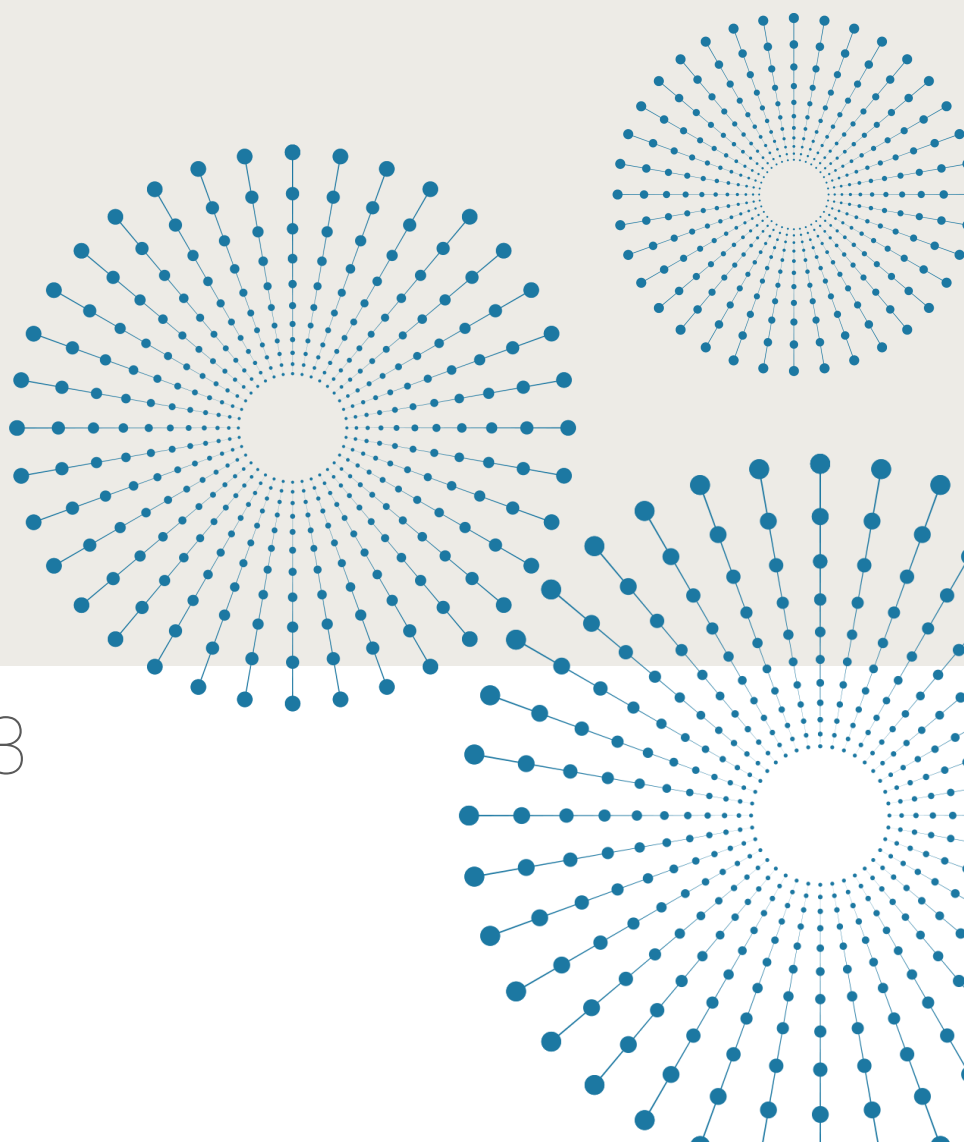


# International Tax Reform—Pillar Two Model Rules

## (Amendments to NZ IAS 12)



Issued July 2023





## **International Tax Reform—Pillar Two Model Rules**

### **Issued July 2023**

This Tier 1 and Tier 2 for-profit amending Standard is based on *International Tax Reform—Pillar Two Model Rules*, issued by the International Accounting Standards Board, which amended IAS 12 *Income Taxes*. This amending Standard give entities temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform.

In finalising this amending Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

### **Legal status of amending Standard**

This amending Standard was issued on 13 July 2023 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28<sup>th</sup> day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on 13 July 2023 and takes effect on 10 August 2023.

### **Commencement and application**

Paragraphs 4A and 88A of this amending Standard must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that end on or after the date that this amending Standard takes effect (see paragraph NZ 98M.1).

Except for paragraphs 4A and 88A the amending Standard has a mandatory date of 1 January 2023, meaning it must be applied by Tier 1 and Tier 2 for-profit entities for accounting periods that begin on or after 1 January 2023 but have not ended or do not end before this amending Standard takes effect (see paragraph NZ 98M.2).

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The following is available within New Zealand on the XRB website as additional material

**APPROVAL BY THE IASB OF *INTERNATIONAL TAX REFORM – PILLAR TWO MODEL RULES*  
IN MAY 2023**

**AMENDMENTS TO THE IASB BASIS FOR CONCLUSIONS ON IAS 12 *INCOME TAXES***

**IASB DISSENTING OPINION**

## Part A – Introduction

This amending Standard sets out amendments to NZ IAS 12 *Income Taxes*. The amendments give entities a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes, i.e., taxes arising from the Organisation for Economic Co-operation and Development’s (OECD) international tax reform. The amendments further introduce targeted disclosure requirements for entities affected by the Pillar Two income taxes.

Tier 2 entities are required to comply with all the requirements in this amending Standard.

## Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

## Part C – Amendments to NZ IAS 12 *Income Taxes*

Paragraphs 4A, 88A – 88D and NZ 98M.1 – NZ 98M.2 are added including their related heading and the box after paragraph 88D. For ease of reading, new text is not underlined.

### Scope

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- ...
- 4A This Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Such tax law, and the income taxes arising from it, are hereafter referred to as ‘Pillar Two legislation’ and ‘Pillar Two income taxes’. As an exception to the requirements in this Standard, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.
- ...

### Disclosure

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- ...
- International tax reform—Pillar Two model rules**
- 88A An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 4A).
- 88B An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.
- 88C In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity’s exposure to Pillar Two income taxes arising from that legislation.

- 88D To meet the disclosure objective in paragraph 88C, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity’s progress in assessing its exposure.

**Examples illustrating paragraphs 88C–88D**

Examples of information an entity could disclose to meet the objective and requirements in paragraphs 88C–88D include:

- (a) qualitative information such as information about how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and
- (b) quantitative information such as:
  - (i) an indication of the proportion of an entity’s profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
  - (ii) an indication of how the entity’s average effective tax rate would have changed if Pillar Two legislation had been in effect.

...

## **Effective date Commencement and application**

...

### **International Tax Reform—Pillar Two Model Rules**

NZ 98M.1 *International Tax Reform—Pillar Two Model Rules*, published in July 2023, added paragraphs 4A and 88A–88D. An entity shall:

- (a) apply paragraphs 4A and 88A on the date that this amending Standard takes effect (see paragraph NZ 98M.2) and for annual reporting periods that have not ended or do not end before that date. An entity shall apply those paragraphs as if they had always been applied, in accordance with NZ IAS 8; and
- (b) apply paragraphs 88B–88D for annual reporting periods beginning on or after 1 January 2023 but have not ended or do not end before this amending Standard takes effect (see paragraph NZ 98M.2). An entity is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 December 2023.

#### **When amending Standard takes effect (section 27 Financial Reporting Act 2013)**

NZ 98M.2 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 13 July 2023 and takes effect on 10 August 2023.

...

### **Basis for Conclusions on NZ IAS 12**

Paragraph NZ BC1 and the related heading are added. For ease of reading, new text is not underlined.

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, NZ IAS 12.*

### **International Tax Reform—Pillar Two Model Rules July 2023**

NZ BC1 The IASB’s *International Tax Reform – Pillar Two Model Rules* Basis for Conclusions states “BC117 The IASB decided to require an entity to apply the temporary exception retrospectively. This requirement would result in an entity applying the exception from the date Pillar Two legislation is enacted or substantively enacted—even if that date is before the date of issuing the amendments—and would not result in additional

costs.” The NZASB noted that this requirement is inconsistent with the New Zealand legislative framework which generally does not permit legislation with retrospective effect. The NZASB has therefore amended the commencement and application provisions to require application of the requirements of the amending Standard for annual reporting periods that have not ended or do not end before the amending Standard takes effect.