Explanatory Statement

Accounting Standard AASB 2023-4
*Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules:
Tier 2 Disclosures*

**September 2023**



# EXPLANATORY STATEMENT

## Standards Amended by AASB 2023-4

This Standard makes amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) and AASB 112 *Income Taxes* (August 2015).

## Main Features of AASB 2023-4

AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* (June 2023) amended AASB 112 to introduce:

1. a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD); and
2. targeted disclosure requirements to help financial statement users better understand an entity’s exposure to income taxes arising from the reform, particularly in periods before legislation implementing the rules is in effect.

This Standard (AASB 2023-4) amends AASB 1060 to require a Tier 2 entity to disclose:

1. that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see AASB 112 paragraph 4A); and
2. its current tax expense (income) related to Pillar Two income taxes.

This Standard also amends AASB 112 to extend the exemption from complying with the disclosure requirements of AASB 112 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the new disclosure requirements in AASB 112 when preparing their Tier 2 financial statements.

### Application Date

This Standard applies to annual periods beginning on or after 1 January 2023 that end on or after 30 September 2023, with earlier application permitted for any period ending before 30 September 2023, including the 2022/23 financial year.

### Marked-up Text

This Standard incorporates marked-up text to clearly identify the amendments to AASB 1060 and AASB 112. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

## Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 325 *International Tax Reform – Pillar Two Model Rules – Tier 2 Disclosures* in July 2023 for public comment, with comments due by 22 August 2023. The International Accounting Standards Board (IASB) proposed similar amendments in its Exposure Draft ED/2023/3 *International Tax Reform – Pillar Two Model Rules – Proposed amendments to the* IFRS for SMEs *Standard* (June 2023).

The AASB received two comment letters on ED 325. Both respondents agreed that the proposed amendments would be useful for Tier 2 entities. One respondent also provided some additional comments. The respondent suggested that the proposed clarification that ‘other events’ in the disclosure objective for income tax included enacted or substantively enacted Pillar Two legislation is unnecessary because it is already understood that the ‘other events’ referred to include the enactment or substantive enactment of tax rates and laws. The respondent further suggested that the clarification could be worded more broadly than specifically referring to Pillar Two legislation or else the AASB could consider clarifying this in the Basis for Conclusions. The respondent’s feedback is consistent with some of the feedback received by the IASB on its proposed clarification of the income tax disclosure objective in the *IFRS for SMEs* Standard. However, overall, the feedback to the IASB confirmed that it would be helpful to clarify the meaning of ‘other events’ in the disclosure objective.

The AASB analysed the feedback it received on the proposed amendments and decided to amend the disclosure objective in paragraph 176 of AASB 1060 for consistency with the amendments that the IASB has decided to make to the *IFRS for SMEs* Standard.

The AASB set an application date for the amendments of annual periods beginning on or after 1 January 2023 that end on or after 30 September 2023, with earlier application permitted for any period ending before 30 September 2023, including the 2022/23 financial year. The AASB noted the comment from one respondent to ED 325 that the proposed effective date could make Tier 2 entities unsure about the application of the amendments to certain periods, such as the 2022/23 financial year. The AASB confirmed the proposed two-pronged application date, which is required in this case to avoid any mandatory retrospective application to reporting periods that have ended prior to the AASB making the Standard. The AASB noted in the Preface and the Basis for Conclusions that an entity could elect to apply the amendments before their mandatory application date, for example to the 2022/23 financial year or any period ending before 30 September 2023.

A Policy Impact Analysis has not been prepared in connection with the issue of AASB 2023-4 as the amendments made do not have a substantial direct or indirect impact on business or competition.

## Legislative Features of Accounting Standards

### Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

### References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

### Copyright

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**Exemption from Sunsetting**

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunsetting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemptions and Other Matters) Regulation 2015* (Item 18(a)).

The AASB’s Standards incorporate Standards set by the International Accounting Standards Board in respect of publicly accountable for-profit entities. The AASB’s Standards are exempt from sunsetting because a more stringent review process than sunsetting applies to the Standards. This review process ensures Australia’s Accounting Standards regime remains consistent with international Standards. Typically, the AASB Standards are revised at least once within a ten-year period, with most of the Standards subject to much more frequent revisions. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunsetting regime would have very limited practical application to AASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

## Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
*Human Rights (Parliamentary Scrutiny) Act 2011*

### Accounting Standard AASB 2023-4*Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures*

### Overview of the Accounting Standard

AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* (June 2023) amended AASB 112 *Income Taxes* (August 2015) to introduce:

1. a mandatory temporary exception to accounting for deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD); and
2. targeted disclosure requirements to help financial statement users better understand an entity’s exposure to income taxes arising from the reform, particularly in periods before legislation implementing the rules is in effect.

This Standard (AASB 2023-4) amends AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) to require a Tier 2 entity to disclose:

1. that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see AASB 112 paragraph 4A); and
2. its current tax expense (income) related to Pillar Two income taxes.

This Standard also amends AASB 112 to extend the exemption from complying with the disclosure requirements of AASB 112 for entities that apply AASB 1060 to ensure Tier 2 entities are not required to comply with the new disclosure requirements in AASB 112 when preparing their Tier 2 financial statements.

### Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

### Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.