

## APPENDIX 1—COMMENTS ON SPECIFIC QUESTIONS IN INVITATION TO COMMENT

### Question 1 - Definitions of tax basis and temporary difference

The exposure draft proposes changes to the definition of tax basis so that the tax basis does not depend on management's intentions relating to the recovery or settlement of an asset or liability. It also proposes changes to the definition of a temporary difference to exclude differences that are not expected to affect taxable profit. (See paragraphs BC17–BC23 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**As explained in the front letter we absolutely agree with the proposal. We think that it will help to resolve some uncertainties that have arisen in practice, one example is the case where a company, due to a tax authorities decision, cannot recover for tax purposes the acquisition cost of an asset through (tax) depreciation during its use but can recover it on sale or destruction at the end of its useful life.**

**As stated in SIC 21, in the case of a depreciable asset, its carrying amount is recovered through use, to the extent of its depreciable life, but at the end of its life the recovery is always through sale or destruction (this is way of residual sale) at its residual value and, in the case of non depreciable assets, the recovery is always through sale. This means that at the end of the day all asset are recovered through sale, and then, using the tax effects of selling the asset at the reporting date as tax base is more faithful and easier than discussions about management's intention relating to the recovery of the assets as now is stated in p. 52 of IAS 12.**

**In the case the new definition of tax base is not accepted, we think that, as an alternative, a dual-use asset recovery approach should be defined in IAS 12 for assets that its carrying amount is recovered through use, to the extent of its depreciable life, but at the end of its life the recovery is always through sale or destruction, with a single tax base determined not only by the tax effects of depreciation but also by the tax effect of selling the asset in such cases.**

### Question 2 - Definitions of tax credit and investment tax credit

The exposure draft would introduce definitions of tax credit and investment tax credit. (See paragraph BC24 of the Basis for Conclusions.)

Do you agree with the proposed definitions? Why or why not?

**We agree with the proposed definitions.**

### Question 3 – Initial recognition exemption

The exposure draft proposes eliminating the initial recognition exception in IAS 12. Instead, it introduces proposals for the initial measurement of assets and liabilities that have tax bases different from their initial carrying amounts. Such assets and liabilities are disaggregated into (a) an asset or liability excluding entity-specific tax effects and (b) any entity-specific tax advantage or disadvantage. The former is recognised in accordance with applicable standards and a deferred tax asset or liability is recognized for any temporary difference between the resulting carrying amount and the tax basis. Outside a business combination or a transaction that

affects accounting or taxable profit, any difference between the consideration paid or received and the total amount of the acquired assets and liabilities (including deferred tax) would be classified as an allowance or premium and recognized in comprehensive income in proportion to changes in the related deferred tax asset or liability. In a business combination, any such difference would affect goodwill. (See paragraphs BC25–BC35 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**We believe that this current exception will not be necessary if the definition of tax base is changed, as normally with the new definition of tax base there will not be differences between carrying amount and tax base at initial recognition.**

**Notwithstanding the above, if in some cases, it would be necessary to register a tax liability at initial recognition, what is proposed in its place is extremely complex, and we do not think that it would produce better information.**

#### **Question 4 – Investments in subsidiaries, branches, associates and joint ventures**

IAS 12 includes an exception to the temporary difference approach for some investments in subsidiaries, branches, associates and joint ventures based on whether an entity controls the timing of the reversal of the temporary difference and the probability of it reversing in the foreseeable future. The exposure draft would replace these requirements with the requirements in SFAS 109 and APB Opinion 23 Accounting for Income Taxes—Special Areas pertaining to the difference between the tax basis and the financial reporting carrying amount for an investment in a foreign subsidiary or joint venture that is essentially permanent in duration. Deferred tax assets and liabilities for temporary differences related to such investments are not recognized. Temporary differences associated with branches would be treated in the same way as temporary differences associated with investments in subsidiaries. The exception in IAS 12 relating to investments in associates would be removed. The Board proposes this exception from the temporary difference approach because the Board understands that it would often not be possible to measure reliably the deferred tax asset or liability arising from such temporary differences. (See paragraphs BC39–BC44 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not? Do you agree that it is often not possible to measure reliably the deferred tax asset or liability arising from temporary differences relating to an investment in a foreign subsidiary or joint venture that is essentially permanent in duration? Should the Board select a different way to define the type of investments for which this is the case? If so, how should it define them?

**We do not have comments to this issue**

#### **Question 5 – Valuation allowances**

The exposure draft proposes a change to the approach to the recognition of deferred tax assets. IAS 12 requires a one-step recognition approach of recognising a deferred tax asset to the extent that its realisation is probable. The exposure draft proposes instead that deferred tax assets should be recognized in full and an offsetting valuation allowance recognized so that the net carrying amount equals the highest amount that is more likely than not to be realisable against taxable profit. (See paragraphs BC52–BC55 of the Basis for Conclusions.)

#### **Question 5A**

Do you agree with the recognition of a deferred tax asset in full and an offsetting valuation allowance? Why or why not?

**We agree with the proposal**

**Question 5B**

Do you agree that the net amount to be recognized should be the highest amount that is more likely than not to be realisable against future taxable profit? Why or why not?

**We agree with the proposal.**

**Question 6 – Assessing the need for a valuation allowance**

**Question 6A**

The exposure draft incorporates guidance from SFAS 109 on assessing the need for a valuation allowance. (See paragraph BC56 of the Basis for Conclusions.)

Do you agree with the proposed guidance? Why or why not?

**We think it is not necessary to introduce this type of guidance.**

**Question 6B**

The exposure draft adds a requirement on the cost of implementing a tax strategy to realise a deferred tax asset. (See paragraph BC56 of the Basis for Conclusions.)

Do you agree with the proposed requirement? Why or why not?

**We agree with the proposal.**

**Question 7 – Uncertain tax positions**

IAS 12 is silent on how to account for uncertainty over whether the tax authority will accept the amounts reported to it. The exposure draft proposes that current and deferred tax assets and liabilities should be measured at the probability-weighted average of all possible outcomes, assuming that the tax authority examines the amounts reported to it by the entity and has full knowledge of all relevant information. (See paragraphs BC57–BC63 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**We don't agree with the proposal. We understand that the assessment is generally a matter of professional judgment and discussion with tax experts, auditors, etc. Hence these specific rules would in many cases be unnecessarily prescriptive.**

**Question 8 – Enacted or substantively enacted rate**

IAS 12 requires an entity to measure deferred tax assets and liabilities using the tax rates enacted or substantively enacted by the reporting date. The exposure draft proposes to clarify that substantive enactment is achieved when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. (See paragraphs BC64–BC66 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**We agree with the proposal.**

**Question 9 – Sale rate or use rate**

When different rates apply to different ways in which an entity may recover the carrying amount of an asset, IAS 12 requires deferred tax assets and liabilities to be measured using the rate that is consistent with the expected manner of recovery. The exposure draft proposes that the rate should be consistent with the deductions that determine the tax basis, i.e. the deductions that are available on sale of the asset. If those deductions are available only on sale of the asset, then the entity should use the sale rate. If the same deductions are also available on using the asset, the entity should use the rate consistent with the expected manner of recovery of the asset. (See paragraphs BC67–BC73 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**We agree with the proposal, we understand that it is congruent with answer given to question 1**

**Question 10 – Distributed or undistributed rate**

IAS 12 prohibits the recognition of tax effects of distributions before the distribution is recognized. The exposure draft proposes that the measurement of tax assets and liabilities should include the effect of expected future distributions, based on the entities past practices and expectations of future distributions. (See paragraphs BC74–BC81 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**We believe that the proposed change should not be made. Apart from the practical difficulties of estimating future distributions and consequent tax rates in some circumstances, we see the triggering event for the tax effect of the distribution as being the (later) distribution itself has not sense**

**Question 11 – Deductions that do not form part of a tax basis**

An entity may expect to receive tax deductions in the future that do not form part of a tax basis. SFAS 109 gives examples of ‘special deductions’ available in the US and requires that ‘the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return’. SFAS 109 is silent on the treatment of other deductions that do not form part of a tax basis.

IAS 12 is silent on the treatment of tax deductions that do not form part of a tax basis and the exposure draft proposes no change. (See paragraphs BC82–BC88 of the Basis for Conclusions.)

Do you agree that the exposure draft should be silent on the treatment of tax deductions that do not form part of a tax basis? If not, what requirements do you propose, and why?

**We agree.**

**Question 12 – Tax based on two or more systems**

In some jurisdictions, an entity may be required to pay tax based on one of two or more tax systems, for example, when an entity is required to pay the greater of the normal corporate income tax and a minimum amount. The exposure draft proposes that an entity should consider any interaction between tax systems when measuring deferred tax assets and liabilities. (See paragraph BC89 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not? **Yes we agree with the proposal**

**Question 13 – Allocation of tax to components of comprehensive income and equity**

IAS 12 and SFAS 109 require the tax effects of items recognized outside continuing operations during the current year to be allocated outside continuing operations. IAS 12 and SFAS 109 differ, however, with respect to the allocation of tax related to an item that was recognized outside continuing operations in a prior year. Such items may arise from changes in the effect of uncertainty over the amounts reported to the tax authorities, changes in assessments of recovery of deferred tax assets or changes in tax rates, laws, or the taxable status of the entity. IAS 12 requires the allocation of such tax outside continuing operations, whereas SFAS 109 requires allocation to continuing operations, with specified exceptions. The IAS 12 approach is sometimes described as requiring backwards tracing and the SFAS 109 approach as prohibiting backwards tracing.

The exposure draft proposes adopting the requirements in SFAS 109 on the allocation of tax to components of comprehensive income and equity. (See paragraphs BC90–BC96 of the Basis for Conclusions.)

**Question 13A**

The exposure draft deals with allocation of tax to components of comprehensive income and equity in paragraphs 29-34. The Board intends those paragraphs to be consistent with the requirements expressed in SFAS 109.

Do you agree with the proposed requirement? Why or why not?

**We don't agree. We think requiring backwards tracing is more faithful**

**Question 13B**

The exposure draft also sets out an approach based on the IAS 12 requirements with some amendments. (See paragraph BC 97 of the Basis for Conclusion).

Would those paragraphs produce results that are materially different from those produced under the SFAS 109 requirements? If so, would the results provide more or less useful information than that produced under SFAS 109? Why?

**Question 13C**

Do you think such an approach would give more useful information than the approach proposed in paragraphs 29-34? Can it be applied consistently in the tax jurisdictions with which you are familiar? Why or why not?

**Question 13D**

Would the proposed additions to the approach based on the IAS 12 requirements help achieve a more consistent application of that approach? Why or why not?

**Question 14 – Allocation of current and deferred taxes within a group that files a consolidated tax return**

IAS 12 is silent on the allocation of income tax to entities within a group that files a consolidated tax return. The exposure draft proposes that a systematic and rational methodology should be used to allocate the portion of the current and deferred income tax expense for the consolidated entity to the separate or individual financial statements of the group members. (See paragraph BC100 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**We agree with the proposals.**

**Question 15 - Classification of deferred tax assets and liabilities**

The exposure draft proposes the classification of deferred tax assets and liabilities as current or non-current, based on the financial statement classification of the related non-tax asset or liability. (See paragraphs BC101 and BC102 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**We see some difficulties to classify some deferred tax liabilities between current and not current.**

**Question 16 – Classification of interest and penalties**

IAS 12 is silent on the classification of interest and penalties. The exposure draft proposes that the classification of interest and penalties should be a matter of accounting policy choice to be applied consistently and that the policy chosen should be disclosed. (See paragraph BC103 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

**We agree with the proposal**

**Question 17 – Disclosures**

The exposure draft proposes additional disclosures to make financial statements more informative. (See paragraphs BC104–BC109 of the Basis for Conclusions.) Do you agree with the proposals? Why or why not?

The Board also considered possible additional disclosures relating to unremitted foreign earnings. It decided not to propose any additional disclosure requirements. (See paragraph BC110 of the Basis of Conclusions.)

Do you have any specific suggestions for useful incremental disclosures on this matter? If so, please provide them.

**. We don't agree with the proposal to reconcile tax expense and accounting profit using only parent company jurisdiction rate. For multinational companies it would be better to make different reconciliations using the domestic rate in each individual jurisdiction.**

**Question 18 – Effective date and transition**

Paragraphs 50–52 of the exposure draft set out the proposed transition for entities that use IFRSs, and paragraph C2 sets out the proposed transition for first-time adopters. (See paragraphs BC111–BC120 of the Basis for Conclusions.)

Do you agree with these proposals? Why or why not?

**We agree with the proposals**