

ED/2023/3 International Tax Reform – Pillar Two Model Rules: Proposed amendments to the IFRS for SMEs Standard

Exposure draft issued by the IASB in June 2023

Comments from ACCA

13 July 2023

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for International Tax Reform – Pillar Two Model Rules: Proposed amendments to the IFRS for SMEs Standard (hereinafter referred to as the 'ED'). This was done with the assistance of ACCA's Global Forum for Corporate Reporting and Global Forum for Taxation.

The Pillar Two model rules, that aim to ensure large multinational enterprises (MNEs) pay a minimum amount of tax on income arising in each jurisdiction in which they operate, are by no means simple. Small and medium sized entities (SMEs) may be affected by Pillar Two model rules by virtue of being a subsidiary in a multinational group.

The top-up tax rate will be influenced by an entity and its related entities' performance and tax payments in a jurisdiction, among other factors. Applying these rules and determining the deferred tax impact are likely to be complex and very challenging in practice. The cost and effort to produce reliable information may outweigh the benefits and make this seem like an impractical exercise, particularly for SMEs.

We suggest the IASB prioritise making the mandatory exception effective as soon as possible, while ensuring the disclosure requirements are proportionate to SMEs. Please refer to our responses to questions two and three.

The proposed mandatory exception will give SMEs a temporary relief from dealing with uncertainty in accounting for deferred taxes arising from Pillar Two model rules. The breathing space will be appreciated. The IASB will need time to study how the rules have been implemented around the world and consider whether it needs to undertake further work – for both IAS 12 and Section 29 of the *IFRS for SMEs* Standard.

We suggest the IASB maintain the exception until it has studied the evolving tax implications and is able to provide guidance for practical and consistent application of Section 29 in accounting for top-up tax recharges within individual entity's accounts and deferred tax arising from Pillar Two model rules. We encourage the IASB to consult directly with affected stakeholders to fully understand the implications.

Our detailed responses to the specific questions asked are set out below.

RESPONSES TO SPECIFIC QUESTIONS RAISED

Question 1 – Temporary exception to accounting for deferred taxes (proposed new paragraphs 29.3A and 29.42)

Section 29 *Income Tax* of the IFRS for SMEs Standard 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 a temporary exception to the requirements in Section 29, an SME neither recognise deferred tax assets and liabilities related to Pillar Two income taxes nor disclose information that would otherwise be required by paragraphs 29.39–29.41 about deferred tax assets and liabilities related to Pillar Two income taxes.

The IASB also proposes to require an SME to disclose that it has applied the exception. Paragraphs BC11–BC16 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

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

ACCA response – Question 1

SMEs may be affected by the Pillar Two model rules by virtue of being a subsidiary in a multinational group. The impact of Pillar Two model rules on the ultimate holding company, intermediate holding companies and individual entities (including subsidiaries that are SMEs) within a group is still unclear due to legislation only currently being enacted by different jurisdictions.

Uncertainties exist relating to an entity’s ability to assess future tax consequences and in turn account for deferred tax, ie, whether there will be temporary differences, amount and the tax rate to be applied. For example, a group’s performance might change from year to year, and this might change the resulting top-up tax rate. Additionally, high levels of estimation uncertainty and individual interpretation are likely to exist, resulting in unreliable information or where the cost of obtaining this information outweighing the benefit.

Therefore, we support the proposed mandatory exception as it will give SMEs and the IASB time to assess how the Pillar Two model rules have been implemented in different jurisdictions, as well as time for the IASB to consider whether any standard setting activity is required to support the consistent application of Section 29. We also echo the IASB’s view in paragraph BC15(b) that a mandatory exception will eliminate the risk that SMEs might inadvertently develop accounting policies that are inconsistent with the principles and requirements in Section 29, as that would reduce comparability.

However, we suggest clarifying in paragraph 29.42 that the disclosure is not applicable to SMEs that are unaffected by Pillar Two model rules. Though this is

explained in the basis for conclusions (paragraph BC 13), it is more helpful to be explicit in the standard.

Question 2 – Disclosure (amended paragraph 29.38 and proposed new paragraph 29.43)

This Exposure Draft proposes:

- a) to clarify that ‘other events’ in the disclosure objective in paragraph 29.38 of the Standard include enacted or substantively enacted Pillar Two legislation; and
- b) not to introduce new disclosure requirements in periods when Pillar Two legislation is enacted or substantively enacted but not yet in effect.

Paragraphs BC18–BC20 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

In periods when Pillar Two legislation is in effect, the IASB proposes to require an SME to disclose separately its current tax expense (income) related to Pillar Two income taxes.

Paragraph BC21 of the Basis for Conclusions explains the IASB’s rationale for this proposal.

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

ACCA response – Question 2

Our comments for each proposal are as follows:

Periods before legislation is in effect

We support the IASB’s proposals:

- not to propose any new disclosure requirements for periods before Pillar Two legislation is in effect, and
- clarify in paragraph 29.38 of the Standard that ‘other events’ include the enacted or substantively enacted Pillar Two legislation.

However, the clarification in paragraph 29.38 indicates that an SME is required to disclose information about the nature and financial effect of the current tax consequences of enacted or substantively enacted Pillar Two legislation (ie, during the period before legislation is in effect). Such assessment of financial effect of Pillar Two legislation may be performed at the parent’s or at another level.

Disclosure should be proportionate to SMEs. Therefore, we suggest the IASB reconsider if it is necessary to require SMEs to disclose such information during the periods before Pillar Two legislation is in effect. Otherwise, we suggest the IASB provide guidance on the type and extent of information to be disclosed during the period before Pillar Two legislation is in effect.

Furthermore, paragraph 88D in the *Amendments to IAS 12 Income Taxes* provides entities with a relief to disclose a statement to the effect that information is not known or not reasonably estimable, and disclose information about the entity's progress in assessing its exposure. However, this relief is not provided to SMEs in Section 29. A relief that is similar to paragraph 88D in the *Amendments to IAS 12 Income Taxes* should be provided to SMEs.

Periods in which the legislation is in effect (paragraph 29.43)

We support separating Pillar Two income taxes from an SME's current tax expense as proposed in paragraph 29.43 as it enables users to analyse the amount of additional taxes that the SME has to pay.

We also suggest clarifying if the under or over accrual of Pillar Two income taxes should be disclosed separately from an SME's current tax expense in subsequent periods.

Question 3 – Effective date and transition (proposed new paragraph A4)

The IASB proposes that an SME apply:

- a) the exception (proposed new paragraph 29.3A)—and disclose it has applied the exception (proposed new paragraph 29.42)—immediately upon the issue of these amendments and retrospectively in accordance with Section 10 Accounting Policies, Estimates and Errors of the IFRS for SMEs Standard;
- b) the amended paragraph 35.10(h) immediately upon the issue of these amendments; and
- c) the disclosure requirement in proposed new paragraph 29.43 for annual reporting periods beginning on or after 1 January 2023.

Paragraphs BC23–BC25 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

ACCA response – Question 3

We agree that the exception in paragraph 29.3A should be effective immediately upon the issue of these amendments and retrospectively in accordance with Section 10 of the Standard. We also support requiring SMEs to disclose it has applied the exception.

We also support the proposed paragraph 35.10(h) that require first-time adopters of IFRS for SMEs to apply the mandatory exception (in paragraph 29.3A) immediately when the amendments are issued, and retrospectively. This way, the Standard

would not be more onerous for first-time adopters to apply compared to SMEs that are already applying the Standard.

However, we suggest the IASB consider deferring the disclosure requirement in paragraph 29.43 to annual reporting periods beginning on or after 1 January 2024, and permitting earlier application. This will provide SMEs with more time to prepare the information for disclosure (ie, its current tax expense (income) related to Pillar Two income taxes). On the other hand, SMEs that are ready would be able to disclose them earlier.