mazars

Mr Andreas Barckow

IASB Chair

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La Défense, 10 March 2023

Exposure Draft 2023/1: International Tax Reform—Pillar Two Model Rules (proposed amendments to IAS 12)

Dear Andreas,

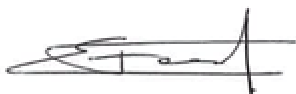
Mazars is pleased to comment on the International Accounting Standards Board's Exposure Draft *International Tax Reform—Pillar Two Model Rules*.

We agree with the proposed exception to IAS 12 and the proposed targeted disclosures, even if we wonder whether information under paragraph 88C(b) would meet the cost benefit criterion, considering that it would be provided only in 2023 financial statements. Given the urgency and the complexity of the issues raised by the imminent enactment of Pillar Two legislation, we believe these amendments represent a reasonable and pragmatic approach.

In our detailed answers to the questions raised in the Exposure Draft (see the appendix attached to this letter), we have made some suggestions which we hope could further facilitate the work of preparers on scope issues (i.e., on assessing whether and to what extent an entity is exposed to paying top up taxes due to Pillar Two legislation and whether these taxes are in the scope of IAS 12 or another Standard). These are indeed complex issues that will require significant time to analyse.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,



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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 support the temporary mandatory exception to recognise and disclose information regarding deferred taxes relating to Pillar Two income taxes, for the reasons set out in paragraphs BC13-BC17.

We agree that applying IAS 12 to Pillar Two income taxes – and identifying and measuring relating deferred taxes – raises several accounting matters that would need time to be solved (if even possible). In such circumstances, recognising or disclosing deferred tax impacts relating to Pillar Two legislation might lead to inconsistent application, or misapplication, of IAS 12 requirements.

Nevertheless, we would like to suggest:

- To make it clearer in paragraph 4A that IAS 12 (and the proposed exception) does not apply to Pillar Two top up taxes that do not meet the definition of income tax.
  We believe that the current wording in paragraph 4A "*This Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules*" does not clearly exclude from the scope of IAS 12 any top up tax arising from Pillar Two legislation that would not meet the definition of income tax in IAS 12.

- To add in the Basis for conclusions that the amendments are not intended to provide an answer to the question of whether the taxes resulting from the legislation implementing Pillar Two fall under IAS 12 or another Standard.

- To make it clearer in the Basis for conclusions that applying the current requirements in IAS 12, an entity would have to assess:
  - first whether the Pillar Two top-up tax is an income tax according to IAS 12, and
  - if yes, whether the Pillar Two legislation gives rise to additional temporary differences that could lead to deferred tax assets and liabilities, and

- if so, how the principles and requirements in IAS 12 to account for deferred taxes should be applied.

Indeed, the deferred tax requirements in IAS 12 were not designed to apply to tax systems such as those resulting from the Pillar Two model rules. As a result, significant interpretative work would likely be necessary to enable their application to the taxes resulting from the Pillar Two rules.
Such a clarification in the Basis for conclusions might be useful for an entity operating in countries where the Pillar Two legislation is enacted before the entity is authorised to apply the proposed amendments to IAS 12, considering any IFRS endorsement process in its jurisdiction. Indeed, it might provide support for justification that financial statements without deferred tax assets or liabilities relating to Pillar Two legislation might nevertheless be consistent with the current requirements in IAS 12.
This could be done by slightly changing the wording in paragraphs BC13 and BC17.

- To explain in the Basis for conclusions why the disclosure in paragraph 88A provides a relevant information to users of financial statements. Indeed, such a disclosure might appear useless considering that the proposed recognition and disclosure exception is mandatory.

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. 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 proposal in paragraph 88B that an entity discloses separately its current tax expense or income related to Pillar Two income taxes.

Regarding disclosures for periods before Pillar Two legislation is in effect, we globally support the Board's proposal, but have reservations relating to the cost benefits balance of the information required under 88C(b) (see below).
Our detailed comments on the disclosure proposals are the following:

- Information required under paragraph 88C(a):
    - some guidance would be useful to clarify that the level of detail of the information provided depends on an entity's specific facts and circumstances and that judgement is required in determining the appropriate level of detail of this information.
      We believe that this clarification will reassure preparers that an entity is not necessarily required to provide an exhaustive list of jurisdictions where it operates.
    - once it is exposed to enacted or substantively enacted Pillar Two legislation, an entity uses judgement in determining whether to provide the information

required under paragraph 88C(a) for additional jurisdictions implementing Pillar Two model rules.
Indeed, tax laws implementing Pillar Two model rules will apply to the tax base of several jurisdictions and may overlap in some circumstances. Therefore, it is not always useful to provide information on new jurisdictions implementing Pillar Two model rules if this does not lead to an increase in the entity's tax base which is taxable at a tax rate of 15% or more.

- Information required under paragraph 88C(b):
  - Entities should disclose the objective of such disclosure and specify that it might have no predictive value relating to the amount of Pillar Two top up tax the entity will have to pay in the future. This would avoid users interpreting the quantitative information as an estimate of the future impacts of Pillar Two legislation.
  - We believe that the Board should carefully consider the cost benefits balance of the proposal before confirming the disclosure requirements. Indeed, we understand that the data necessary to prepare the disclosure might not be immediately available, depending on the complexity of an entity's reporting structure and the existence of tax consolidation regimes. Considering that the Pillar Two legislation is expected to be in effect in 2024, this disclosure will only be provided in 2023 financial statements. Therefore, for entities that do not calculate their effective tax rate by jurisdiction, we question whether it is reasonable to organise such a calculation for a one-off disclosure.
  - Should the Board decide to proceed with the proposed disclosure, we suggest adding an option allowing an entity to use either the nominal tax rates of the jurisdictions in which it operates, or the effective tax rates calculated per jurisdiction according to IAS 12.86 and requiring that an entity disclose the method used.
    We believe that adding this option will avoid undue costs and efforts for groups with complex structures. Moreover, if entities have started analysing effective tax rates by jurisdiction according to Pillar Two model rules, it seems more reasonable not to require them to perform additional complex calculations with (probably) less predictive value on their exposure to Pillar Two income taxes.
  - Information required under paragraph 88C(b) might not be useful (if not misleading) if the reporting entity is not expected to be the Pillar Two taxpayer (for instance because the financial statements are those of a sub-group, and that any top-up tax will be paid by the ultimate parent). Entities in that situation should be exempted from disclosing that information.

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 amendment.