

# ASC

ACCOUNTING STANDARDS COUNCIL  
SINGAPORE

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*(By online submission)*

Dear Andreas

## **RESPONSE TO EXPOSURE DRAFT ON INTERNATIONAL TAX REFORM— PILLAR TWO MODEL RULES (PROPOSED AMENDMENTS TO IAS 12)**

The Singapore Accounting Standards Council welcomes the opportunity to comment on the Exposure Draft on *International Tax Reform—Pillar Two Model Rules* (Proposed amendments to IAS 12) (the ED) issued by the International Accounting Standards Board (the IASB) in January 2023.

We appreciate the IASB's efforts in addressing, expeditiously, stakeholders' concerns about the potential implications for income tax accounting under IAS 12 *Income Taxes* resulting from jurisdictions implementing the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

Our comments on the ED are as follows:

### **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 suggest instead and why.

We are supportive of the proposals relating to the exception to the accounting for deferred taxes (the exception) on the basis of the IASB’s rationale. Moreover, we consider that requiring an entity to disclose that it has applied the exception would provide the necessary transparency to users of financial statements (users), as the entity would otherwise have to comply with the relevant requirements in IAS 12 in the absence of the exception.

#### Top-up tax payable with respect to low-taxed profits of other entities

We note that, although the ED proposes to specify that ‘IAS 12 applies to *income taxes* arising from tax law (substantively) enacted to implement the Pillar Two model rules...’ [emphasis added], it remains unclear as to whether top-up tax that is payable by a reporting entity with respect to the low-taxed profits of other entities that are not part of the reporting entity (the said top-up tax) is an income tax within the scope of IAS 12 in the financial statements of the reporting entity and, consequently, whether such taxes are within the scope of the proposed amendments.

This is because whilst the term ‘income taxes’ is not defined in IAS 12, paragraphs 2 and 5 of IAS 12 suggest that these are taxes which are based on an entity’s profit for a period, determined in accordance with the rules established by taxation authorities.

We believe that the IASB should provide clarity on whether the said top-up tax is within or outside the scope of IAS 12. This would not only help entities determine whether the proposed amendments—in particular, the disclosures proposed in the ED—apply to such taxes, but also how such taxes should be accounted for. Providing such clarity would also avoid diversity in practice, which impairs the comparability of financial statements across entities.

Should the IASB decide that the said top-up tax is outside the scope of IAS 12, we suggest that the IASB considers requiring the disclosure of information that would provide users with insights into an entity’s exposure to paying the said top-up tax. Although we understand that the disclosures proposed in the ED are primarily intended to compensate for the potential loss of information that would result from the exception, we believe that the informational needs of users are unlikely to differ based on whether the top-up tax is within or outside the scope of IAS 12.

#### **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 suggest instead and why.

#### Periods before Pillar Two legislation is in effect

We appreciate the IASB's efforts in identifying what information would provide users with insights into an entity's exposure to paying top-up taxes (the said insights), but that would not impose undue cost or effort on entities, in periods before Pillar Two legislation is in effect.

Nonetheless, we have the following comments on the disclosures proposed in paragraph 88C of the ED:

#### *Proposed paragraph 88C(a)*

We think that it is not entirely clear what information about jurisdictions' Pillar Two legislation an entity is required to disclose under proposed paragraph 88C(a).

Moreover, we note that as drafted, that paragraph could be interpreted as categorically requiring an entity to provide the stipulated information for all jurisdictions in which the entity operates, notwithstanding that there could be situations where the stipulated information for particular jurisdictions is of little relevance to users. For example, if a parent's jurisdiction has enacted the Income Inclusion Rule (IIR), information about the Pillar Two legislation in its subsidiaries' jurisdictions—insofar as those legislations implement the IIR only and those subsidiaries are not themselves a 'partially-owned parent entity' as defined under the Pillar Two model rules—would generally be of little relevance, given that the parent's jurisdiction has priority to apply the IIR under the Pillar Two model rules.

To avoid entities providing boilerplate and/or voluminous disclosures of little informational value, we believe that further clarification from the IASB would be useful. In addition, to help entities make judgements about what information would be relevant to users, we think that it would be useful to include a disclosure objective within IAS 12 for the proposed disclosures. In this regard, we understand from paragraph BC19 of the Basis for Conclusions on the ED that the primary objective of the disclosures proposed in paragraph 88C of the ED—of which we are supportive—is ‘to help users assess an entity’s exposure to paying top-up tax’.

Furthermore, we suggest that the IASB considers requiring an entity to disclose the effective date of those legislations, as this would provide an indication of the expected timing of the crystallisation of the entity’s exposure to paying top-up taxes.

#### *Proposed paragraph 88C(b)*

We have reservations about whether the disclosures proposed in paragraph 88C(b) would indeed provide the said insights to users, given that those disclosures would not be based on the requirements in the Pillar Two model rules. We are also concerned that those disclosures could potentially be misleading. We understand that some IASB members have similar concerns.

Moreover, we think that the proposal to require the disclosures relating to tax expense (income) and accounting profit to be provided on an aggregated basis for all jurisdictions within the scope of proposed paragraph 88C(b) may not provide a useful indication of the magnitude of an entity’s exposure to paying top-up taxes, rendering the information not useful to users. This is because top-up tax is determined at a jurisdictional level under the Pillar Two model rules.

Therefore, we suggest that the IASB finalises the disclosures proposed in paragraph 88C(b) only if feedback received on the ED indicates that there is sufficient support from users globally.

#### *Proposed paragraph 88C(c)*

In situations where an entity has made assessments in preparing to comply with Pillar Two legislation (Pillar Two assessments), we suggest that the IASB considers requiring the entity to provide the disclosures proposed in paragraph 88C(b) prepared based on the requirements in the Pillar Two legislation—instead of the requirements in IAS 12—or other quantitative and/or qualitative information that the entity determines, based on its judgement, would provide the said insights to users. The entity would not be required to comply with proposed paragraph 88C(b) in such situations.

The above approach would not only allow entities to take into account entity-specific facts and circumstances—including, for example, an entity’s group structure, the status of the enactment of Pillar Two legislation in jurisdictions in which an entity operates and the status of an entity’s Pillar Two assessments—but also leverage on information that is already available. It therefore has the potential to provide better insights into an entity’s exposure to

paying top-up taxes, without adding significant additional cost or effort to the entity. It would also avoid entities disclosing particular jurisdictions under proposed paragraph 88C(b) only for the disclosure to be ‘invalidated’ under proposed paragraph 88C(c)(i).

Should the IASB decide not to require the aforesaid disclosures, we suggest that the IASB clarifies that the entity is required to provide the disclosures proposed in paragraph 88C(b) for jurisdictions in which the entity, based on the Pillar Two assessments made, might be exposed to paying Pillar Two income taxes.

In this regard, we note that as drafted, proposed paragraph 88C(c) could be interpreted as requiring an entity to provide a list of, or a statement on whether there are, jurisdictions identified under that paragraph, neither of which would be useful to users. Moreover, if such interpretation indeed reflects the IASB’s intention, we believe that the IASB’s rationale for requiring the disclosures proposed in paragraph 88C(b) for jurisdictions in which an entity might not be, but not for jurisdictions in which an entity might be, exposed to paying Pillar Two income taxes—as identified under proposed paragraph 88C(c)(i) and 88C(c)(ii) respectively—is unclear.

#### Periods when Pillar Two legislation is in effect

We are supportive of the disclosure proposed in paragraph 88B of the ED on the basis of the IASB’s rationale.

#### **Question 3—Effective date and transition (paragraph 98M)**

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 suggest instead and why.

We are supportive of the proposed effective date and transition on the basis of the IASB’s rationale and planned timeline for issuance of the amendments—i.e. in the second quarter of 2023.

We hope that our comments will contribute to the IASB’s deliberation on the ED. Should you require any further clarification, please contact our project managers Yat Hwa Guan at [Guan\\_Yat\\_Hwa@asc.gov.sg](mailto:Guan_Yat_Hwa@asc.gov.sg) and Yu Shan Koo at [Yu\\_Shan\\_Koo@asc.gov.sg](mailto:Yu_Shan_Koo@asc.gov.sg).

Yours faithfully

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