DUTCH ACCOUNTING STANDARDS BOARD (DASB)

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Direct dial : Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0302
Date : Amsterdam, June 29th 2012
Re : Comment on DP Improving the Financial Reporting of Income Tax

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to comment on the December 2011 Discussion paper on Improving the Financial Reporting of Income tax. Our responses to your detailed questions are included in the appendix to this letter. Our overall general observations are as follows.

Although IAS 12 has its limitations, we believe that the standard is not fundamentally flawed. Over time users, preparers and auditors of financial statements have learned to live with the present standard. In our view the alternatives presented in part 2 of the discussion paper do not necessarily lead to better income tax accounting compared to the current standard. Therefore, we believe, there is no need for a fundamental change in tax accounting at this juncture in time.

We agree with the seven categories of tax information you have identified as likely to be relevant to investors and creditors.

With respect to one of those, i.e. the need for information on tax strategies and objectives, we believe that it would be more appropriately when such information is included in the management commentary instead of the financial statements.

Whilst we subscribe to the other six categories, we believe that informational improvement should be sought in better disclosure and not necessarily in more disclosure. Much of the information discussed in your paper is already a requirement under the present standard, such as an analysis of recognised and unrecognised deferred tax assets and liabilities, the (components of the) tax expense, tax cash flows and the tax rate reconciliation. Requiring additional disclosures to the current standard is not likely to add new information to the financial statements. Therefore in our view much of the improvement to income tax accounting should be achieved by better application of the current standard.

One of the key issues raised in the paper is discounting of deferred tax and uncertain tax positions. In our view discounting is conceptually right, because it reflects the time value of money. We understand that many object because there are significant practical difficulties and complexities, that need to be addressed if discounting would be a requirement. However, there are other long-term provisions in financial statements with comparable characteristics that are discounted and therefore this issue should not be viewed as insurmountable. That may ask for some more research and improved application guidance, but we are of the view that this is a matter that should be addressed by the IASB.

On a final note, with regard to uncertain tax positions, the paper discusses the "most likely outcome" and "a probability-weighted method" as alternatives for the recognition thereof. We support the most likely outcome approach, because we believe that measuring liabilities at expected value is not consistent with the Framework, under which a probable outflow of economic benefits is a key criterion in the recognition of a liability.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix 1: Comments to part 1 of the discussion paper

Q.0.1 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?
Although IAS 12 has its limitations, we believe that the standard is not fundamentally flawed. Users, prepares and auditors of financial statements have learned to live with the standard. In our view the alternatives presented in part 2 of the discussion paper do not lead to better income tax accounting compared to the current standard. Therefore, in our view, there is no need for a fundamental change in tax accounting. *Furthermore we believe that the requirements of current IAS 12 are sufficient to meet user needs. For example, the current standard already requires to disclose an analysis of recognised and unrecognised deferred tax assets and liabilities, the (components of) the tax expense, tax cash flows and a disclosure of the effect tax rate. Adding additional disclosures to the requirements of the current standard will not likely add new information to the financial statement. Therefore in our view improvements to income tax accounting should be achieved by better application of the current standard, instead of making amendments to the current standard.*

Q.1.1 Under current IAS 12 a difference between the tax paid and the current tax expense reported in the income statement leads to misunderstanding 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.
We refer to our remarks made in the cover letter

Q.1.2 Do you agree that additional more detailed disclosures regarding deferred tax assets, especially unused tax losses and unused tax credits are necessary and useful?
We refer to our remarks made in the cover letter

Q.1.3 Do you agree with the identified user`s information needs in Chapter 1 of Part 1? Do you have any suggestions for additional information requirements regarding the reporting of income taxes?
We agree on the seven categories of tax information that are likely to be relevant to investors and creditors. We have no further suggestions to make.

Q.1.4 Do you agree that tax strategies to accommodate user information needs should be disclosed in management commentary and not in the financial statements? Why or why not?
We believe that information on tax strategies is useful. We believe that this merely qualitative information is best presented in management commentary, because it reflects on strategic choices of management. These more general strategic explanations do not relate directly to an account in the financial statement and should therefore not be included in the notes of the financial statements.

Q.1.5 The reconciliation of the actual tax charge to the charge on profit at the statutory tax rate 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?

We refer to our remarks made in the cover letter

Q.1.6 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 refer to our remarks made in the cover letter

Q.1.7 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 believe that it is conceptually right to discount deferred tax balances, because it reflects the time value of money. However there are practical difficulties in discounting. We agree on the practical issues raised in the discussion paper on the issue of double discounting and the scheduling of the reversal of temporary differences. We believe that these issues should be addressed before a decision on discounting is made.

Q.1.8 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) (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 agree that information on material uncertain tax positions is relevant for users of the financial statement. However in our view this information will be disclosed if current IAS 12 is correctly applied. *We believe that IAS 12 should address the recognition and measurement of uncertain tax positions. In this case we prefer a "most likely method" over the weighted method, because the weighted approach contradicts with other IFRS standards such as IFRS 3 and IAS 37.*

Q.1.9 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?
We refer to our cover letter and our comments made to the questions above

Q.1.10 What is your view on the exemptions that currently exist in IAS 12?
We refer to our remarks made in the cover letter

Part 2

Q.2.1 If the development of a new standard for income tax, based on different principles from those used in IAS 12 is to be considered, which of the approaches discussed in Part 2 seem to have most merit and should be considered as a basis for further development?
We refer to our remarks made in the cover letter.

Q.2.2 Do you think that there are any specific practical difficulties with implementing the approach(es) that you favour in practice? If so, how can those difficulties be addressed?
We refer to our remarks made in the cover letter

Q.2.3 Are there any approaches that are not discussed in Part 2 that should be considered?
We have no additional suggestion

Q.2.4 In your view should a combination of approaches be considered? If so, which approach should be used in what circumstances?
We refer to our remarks made in the cover letter

Q.2.5 Do you have any further comments on the discussion of the various approaches in Part 2?
We refer to our remarks made in the cover letter