Norsk RegnskapsStiftelse

IFRS Foundation
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Oslo, 19 January 2016

Dear Sir/ Madam

Draft IFRIC Interpretation DI/2015/1: Uncertainty over Income Tax Treatments

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on Draft IFRIC Interpretation DI/2015/1 *Uncertainty over Income Tax Treatments.*

We support the IFRS Interpretation Committee's decision to issue an interpretation that provides guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Currently, IAS 12 does not provide specific guidance in these circumstances and we acknowledge that this has caused diversity in practice in the application of IAS 12.

We agree with the proposals in the Draft IFRIC Interpretation and we believe the proposed interpretation appropriately clarifies issues that have caused diversity in practice in the application of IAS 12. However, we note that the proposed guidance will introduce inconsistency between accounting for uncertain income tax treatment in the scope of IAS 12 and uncertain indirect tax treatment (e.g. VAT and payroll tax) in the scope of IAS 37.

We believe IAS 12 is a complex standard and lack of clarity in definitions and principles leads to diversity in practice. We acknowledge that the IASB has a long-term research project on income taxes on its agenda, and we request the Board to give this project priority.

Our detailed comments to the questions in the order suggested by you are set 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.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

Appendix – Detailed comments on interpretations proposed in DI/2015/1

Question 1—Scope of the draft interpretation

The draft interpretation provides guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Such uncertain tax treatments may affect taxable profit (tax loss), tax bases, tax credits or tax rates that are used to recognise and measure current or deferred tax liabilities or assets in accordance with IAS 12 Income Taxes.

Do you agree with the proposed scope of the draft Interpretation? If not, why and what alternative do you propose?

We agree with the proposed scope of the draft interpretation.

Although we agree with the scope of the draft interpretation, we note that the proposed guidance will introduce inconsistency between accounting for uncertain income tax treatment in the scope of IAS 12 and uncertain indirect taxes treatment (e.g. VAT and payroll tax) in the scope of IAS 37. Both income tax and VAT are subject to examinations by tax authorities, but different recognition threshold applies to uncertain tax treatment of income tax assets in the scope of IAS 12 and other tax assets in the scope of IAS 37. An entity that concludes that it is probable that a tax authority will accept an uncertain tax treatment of an income tax asset, will recognise the income tax asset. However, other tax assets in the scope of IAS 37 are only recognised if the entity concludes that it is virtually certain that the tax authority will accept an uncertain tax treatment. We recommend the IASB to consider aligning the accounting for uncertain income treatment in the scope of IAS 12 and other taxes in the scope of IAS 37.

Question 2 — When and how the effect of uncertainty over income tax treatments should be included in determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

The draft Interpretation required an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment, or group of uncertain tax treatments, that it used or plans to use in its income tax filings.

If the entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.

If the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to use the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The method used should be the method that the entity concludes will provide the better prediction of the resolution of uncertainty.

Do you agree with the proposal in the draft Interpretation on when and how the effect of uncertainty should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates? If not, why and what alternative do you propose?

We agree that an entity's accounting for uncertain tax treatment should be consistent with the treatment included in its income tax filings whenever the entity concludes that it is probable that the tax authority will accept an uncertain tax treatment.

We also agree that an entity is required to use the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates whenever it is not probable that a tax authority will accept an uncertain tax treatment. Furthermore, we support the proposal to clarify that an entity shall use the method that it concludes will provide the better prediction of the resolution of the uncertainty.

Question 3 — Whether uncertain tax treatments should be considered collectively

The draft Interpretation requires an entity to use judgement to determine whether each uncertain tax treatment should be considered independently or whether some uncertain tax treatments should be considered together, in order to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

Do you agree with the proposal in the draft Interpretation on the determination of whether uncertain tax treatments should be considered collectively? If not, why and what alternative do you propose?

We agree with the proposal that requires an entity to use judgement to determine whether each uncertain tax treatment should be considered independently or collectively.

Question 4—Assumptions for taxation authorities' examinations and the effect of changes in facts and circumstances

The draft Interpretation required an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge or all relevant information when making those examinations.

The draft Interpretation also requires an entity to reassess its judgement and estimates if facts and circumstances change. For example, if an entity concludes that new information indicates that it is no longer probable that the taxation authority will accept an uncertain tax treatment, the entity should reflect this change in its accounting. The expiry of the period in which the taxation authority may examine the amounts reported to it would also be an example of a change in circumstances.

Do you agree with the proposal in the draft Interpretation on the assumptions for taxation authorities' examinations and on changes in facts and circumstances? If not, why and what alternative do you propose?

We agree that an entity shall assume that a tax authority will examine all amounts reported to it and have full knowledge or all relevant information when making those examinations.

Changes in facts and circumstances are likely to affect the probability of a tax authority accepting an uncertain tax treatment. Hence, we agree with the proposal in the interpretation that requires an entity to reassess its judgements and estimates if changes in facts and circumstances occur.

Question 5 — Other proposals

Disclosure
The draft Interpretation does not introduce any new disclosure requirements, but highlights the relevance of the existing disclosure requirements in paragraphs 122 and 125-129 of IAS 1 Presentation of Financial Statements, paragraph 88 of IAS 12 and IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Transition
The draft Interpretation requires an entity to apply its requirements by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do that without using hindsight.

Do you agree with the proposals in the draft Interpretation on the disclosure and the transition requirements? If not, why and what alternative do you propose?

We agree.