

10 March 2023

International Accounting Standards Board  
7 West ferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom  
Email: commentletters@ifrs.org

Dear Sir/Madam

**SAICA SUBMISSION ON ED/2023/01- INTERNATIONAL TAX REFORM – PILLAR TWO MODEL RULES: PROPOSED AMENDMENTS TO IAS 12**

In response to your request for comments on the ED/2023/1- *International Tax Reform- Pillar Two Model Rules*: Proposed amendments to IAS 12, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC). The APC comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments

**Prof Ahmed Mohammadali-Haji**  
**Chairperson: APC**

**Mulala Sadiki**  
**Project Director: Financial Reporting**

**Cc: Bongeka Nodada**  
**Executive: Corporate Reporting**

## GENERAL COMMENTS

We welcome the proposals in the Exposure Draft (ED) and appreciate the International Accounting Standards Board's (IASB or Board) objective to address the uncertainty that may arise from adopting the Pillar 2 Model for International Tax Reform (tax reform) proposed by the Organisation for Economic Development (OECD) in a timely fashion.

However, we note that the ED only addresses the specific recognition and measurement requirements related to deferred tax per IAS 12 – *Income Taxes* (IAS 12), but does not provide sufficient clarity or detail as to whether an equivalent scope exception should be included within IAS 12. This is due to the ambiguity arising on whether the tax paid by the consolidated entity on profits earned outside its tax-paying jurisdiction is an income tax as defined in IAS 12. We recommend the Board consider this in finalising these amendments.

## SPECIFIC COMMENTS

### **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 amendments.

We note that the intention of the Board was to make this exception temporary, however by virtue of the exception not having a stipulated reassessment date by the Board or a fixed time-period for when the exception is applicable, we believe that this could inadvertently become a permanent exception for deferred tax only.

It is recommended that the Board introduce a specified time-period during which the exception should be applicable. We recommend a maximum period of three years. Alternatively consider whether an equivalent exception should be added to the scope of IAS 12 in order to remove the adoption of the tax reform in each jurisdiction reducing any possible diversity in practice.

## 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 disclosure requirements required in terms of paragraphs 88A and 88B.

We, however, concerned about the required disclosure in terms of paragraph 88C.

In relation to paragraph 88C(a), it was noted that the disclosure requirement would result in onerous disclosure for preparers of financial statements that operate in multiple jurisdictions.

We recommend that this disclosure requirement is only applicable to those entities that operate in jurisdictions where there is a risk that the entity will be required to pay top-up taxes in line with the Pillar Two legislation.

In order to achieve the above, it is proposed that the wording of paragraph 88C(a) be amended as follows: “*information about such legislation enacted or substantively enacted in jurisdictions in which the entity operates and where the entity might be liable for top-up taxes as per Pillar Two tax legislation*”. In addition, disclosure of an entity’s progress in quantifying the exposure.”

We believe that the disclosure requirement in paragraph 88C(b) would not result in useful information for the users of the financial statements and should be removed. In terms of the Pillar Two legislation, the effective tax rate is determined by dividing the covered taxes by a pre-defined income or loss for that specific jurisdiction which may include taxable income not related to the taxable entity which may be inconsistent with the requirements of an effective tax rate determined under IAS 12.

Lastly, the proposed disclosure in paragraph 88C(c) references disclosure made as a result of paragraph 88C(b). Therefore, in line with the above recommendation to remove paragraph 88C(b), it is recommended that paragraph 88C(c) be amended accordingly.

**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 would suggest instead and why.*

We agree with the proposed amendments and have no further comments.