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Amendments to IAS 12 – Draft Comment Letter Cover Note

Objective

- 1 The objective of this session is to discuss and agree to recommend for the approval by the EFRAG Board a revised EFRAG draft comment letter (revised 'DCL') on the IASB's Exposure Draft ED 2019/5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Proposed amendments to IAS 12* issued on 17 July 2019 (the 'ED'). The IASB asks for comments on the ED by 14 November 2019.

Questions for EFRAG TEG

- 2 Does EFRAG TEG agree with the drafting of the revised DCL?
- 3 Does EFRAG TEG agree to recommend the revised DCL for approval by the EFRAG Board?

Background

- 4 In 2018, the IFRS Interpretations Committee (IFRS IC) received a request to clarify the accounting for deferred tax under IAS 12 *Income Tax* in circumstances when both an asset and a liability arises from a single transaction. Typical examples are the recognition of a lease (which involves recognising a lease asset and a lease liability for accounting purposes), and a decommissioning provision (with the counter-entry recognised as part of the related asset). The request informed that the lease payments and decommissioning costs were deductible for tax purposes on a cash basis.
- 5 The IFRS IC observed that the issue is widespread and that entities apply IAS 12, in particular the initial recognition exception, in different ways to such transactions. The IFRS IC decided to ask the IASB to amend IAS 12 and restrict the application of the initial recognition exemption so that it would not apply to transactions that give rise to temporary differences of the same amount. In the view of the IFRS IC, and the IASB agreed, the recognition exemption was not needed in such cases to the extent that an entity would recognise equal amounts of deferred tax assets and liabilities.
- 6 EFRAG TEG discussed the issue in its webcast meeting in August 2019. EFRAG TEG members agreed there is diversity in practice and supported the IASB's decision to address the issue. However, EFRAG TEG members expressed concerns with the complexity of the proposed 'gross approach', which may result in excessive costs for preparers. The proposed 'gross approach' would require separately tracking the reversal of the taxable and deductible temporary differences

in subsequent periods. This might create complexity, especially given that different tax rates could apply going forward and the reversal periods for the deductible and taxable temporary differences could be different.

- 7 In addition, EFRAG TEG members referred specifically to the proposed paragraph 22A(b) of the ED. This paragraph proposes to limit the recognition of a deferred tax liability (DTL) to the amount of a deferred tax asset (DTA) recognised under the proposals. This paragraph of the ED focused only on the cases where a DTA could be lower than a DTL because of recoverability issues, but in practice this is not the only reason DTA and DTL might differ. The ED was not clear what to do in such cases. Thus, EFRAG TEG members called for clarification of the proposals with an illustrative example.
- 8 To reflect these comments, the EFRAG Secretariat revised the DCL (see agenda papers 01-02 and 01-03 – revised EFRAG DCL on the ED (*clean version and marked-up version*))

Agenda Papers

- 9 In addition to this cover note, the following papers have been provided for this session:
 - (a) Agenda paper 01-02 – revised EFRAG DCL on the ED (clean version);
 - (b) Agenda Paper 01-03 – revised EFRAG DCL on the ED (marked-up version);
and
 - (c) Agenda paper 01-04 – the ED (Background purposes).