



## Cover memo

<b>Project:</b>	<b>Income Tax Disclosures</b>	<b>Meeting</b>	AASB December 2016 (M155)
<b>Topic:</b>	<b>Cover memo</b>	<b>Agenda Item:</b>	8.0
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### Introduction and objective of this meeting

- 1 In February 2016, the Board of Taxation released its final report on its voluntary Tax Transparency Code (TTC) measures, setting out the minimum standard of disclosure expected of entities adopting the code. On 11 August 2016, in a letter to the AASB, the Board of Taxation **requested that the AASB prepare guidance materials** to:
  - (a) develop certain guidance material to assist business in meeting the standard required by the voluntary TTC; and
  - (b) establish a common definition of the term ‘effective tax rate’.
- 2 At its August meeting, as part of deliberations on its Agenda Consultation project, the Board directed staff to **develop a project plan for a project on tax disclosures**, including responding to the Board of Tax request for guidance. Staff noted that if the Board proceeds with a project, the project will need to be given a high priority as any final pronouncement issued by the AASB will need to be issued in time for June 2017 reporting.
- 3 The objective of this meeting is to obtain Board decisions on the proposed project plan, being:
  - (a) the form of the Board’s response to the Board of Tax request; and
  - (b) scope of the project: whether the Board should consider developing guidance or Australian specific tax disclosures, for matters beyond those raised in the Board of Tax request.

## Attachments

- Agenda Paper 8.1 Staff Paper: Income Tax Disclosures – Project Plan, including proposed response to Board of Tax request for guidance
- Agenda Paper 8.2 Staff Paper: Country-by-country reporting: Update on AASB approach (presented at ASAF)
- Agenda Paper 8.3 Letter dated 11 August 2016 from the Board of Tax (for information only)
- Agenda Paper 8.4 Copy of Board of Taxation *A Tax Transparency Code* (February 2016) (for information only)

## Overview of key agenda papers

### Agenda Paper 8.1 Staff Paper: Income Tax Disclosures – Project Plan, including proposed response to Board of Tax request for guidance

- 4 Agenda Paper 8.1 sets out the proposed project plan for Board consideration, being:
- (a) the form of the Board’s response to the Board of Tax request; and
  - (b) scope of the Project: whether the Board should consider developing guidance or Australian specific tax disclosures, for matters beyond those raised in the Board of Tax request.
- 5 This agenda paper considers the alternative ways in which the Board could respond to the Board of Tax’s request for assistance. In respect of the ETR, the agenda paper considers whether the term ETR should be strictly interpreted in accordance with the existing accounting definition pursuant to AASB 112.86, or whether modified ETRs could also be disclosed as ETRs. In short, it is the staff view that whilst the term ETR should be strictly interpreted to remain consistent with IFRS, it may be appropriate and useful to disclose alternative metrics (eg adjusted ETRs) in a supplementary manner accompanied by sufficient information for users to understand the basis on which any such metric has been calculated. Furthermore, staff think that non-mandatory guidance materials in this regard are best suited to an Appendix to the TTC in order to maintain the guidance together with the direct requirements of the TTC.
- 6 The agenda paper also considers the possibility of a broader scope project with respect to income tax disclosures in the context of tax transparency. In particular, whether the Board should consider the development of specific Australian disclosures in order to better facilitate the needs of general public users. Staff have mixed views in this regard, with some staff of the view that global tax transparency should be addressed by global standard setters, and other staff of the view that the AASB could take a leadership role regarding tax transparency in financial reports by requiring or encouraging additional income tax disclosures to better meet general public user needs.
- 7 Lastly, the agenda paper considers whether the Board of Tax’s request for assistance may provide an opportunity for the Board to propose a disclosure framework for

income tax to provide entities with guidance in presenting information in accordance with the TTC in order to facilitate consistency between income tax disclosures presented within in, and outside of, general purpose financial statements. Notwithstanding this, it is the staff view that such guidance is beyond the scope of the Board of Tax's request for assistance, and may not be viewed as particularly useful to preparers.

Agenda Paper 8.2 Staff Paper: Country-by-country reporting: Update on AASB approach

- 8 AASB staff will be presenting Agenda Paper 8.2 at the Accounting Standards Advisory Form (ASAF) meeting in December 2016. The agenda paper has been written for that purpose, and has been re-badged as an AASB Agenda Paper for the purposes of this meeting.
- 9 The agenda paper outlines the staff research as to whether existing income tax disclosures are sufficient to address user needs given the changing global corporate income tax landscape. In short, the research findings indicated that whilst the existing income tax disclosure requirements of AASB 112 presents information considered useful, additional clarity pertaining to any entity's actual income tax liability referable to an income year was considered a key piece of information of interest to users. Users also expressed a strong interest in understanding an entity's income tax position with respect to its foreign and domestic income tax liabilities as well as the overall relationship between income tax amounts reported throughout financial statements.
- 10 Staff will provide a verbal update of feedback from the ASAF meeting on this agenda paper.

**Next steps**

- 11 The next steps on this project will depend on the Board's decisions at this meeting.