



Accounting Standards Board

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Stig Enevoldsen
Chairman
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19 June 2009

Dear Stig

EFRAG's Draft Comment Letter on the IASB's Exposure Draft 'Income Tax'

This letter sets out the Accounting Standards Board's (ASB's) views on the EFRAG draft comment letter (DCL) to the above IASB Exposure Draft (ED).

The Board has responded directly to the IASB and a copy of our draft letter is attached. You will see from that letter that, like EFRAG, the ASB does not support the proposals in the ED. Whilst the ASB acknowledges that there are difficulties with the practical application of the current IAS 12, it considers that the ED does not represent a sufficient improvement to IAS 12 to warrant moving to an amended standard.

Given the extent of our concerns, the ASB has decided not to respond to the questions in the Invitation to Comment (ITC) section of the ED. That said, the ASB is broadly supportive of the EFRAG's responses to the questions as set out in the appendix to the DCL.

As you will see from our letter to the IASB, the ASB believes that the IASB should not devote further time on developing short-term solutions to amend IAS 12. Instead, the emphasis of the project on accounting for tax should be on developing an improved standard from first principles. Our response refers to the project on 'Accounting for corporate income tax' which we and the German Accounting Standards Board (GASB) are leading, as part of the Pro-active Accounting Activities in Europe (PAAinE) initiative, and we suggest that the EFRAG response could also refer to this project as providing a more appropriate means of developing improvements to accounting for tax.

EFRAG questions in the DCL

The ASB's responses to the questions posed by EFRAG in the Appendix to the DCL are set out in Appendix 1 to this letter.

Should you wish us to expand on any aspect of this response, please contact myself or Jennifer Guest (j.guest@frc-asb.org.uk).

Yours sincerely



Ian Mackintosh

Chairman

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APPENDIX 1: ASB suggested responses to the questions EFRAG posed in its DCL.

Question 10

Question to constituents in paragraph 84 of the appendix to the DCL: Which of the two views do you support and why?

The ASB prefers view (a) for the reasons outlined in paragraph 82 (a) of EFRAG's draft response.

Question 13C

Question to constituents in paragraph 98 of the response: We would appreciate your views on whether you believe the alternative approach could be applied consistently, and, if it could do you think it would represent a better approach than one in the existing IAS 12, and if so why?

The ASB considers that the alternative approach would be difficult to apply consistently and we prefer the more principle-based approach in the present IAS 12.

Question 18

Question to constituents in paragraph 130 of the response: We would appreciate your views on the type of transitional provisions you would prefer to apply when adopting the proposals and why you prefer that approach?

The ASB shares the views set out by the IASB in BC 113 of ED and by some EFRAG members set out in paragraph 128 of the appendix to the DCL concerning the issues that could require judgements which could be affected by hindsight. The ASB agrees with the IASB and considers that, if any proposals are taken forward, then prospective application is appropriate.



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Senior Project Manager
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19 June 2009

Dear Anne

Exposure Draft 'Income Tax'

This letter sets out the Accounting Standards Board's (ASB's) comments on the above Exposure Draft (ED).

The ASB does not support the proposals in the ED. Whilst the ASB acknowledges that there are difficulties with the practical application of IAS 12, it considers that the ED does not represent a sufficient improvement to IAS 12 to warrant being used as the basis for an amended standard on income tax. We would like to highlight some key reasons why the ASB considers that the proposals should not be developed into an amended standard:

- One of the primary aims in developing the ED is to achieve convergence with US GAAP. The ASB, however, notes (in paragraph IN5 of the ED) that as the US Financial Accounting Standards Board (FASB) has deferred any decision on whether to undertake projects that would eliminate differences in the accounting for tax, this aim will not be achieved.
- While the ASB supports the principle of having high-quality accounting standards for global application, we do not support proposals for convergence which, in our view, do not improve financial reporting. We do not consider that the proposals will lead to an improvement in financial reporting. In our view, a number of the proposals are very rules-based and complex, including the detailed rules in the ED for recognising and measuring tax assets. We would recommend a more principles-based approach.

- We disagree with the proposal to define the tax basis of an asset or a liability to be determined based on a consequence of sale or settlement at the reporting date. We consider that this proposal, while simple, is not a solution to the difficulties identified in the practical application of the current IAS 12. For example, requiring such a ‘one-size-fits-all’ approach will, in our view, mean that in some cases the actual cash flows that are likely to arise from the recovery of an asset will be different from the deferred tax effects recognised in the financial statements.
- We are very concerned that the ED looks at the notion of management expectations in a way that is internally inconsistent with other aspects of the ED. For example, the ED states (paragraph BC 22) that the determination of the tax basis does not depend on management expectations, but acknowledges the role of management expectations in other aspects of the proposals, for example the initial threshold of the recognition of deferred tax assets and liabilities and the measurement of deferred tax assets and liabilities.
- We believe that the proposals in the ED aimed at eliminating the “initial recognition” exception, are overly complex and replace one set of rules with a different set of rules, rather than seeking to identify a principle for initial recognition. For example, the IASB itself (in paragraph BC 29) acknowledges that there “may be difficulties in assessing what the amount measured in accordance with applicable IFRSs would have been had the same tax basis been available to the entity as to a market participant”. We agree that there **will** be difficulties, not least in trying to determine who might be such a market participant.
- The ED retains an exception for temporary differences that arise on *foreign* subsidiaries and joint ventures but removes the existing exception for all *domestic* subsidiaries. We disagree with the proposal to make a distinction on the basis of where an entity is located. The ED (paragraph BC 43) notes that the calculation of the amount of deferred taxes for permanently reinvested unremitted earnings of foreign subsidiaries and joint ventures may involve a high degree of complexity, but that might also be the case for domestic entities.
- We do not agree with the proposed requirements on the allocation of tax to components of comprehensive income and equity. In our view, the requirements are overly prescriptive, add undue complexity to the way tax allocation is carried under IAS 12, and will not significantly improve the information that will be provided. In addition, we do not support the proposal to eliminate “backwards tracing”, because we think the improved information it provides justifies any minor incremental effort the approach involves.

Given the extent of our concerns with the proposals in the ED, the ASB has decided that it is not appropriate to comment on the IASB's questions in the Invitation to Comment (ITC) section of the ED. The ASB has seen the EFRAG draft comment letter (DCL) and attached appendix responding to the ITC questions and the ASB is broadly supportive of the proposed EFRAG responses.

In summary, the ASB believes that the ED should not be developed further and that the IASB should not devote further time on developing short-term solutions to "improve" IAS 12. In our view, the emphasis of the project on accounting for tax should be on developing an improved standard on accounting for tax from first principles. As you know, the ASB and the German Accounting Standards Board (GASB) are jointly leading a project on 'Accounting for corporate income tax', as part of the Pro-active Accounting Activities in Europe (PAAinE) initiative, which is looking at the issues of tax accounting from first principles. The aim of this project is to develop proposals for a more robust and fundamental basis upon which to address many of the issues identified in the IASB's ED. The ASB welcomes the IASB's involvement in the project and encourages further collaboration.

Should you wish us to expand on any aspect of this response, please contact myself or Jennifer Guest j.guest@frc-asb.org.uk

Yours sincerely



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