



Cover Memo

Project:	International Tax Reform – Pillar Two Model Rules	Meeting:	September 2023 (M198)
Topic:	Ballot Draft AASB 2023-X Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures for Board Voting	Agenda Item:	5.1
		Date:	29 August 2023
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		Decision-Making:	High
		Project Status:	Ballot draft for Board voting

Objective of this paper

- 1 The objective of this paper is to provide the Board with:
 - (a) an update on the proposed amendments to AASB 1060 on the Pillar Two Model Rules project; and
 - (b) a ballot draft version of amending Standard AASB 2023-X Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures for voting.

Attachments

- Agenda paper 5.2 Ballot Draft: AASB 2023-X Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures
- Agenda paper 5.3 Submissions received on AASB Exposure Draft [ED 325 International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures](#) [supporting material folder]

Background

- 2 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
- 3 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:
 - (a) 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 made amendments to IAS 112 *Income Taxes* which the AASB adopted in June 2023 by issuing [AASB 2023-2 Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules](#).

6 AASB 2023-2 introduces a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules and additional targeted disclosures.

7 In July 2023, the AASB issued ED 325, which proposed amendments to:

- (a) Appendix A of AASB 112 *Income Taxes* – 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 a Tier 2 entity to disclose:
 - (i) that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes; and
 - (ii) its current tax expense (income) related to Pillar Two income taxes.

8 The proposed amendments to AASB 1060 are consistent with the IASB's proposed 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*.

Stakeholders' feedback on ED 325

9 The comment period for ED 325 closed on 22 August 2023. As of that date, the AASB had received two comment letters, both from professional services firms (R1 – Deloitte and R2 – PricewaterhouseCoopers (PwC))

10 Both respondents agreed the proposed amendments would be useful for Tier 2 entities. R1 also provided some additional matters for the AASB to consider, which are set out below.

Clarification of the disclosure objective (paragraph 176 of AASB 1060)

11 ED 325 proposed an amendment to paragraph 176 of AASB 1060 to clarify that "other events" include enacted or substantively enacted Pillar Two legislation. This proposed amendment is consistent with the amendment proposed by the IASB in IASB/ED/2023/3.

12 R1 suggests that such an amendment is unnecessary because "it is already understood that the "transactions and other events" referred to in this paragraph include enactment or substantive enactment of tax rates and laws". R1 further suggests that if the AASB is concerned that this may not be the case, the clarification should be worded more broadly rather than specifically referring to Pillar Two legislation, or the Board could consider clarifying this in the Basis for Conclusions.

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

Staff analysis

- 13 R1's feedback regarding the proposed clarification is consistent with some of the feedback received by the IASB on their proposed clarification of the disclosure objective in paragraph 29.38 of the *IFRS for SMEs* Standard.
- 14 However, overall, the IASB's feedback from respondents confirms that it would be helpful to clarify the meaning of "other events" in paragraph 29.38 (paragraph 176 of AASB 1060).
- 15 Other feedback received by the IASB included:
- (a) replacing 'enacted or substantively enacted' with 'enactment or substantive enactment'. IASB staff agreed with this suggestion; and
 - (b) a suggestion to use more generic language because the amendments would be more meaningful and 'future-proof'. IASB staff considered that using generic language would also avoid the misperception that "other events" might include only enactment of Pillar Two legislation instead of enactment or substantive enactment of other tax rates and tax laws.³
- 16 In the papers for the IASB's Supplementary August meeting, IASB staff suggested amendments as follows to paragraph 29.38 (the proposed new amended text is underlined, and the old proposed amended text is struck through):

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 (including enactment or substantive enactment of tax rates and tax laws, such as Pillar Two legislation) ~~such as enacted or substantively enacted Pillar Two legislation~~.

- 17 The IASB agreed with the IASB staff recommendation and is expected to issue an amending Standard in September 2023.

Staff recommendation

- 18 AASB staff recommend that paragraph 176 of AASB 1060 be amended as set out above for consistency with the amendments expected to be made to the *IFRS for SMEs* Standard.
- 19 If AASB members vote to make the amending Standard AASB 2023-X prior to the IASB approving its amendments to the *IFRS for SMEs* Standard, then the *IFRS for SMEs* comparison notes in the ballot draft will need to be modified as follows:
- (a) in paragraph 176 – Based on *IFRS for SMEs* Standard paragraph 29.38]; and
 - (b) the notes shown for paragraphs 178A and 178B would be deleted, since paragraphs 29.42 and 29.43 would not have been included in the *IFRS for SMEs* Standard at that time.

³ See [IASB staff paper 12B](#) to the Supplementary August IASB meeting.

Questions for Board members

- Q1. Do Board members have any questions or comments?
- Q2. Do Board members agree with the staff recommendation in paragraph 18? If not, what do Board members suggest?

Effective date

- 20 R1 provided feedback about the proposed effective date, which was “annual periods beginning on or after 1 January 2023 that end on or after 30 September 2023”, as they are concerned the proposed effective date could create confusion for preparers of Tier 2 financial statements, particularly for reporting periods ending before 30 September (e.g. 30 June 2023).

Staff analysis

- 21 The effective date proposed in ED 325 was intended to align as closely as possible to the amendments made by the IASB in their full IFRS amending Standard and by the AASB in AASB 2023-2.
- 22 R1’s submission acknowledged that the AASB cannot make Standards in Australia that operate retrospectively. That is, the AASB cannot make a Standard that applies mandatorily to a period that ends before the Standard is made. This means that the Board cannot make a Standard in September 2023 that is applicable for all annual periods beginning on or after 1 January 2023, because theoretically that could include short periods that end before the AASB makes the Standard. The 1 January 2023 date comes from the original IASB amendments for Pillar Two taxes. This was also adopted by the AASB for the effective date in AASB 2023-2, which is “annual periods beginning on or after 1 January 2023 that end on or after 30 June 2023” in order to avoid retrospectivity – that Standard was made by the AASB on 22 June 2023.
- 23 Therefore, to avoid retrospectivity in this Tier 2 case, the effective date must also include an ‘end date’ that occurs after the date the Standard is made by the AASB. This is why ED 325 proposed an effective date of “annual periods beginning on or after 1 January 2023 that end on or after 30 September 2023”, on the presumption that the amending Standard would be made by the AASB before 30 September.
- 24 Furthermore, until the amendments proposed in ED 325 are finalised and an amending Standard is issued, Tier 2 entities would be required to comply with the amendments made to AASB 112 *Income Taxes* by AASB 2023-2 (including the AASB 112 disclosures relating to Pillar Two legislation set out in paragraphs 88A–88D).
- 25 Staff acknowledge the two-pronged effective date could be confusing for some entities. However, as earlier application is proposed to be permitted, a Tier 2 entity could apply the AASB 2023-X amendments early to their 2022/23 financial year ending on 30 June 2023 (or any date prior to 30 September 2023). This is a simple way for Tier 2 entities to avoid deferred tax accounting under AASB 112 for Pillar Two income taxes. If a Tier 2 entity applies AASB 2023-2 early, rather than AASB 2023-X, it would still avoid the deferred tax accounting for Pillar Two income taxes but would have to provide (if relevant) the specific forward-looking disclosures set out in paragraphs 88C and 88D of AASB 112, which applies when Pillar Two legislation has been enacted or substantively enacted but is not yet in effect. The ballot draft AASB 2023-X does not include these specific disclosure requirements in AASB 1060, given the general disclosure requirement about the tax consequences of transactions and other events in paragraph 176.

Staff recommendation

- 26 Staff do not consider any amendment to the effective date is needed. However, staff see merit in extending the reference to early application in the Standard as well as providing additional

explanation regarding the effective date in the Basis for Conclusions. This has been reflected in the ballot draft version of AASB 2023-X set out in Agenda Paper 5.2: see the Preface (last paragraph), paragraph 5 of the Standard and paragraph BC25 in the Basis for Conclusions.

Questions for Board members

- Q3. Do Board members have any questions or comments?
- Q4. Do Board members agree with the staff recommendation in paragraph 26? If not, what do Board members suggest?

Next Steps

- 27 Subject to Board decisions on previous questions, staff recommend that Board members vote to make *AASB 2023-X Amendments to Australian Accounting Standards –International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures* based on the Ballot Draft set out in Agenda Paper 5.2 (including any revisions agreed by the members at this meeting).
- 28 If Board members vote to make the proposed amending Standard, the content of the Standard will be finalised by replacing “AASB 2023-X” 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.

Questions for Board members

- Q5. Do Board members have any other questions or comments?
- Q6. Do Board members vote in favour of making *AASB 2023-X Amendments to Australian Accounting Standards –International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures*?