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**IFRS Technical Committee**

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Berlin, 25 October 2019

Dear Jean-Paul,

***EFRAG Draft Comment letter on IASB ED/2019/5 Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Proposed Amendments to IAS 12***

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to contribute to EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB ED/2019/5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Proposed Amendments to IAS 12*. We appreciate the opportunity to comment on this DCL.

Our answers to the EFRAG's questions to constituents are laid out in the appendix 1 to this letter. Our detailed comments to the IASB on the questions raised in the ED are set out in the appendix 2.

If you would like to discuss our comments further, please do not hesitate to contact Olga Bultmann ([bultmann@drsc.de](mailto:bultmann@drsc.de)) or me.

Yours sincerely,

*Andreas Barckow*

President

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## Appendix 1 – Answers to the EFRAG’s questions to constituents

### Question 1

EFRAG observes that the issue could have been addressed more simply on, for example, an IFRS Interpretation Committee Agenda Decision. This could avoid the complexity introduced by the ED. Do you agree with EFRAG that a simpler solution could have been developed?

We do not agree with EFRAG’s observation. We acknowledge that there is diversity with respect to the accounting for deferred taxes related to transactions that give rise to equal amounts of taxable and deductible temporary differences. We also confirm that this diversity becomes more prevalent under IFRS 16. Hence, we fully support the IASB’s decision to clarify this issue through a narrow scope amendment to IAS 12. Otherwise, an entity would have to apply the initial recognition exemption in situations in which it is neither needed nor appropriate. As a result, the accounting outcome would continue to not being aligned with the general principles of IAS 12 in this case. And since the initial recognition exemption cannot be in- or revoked through an agenda decision, we agree with the IASB to address the issue through a limited scope amendment.

### Question 2

If the IASB continues standard setting activity, do you agree with EFRAG’s recommendation that the ‘cap’ should be removed?

We share EFRAG’s concerns about the proposed requirements in para. 22A of the ED, which EFRAG sets out in paras. 21 to 23 of its DCL. Please refer to our comments to the IASB on the proposed provisions in para. 22A in appendix 2 to this letter.

### Question 3

If you are not using a similar approach to that proposed in the ED, do you expect significant complexity in transitioning to the approach proposed in the ED?

We do not share EFRAG’s concerns about the complexity of the gross approach under which the unit of account is the separate asset and liability arising from the single transaction. From our experience, tracking the deferred tax assets and liabilities separately from each other is common practice in our jurisdiction and, furthermore consistent with the general principles of IAS 12.

### Question 4

Do you have other concerns with the application of the proposed amendments?

Please refer to our comments to the IASB in appendix 2 to this letter, containing our detailed comments on the questions raised in the ED.

**Appendix 2 – Answers to the question of the ED and related proposals****Question**

Do you agree with the Board's proposal to amend IAS 12 in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

We are aware of the diversity in practice with respect to the accounting for deferred taxes related to transactions that give rise to equal amounts of taxable and deductible temporary differences. We also confirm that this diversity becomes more prevalent under IFRS 16. Hence, we fully support the IASB's decision to clarify this issue through narrow scope amendments to IAS 12.

Overall, we support the solution proposed by the IASB to require an entity to recognise deferred taxes for temporary differences that arise on the transactions that give rise to equal and offsetting amounts of taxable and deductible temporary differences on initial recognition. We fully agree with the Board's conclusion that the recognition exemption is not needed on initial recognition of an asset or a liability to the extent that an entity would recognise equal and offsetting amounts of deferred tax assets and liabilities related to this asset or liability. This is because an entity would typically offset these deferred tax assets and liabilities in the statement of financial position and, therefore, would not be required to adjust the carrying amounts of the related asset or liability. Thus, we agree with the proposed solution to narrow the application of the recognition exemption so that it would not apply to the transactions addressed in the ED, as it would reduce diversity in practice for such transactions. Further, we agree with the proposed transition requirements.

Notwithstanding our general support we offer some considerations about the proposed requirements in para. 22A, which we explain below.

**Ability to recognise deferred tax assets**

The proposed para. 22A(b) requires an entity to cap the deferred tax liability to the amount of the deferred tax asset arising from the same transaction on initial recognition. In other words, the amount of the recognised deferred tax asset determines the amount of the deferred tax liability arising from the same transaction. Para. B24 explains that the recognition exemption would continue to apply to the part of the deferred tax liability that exceeds the amount of the corresponding deferred tax asset. We understand this to be a pragmatic solution to avoid adjusting the carrying amount of the related asset by this excess amount or recognising the day one loss for this amount, and thus, to meet the objective of the recognition exemption, which is explained para. 22(c) of IAS 12.

However, it remains unclear whether an entity should continue to cap the amount of the deferred tax liability to the corresponding amount of the deferred tax asset in subsequent periods. From the proposed wording in para. 22A – "In that situation, on initial recognition of the transaction, an entity recognises: [...]" – it could be inferred that the cap relates only to the initial recognition. If so, an entity would recognise an amount of the deferred tax liability which exceeds the amount of the corresponding deferred tax asset and, consequently, a deferred tax expense in profit or loss according to para. 58 of IAS 12 in subsequent periods. On the other hand, and according to para. 22(c) of IAS 12, the initial recognition exemption applies to both, the date of initial recognition, and subsequent periods. Therefore, we recommend the IASB clarify the application of the proposed para. 22A in subsequent periods and to provide an illustrative example.



As correctly stated in para. BC19, equal taxable and deductible temporary differences might result in an entity recognising unequal amounts of deferred tax assets and liabilities at initial recognition. However, we feel that the Board considered only one cause leading to this situation - the recoverability requirement according to para. 24 of IAS 12. If an entity does not meet the recoverability requirement and, therefore, does not recognise or only partially recognises the deferred tax asset, the amount of the deferred tax asset would be lower than the amount of the deferred tax liability. Thus, when applying the proposed para. 22A(b), an entity would cap the amount of the deferred tax liability to the amount of the recognised deferred tax asset. However, there could be other reasons for having unequal amounts of deferred tax assets and liabilities, which are not addressed in the ED, for example, when tax rates are expected to change in the future. The amount of the deferred tax asset can even exceed the amount of the deferred tax liability. Therefore, we urge the Board to clarify in the main body of the standard how an entity shall apply the initial recognition exemption to any portion of the deferred tax liability that exceeds the deferred tax asset and vice versa regardless of the reason for that situation.

#### Reassessment of unrecognised deferred tax assets

Paras. BC25 and BC 26 of the ED explain the reasons why the proposed amendments do not address the reassessment of unrecognised deferred tax assets. While we agree with these explanations, we fail to see how an entity would have to account for the portion of the deferred tax liability that it did not recognise applying the proposed requirement in para. 22A(b), if it subsequently reassessed the unrecognised deferred tax asset from the same transaction in accordance with para. 37 of IAS 12.

For these reasons, we recommend the Board to reconsider the provisions of para. 22A.