

March 5, 2023

IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD, United Kingdom

RE: International Tax Reform—Pillar Two Model Rules: Proposed amendments to IAS 12

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IASB and welcomes the opportunity to comment on the Exposure Draft, *International Tax Reform—Pillar Two Model Rules: Proposed amendments to IAS 12*.

Our detailed comments on the questions raised in the Exposure Draft are attached in the appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames

SOCPA Chief Executive Officer

Appendix: SOCPA Comments on: *International Tax Reform—Pillar Two Model Rules: Proposed amendments to IAS 12*

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.

SOCPA Comments:

SOCPA agrees with the mandatory exception that an entity should neither recognize or disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. This is the logical approach as many jurisdictions are still in the process of enacting the new law. This would ensure that entities are relieved from having to perform complicated calculations mandated by the new tax law, including the qualified domestic top-up tax, as they do not need to take into account future tax effects.

SOCPA also welcomes the IASB proposal of not specifying how long the temporary exception would be in place. This would allow entities additional time to understand the effects of newly implemented local tax regulations which would result in more accurate information.

SOCPA however suggests that the IASB collaborate with all stakeholders and determine a timeline for analyzing the effects of the Pillar Two regulations. This would enable the IASB to proactively decide if further standard-setting activity is necessary.

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.

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.

SOCPA Comments:

SOCPA agrees with the proposal. However, it proposes to add clarity relating to the requirements in paragraph 88C (a). SOCPA believes this paragraph should give specific guidance on the type of information “about such legislation enacted or substantively enacted in jurisdictions in which the entity operate” that need to be disclosed. The current requirement in paragraph 88C (a) leaves it open and disclosures by entities could vary from a high level one liner to a detailed assessment. Therefore, lack of specific guidance on the information to be disclosed will not only impact comparability between entities but also lead to entities limiting their disclosures to bear minimal.

SOCPA also believes the reference to “accounting profit for these jurisdictions in aggregate” in 88C (b) would need clarification. The Pillar Two legislation is applicable at entity level, intermediate parent level and ultimate parent entity level. In the case with intermediate parent level and ultimate parent level, “accounting profit for these jurisdictions in aggregate” could be interpreted as:

- aggregate of the profit of all entities applicable to the specific jurisdiction. i.e. 100% profit / (loss) of each entity added together;
- consolidated profit / (loss) at effective percentage holding of all entities applicable to the specific jurisdiction; or
- consolidated profit / (loss) at absolute percentage holding of all entities applicable to the specific jurisdiction.

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.

SOCPA Comments:

SOCPA agrees with the proposal. The exception would have to come into effect immediately and retrospective application of the temporary exception is important as entities would have to apply the exception from the date Pillar Two legislation is enacted or substantively enacted.

As the exposure draft is of not specifying how long the temporary exception would be in place, as highlighted in our response to Question 1 above, the IASB should monitor the effects of Pillar Two regulations and proactively decide if further standard-setting activity is necessary.