) Appendix A of AASB 112 – to extend the exemption from complying with the disclosure requirements of AASB 112 for entities applying AASB 1060 to include the disclosure requirements added to AASB 112 by AASB 2023-2; and

- (b) AASB 1060 – to require targeted disclosures by Tier 2 entities affected by Pillar Two legislation.<sup>1</sup>

The proposed amendments to AASB 1060 are consistent with the IASB’s approach to amending the *IFRS for SMEs* Standard because, in June 2023, the IASB issued Exposure Draft IASB/ED/2023/3 *International Tax Reform – Pillar Two Model Rules – Proposed amendments to the IFRS for SMEs Standard*.<sup>2</sup>

## What we are proposing

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This Exposure Draft proposes amendments to AASB 1060 to require a Tier 2 entity to disclose:

- (a) that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see AASB 112 paragraph 4A); and
- (b) its current tax expense (income) related to Pillar Two income taxes.

This Exposure Draft also proposes amendments to AASB 112 to extend the exemption from complying with the disclosure requirements of AASB 112 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the new disclosure requirements in AASB 112 when preparing their financial statements.

## Application date

It is proposed the amendments would apply to annual periods beginning on or after 1 January 2023 that end on or after 30 September 2023, with earlier application permitted.

## What happens next

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The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

## We need your feedback

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Comments are invited on any of the proposals in this Exposure Draft by 22 August 2023. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

## Specific matters for comment

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The AASB would particularly value comments on the following:

- 1 Do you agree with the proposed amendments to AASB 1060? If you disagree, please explain why.
- 2 Do you have any other comments on the proposals?

## General matters for comment

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The AASB would also particularly value comments on the following general matters:

- 3 Have the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?

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1 ‘Pillar Two legislation’ refers to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Income taxes arising from Pillar Two legislation are hereafter referred to as ‘Pillar Two income taxes’.

2 AASB 1060 was developed via a bottom-up approach, starting with the disclosures in the IASB’s *IFRS for SMEs* Standard. When finalising the requirements of AASB 1060, the Board acknowledged that a review of the disclosures in AASB 1060 would need to take place in certain circumstances, including an update of the *IFRS for SMEs* Standard.

- 4 Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 5 Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?
- 6 Would the proposals result overall in financial statements that are useful to users?
- 7 Are the proposals in the best interests of the Australian economy?
- 8 Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative, and are they appropriate relative to the existing requirements? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

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PREFACE

**[DRAFT] ACCOUNTING STANDARD  
AASB 2023-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – INTERNATIONAL TAX  
REFORM – PILLAR TWO MODEL RULES: TIER 2 DISCLOSURES**

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<b>OBJECTIVE</b>	<b>1</b>
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**[DRAFT] BASIS FOR CONCLUSIONS**

[Draft] Australian Accounting Standard AASB 2023-X Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures is set out in paragraphs 1–9. All the paragraphs have equal authority.

## Preface

### Standards amended by AASB 2023-X

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This [draft] Standard makes amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) and AASB 112 *Income Taxes* (August 2015).

### Main features of this Standard

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#### Main requirements

AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* (June 2023) amended AASB 112 to introduce:

- (a) a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD); and
- (b) targeted disclosure requirements to help financial statement users better understand an entity's exposure to income taxes arising from the reform, particularly in periods before legislation implementing the rules is in effect.

This Standard amends AASB 1060 to require a Tier 2 entity to disclose:

- (a) that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see AASB 112 paragraph 4A); and
- (b) its current tax expense (income) related to Pillar Two income taxes.

This Standard also amends AASB 112 to extend the exemption from complying with the disclosure requirements of AASB 112 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the new disclosure requirements in AASB 112 when preparing their Tier 2 financial statements.

#### Application date

This [draft] Standard applies to annual periods beginning on or after ... [1 January 2023 that end on or after 30 September 2023], with earlier application permitted.

## [Draft] Accounting Standard AASB 2023-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2023-X *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall  
Chair – AASB

## [Draft] Accounting Standard AASB 2023-X *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures*

### Objective

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- 1 This Standard amends AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) to require a Tier 2 entity to disclose:
  - (a) that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see AASB 112 paragraph 4A); and
  - (b) its current tax expense (income) related to Pillar Two income taxes.
- 2 This Standard also amends AASB 112 *Income Taxes* (August 2015) to extend the exemption from complying with the disclosure requirements of AASB 112 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the disclosure requirements in AASB 112 when preparing their financial statements.
- 3 These amendments reflect the issuance of AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* (June 2023), which amended AASB 112 to introduce:
  - (a) a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD); and
  - (b) targeted disclosure requirements to help financial statement users better understand an entity's exposure to income taxes arising from the reform.

### Application

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- 4 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 1060 and AASB 112 set out in AASB 1057 *Application of Australian Accounting Standards*.
- 5 This Standard applies to annual periods beginning on or after ... [1 January 2023 that end on or after 30 September 2023]. Earlier application is permitted.
- 6 This Standard uses underlining, striking out and other typographical material to identify the amendments to AASB 1060 and AASB 112 in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with new text underlined.

### Amendments to AASB 1060

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- 7 Paragraph 176 is amended and paragraphs 178A and 178B and a related heading are added. In the implementation guidance accompanying AASB 1060, the table in paragraph IG1 is also amended. New text is underlined.



## Income Tax<sup>27</sup>

- 176 An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events (such as enacted or substantively enacted Pillar Two legislation).<sup>27A</sup> [IFRS for SMEs Standard paragraph 29.38]

<sup>27A</sup> 'Pillar Two legislation' refers to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Income taxes arising from Pillar Two legislation are hereafter referred to as 'Pillar Two income taxes'.

...

### **International tax reform – Pillar Two model rules**

- 178A An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see AASB 112 paragraph 4A). [IFRS for SMEs Standard [proposed] paragraph 29.42]
- 178B An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes. [IFRS for SMEs Standard [proposed] paragraph 29.43]

...

## Implementation guidance

...

AASB Standard	Paragraphs superseded by this Standard	Paragraphs that have not been superseded by this Standard and represent presentation requirements or associated guidance
...	...	...
AASB 112 <i>Income Taxes</i>	Paragraphs 79–88D	Paragraphs 71–78
...	...	...

## Amendments to AASB 112

- 8 Paragraph AusA1 is amended. New text is underlined.

### **Appendix A** **Australian simplified disclosures for Tier 2 entities**

*This appendix is an integral part of the Standard.*

- AusA1 Paragraphs **79–88D** do not apply to entities preparing general purpose financial statements that apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

## Commencement of the legislative instrument

- 9 For legal purposes, this legislative instrument commences on ... [29 September 2023].

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, AASB 2023-X Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures.*

### Introduction

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BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in the Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. Individual Board members gave greater weight to some factors than to others.

### Background

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#### Pillar Two model rules

BC2 In October 2021 more than 135 jurisdictions agreed to the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting’s *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*. Since then, the OECD has published model rules and other documents related to the second pillar of this solution (the Pillar Two model rules). The Pillar Two model rules provide a template that jurisdictions can translate into domestic tax law and implement as part of an agreed common approach.

BC3 The model rules:

- (a) aim to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate;
- (b) would achieve that aim by applying a system of top-up taxes that results in the total amount of taxes payable on “excess profit” in each jurisdiction representing at least the minimum rate of 15%; and
- (c) typically require the ultimate parent entity of a group to pay top-up tax – in the jurisdiction in which it is domiciled – on profits of its subsidiaries that are taxed below 15%.

BC4 The rules are aimed at multinational groups with revenue in their consolidated financial statements exceeding €750 million in at least two of the four preceding fiscal years. The rules specify inclusion thresholds for some jurisdictions and exclude some types of entities from their scope.

#### Potential implications for income tax accounting

BC5 In response to stakeholder concerns about the implications for income tax accounting, in June 2023 the Board issued *AASB 2023-2 Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules*, which amended AASB 112 *Income Taxes* to introduce:

- (a) a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the OECD; and
- (b) targeted disclosure requirements to help financial statement users better understand an entity’s exposure to income taxes arising from the reform, particularly in periods before legislation implementing the rules is in effect.

BC6 The mandatory temporary exception and related disclosures noted in paragraph BC5 apply to both Tier 1 and Tier 2 entities.<sup>1</sup>

BC7 However, to ensure Tier 2 entities are required to comply with disclosure requirements set out in AASB 1060 rather than the new requirements in AASB 112, the Board proposes to amend Appendix A of AASB 112 to extend the exemption from compliance with the disclosure requirements of AASB 112 for entities applying AASB 1060 to include the disclosure requirements added to AASB 112 by AASB 2023-2.

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<sup>1</sup> AASB 1053 *Application of Tiers of Australian Accounting Standards* outlines that Australian Accounting Standards consist of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Simplified Disclosures.

- BC8 In considering whether to propose amendments to AASB 1060 to require targeted disclosures by Tier 2 entities, the Board considered that the Pillar Two model rules could have a material effect on the financial statements of Tier 2 entities. For example, some subsidiaries of large multinational groups may be affected by Pillar Two legislation.<sup>2</sup>

## Relevance of the amendments to AASB 1060

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- BC9 The *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-For-Profit Entity Standard-Setting Framework* outline the approach adopted by the Board for considering whether to add to or amend disclosure requirements in AASB 1060 when the IASB makes amendments to full IFRS Standards.
- BC10 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:
- (a) the disclosures address a matter of public policy;
  - (b) the disclosures are of particular relevance in the Australian environment; or
  - (c) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.
- BC11 In addition to the principles in the standard-setting frameworks, the Board acknowledged when finalising AASB 1060 that a review of the disclosures in AASB 1060 would need to take place any time the *IFRS for SMEs* Standard is updated (paragraph BC96).
- BC12 Although there will be no recognition and measurement differences between full IFRS Standards and the *IFRS for SMEs* Accounting Standard or between Tier 1 and Tier 2 entities in Australia in respect of Pillar Two income taxes, the Board considers that Tier 2 entities applying the mandatory temporary exception should be required to include some disclosures in their financial statements to help users understand the effect of Pillar Two legislation on the financial statements.
- BC13 In addition, the Board noted that the IASB proposed amendments to the *IFRS for SMEs* Standard, issuing Exposure Draft IASB/ED/2023/3 *International Tax Reform – Pillar Two Model Rules – Proposed amendments to the IFRS for SMEs Standard* in June 2023. IASB/ED/2023/3 proposes amendments to the *IFRS for SMEs* Standard that would:
- (a) introduce a temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules;
  - (b) introduce targeted disclosure requirements in periods when Pillar Two legislation is in effect; and
  - (c) clarify that 'other events' in the disclosure objective for income tax include enacted or substantively enacted Pillar Two legislation.
- BC14 Therefore, the Board decided to propose amendments to AASB 1060 to require Tier 2 entities applying the temporary exception to include targeted disclosures in their financial statements.

## Disclosures

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- BC15 As noted in paragraph BC6, a Tier 2 entity is required to apply the mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules in AASB 112. To make the application of the exception transparent, the Board proposes requiring Tier 2 entities applying the temporary exception to disclose that fact.
- BC16 In addition, consistent with the IASB's proposed approach to amending the *IFRS for SMEs* Standard, the Board decided:
- (a) in relation to periods before relevant Pillar Two legislation is in effect, not to propose specific disclosure requirements; and
  - (b) in relation to periods when relevant legislation is in effect, to propose requiring an entity to disclose its current tax expense (income) related to Pillar Two income taxes.
- BC17 In making these decisions, the Board considered that:
- (a) it was not necessary to add a new disclosure requirement for periods before relevant Pillar Two legislation is in effect because the existing disclosure requirement in paragraph 176 would be

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<sup>2</sup> 'Pillar Two legislation' refers to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Income taxes arising from Pillar Two legislation are hereafter referred to as 'Pillar Two income taxes'.

expected to result in Tier 2 entities affected by Pillar Two legislation providing some information about the nature and financial effect of enacted or substantively enacted Pillar Two legislation before it applies. However, the Board decided to propose clarifying that the reference in paragraph 176 to ‘other events’ includes enacted or substantively enacted Pillar Two legislation; and

- (b) requiring a Tier 2 entity to disclose its current tax expense (income) related to Pillar Two income taxes when relevant legislation is in effect would help users of the financial statements understand the magnitude of Pillar Two income taxes relative to the entity’s overall tax expense (income). The Board considered this disclosure would not be costly to prepare because a Tier 2 entity would already be required in these circumstances to recognise current tax related to Pillar Two income taxes.

## **Effective date**

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- BC18 The Board proposes that the amendments should be made effective for annual periods beginning on or after 1 January 2023 that end on or after 30 September 2023, with earlier application permitted. This would be consistent with the effective date of AASB 2023-2 for most entities.