

## INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

Comments should be submitted by Wednesday 11 October 2017 by using the '[Express your views](#)' page on EFRAG website by clicking [here](#)

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* ('IFRIC 23'). In order to do so, EFRAG has been carrying out an assessment of IFRIC 23 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of IFRIC 23 is set out in Appendix 1 of the accompanying *Draft Letter to the European Commission* regarding endorsement of IFRIC 23.

Before finalising its assessment, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interests of transparency, EFRAG will wish to discuss the responses it receives in a public meeting, so it is preferable that all responses can be published.

**EFRAG's initial assessments, summarised in this questionnaire, will be updated for comments received from constituents when EFRAG finalises its *Letter to the European Commission* regarding endorsement of IFRIC 23.**

### Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

SAP SE

- (b) Are you a:

Preparer  User  Other (please specify)

- (c) Please provide a short description of your activity:

Founded in 1972, SAP is a global company headquartered in Walldorf, Germany. Our legal corporate name is SAP SE. SAP is the market leader in enterprise application software. The company is also the fastest-growing major database company. Globally, more than 76% of all business transactions worldwide touch an SAP software system. With more than 345,000 customers in more than 180 countries, the SAP Group includes subsidiaries in all major countries and employs more than 84,100 people.

Global Tax covers a broad range of tax related topics, including tax returns, tax audits, group reorganizations, transfer pricing and various reporting duties. The Group Tax Reporting Team is responsible for the worldwide coordination of quarter-end and year-end closings and for the preparation of the tax sections

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in our interim and annual reports. In addition, the Group Tax Reporting Team is responsible for the implementation of any relevant adjustments in the IFRS standards and supports various projects, especially in the M&A area.

(d) Country where you are located:

Germany

(e) Contact details, including e-mail address:

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**EFRAG's initial assessment with respect to the technical criteria for endorsement**

2 EFRAG's initial assessment of IFRIC 23 is that it meets the technical criteria for endorsement. In other words, IFRIC 23 is not contrary to the principle of true and fair view and meets the criteria of understandability, relevance, reliability, comparability and lead to prudent accounting. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Interpretation.

(a) Do you agree with this assessment?

Yes  No

If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Interpretation that you believe EFRAG should take into account in its technical evaluation of the Interpretation? If there are, what are those issues and why do you believe they are relevant to the evaluation?

In Appendix 2, paragraph 47, EFRAG concluded that the application of IFRIC 23 will lead to sufficiently prudent accounting. We generally agree with this assessment. Nevertheless, IFRIC 23 does not address the accounting for income tax contingencies assumed in a business combination. IFRIC 23, BC23 states that IFRS 3 *Business Combinations* applies to all assets acquired and liabilities assumed in a business combination. Additionally, IFRIC 23, BC24 refers to IFRS 3.24 regarding deferred taxes only. As IFRS 3 does not provide a clear guidance if IFRS 3.23 (contingent liabilities) is also applicable for income tax contingencies (resulting into a lower threshold for recognition compared to IAS 12), the accounting for current income tax contingencies (that do not affect deferred tax) is not finally determined. A clarification of the treatment of current income tax contingencies would be recommended considering the need of having a consistent treatment for current and deferred income taxes.

### **The European public good**

- 3 In its assessment of the impact of IFRIC 23 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Interpretation.

#### *Improvement in financial reporting*

- 4 EFRAG has identified that in assessing whether the endorsement of IFRIC 23 is conducive to the European public good it should consider whether IFRIC 23 is an improvement over current requirements across the areas that have been subject to changes (see paragraphs 3 to 6 of Appendix 3 of the accompanying *Draft Letter to the European Commission*). To summarise, EFRAG's initial assessment is that IFRIC 23 is likely to improve the quality of financial reporting.

Do you agree with the assessment?

Yes     No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

#### *Costs and benefits*

- 5 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of IFRIC 23 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this invitation to comment will be used to complete the assessment.

The results of the initial assessment of costs are set out in paragraphs 7 to 17 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Interpretation. To summarise, EFRAG's initial assessment is that IFRIC 23 is likely to result in insignificant costs for users and for most preparer.

Do you agree with this assessment?

Yes     No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

- 6 In addition, EFRAG is assessing the benefits that are likely to be derived from IFRIC 23. The results of the initial assessment of benefits are set out in paragraph 18 to 22 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of IFRIC 23. To summarise, EFRAG's initial assessment is that users and preparers are likely to benefit from IFRIC 23.

Do you agree with this assessment?

Yes     No

If you do not agree with this assessment, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

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- 7 EFRAG's initial assessment is that the benefits to be derived from implementing IFRIC 23 in the EU, as described in paragraph 6 above, are likely to outweigh the costs involved, as described in paragraph 5 above.

Do you agree with this assessment?

Yes     No

If you do not agree with this assessment, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

*Other factors*

- 8 Do you agree that there are no other factors to consider in assessing whether the endorsement of IFRIC 23 is conducive to the European public good?

Yes     No

If you do not agree, please identify the factors, provide your views on these factors and indicate how this could affect EFRAG's endorsement advice.

*Overall assessment with respect to the European public good*

- 9 EFRAG has initially concluded that endorsement of IFRIC 23 would be conducive to the European public good (see paragraphs 24 to 27 of Appendix 3 of the accompanying *Draft Letter to the European Commission*).

Do you agree with this conclusion?

Yes     No

If you do not agree, please explain your reasons.