Accounting Policy and Reporting Team
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Submission by e-mail to: ukfrs@frc.org.uk

RSM UK Tax and Accounting Limited
10th Floor
103 Colmore Row
Birmingham
B3 3AG
United Kingdom
T +44 (0)121 214 3100
rsmuk.com

19 May 2023

Re: FRED 83 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and FRS 101 Reduced Disclosure Framework ("FRS 101") International tax reform – Pillar Two module rules ("FRED 83")

Dear Mrs Carter,

On behalf of RSM UK Tax and Accounting Limited, a leading provider of audit, tax and consulting services to middle market leaders, globally, with over 4,900 partners and staff operating from 31 locations throughout the UK, we are pleased to comment on FRED 83.

We are supportive of the proposals in FRED 83 to provide exemptions in FRS 102 and FRS 101 in respect of Pillar Two legislation and the proposed timeframe for the introductions of the amendments to FRS 102 and FRS 101.

We are broadly supportive of the proposed disclosures in FRED 83. However, we would ask the Financial Reporting Council ("FRC") to reconsider the proposed disclosures in paragraph 29.29(b). We believe that collating the information required to comply with the disclosure would be onerous on entities, whilst not fully addressing the requirements of users until the impact of Pillar Two legislation has been fully understood by the FRC, accountants and entities.

Our comments and detailed responses to the questions set out in the Invitation to comment section of FRED 83 are set out in the appendix to this letter.

We would be pleased to respond to any questions the FRC or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Paul Merris.

Yours sincerely,

RSM UK TAX AND ACCOUNTING LIMITED

RSM UK Tax and Accounting Limited

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

APPENDIX

Detailed response

Our responses do not consider the proposed changes insofar as they relate to entities incorporated in the Republic of Ireland.

Question 1

Do you agree that the proposed definition of the term ‘Pillar Two legislation’ would capture all transactions that are relevant to this topic? If not, please provide examples to support your view.

We agree that the proposed definition of the term ‘Pillar Two legislation’ would capture all transactions that are relevant to this topic. Furthermore, we agree with the proposed definitions for ‘average effective tax rate’ and ‘Pillar Two income taxes’.

Question 2

Do you agree with the proposed amendments to FRS 102 that introduce mandatory temporary exceptions to recognising or disclosing information about deferred tax assets and liabilities related to Pillar Two income tax (proposed paragraph 29.2B), and to taking the effects of Pillar Two legislation into account when measuring deferred tax assets and liabilities (proposed paragraph 29.12)? If not, why not?

We agree with the proposed amendments to FRS 102 that introduce a mandatory exception to recognising and disclosing information about deferred tax assets and liabilities relating to Pillar Two income tax in proposed paragraph 29.2B.

Furthermore, we agree with the proposed addition of paragraph 29.12A, which requires the effects of Pillar Two legislation to be ignored in the measurement of deferred tax assets and deferred tax liabilities. We believe that this amendment is necessary to ensure that the measurement of recognised deferred tax assets and liabilities are not adjusted for the effects of Pillar Two legislation.

We believe that both proposed exceptions in paragraph 29.2B and 29.12A are necessary until the implications of Pillar Two model rules on deferred tax accounting are fully understood. Furthermore, we believe that the proposed exceptions will avoid diverse interpretation and application of the requirements in Section 29 of FRS 102, particularly as the timing of enactment of Pillar Two model rules will vary across jurisdictions.

Question 3

Do you agree with the proposed amendments to FRS 102 that require an entity to disclose:

a) **The fact that it expects to fall within the scope of Pillar Two legislation (proposed paragraph 29.28);**

b) **The current tax expense related to Pillar Two income taxes (proposed sub-paragraph 29.26(g)); and**

c) **Information that will enable users of financial statements to understand a group's potential exposure to paying top-up tax, when Pillar Two legislation has been enacted or substantively enacted, but is not yet in effect (proposed paragraph 29.29)?**

If not, why not?

We agree with the proposed disclosure in paragraph 29.28 on whether an entity expects to fall within the scope of Pillar Two legislation. We believe this disclosure will provide relevant and useful information to financial statements users and provide insight on the potential impact of Pillar Two legislation on the entity's financial statements.

We agree with the proposed disclosure in paragraph 29.26(g) for an entity to disclose current tax expense (income) relating to Pillar Two income taxes. However, we would urge the FRC to reconsider the disclosures in FRS 102 Section 29 to include:

- the jurisdictions incurring a current tax expense (income) relating to Pillar Two income taxes;
- the accounting profit for these jurisdictions incurring current tax expense (income) relating to Pillar Two income taxes; and
- weighted average effective tax rate.

We believe these additional disclosures would provide more useful and relevant information to users of financial statements in terms of the impact of Pillar Two model rules on the entity. Furthermore, these disclosures will facilitate comparability between entity's financial statements, providing useful and relevant information to enable users to understand the impact of Pillar Two income taxes relative to the total tax expense of the entity.

We agree with the proposed disclosure in paragraph 29.29(b) requiring disclosure of jurisdictions in which the entity's average effective tax rate in the current period is below 15%, where the Pillar Two legislation has been enacted or substantively enacted by the reporting date but is not yet in effect for the entity. We believe that this information will provide users with insight on which jurisdictions may be subject to current tax expense (income) related to Pillar Two legislation once it is in effect for the entity.

However, we do not agree with the following disclosures in paragraph 29.29(b) for entities that expect to be within the scope of Pillar Two legislation when the legislation has been enacted or substantively enacted by the reporting date, but is not yet in effect for the entity in the current period:

- the current tax expense (income) for these jurisdictions;
- the profit or loss before tax for these jurisdictions in aggregate; and
- resulting weighted average tax rate.

There are several complexities associated with calculating income tax arising from Pillar Two model legislation, particularly:

- potential Pillar Two adjustments to total tax and profit or loss after tax;
- which Pillar Two adjustments would apply in each jurisdiction; and
- obtaining the information to determine the Pillar Two tax adjustments.

Due to these complexities, the proposed disclosures would not necessarily provide accurate or reliable information to understand an entity's potential exposure to paying top-up tax.

We agree with the proposed disclosures in paragraph 29.29(c) for entities that have made assessments in preparation to comply with Pillar Two legislation to disclose jurisdictions to which the entity might or might not be exposed to paying Pillar Two income taxes.

Proposed in IASB/ED/2023/1 International Tax Reform—Pillar Two Model Rules – Proposed amendments to IAS 12, available at https://www.ifrs.org/projects/work-plan/international-tax-reform-pillar-two-model-rules/exposure-draft-and-comment-letters/.

Question 4

Do you agree with the proposal to exempt qualifying entities, as defined in FRS 102 or FRS 101, from the disclosures that would otherwise be required by proposed paragraph 29.29 of FRS 102 and proposed1 paragraph 88C of IAS 12 Income Taxes respectively? If not, why not?

We agree with the proposals to exempt qualifying entities, as defined in FRS 102 or FRS 101, from the disclosures that would otherwise be required by proposed paragraph 29.29 of FRS 102 and proposed[1] paragraph 88C of IAS 12 Income Taxes. However, as noted in our response to Question 3, we do not agree with some of the proposed disclosures in FRS 102 29.29(b).

Question 5

Do you agree with the proposed effective date for these amendments? If not, what difficulties do you foresee?

We agree that paragraph 29.2B should be applied by entities immediately on issue of the amendments. However, we believe that paragraph 29.12A, on the measurement of deferred tax asset and liabilities, should also be applied immediately on issue of the amendments.

Subject to our comments on the certain disclosures in paragraph 29.29(b), we agree that the disclosure requirements should apply for annual reporting periods beginning on or after 1 January 2023 to enable entities time to collate and prepare the disclosure information required. Furthermore, we agree with the proposal to allow entities to early adopt the disclosure requirements.

Question 6

In relation to the consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.

We agree that at the current stage, it is difficult to reasonably assess the costs and benefits of the proposals in FRED 83. However, we agree that the proposals will avoid costs for entities in scope of Pillar Two legislation and introduce limited additional costs.

As noted in our response to Question 3, we would ask the FRC to reconsider some of the proposed disclosures in paragraph 29.29(b), namely for entities which expect to be within the scope of Pillar Two legislation when it is enacted or substantively enacted by the reporting date, but is not in effect for the entity for the current period:

- the current tax expense (income) for these jurisdictions;
- the profit or loss before tax for these jurisdictions in aggregate; and
- resulting weighted average tax rate.

We believe that the additional costs of preparing these disclosures outweigh the benefits to users, and that the disclosed information may be misleading in terms of determining the potential exposure to top-up taxes in the future.

Further comments

We note that paragraph 29.2B refers to Pillar Two income tax. We recommend that this is updated to Pillar Two income taxes to align with the proposed definition of this term in the draft amendments to Appendix I *Glossary.*

We have no other comments on FRED 83.

END OF DOCUMENT

Proposed in IASB/ED/2023/1 International Tax Reform—Pillar Two Model Rules – Proposed amendments to IAS 12, available at https://www.ifrs.org/projects/work-plan/international-tax-reform-pillar-two-model-rules/exposure-draft-and-comment-letters/.