



July 2023

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

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*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

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 amends accounting standards. It is issued by the Financial Reporting Council, as a prescribed body, for application in the United Kingdom and Republic of Ireland.

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Overview

- (i) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.
- (ii) In December 2021, the Organisation for Economic Co-operation and Development (OECD) published its Pillar Two model rules. The rules are part of a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. The Pillar Two model rules:
 - (a) aim to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate; and
 - (b) would achieve that aim by applying a system of top-up taxes that results in the total amount of tax payable on profit in each jurisdiction representing at least the minimum rate of 15%.
- (iii) There are potential implications for income tax accounting resulting from jurisdictions implementing the Pillar Two model rules, which these amendments address.

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

- (iv) These amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* introduce a temporary exception to the accounting for deferred tax arising from the implementation of the Pillar Two model rules, alongside targeted disclosure requirements. The amendments include an exemption for qualifying entities from certain disclosures that are primarily relevant to the consolidated financial statements of a group, provided that equivalent disclosures are included in the consolidated financial statements in which the qualifying entity is included.
- (v) The temporary exception applies immediately and retrospectively upon issue of these amendments. The effective date for the other amendments is accounting periods beginning on or after 1 January 2023, with early application permitted.

Amendments to FRS 101 *Reduced Disclosure Framework*

- (vi) In May 2023, the IASB issued *International Tax Reform—Pillar Two Model Rules*. The amendments to IAS 12 *Income Taxes* introduced a temporary exception to the accounting for deferred tax arising from the implementation of the Pillar Two model rules, alongside targeted disclosure requirements. These amendments to FRS 101 *Reduced Disclosure Framework* make an exemption available from certain disclosures that are primarily relevant to the consolidated financial statements of a group, provided that equivalent disclosures are included in the consolidated financial statements in which the qualifying entity is included.

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

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Amendments to Section 1 Scope

- 1 The following paragraphs set out the amendments to Section 1 *Scope* (inserted text is underlined).
- 2 Sub-paragraph 1.12(dA) is inserted as follows:
 - 1.12 A qualifying entity (for the purposes of this FRS) may take advantage of the following disclosure exemptions:
 - ...
 - (dA) The requirements of paragraphs 29.28(b) and 29.29, provided that disclosures equivalent to those required by this FRS are included in the consolidated financial statements in which the qualifying entity is included.
 - ...
- 3 A sub-heading and paragraphs 1.34 and 1.35 are inserted as follows:

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 - 1.34 In July 2023 amendments were made to this FRS that introduce a temporary exception to the accounting for deferred tax arising from **Pillar Two legislation**, and require related targeted disclosures. An entity shall apply:
 - (a) paragraphs 29.2B and 29.12A immediately upon issue of these amendments and retrospectively in accordance with paragraph 10.12; and
 - (b) paragraphs 29.26(g), 29.28 and 29.29 for accounting periods beginning on or after 1 January 2023.
 - 1.35 Early application is permitted. If an entity applies these amendments early it shall disclose that fact, unless it is a small entity in the Republic of Ireland, in which case it is encouraged to disclose that fact.

Amendments to Section 29 Income Tax

4 The following paragraphs set out the amendments to Section 29 *Income Tax* (deleted text is struck through, inserted text is underlined).

5 Paragraph 29.2B is inserted as follows:

29.2B As an exception to the requirements in this section, an entity shall neither recognise nor disclose information about **deferred tax assets** and **deferred tax liabilities** related to **Pillar Two income tax**.

6 In paragraph 29.7 the terms 'deferred tax assets' and 'deferred tax liabilities' are no longer shown in bold type.

7 Paragraph 29.12A is inserted as follows:

29.12A As an exception to the requirements in this section, an entity shall not take into account the effects of **Pillar Two legislation** when measuring deferred tax assets and deferred tax liabilities.

8 Paragraph 29.26 is amended as follows:

29.26 An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:

- (a) current tax expense (income);
- (b) any adjustments recognised in the period for current tax of prior periods;
- (c) the amount of deferred tax expense (income) relating to the origination and reversal of timing differences;
- (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
- (e) adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders; ~~and~~
- (f) the amount of tax expense (income) relating to changes in accounting policies and material errors (see Section 10 *Accounting Policies, Estimates and Errors*); and
- (g) current tax expense (income) relating to Pillar Two income tax.

9 A sub-heading and paragraphs 29.28 to 29.29 are inserted as follows:

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29.28 If, based on known or reasonably estimable information, an entity is, or expects to be, within the scope of Pillar Two legislation:

- (a) it shall disclose that fact; and
- (b) when such legislation has been enacted or substantively enacted by the reporting date but is not yet in effect for the entity, the entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income tax arising from that legislation.

29.29 To meet the requirement in sub-paragraph 29.28(b), an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income tax 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.

Amendments to Appendix I *Glossary*

- 10 The following paragraph sets out the amendments to Appendix I *Glossary* (inserted text is underlined).
- 11 The following glossary terms and definitions are inserted in alphabetical order as follows:

<u>Pillar Two income tax</u>	<u>Income tax arising from Pillar Two legislation.</u>
<u>Pillar Two legislation</u>	<u>Tax law that implements 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.</u>

Amendments to FRS 101 *Reduced Disclosure Framework*

International tax reform – Pillar Two model rules

Amendments to FRS 101 *Reduced Disclosure Framework*

12 The following paragraphs set out the amendments to FRS 101 (inserted text is underlined).

13 Sub-paragraph 8(iZA) is inserted immediately after sub-paragraph 8(i) as follows:

8 A qualifying entity may take advantage of the following disclosure exemptions, from when the relevant standard is applied:

...

(iZA) The requirements of paragraphs 88C and 88D of IAS 12 *Income Taxes*, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

...

14 A sub-heading and paragraph 17 are inserted as follows:

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17 In July 2023 amendments were made to this FRS to insert sub-paragraph 8(iZA) to make an exemption available from some of the disclosures introduced by *International Tax Reform—Pillar Two Model Rules* (Amendments to IAS 12).

Approval by the FRC

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 was approved for issue by the Financial Reporting Council on 5 July 2023.

Amendments to Basis for Conclusions FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

1 The following amendments are made to the Basis for Conclusions FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (inserted text is underlined).

2 A sub-heading and paragraph B1.7 are inserted as follows:

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B1.7 In July 2023, as part of introducing disclosure requirements related to Pillar Two legislation, an exemption from some of those requirements was introduced into paragraph 1.12 for qualifying entities, provided that equivalent disclosures are included in the consolidated financial statements in which the entity is included. This approach provides a proportionate solution to users’ information needs because top-up taxes are determined on a group basis and therefore users of financial statements will be able to obtain useful information about exposure to paying top-up tax from the consolidated financial statements of the group in which the entity is included.

3 A sub-heading and paragraph B29.21 are inserted as follows:

International tax reform – Pillar Two model rules

B29.21 In July 2023 amendments were made to introduce a temporary exception to the accounting for deferred tax arising from the implementation of the OECD’s Pillar Two model rules, alongside targeted disclosure requirements. This was to address concerns about the potential implications for income tax accounting resulting from jurisdictions implementing the Pillar Two model rules. The amendments are based on similar amendments made to IAS 12 *Income Taxes in International Tax Reform—Pillar Two Model Rules* (Amendments to IAS 12).

4 The following row is inserted at the end of Table 1 *Exposure drafts and consultation documents*:

Exposure draft	Date of issue	Finalised as	Date of issue	Mandatory effective date
FRED 83 <u><i>Draft 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</i></u>	<u>Apr 2023</u>	<u><i>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</i></u>	<u>Jul 2023</u>	<u>Paragraphs 29.2B and 29.12A: on issue</u> <u>Paragraphs 29.26(g), 29.28 and 29.29: 1 Jan 2023</u>

Amendments to Basis for Conclusions FRS 101 *Reduced Disclosure Framework*

5 The following amendments are made to the Basis for Conclusions FRS 101 *Reduced Disclosure Framework* (inserted text is underlined). For ease of reading, table header rows are presented for information.

6 Sub-headings and paragraphs 67CA to 67CB are inserted as follows:

IAS 12 Income Taxes

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67CA In May 2023, the IASB issued *International Tax Reform—Pillar Two Model Rules*. The amendments to IAS 12 introduced a temporary exception to the accounting for deferred tax arising from the implementation of the OECD’s Pillar Two model rules, alongside targeted disclosure requirements as paragraphs 88A to 88D. These amendments were considered outside the annual review cycle, because the disclosure requirements that were introduced applied before the conclusion of the next annual review cycle.

67CB It was concluded that an exemption from the requirements of paragraphs 88C and 88D should be given, provided that equivalent disclosures are included in the consolidated financial statements in which the entity is included. This approach provides a proportionate solution to users’ information needs because top-up taxes are determined on a group basis and therefore users of financial statements will be able to obtain useful information about exposure to paying top-up taxes from the consolidated financial statements of the group in which the entity is included.

7 The following row is inserted at the end of Table 1 *Exposure drafts and consultation documents*:

Exposure draft	Date of issue	Finalised as	Date of issue
FRED 83 <u>Draft 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</u>	Apr 2023	<u>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</u>	Jul 2023

8 The following rows are inserted at the end of Table 2 *IFRS Accounting Standards*:

IFRS Accounting Standards or amendments	Date issued by IASB	Date effective	Date endorsed by the EU	Date adopted by the UK
<u>International tax reform – Pillar Two model rules (Jul 2023)</u>				
70 <u>International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)</u>	May 2023	1 Jan 2023	TBC	TBC



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