



Need to know IASB publishes amendments to *IFRS for SMEs* for OECD tax reform

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This *Need to know* outlines *International Tax Reform—Pillar Two Model Rules—Amendments to the IFRS for SMEs Standard*, published by the International Accounting Standards Board (IASB) in September 2023.

- The IASB published amendments to Section 29 *Income Tax* of the *IFRS for SMEs* Standard that introduce a temporary exception to the requirements to recognise deferred tax assets and liabilities related to Pillar Two income taxes, and to disclose information about deferred tax assets and liabilities related to Pillar Two income taxes
- The amendments also introduce targeted disclosure requirements for affected SMEs in periods when Pillar Two legislation is in effect
- The exception is effective immediately upon the issue of the amendments and applies retrospectively in accordance with Section 10 *Accounting Policies, Estimates and Errors* of the *IFRS for SMEs* Standard. The requirement to disclose separately the entity's current tax expense (income) related to Pillar Two income taxes is effective for annual periods beginning on or after 1 January 2023

Background

In March 2022, the Organisation for Economic Co-operation and Development (OECD) released **technical guidance** on its 15% global minimum tax agreed as the second 'pillar' of a project to address the tax challenges arising from digitalisation of the economy. This guidance elaborates on the application and operation of the Global Anti-Base Erosion (GloBE) Rules **agreed and released in December 2021** which lay out a co-ordinated system to ensure that multinational enterprises with revenues above €750 million pay tax of at least 15% on the income arising in each of the jurisdictions in which they operate.

In May 2023, the IASB issued **amendments to IAS 12 *Income Taxes*** responding to stakeholders' concerns about the potential implications of the imminent jurisdictional implementation of these 'Pillar Two' rules on the accounting for income taxes applying IAS 12.

For more information please see the following websites:

www.ukaccountingplus.co.uk

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The IASB assessed that the Pillar Two rules are also relevant to some small and medium-sized entities (SMEs) and that there is an urgent need for clarification for these entities. The IASB therefore decided to publish amendments to Section 29 of the *IFRS for SMEs* Standard outside the IASB's periodic review of the Standard, which is currently underway.

Implications for the UK

The *IFRS for SMEs* Accounting Standard is not applicable in the UK, but the main UK financial reporting standard, FRS 102, is substantially based on the *IFRS for SMEs* Accounting Standard with a number of amendments to adapt it for use in the UK.

Like the *IFRS for SMEs* Accounting Standard, FRS 102 is subject to a periodic review process. In December 2022, the Financial Reporting Council (FRC) published Financial Reporting Exposure Draft (FRED) 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs—Periodic Review* which proposes changes to FRS 102 and other UK and Republic of Ireland financial reporting standards as a result of the second triennial review of the standard. A Deloitte **Need to know** gives further detail on FRED 82.

In response to the IASB's amendments to IAS 12 titled *International Tax Reform—Pillar Two Model Rules*, in July 2023, the FRC published *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 101 Reduced Disclosure Framework—International tax reform—Pillar Two model rules*. The amendments introduce a temporary exception to the accounting for deferred taxes arising from the implementation of the OECD's Pillar Two model rules, alongside targeted disclosure requirements. The temporary exception introduced into FRS 102 applies immediately and retrospectively upon issue of the amendments. The effective date for the disclosure requirements is accounting periods beginning on or after 1 January 2023, with early application permitted.

The amendments

The amendments require that, as a temporary exception to the requirements in Section 29 of the *IFRS for SMEs* Standard, an SME neither recognises deferred tax assets and liabilities related to Pillar Two income taxes nor discloses information that would otherwise be required by Section 29 about deferred tax assets and liabilities related to Pillar Two income taxes. An SME would be required to disclose that it has applied the exception.

Observation

The IASB agreed that SMEs affected by the Pillar Two legislation need time to determine how to apply the principles and requirements in the *IFRS for SMEs* Standard to account for deferred taxes related to Pillar Two income taxes. The IASB also needs time to engage further with its stakeholders and to consider whether any action is needed to support the consistent application of the Standard. The IASB concluded that it was not feasible to complete these activities before jurisdictions enact new tax laws and thus before SMEs are required to reflect those laws in accounting for deferred taxes.

As it was not possible to determine how much time these activities would require, the IASB decided not to specify how long the temporary exception will be in place. The IASB will monitor developments related to the implementation of the Pillar Two model rules to determine when to do further work. Any further work does not necessarily need to coincide with the next periodic review of the *IFRS for SMEs* Standard.

The IASB also decided to clarify that 'other events' in the disclosure objective in Section 29 include the enactment or substantive enactment of tax rates and tax laws, such as Pillar Two legislation.

In periods when Pillar Two legislation is in effect, the amendments require an SME to disclose separately its current tax expense (income) related to Pillar Two income taxes.

In addition, the IASB amended Section 35 *Transition to the IFRS for SMEs* so that a first-time adopter would be required to apply the exception retrospectively, regardless of the option to apply Section 29 prospectively from the date of transition to the *IFRS for SMEs*.

Effective date and transition

The amendments require that an SME applies:

- The exception from recognition of deferred tax assets and liabilities related to Pillar Two income taxes in Section 29—and discloses it has applied the exception—immediately upon the issue of the amendments and retrospectively in accordance with Section 10 of the *IFRS for SMEs* Standard
- The amendments to Section 35 immediately upon the issue of the amendments
- The requirement to disclose separately the current tax expense (income) related to Pillar Two income taxes for annual reporting periods beginning on or after 1 January 2023

Further information

If you have any questions about the amendments to the *IFRS for SMEs* Standard, please speak to your usual Deloitte contact.

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