Norsk RegnskapsStiftelse

EFRAG

35 Square de Meeûs

B-1000 Brussels

Belgium

Oslo, 29 June 2012

Dear Sir/Madam

Discussion paper – Improving the Financial Reporting of Income Tax

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to comment on the discussion paper *Improving the Financial Reporting of Income Tax*.

The discussion paper consists of two parts where Part A examines whether significant improvements to IAS 12 should be considered, and Part B reviews the alternative approaches to the accounting for income tax. In this comment letter we have confined ourselves to only comment on Part A.

In general, we support EFRAG's Proactive Work in Europe as we believe it provides useful contributions to future standard setting developments. However, we believe proactive projects are more practically expedient when they provide specific suggestions to realisable improvements. It is apparent to us that IAS 12 has deficiencies that should be addressed, but we do not consider the underlying principle of IAS 12 to be fundamentally flawed. Hence, we are supportive of limited amendments to IAS 12 rather than developing a new standard based on an alternative principle. Consequently, we have chosen not to comment on Part B.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal

Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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Question to constituents - General

Q0.1 Do you consider that there are deficiencies in IAS 12 that should be addressed? If so, should they be addressed through limited amendments to the standard or by developing a new standard based on different principles?

Yes we agree that there are deficiencies in IAS 12 that should be addressed. We do not believe that the underlying principle of IAS 12 is fundamentally flawed and support limited amendments to the current IAS 12.

We would emphasize the following deficiencies in IAS 12:

- Prohibition of discounting deferred tax
- Initial recognition exemption
- Measurement of uncertain tax positions
- Transactions with asset in a legal shell (asset deal or business combination)
- Recognition and measurement of deferred tax asset arising from tax losses

Questions to constituents - Part 1: Possible amendments to IAS 12

Q1.1 Under current IAS 12 a difference between the tax paid and the current tax expense reported in the income statement leads to misunderstandings of these relationships.

Do you agree that additional disclosure that would provide a reconciliation of the taxes paid and current tax expense will help in understanding this relationship? (Paragraphs 1.15 to 1.18)

We acknowledge that many users of financial statements find it difficult to comprehend the relationship between tax paid and current tax expense. Hence, we agree that additional disclosure providing a reconciliation of tax paid and current tax expense will help understanding this relationship.

Q1.2 Do you agree that additional more detailed disclosures regarding deferred tax assets, especially unused tax losses and unused tax credits are necessary and useful? (Paragraphs 1.23 to 1.24)

We agree that additional more detailed disclosures regarding deferred tax assets are necessary and useful. That said we acknowledge that many entities in practice disclose information about geographical breakdown, maturity analysis, losses carried forward, and other restriction for deferred tax assets.

We believe the current disclosure requirements in IAS 12.81e are of too general nature, and do not require sufficient entity specific information regarding deferred tax assets.

Q1.3 Do you agree with the identified users' information needs in Chapter 1 of Part 1? Do you have any suggestion for additional information requirements regarding reporting of income taxes? (Paragraphs 1.8 to 1.24)

a). Tax strategies and objectives;

We agree that the tax strategies and objectives of an entity may be useful information for users, but we do not agree that such information should be a disclosure requirement. This information could potentially be very judgmental and add little useful information to the financial statements.

b). Clarity on tax risk position;

We agree that clarity on tax risk position is useful information. However the uncertainty of tax risk positions may often be significant and the information disclosed is likely to be highly subjective. In addition, entities will be reluctant to give information that could attract the attention of tax authorities. Consequently, we believe the nature of tax risk positions often will be incompatible with users' information needs.

c). Cash tax and future tax cash flows;

We agree that cash tax and future cash flows are useful information. In some cases we acknowledge that entities will have good visibility as to the timing of future tax flows. However, future tax cash flows are often driven by factors that are out of control of the entity. Thus, the estimates of future tax cash flows may not be reliable.

d). A clear explanation of the difference between the taxes paid and the charge made in the income statement;

We are supportive of more information about the difference between taxes paid and charge made in the income statement. See answer in Q1.1

e). A clear explanation as to why the current tax charge is not equivalent to the accounting profit at the statutory rate of tax (tax rate reconciliation);

We agree that tax rate reconciliation adds useful information to the financial statements. However, in practice we observe a great diversity in presentation of tax rate reconciliation. We believe this diversity reduces the informative value of financial statements. In our opinion, a more standardized presentation of tax rate reconciliation would be helpful for users and increase the informative value of financial statements.

f). Improved understanding of the effective tax rate;

We agree that the effective tax rate is useful information. In practice there is diversity in how this numerical reconciliation is presented. We believe the effects of foreign tax rates should be presented on a single line in the reconciliation. We also believe that additional information about the geographical composition of the tax expense would be valuable.

g). A reasonable value of losses carried forward (or other deferred tax assets).

A reasonable value of loss carried forward can be difficult to estimate. In our opinion information about geographical breakdown, maturity analysis, and other restrictions will add sufficient useful information of losses carried forward.

Q1.4 Do you agree that tax strategies to accommodate user information needs should be disclosed in the management commentary and not in the financial statements? Why or why not? (Paragraphs 1.8 to 1.9)

An entity's tax strategy could be useful information in the management commentary, but we are concerned that this information would be boilerplate with less relevant information.

Q1.5 The reconciliation of the actual tax charge to the charge on profit at the statutory tax rate (tax rate reconciliation) is quite complicated and leads to some misunderstandings.

Do you agree that the suggestions made in the paper are helpful by clarifying the explanation why the current tax charge is not equivalent to the standard rate of tax applied to the accounting profit? Why or why not? (Paragraphs 1.19 to 1.20 and 2.21 to 2.34)

We acknowledge that a more standardized presentation of the reconciliation would increase comparability of reporting entities.

Q1.6 The amounts currently disclosed provide limited information about future tax cash flows. How would you suggest the disclosures in IAS 12 be improved to provide better information about future cash flows? (Paragraphs 1.13 to 1.14 and 2.35 to 2.40)

We do not support complete estimates of future tax cash flows. Estimates of future tax cash flows will be often be highly uncertain and provide limited relevant information.

Q1.7 The possibility of discounting deferred tax balances is discussed in paragraphs 2.44 to 2.50. In your view, should discounting deferred tax amounts be required? Please explain.

We strongly support discounting deferred tax amounts as this would reflect the time value of these future tax amounts. Prohibiting discounting of deferred tax is inconsistent with other measurement requirements of IFRS that generally require liabilities to be discounted where the effect is material.

In our opinion discounting deferred tax amounts should be mandatory provided that the discounting effect is significant. Thus, we do not support a general requirement to discount all deferred tax amounts regardless of materiality.

Q1.8 Currently IAS 12 neither provides explicit guidance for accounting for uncertain tax positions nor contains any specific disclosure requirements regarding the tax risk position.

(a) Do you agree required information regarding uncertain tax positions should be disclosed? If so, which of the following do you prefer:

Alternative 1: Disclosure requirements should be included in management commentary.

Alternative 2: Disclosure requirements should be split in two parts. Part 1 would include disclosure of all positions for which the tax payer must establish a tax provision under IFRS and will be disclosed in notes to the financial statements. Part 2 would include all other uncertainties regarding income taxes for which no provision is recognised. (Paragraphs 1.10 to 1.12)

We agree required information regarding uncertain tax positions should be disclosed.
We support alternative 2, but we believe the requirements in IAS 8 encompass all items with uncertainty where judgment is required, including uncertain tax positions.

In practice entities usually disclose information about uncertain tax positions concerning significant cases already known.

(b) Do you agree that IAS 12 should address the recognition and measurement of uncertain tax position? Why or why not? If you agree, should the measurement be based on the most likely outcome or a probability weighted method? Should measurement include the likelihood the tax position will be reviewed by the tax authorities or should that review be assumed? (Paragraph 2.51 to 2.59)

We do not see any basis for treating uncertain tax positions differently from other uncertain positions. Hence, we would prefer that uncertain tax positions are covered by IAS 37 rather than in a standard on income tax. This would also allow for such positions to be subject to the disclosure exemption in IAS 37.92.

We do not believe that reporting of uncertain tax positions under IAS 37 has worked less well than other types of uncertain positions. We have no objections to a probability-based calculation of tax positions if this becomes the general measurement system of IAS 37. We emphasize that IAS 37 also contains important safeguards for the reporting entities so that they are not forced to reveal their subjective beliefs when that may be harmful to the entity. This has not been included in the proposal for a new tax standard. Such safeguards are also relevant for tax positions.

Q1.9 Are there any issues with IAS 12, which are not addressed in Part 1, that would significantly improve the standard? What amendments would address these issues?

See answer in Q0.1.

Q1.10 What is your view on the exemptions that currently exist in IAS 12?

It is not clear to us what is meant by this question. We have, however, significant concerns with the initial recognition exemption.