



International Accounting Standards Board

commentletters@ifrs.org

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Exposure Draft ED/2023/1 International Tax Reform – Pillar Two Model Rules

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the above Exposure Draft International Tax Reform – Pillar Two Model Rules.

FAR welcomes the Board's efforts to address the concerns of stakeholders about the implications for income tax accounting arising from the implementation of Pillar Two model rules.

FAR supports the Board's proposal to provide a mandatory temporary exception to the requirements in IAS 12 under which an entity should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. We do however have concerns with respect to some of the proposed disclosure requirements in the ED.

In addition, FAR highlights that the timing at which the amendments will be published by the IASB is critical, given the timing at which some jurisdictions are expected to enact or substantively enact the Pillar Two model rules.

Please find our detailed responses to the questions in the Appendix to this letter.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Pernilla', is written over a light blue horizontal line.

Pernilla Lundqvist

Chairman Accounting Practices Committee



Appendix

Question 1—Temporary exception to the accounting for deferred taxes

IAS 12 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 an exception to the requirements in IAS 12, an entity neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

The IASB also proposes that an entity disclose that it has applied the exception.

Paragraphs BC13-BC17 of the Basis for Conclusions explain the IASB's rationale for this proposal.

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

Response

FAR supports the clarification that IAS 12 applies to Pillar Two income taxes and the mandatory temporary exception to the requirements in IAS 12 under which an entity should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

It is noted in the BC to the exposure draft that IAS 12 is considered to apply in the consolidated financial statements of the ultimate parent, but that it can be unclear whether IAS 12 applies in the financial statements of a group's subsidiaries. FAR also believes that it may be unclear whether IAS 12 applies in the consolidated financial statements of sub-groups that do not include the paying parent.

FAR therefore believes that entities could benefit from clarification of whether the disclosure requirements apply for entities and sub-groups within the ultimate/paying entity's group.

It may also be unclear whether IAS 12 applies for the ultimate/paying parent entity, in its separate financial statements and therefore whether the disclosure requirements apply – since the tax is not tax on the ultimate/paying parent's income.



Question 2—Disclosure

The IASB proposes that, in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity disclose for the current period only:

- (a) Information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates.
- (b) the jurisdictions in which the entity's average effective tax rate (calculated as specified in paragraph 86 of IAS 12) for the current period is below 15%. The entity would also disclose the accounting profit and tax expense (income) for these jurisdictions in aggregate, as well as the resulting weighted average effective tax rate.
- (c) whether assessments the entity has made in preparing to comply with Pillar Two legislation indicate that there are jurisdictions:
 - a. identified in applying the proposed requirement in (b) but in relation to which the entity might not be exposed to paying Pillar Two income taxes; or
 - b. not identified in applying the proposed requirement in (b) but in relation to which the entity might be exposed to paying Pillar Two income taxes.

The IASB also proposes that, in periods in which Pillar Two legislation is in effect, an entity disclose separately its current tax expense (income) related to Pillar Two income taxes.

Paragraphs BC18–BC25 of the Basis for Conclusions explain the IASB's rationale for this proposal.

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

Response

FAR supports the efforts of the IASB to define an approach that would provide information to the users to assess an entity's exposure to paying top-up tax what would not involve undue cost or effort. FAR appreciates that the IASB is trying to find a compromise, considering the urgency of the project.

It is difficult to assess whether the right balance have been achieved from a cost benefit perspective. FAR does not have significant objections to the proposed disclosure requirements, except that FAR has doubts that the information requested by paragraph 88C (a) would be decision-useful information for the users. FAR understands that this requirement aims for information on all the jurisdictions where an entity operates, and Pillar Two model rules are enacted or substantively enacted but cannot see any significant value in such a list in addition to the information requested in paragraphs 88C (b) and (c).

In addition, FAR is uncertain whether the disclosure requirements proposed in paragraph 88C are fit for purpose for separate financial statements.



Question 3—Effective date and transition

The IASB proposes that an entity apply:

- (a) the exception – and the requirement to disclose that the entity has applied the exception – immediately upon issue of the amendments and retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- (b) the disclosure requirements in paragraphs 88B-88C for annual reporting periods beginning on or after 1 January 2023.

Paragraphs BC27-BC28 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

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

Response

FAR agrees with the proposal and such an approach would not lead to significant additional cost for preparers. It would allow entities to apply the exception retrospectively starting from the date Pillar Two legislation is enacted or substantively enacted. FAR also thinks it is good to not having an end date of the exception introduced by these amendments but recommend IASB to include a regular review of the amendments in its workplan.