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Accounting Alert – IASB issues amendments to the IFRS for SMEs to help entities respond to the Pillar Two Tax Rules

Executive Summary

The International Accounting Standards Board (IASB) has amended the IFRS for SMEs. The amendments, entitled International Tax Reform—Pillar Two Model (Amendments to the IFRS for SMEs) are based on the amendments to IAS 12, *Income Taxes*, issued in May 2023, and address the impacts of the introduction of the Organization for Economic Co-operation and Development's (OECD) Pillar Two Model Rules. The amendments introduce a temporary exception and targeted disclosure requirements.

Background

The OECD published its Pillar Two Model Rules in December 2021 to ensure that large multinational companies (i.e., groups with revenue of EUR750 million or more in two of the last four years) would be subject to a minimum 15% tax rate. The reform is expected to apply in most jurisdictions for accounting periods starting on or after January 1, 2024.

However, while the reaction from jurisdictions around the world to implement the changes has been positive, there have been major stakeholder concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of these rules. Those concerns mainly refer to identifying and measuring deferred taxes, because determining whether the Pillar Two Model Rules will create additional temporary differences is very difficult and also which tax rate will be applicable (considering the number of factors affecting its determination).

Following similar amendments to IAS 12, *Income Taxes*, issued in May 2023, the IASB has issued these out-of-cycle amendments to the IFRS for SMEs to provide direction on what they expect entities to disclose.

The Amendments

- Introduce a temporary recognition exception for entities applying the IFRS for SMEs from recognizing deferred tax assets and liabilities arising from Pillar Two Model Rules, and from the related disclosures on deferred tax assets and liabilities that would otherwise be required; and,

- Provide clarification on the disclosures required by entities applying the IFRS for SMEs. This includes disclosing the current tax expense or income arising from Pillar Two Model Rules, and a statement that it has applied the exemption from recognizing deferred tax balances relating to Pillar Two Model Rules.

Entities can benefit from this temporary exception immediately and are required to provide the disclosures set out in the amendments for reporting periods beginning on or after January 1, 2023.

Our thoughts

As with the previous amendments to IAS 12, we welcome these amendments because many of our clients around the world have indicated they are concerned at the amount of time, cost and effort that will be required to assess the accounting implications associated with the tax consequences arising from the implementation of the Pillar Two Model Rules.

Similarly, we commend the IASB for moving quickly to extend the guidance and relief to entities who report under the IFRS for SMEs, as they too face uncertainty due to the Pillar Two Model Rules.

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