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International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members,

RESPONSE TO EXPOSURE DRAFT – INTERNATIONAL TAX REFORM (PROPOSED AMENDMENTS TO IAS 12) ("ED")

For this ED, ISCA sought views from its members through a one-month public consultation and from the ISCA Financial Reporting Committee which comprises experienced technical professionals from audit firms, preparers of financial statements and other stakeholders.

We are supportive of the temporary exception for the accounting of deferred taxes arising from the implementation of Pillar Two model rules. This will provide entities with timely relief from accounting for deferred taxes in relation to a complex new tax law to allow stakeholders time in assessing the implications. At the same time, this will avoid inconsistent interpretations of IAS 12 *Income Taxes* in practice.

Cognisant that this exception may lead to potential loss of information to users of the financial statements, the ED has proposed additional disclosures which indicate entities' potential exposures to paying top-up taxes and the jurisdictions in which those potential exposures might exist. However, we have concerns on the usefulness of the disclosure of jurisdictions with average effective tax rates of less than 15%. This is explained in our response to Question 2 on "Paragraph 88C(b) Disclosures on jurisdictions with average effective rates below 15% and the aggregated tax expense (income), accounting profits and weighed average tax rate" below.

Furthermore, with the intensification of international efforts in creating a more equitable and transparent corporate tax base, international tax rules for multinationals are changing at a rapid pace. This will be a good opportunity for IASB to perform a holistic review of IAS 12, specifically on its scope. For example, there may be situations within a group of related entities where the taxes of Entity A could be transferred to Entity B. In this case, should Entity B account for such taxes as income taxes within the scope of IAS 12? Based on our understanding, there are varying practices currently in the market.

Our detailed comments to specific questions in the ED are set out below.

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.

As proposed in paragraph 4A of the ED, IAS 12 is applicable to <u>income taxes</u> arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules. IAS 12 paragraph 2 states that income taxes include all domestic and foreign taxes which are <u>based on taxable profits</u>. This would mean that entities are required to assess if the top-up taxes arising from the implementation of Pillar Two model rules meet the definition of income taxes. Such an assessment might be dependent on how the legislation for Pillar Two model rules will be enacted amongst jurisdictions. This would create uncertainties on whether such taxes are in the scope of IAS 12. Paragraph BC9 of the ED also acknowledges that stakeholders have raised a similar concern on whether top-up taxes qualify as income taxes in the financial statements of a group's subsidiary with respect to profits of entities that were not part of the reporting group (for example, with respect to a fellow subsidiary's profits).

We propose for the Board to state explicitly that the proposed exception is applicable to all taxes arising from the implementation of Pillar Two model rules in all entities. This would avoid ambiguity on whether such taxes are within the scope of these amendments and enhance consistency and comparability across reporting entities.

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 are of the view that the proposed disclosures might entail undue cost or effort by entities and such information provided might not be useful to readers of financial statements (as explained below).

In addition, as the proposed disclosures will apply for all IFRS preparers, it seems to suggest that all entities in the same jurisdictions will need to make similar disclosures in the individual financial statements. For example, a small entity within the same country as the parent entity that may only contribute 1% to the group may end up having to make extensive disclosures relating to Pillar Two income taxes even though it has minimal exposure/contribution to the Pillar Two income tax exposures. This may result in duplicate information being disclosed and audited multiple times, especially if entities within the country are audited by different auditors. In our view, disclosure in the consolidated accounts by the ultimate/intermediate parent entity should suffice.

<u>Paragraph 88C(b) Disclosures on jurisdictions with average effective rates below 15% and the aggregated tax expense (income), accounting profits and weighed average tax rate</u>

The proposed paragraph 88C(b) requires the disclosure of jurisdictions in which the entity's effective tax rate for the current period is below 15% as well as the tax expense (income), aggregated accounting profit for these jurisdictions and the resulting weighed average tax rate.

It was shared in paragraph BC22 of the ED that the average effective tax rates computed under Pillar Two model rules will differ from those based on IAS 12's requirements. Hence, the proposed disclosure of jurisdictions with average effective tax rates below 15% (using IAS 12's requirements) will not be meaningful as these would not be reflective of the actual average effective tax rates under Pillar Two model rules. In addition, the top-up tax of a jurisdiction may be deemed to be zero if the Pillar Two Safe Harbour tests are satisfied (based on de minimis or routine profit or simplified effective tax rate).

For the proposed disclosure of aggregated accounting profits and tax expenses in respective jurisdictions, this would require consolidation to be performed at the jurisdiction (i.e., country) level which will result in additional costs and efforts by entities. Yet, such information might not be useful to readers interested in the tax impact of Pillar Two model rules since they are based on accounting rules.

Moreover, some entities may be Excluded Entities that are not subject to the operative provisions of Pillar Two model rules. Where the Excluded Entities have multiple subsidiaries that are Ultimate Parent Entities (UPEs) and individually liable for the top-up taxes under the

Pillar Two model rules, aggregated quantitative disclosure per paragraph 88C(b) would not be meaningful in conveying the Excluded Entities' group tax exposure for example due to offsetting. The cost of gathering the jurisdiction-by-jurisdiction quantitative information across multiple UPEs for one to two years to comply with the 88C(a) and (b) disclosures might be significant in such scenarios.

We suggest for the Board to consider amending the quantitative disclosure requirements as set out in paragraph 88C to be less prescriptive, but more objective-based to allow companies to exercise appropriate judgement in determining relevant quantitative information that provides users with insights into the entity's potential tax exposure. For example, some companies may have performed alternative assessment by comparing jurisdictional income tax rate against the minimum tax rate of 15% which could form the basis for the disclosure.

If these disclosures are required, we suggest for the Board to provide illustrative examples on the computation of aggregated tax expense and accounting profits, as well as the resulting weighed average effective tax rate for clarity.

For example,

(1) application of the proposed disclosure requirements in the separate financial statements or the consolidated financial statements of a sub-group addressing how each entity in the group that may be potentially subject to the top-up tax is to provide the proposed disclosures even if it is not expected to be legally liable for the top-up tax nor triggers it.

(2) application of the proposed disclosure requirements during the transition period as different countries may implement the new Pillar Two model rules at different dates and the top-up tax liability may move up or down the group entities.

We also suggest clarifying the extent of the disclosure to be provided under paragraph 88C(a) to address questions on whether an entity is required to provide the full list of jurisdictions in which it operates with information about the status of Pillar Two legislation or an appropriate aggregation is acceptable.

Finally, we suggest providing clarity that Excluded Entities or Groups that are not Multinational Enterprise (MNE) Groups (e.g. where consolidated revenue is less than EUR 750 million) do not need to comply with these disclosure requirements if they are not exposed to the top-up tax under Pillar Two model rules.

Paragraph 88C (c) Disclosures of assessments made on jurisdictions that had or had not disclosed in 88C(b) which might or might not be exposed to Pillar Two income taxes

It is unclear from the proposed paragraph 88C(c) as to whether the proposed assessments are mandatory. Entities may be in various stages of assessments which may involve making certain key assumptions and estimates on the potential impact and the collation of information from their subsidiaries. Hence, it may be premature and onerous for entities to disclose such assessments of potential exposures. In addition, such disclosure might be viewed as commercially sensitive information and subject to scrutiny by the relevant tax jurisdictions. Hence, we are of the view that such disclosures for the assessments are not required.

In conclusion, for Question 2 as a whole, we are of the view that the disclosure of jurisdictions that entities expect to be exposed to Pillar Two model rules would suffice for an indication of entities' potential exposures.

Should you require any further clarification, please feel free to contact Ms Felicia Tay at felicia.tay@isca.org.sg or Ms Jezz Chew at jezz.chew@isca.org.sg.

Yours faithfully,

Mr Wai Geat, KANG
Divisional Director
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