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Mr Andreas Barckow
Chairman
International Accounting Standards Board
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7 Westferry Circus
Canary Wharf
London E14 4HD

By e-mail only - commentletters@ifrs.org

6 March 2023

Re: Exposure Draft ED/2023/1 – International Tax Reform – Pillar Two Model Rules Proposed Amendments to IAS 12

Dear Mr Barckow,


On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2023/1 – International Tax Reform – Pillar Two Model Rules Proposed Amendments to IAS 12 ('the ED').

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are set out in the appendix to this letter.

We would like to highlight that we are supportive of the IASB's proposed exemption from IAS 12 Income Taxes in respect of Pillar Two legislation, and the timeframe for the introduction of the amendment into IAS 12 Income Taxes. However, we have some reservations over the detailed disclosure proposed.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours faithfully,



Marion Hannon
Global Leader, Quality & Risk
RSM International

APPENDIX

Question 1 – Temporary exception to the accounting for deferred taxes (paragraphs 4A and 88A)

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.

We agree with the proposed exemption to the requirements of IAS 12 *Income Taxes*, with an entity neither recognising or disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

We believe that this exemption is necessary to enable both the IASB and entities impacted, to consider the implication of Pillar Two model rules on deferred tax accounting. Furthermore, given that the timing of enactment of Pillar Two model rules will vary across multiple jurisdictions, our view is that the proposed exemption will ensure that financial statements remain comparable and provide users with relevant, useful information.

Finally, we believe that the proposed exemption will avoid diverse interpretation and application of the requirements in IAS 12 *Income Taxes*.

Question 2 – Disclosure (paragraphs 88B-88C)

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:
 - (i) 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
 - (ii) 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.

We agree with the proposed disclosures relating to information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates as this will provide clarity to users on the various jurisdictions that may be impacted.

We do not agree with the proposed disclosures in paragraph 88C(b). We are of the view that collating the information required to comply with the disclosure would be onerous on entities and have little benefit until the financial effect has been determined.

We believe that only once a jurisdiction has enacted or substantially enacted the requirements and the entity has made an assessment of the financial impact, then this assessment should be disclosed in their financial statements.

We agree with the proposal for entities to disclose separately its current tax expense (income) related to Pillar Two legislation in periods in which Pillar Two legislation is in effect. This disclosure will facilitate comparability between entity's financial statements, providing useful and relevant information to enable users to understand the impact of Pillar Two income taxes relative to the total tax expense.

Question 3 – Effective date and transition (paragraph 98M)

The IASB proposes that an entity apply:

- (d) 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**
- (e) 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.

We agree with the proposed effective date of the exemption and the introduction of the disclosure requirements. We believe that that amendments should be immediately available on the issue of the amendment.

Furthermore, we agree that retrospective application is appropriate as it would result in entities applying the exemption from the date Pillar Two legislation is enacted or substantively enacted in the jurisdictions it operates.

We have no other comments on the ED.

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