

ED/AS12/2023/1

Exposure Draft

International Tax Reform—Pillar Two Model Rules
Amendments to AS 22, Accounting for Taxes on Income
(Last date for Comments: August 25, 2023)

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Comments:

2A Scope

The proposed amendments provide for non-disclosure of information about deferred tax assets and liabilities related to Pillar Two income taxes as an exception to the requirements in this Standard. This will not affect the accounting for current taxes arising from implemented Pillar Two rules. It is not possible to estimate how much time would be required to determine how to apply the principles and requirements in AS 22 to account for deferred taxes related to top-up tax, the ASB decided not to specify how long the temporary exception will be in place.

Presentation and Disclosure

SIRC if ICAI considers that there will be limited costs for preparers related to the preparation of the disclosure requirements:

(a) For disclosures required when the law is enacted or substantively enacted, but not yet in effect:

(i) an entity has flexibility in disclosing information that best meets the disclosure objective but without resulting in undue cost or effort;

(ii) an entity should disclose its own assessment on its exposure to paying top-up tax. If such information is unavailable because an entity has not made sufficient progress an entity is required disclose a statement to that effect as well as information about progress made in assessing its exposure to paying top-up tax.

(iii) The disclosures will only apply for a limited period of time (from the time the law is enacted or substantively enacted until it enters into force)

(iv) For disclosures required when the law is in effect, an entity will disclose separately its current tax expense (income) related to Pillar Two income taxes. An entity might incur relevant costs to estimate Pillar Two income taxes, but these costs will be incurred regardless of this disclosure requirement. In our view any additional costs of this disclosure requirement are insignificant.

SIRC's assessment is that the Amendments will likely result in lower costs than those that would result if the Amendments were not finalised.

However, the ED may clarify whether all taxes arising from Pillar Two model rules meet the definition of income taxes in AS 22. In addition, the ED may clarify whether Pillar Two income taxes are within the scope of AS 22 in situations outside the context of consolidated financial statements.

Further, it is to be noted that extending such a mandatory exception to the disclosures about deferred taxes could lead to a potential loss of some relevant information in the future.

Introducing a disclosure objective would enable entities to provide entity-specific information and might help in applying the materiality concept. Prescriptive information prepared in accordance with AS 22 requirements might not be useful for users and could result in misleading information. Therefore, in SIRC's view, having entity-specific information outweighs having prescriptive information prepared in accordance with AS 22 requirements, even if the latter is more comparable across entities.

The following suggestions are made with reference to disclosure:

To incorporate a specific disclosure objective that describe the needs of users of financial statements to assess an entity's exposure to paying top-up tax.

To allow that entities provide their own quantitative assessment based on Pillar Two rules - if available - instead of information based on AS 22.

To require that those entities that do not have information based on Pillar Two requirements at a sufficiently reliable level to meet the disclosure objective, should provide an alternative quantitative estimate that satisfies the disclosure objective.

Requesting entities to provide AS 22 prescriptive information, on top of the assessment of the impact based on Pillar Two requirements, might result in undue cost or effort. Thus, in SIRC's view, an entity needs to provide information to the users to assess an entity's exposure to paying top-up tax and compensate for the potential loss of information on the introduction of the exception. Hence, an entity should provide an alternative quantitative estimate that satisfies the disclosure objective if an entity does not have the Pillar Two information available at a sufficiently reliable level.

Effective date

The ED proposes that an enterprise should:

(a) apply paragraphs 2A and 32A immediately upon the issue of these amendments and retrospectively; and

(b) apply paragraphs 32B–32D for annual reporting periods beginning on or after 1 April 2023. An enterprise is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 March 2024.

Since the ED is yet to be finalized & notified and we are in end of August, 2023, it would be more comfortable for the organizations to apply the Paragraphs 32B-32 D on or after 1 April 2024.

Further it is not clear about applying Paragraph 2A and 32A retrospectively as it is not mentioning from which date it has retrospective effect. In fact, 32B-32 D is also retrospective from 1 April 2023. To have uniformity, 2A & 32A & 32B-32 D to be made applicable from 1st April.



