Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Income Tax Disclosures**	**Meeting**	AASB December 2016 (M155)
Topic:	**Income Tax Disclosures – Project Plan, including proposed response to Board of Tax request for guidance**	**Agenda Item:**	8.1
Contact(s):	Garima Ahuja gahuja@aasb.gov.au 03 9617 7620 Evelyn Ling eling@aasb.gov.au 03 9617 7631 Nikole Gyles ngyles@aasb.gov.au 03 9617 7639	**Project Priority:** **Decision-Making:** **Project Status:**	High High Project planning

Introduction and objective of this paper

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) to assist businesses in meeting the Part A standard required by the voluntary TTC (in respect of specified reconciliations); and

(b) establish a common definition of the term ‘effective tax rate’ (ETR).

2 At its August 2016 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 paper is to obtain Board decisions on the proposed project plan, including:

(a) the form of the Board’s response to the Board of Tax request; and

(b) scope of project: whether the Board should consider developing guidance or Australian specific tax disclosures, for matters beyond those raised in the Board of Tax request.

4 This paper is structured as follows:

(a) Summary of staff recommendations (paragraph 5);

(b) Background (paragraphs 6 – 12);

(c) Discussion and analysis:

(i) Responding to the Board of Tax request:

(A) Effective tax rate (paragraphs 13 – 24);

(B) Reconciliation of tax expense to taxes paid (paragraphs 25 – 28);

(C) Form of the response (paragraphs 29 – 30);

(ii) AASB to undertake a broader scope project with the objective of improving tax transparency:

(A) Should the AASB encourage/ require certain additional tax disclosures to be made in general purpose financial statements? (paragraphs 31 – 37);

(B) Should the AASB work with the Board of Tax to develop a (conceptual) Framework to provide entities with guidance in presenting information in accordance with the TTC? (paragraphs 38 – 41); and

(d) Proposed project plan based on staff views (paragraphs 42 – 43).

Summary of staff views

5 The staff views are:

(a) **Developing a common definition of ETR (Question 1):**
The Board should highlight, in its response to the Board of Tax request, the ETR description per AASB 112.86 as an existing 'common definition of ETR';

(b) **Providing guidance whether a modified ETR metric can be described as an ETR (Question 2):**
The Board should remain silent, in its response to the Board of Tax request, as to whether a modified ETR may be presented in financial statements, but provide guidance that to be useful and relevant, where a modified ETR is presented to comply with the TTC, entities should be encouraged to accompany the ETR metric with sufficient information to allow users to understand how the metric has been calculated, and calculate the metric in the same manner from year to year;

(c) **Guidance on the effect of specific transactions on the ETR (Question 3):**
The Board should <u>not</u> specifically comment on how transactions as outlined by the Board of Tax would be reflected in the ETR calculation as this could be

perceived as 'interpreting IFRS', which is contrary to the Board's policy but may also raise the possibility of the Board being asked to cover the effect of transactions over and above those as requested by the Board of Tax;

(d) **Reconciliation of income tax expense to income tax paid or income tax payable (Question 4):**
Staff think the Board should develop an illustrative example setting out common line items that may affect the reconciliation of income tax expense to income taxes paid per the cash flow statement, or income taxes paid and payable of the current financial year. Additionally, staff think the Board should refer entities to the Illustrative Disclosure accompanying AASB 112;

(e) **Form of AASB response to the Board of Tax (Question 5):**
Staff think that non-mandatory guidance produced by the Board setting out AASB views should form an Appendix to the TTC in order to maintain guidance together with the TTC;

(f) **Additional tax disclosures to be made in general purpose financial statements (Question 6):**
Staff have mixed views in this regard. Some staff think that the Board should do nothing at this time, on the basis that tax transparency is a global initiative and as such, any such the requirement to present additional income tax disclosures should be driven the global accounting standard setter. Other staff think that, notwithstanding this, the Board could take a leadership role in requiring additional income tax disclosures in general purpose financial statements to better facilitate the needs of general public users; and

(g) **Development of a (conceptual) Framework to provide entities with guidance in presenting information across the TTC (Question 7):**
The Board should not produce any such framework guidance at this time on the basis that it extends beyond the scope of the Board of Tax's request for assistance. Also, staff are of the view that conceptual guidance material may not be considered useful.

Background

6 Background information resulting in the Board of Tax request to the AASB is set out in paragraphs 9 – 14 of Agenda Paper 8.2. In addition, paragraphs 16 – 19 of that Agenda Paper sets out further information about other tax measures adopted in Australia in response to the OECD's final recommendations on tax transparency measures.

7 Part A of the TTC[1] requires the following information to be disclosed by Australian entities and certain foreign entities meeting a certain specific turnover threshold:

(a) a reconciliation of accounting profit to income tax expense, and from income tax expense to income tax paid or income tax payable. The reconciliation should identify material temporary or non-temporary differences.

1 A copy of the Voluntary Tax Transparency Code is included as Agenda Paper 8.4.

(b) an Australian accounting effective tax rate (ETR) and a global ETR for the worldwide accounting consolidated group calculated based on company tax expense. Entities should clearly define the basis on which a disclosed ETR was calculated and any underlying assumptions. The global ETR should be calculated 'for the worldwide accounting consolidated group' of which the Australian operations form a part (i.e. is not limited to the Australian consolidated entity).

8 The TTC notes that entities may present these disclosures in general purpose financial statements or in a separate 'taxes paid' report. Staff note that the global ETR could, in some instances, be arguably considered to be 'non-IFRS information' (discussed in the IASB's Principles of Disclosure project).

9 The Board of Tax has requested that the AASB assist entities to meet the minimum standard required by the TTC, by developing:

(a) a common definition of the term ETR, including assisting entities to understand how the following transactions are reflected in that calculation: amended assessments, impairment, foreign currency translation, refunds and penalties; and

(b) certain guidance material to assist entities in meeting the standard required by the Code. By this staff understand the Board of Tax is seeking guidance material to assist entities in preparing the specified reconciliations under Part A of the TTC.

10 Staff understand the Board of Tax's purpose in requiring the disclosure of an ETR under the voluntary TTC is to demonstrate to 'general public' users and 'interested users' (such as shareholders, analysts, investors, social justice groups, media and politicians) why the income tax obligations of Australian corporate groups (and income tax obligations of foreign entities with Australian operations) may deviate from the Australian corporate tax rate (30%).

11 The recommendation by the Board of Tax is for entities to calculate the ETR by adopting the accounting definition as an interim measure to any guidance/common definition developed by the AASB. AASB 112.86 defines the ETR as:

$$\frac{\text{Income tax expense (ITE)}}{\text{Accounting profit before tax (APBT)}}$$

The TTC also acknowledges that a version of the ETR that includes taxes other than income tax could also be published.

12 The Senate Economics Reference Committee's interim report on its inquiry into corporate tax avoidance includes discussion of its observations in respect of the ETR as a measure of an entity's tax paid. The report comments on the degree of variability observed on the approaches to ETR calculations, and the limitations of the ETR as a meaningful measure of income tax actually paid per the accounting definition.[2] The

2 http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Corporate_Tax_Avoidance/Report%20part%201/c03

observations made in the report accord with staff research findings and outcomes of discussions with analysts set out in paragraphs 26 – 36 of Agenda Paper 8.2.

Discussion and analysis – Responding to the Board of Tax request

ETR: To develop a common definition of the term 'Effective Tax Rate'

13 Staff note that AASB 112 *Income Taxes* includes a description of ETR. Paragraph 86 of the Standard states:

> *"The average effective tax rate is the tax expense (income) divided by the accounting profit."*

14 The description is not included in the list of defined terms in the Standard. However, it follows on from the option in AASB 112.81(c)(ii) to disclose a numerical reconciliation between the average effective tax rate and the applicable tax rate. AASB 112.84 explains the purpose of the disclosure is to enable users of financial statements to understand whether the relationship between tax expense and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future.

15 Based on a desktop review of the income tax disclosures of 24 companies, staff note that in disclosing an ETR, 13 companies adopted the accounting definition as a 'starting point', but made entity-specific adjustments to both the numerator and/or denominator of the calculation. One entity disclosed, as an ETR, a metric calculated on an entirely different basis encompassing taxes other than corporate income tax (eg royalty related income taxes and taxes levied on production). Another entity disclosed, in addition to an ETR, a metric illustrating its cash tax payable excluding the impact of significant items divided by APBT.

Staff view

16 As noted above, the TTC permits disclosure of the relevant ETRs to be made in general purpose financial statements or in a 'taxes paid' report. Our desktop review indicates a mix of practice in this regard, with some entities disclosing information about the ETR within the general purpose financial statements. Accordingly, <u>to remain consistent with IFRS</u>, staff recommend that the Board does not amend the definition of ETR presently specified by IFRS, but to highlight, in its response to the Board of Tax, the ETR description per AASB 112.86 as an existing 'common definition'. Staff think the Board should further clarify that the accounting profit and ITE should be determined in accordance with Australian Accounting Standards, however to the extent entities adopt alternative accounting frameworks (eg US GAAP) under which to calculate accounting profit and ITE, this should be made clear to provide users with a clear contextual basis in interpreting and comparing the ETR calculation.

Other considerations

17 Staff note the following further benefits of adopting the ETR definition per AASB 112:

(a) ETR determined as ITE / ABPT – or even adjusted ITE / adjusted ABPT – appears to be well understood;

(b) ETR should be simple to calculate as ITE is required to be disclosed within the financial statements (AASB 101.82(d) and APBT easily determinable;

(c) as the inputs to the calculation are required to be presented within financial statements, these income tax amounts would, in many instances, be subject to audit. Irrespective of whether the ETR is disclosed within or outside of the financial report, the metric should be reliable as it should be based on audited inputs;

(d) as ETR (as defined) is not subject to adjustment, the measure arguably enhances comparability across financial years and corporate groups.

Question to Board members

Q1 Do Board members agree with the staff recommendation not to amend the definition of ETR presently specified by IFRS, but to highlight, in its response to the BOT request, the ETR description per AASB 112.86 as an existing 'common definition'?

ETR: Guidance on whether alternative metrics can be described as an ETR

18 However, as noted above in paragraph 15, staff are conscious that entities are presently disclosing alternative metrics described as an 'ETR' but:

(a) representing adjusted ITE and/or adjusted APBT; and/or

(b) encompassing income taxes and other amounts (eg royalty-related taxes in the numerator).

In many instances, the nature of the numerator or denominator is clearly identified.

19 Staff think the Board may wish to provide comment on this practice as part of its response to the Board of Tax request to develop a common definition of ETR. The Board has various alternative approaches they could consider:

(a) **Approach 1.** Clarify that a modified ETR may be described as an "ETR, calculated as", including in general purpose financial statements.

Staff think that, should the Board support this approach, any modified ETR presented – whether in/outside financial statements – should be:

(i) accompanied by sufficient information to allow users to understand how the metric has been calculated. For example, this could take the form of a reconciliation to ITE or ABPT; and

(ii) calculated in the same manner from year to year, or an explanation of any difference in the metric from the prior year included. [3]

This approach has the benefit of providing clear direction to preparers whether they may continue to describe a modified ETR measure (in addition to a 'standard' ETR) as an ETR, including in general purpose financial statements, and the Board's expectations where such a metric is presented. Staff think this approach is unlikely to result in any significant costs to preparers.

However, should the Board decide to pursue this approach, some staff think that under the AASB *Policies and Processes*, the Board should first put the question whether a modified ETR can, in the first instance, be presented in general purpose financial statements to the IFRS Interpretations Committee (IC) or the IASB. Other staff think that this is not an issue of interpretation of IFRS but of presentation of additional information, and therefore that the question need not be put to the IFRS IC or the IASB.[4]

(b) **Approach 2**. Clarify that a metric that departs from the strict description in AASB 112 cannot be described as an ETR within the general purpose financial statements. In addition, the Board could provide guidance that to be useful and relevant, where such an alternative measure is presented, entities are encouraged to:

(i) accompany the metric with sufficient information to allow users to understand how the metric has been calculated; and

(ii) calculate the metric in the same manner from year to year. To the extent the calculation basis is changed from the prior year an explanation of any difference in the metric from the prior year should be included.

This approach has the benefit of strict compliance with IFRS, as only an ETR calculated as described in AASB 112 can be described as an ETR. Entities are not prohibited from presenting the alternative measures, however may not describe these as an ETR in general purpose financial statements.

(c) **Approach 3.** Do nothing.

The TTC acknowledges that ETRs calculated on different bases, or a further ETR incorporating other forms of taxes, may be disclosed. The Board may wish to remain silent as to whether such metrics can be described as an ETR/ presented in general purpose financial statements. This avoids interpreting IFRS, but could be seen as being unhelpful as it does not provide any clarity to users whether current practice can continue.

[3] In developing the modified ETR proposals, staff consider could be incorporated into a broader disclosure framework (see paragraphs 38-41)

[4] Non-FIRS financial information disclosed in financial reports and other corporate documents is also subject to the requirements of ASIC Regulatory Guide 230

Staff view

20 Staff support Approach 2 over Approach 1. Staff think metrics deviating from the defined formula may be useful to users in some instances and think they should continue to be disclosed where appropriate. However, staff consider these should not be described as an ETR given the existing definition of ETR per AASB 112.86, but rather, should be clearly identified as an alternative metric.

21 Staff do not support Approach 3. Staff think that the Board could add value to the TTC in this regard by developing guidance that could result in possibly better comparability and consistency in practice.

Question to Board members

Q2 Do Board members agree with the staff recommendation:

(a) to clarify, as part of its response to the Board to Tax request, for the purposes of the TTC, that a metric that departs from the strict description in AASB 112 cannot be described as an ETR within the general purpose financial statements; and

(b) to develop guidance that, where a modified ETR is presented, entities are encouraged to:

(i) accompany the metric with sufficient information to allow users to understand how the metric has been calculated; and

(ii) calculated the metric in the same manner from year to year, or provide an explanation of any difference in the metric from the prior year.

ETR: Guidance on effect of specific transactions on the ETR

22 The Board of Tax has also asked the AASB to comment on the impact of amended assessments, impairments, foreign currency translation, refunds and penalties on the ETR calculation.

23 Staff think the Board has the following approaches it could take in this regard:

(a) **Approach 1.** Do nothing.

The Board could respond to the Board of Tax explaining that it has a policy of not interpreting IFRS, and commenting on how such transactions would impact ITE or accounting profit could be viewed as ‘interpreting IFRS’. In addition, this may raise questions why the Board does not develop similar guidance for other transactions of entities. However, in its response the Board could highlight that the Illustrative Examples accompanying AASB 112 including examples of various transactions and their impact on profit and deferred tax balances.

Staff note that the Board previously deleted Australian illustrative examples/implementation guidance (e.g. from AASB 101 (July 2004)) to avoid the perception that A-IFRS was not IFRS.

(b) **Approach 2.** Develop non-authoritative material describing how these transactions affect accounting profit and/or tax expense.

The Board could develop some non-authoritative material (e.g. an illustrative example, or a staff article) explaining how these specific transactions affect the ETR calculation. Staff note that this could be incorporated as part of any guidance developed in respect of the reconciliation specified by the TTC.

Staff observe that this will require staff resources to be diverted from another Board project to develop this material, and could be viewed as interpreting IFRS. However, this will have the benefit of providing clarity to preparers regarding how these transactions generally affect the ETR, based on Australian income tax law, and Australian Accounting Standards, and could be viewed favourably as supporting the efforts of other Australian government bodies.

24 **Staff view.** Staff support Approach 1, in particular because staff are concerned that this opens the Board up to possible criticism as to whether it should be providing guidance on other specific matters.

Question to Board members

Q3 Do Board members agree with the staff recommendation <u>not</u> to comment on the impact of amended assessments, impairments, foreign currency translation, refunds and penalties on the ETR calculation?

Reconciliation of income tax expense to income tax paid or income tax payable

25 As noted in paragraph 7, the request from the Board of Tax is for the AASB to develop guidance materials to assist entities in presenting the reconciliation of accounting profit to ITE, and from ITE to income tax paid or income tax payable. The reconciliation should identify material temporary (or otherwise) differences.

26 Staff note that a form of the reconciliation of accounting profit to ITE is already specified by AASB 112.81(c).

27 The Board could adopt one of the following approaches:

(a) **Approach 1.** Do nothing.

The Board could respond to the Board of Tax explaining that it has a policy of not interpreting IFRS, and developing guidance materials in this regard could be viewed as ‘interpreting IFRS’.

This could be seen as not being responsive to the Board of Tax request.

(b) **Approach 2.** Develop an illustrative example showing line items that may feature in the reconciliation of accounting profit to ITE, and the common line items that may affect the reconciliation between tax expense and taxes paid per the cash flow statement, or income taxes paid and payable (ie the total estimated income tax obligation) of the current financial year.

By identifying some common line items, this approach might encourage comparability efforts to the extent entities follow the form of the reconciliation in the illustrative example.

(c) **Approach 3.** Develop an illustrative example showing the common line items that may affect the reconciliation between ITE and taxes paid per the cash flow statement, or income taxes paid and payable (the total estimated income tax obligation) of the current financial year. In addition, refer entities to the Illustrative Disclosure accompanying AASB 112 which shows an example reconciliation of accounting profit to ITE.

Staff note that per paragraph 41(a) and the Illustrative Example at Appendix 1 of Agenda Paper 8.2, staff have developed a suggested disclosure setting out a reconciliation between APBT and income taxes paid and payable by presenting a format of disclosure outlining the key adjustments in calculating a corporate group's current tax expense.

28 **Staff view.** Staff support Approach 3. Staff think it is unlikely to require any further significant staff resources to be committed to developing an illustrative example in this regard, while signalling that the AASB is working together with other government bodies to improve the standard of financial reporting.

Question to Board members

Q4 Do Board members agree with the staff recommendation to develop an illustrative example showing the common line items that may affect the reconciliation between ITE and taxes paid per the cash flow statement, or taxes paid and payable (the total estimated income tax obligation) of the current financial year, and to refer entities to the Illustrative Disclosure accompanying AASB 112?

Form of the AASB response to the Board of Tax

29 The Board of Tax request does not specify the form of the AASB response. Having regard to the approaches the Board could take on the matters included in that request, staff have considered the following forms the response could take.

(a) **Approach 1.** Make amendments to AASB 112 to add Australian implementation guidance.

This formalises the response as being the views of the AASB. However, the Board will need to undertake adequate due process before issuing an amendment to AASB 112. In addition, some discussion may be inappropriate for inclusion in an Accounting Standard.

(b) **Approach 2.** Issue a letter to the Board of Tax.

The content of any such letter to the Board of Tax would be limited to, per paragraph 16, to highlight the existing definition of ETR per AASB 112.86, and to make comment that to the extent entities consider it useful to disclose alternative metrics (eg a modified ETR) as supplementary measures, the basis of calculation should be clearly explained. This option may be regarded as being less attractive, as the letter is only provided to the Board of Tax. However, it can be actioned without review by the entire Board and is therefore quicker to complete.

(c) **Approach 3.** Draft an Appendix to the TTC akin to 'AASB guidance on meeting the minimum standard in Part A of the TTC'.

This approach maintains the guidance together with the TTC requirements, and labels it as the position of the AASB The guidance would be non-mandatory and could be jointly 'badged' as AASB and Board of Tax guidance. Accordingly, it is likely that this Approach cannot be taken without the consent/approval of the Board of Tax.

Staff consider that the Board should review any Appendix, but that it need not be subject to further due process in accordance with the AASB Policies and Processes.

(d) **Approach 4.** Issue an AASB practice statement setting out any developed guidance.

This approach allows for more flexibility in the AASB discussion. However, it may be overlooked given that practice statements are not a form that have been used in the past.

30 **Staff view.** Staff support Approach 3. Staff think that having any guidance developed should be located together with the TTC. In addition, staff consider that the AASB should write to the Board of Tax explaining why it may not be able to develop guidance to the extent perhaps envisaged by the Board of Tax.

Question to Board members

Q5 Do Board members agree with the staff recommendation to draft an Appendix to the TTC setting out any guidance or AASB views that could assist entities in meeting the minimum standard required by Part A of the TTC?

Discussion and analysis – A broader scope project with the objective of improving tax transparency

Should the AASB encourage/ require certain additional tax disclosures to be made in general purpose financial statements?

31 Staff understand that a 'standard' ETR (that is, ETR per AASB 112), while providing comparability, may be of less value to some analysts (see discussion in Agenda Paper 8.2). Further, as discussed in Agenda Paper 8.2, staff think this metric may not be well understood by general public users of general purpose financial statements who have a relatively unsophisticated understanding of AASB 112 and the deferred tax component of income tax expense.

32 Staff understand that part of the driver for the additional reconciliation of APBT to an entity's income taxes paid and payable is to improve an entity's tax transparency by specifying reconciliation to an amount commonly understood as being the entity's 'tax

burden' rather than merely reconciling to an amount that is, to some extent, an accounting construct. The reconciliation arguably provides information that is useful for decision-making by users of the general purpose financial statements beyond that presently specified.

33 Accordingly, in addition to Board decisions on its response to the Board of Tax request, and subject to feedback from the December 2016 ASAF meeting, staff think the Board could consider developing **specific additional Australian disclosures**[5] to:

(a) require or encourage disclosure of a metric, similar to ETR, and associated information; and/or

(b) require or encourage disclosure in the general purpose financial statements of the reconciliation of ITE to tax paid or taxes payable.

These disclosures respond to the global focus on tax transparency and arguably improve the usefulness of income tax disclosures in financial reports to users.

34 In Agenda Paper 8.2, staff set out in paragraph 41(d) the proposed disclosure of the income taxes paid and payable ratio as a supplementary metric to the ETR.

35 This metric aims to demonstrate, particularly to general public users with a relatively unsophisticated understanding of the deferred tax component of income tax expense, why an entity's income tax liability may deviate from the corporate income tax rate as a function of APBT. AASB staff note that the ETR metric still remains relevant in capturing a corporate group's total income position as it is inclusive of future income tax outcomes, and should continue to be disclosed where relevant. However, AASB staff are of the view that a corporate group's actual income tax liability referable to a financial year is better represented by the income taxes paid and payable metric.

36 Staff think the Board could consider:

(a) **Approach 1.** Do nothing at this time.

This approach acknowledges that tax transparency is a global initiative and, to encourage better comparability, such disclosures should be driven by the global accounting standard setter.

This also has the benefit of allowing staff resources to be committed to progressing other Board projects.

(b) **Approach 2.** Encourage disclosure, in the general purpose financial statements, of $\frac{\text{global income taxes paid and payable of the consolidated entity}}{\text{APBT of the consolidated entity}}$

The Board could consider adding an optional disclosure to AASB 1054 to encourage entities to disclose the ratio above. In addition, the disclosure

5 These disclosures would be likely included in AASB 1054 *Australian Additional Disclosures*.

should be accompanied by narrative information explaining the difference from the domestic corporate tax rate.

Staff note that staff resources would have to be committed to this project to action this. The Board will also need to consider whether the disclosure should be limited to entities subject to the TTC, or whether the disclosure is to apply more broadly to all general purpose financial statements.

(c) **Approach 3.** Encourage disclosure, in the general purpose financial statements, of $\frac{\text{global income taxes paid and payable}}{\text{APBT}}$

for both the consolidated entity, and for all Australian incorporated entities.

Staff note that staff resources would have to be committed to this project to action this. The Board will also need to consider whether the disclosure should be limited to entities subject to the TTC, or whether the disclosure is to apply more broadly to all general purpose financial statements. In addition, entities presenting this information are likely to incur additional costs in preparing (and auditing) the information where there are entities outside an Australian income tax consolidated group.

37 **Staff view.** Staff have mixed views:

(a) Some staff support Approach 1. These staff consider development of this guidance is beyond the request made by the Board of Tax, and accordingly, the priority of undertaking a project in this regard should be considered as part of the future Board decisions on the feedback from its agenda consultation process.

(b) Other staff support Approach 3. These staff consider that in the context of the changed tax landscape, the needs of general public users should be a relevant consideration for accounting standard setters. The AASB could take a leadership role in this regard by encouraging corporate groups to more clearly demonstrate the relationship between APBT and the actual income tax liability for a financial year through income tax disclosures made in general purpose financial statements.

Question to Board members

Q6 Which approach do Board members support?

Should the AASB work with the Board of Tax to develop a (conceptual) Framework to provide entities with guidance in presenting information in accordance with the TTC?

38 Some staff are of the view that the Board of Tax's request for assistance in respect of the development of guidance material could be interpreted more broadly to extend beyond the reconciliation and ETR calculation under Part A to the application of the TTC more generally. There may be an opportunity for the AASB to comment to the Board of Tax as to whether the qualitative characteristics underlying the preparation and presentation of financial statements (or as set out in ASIC Regulatory Guide 230)

could be applied as general guiding principles that corporate groups should consider when preparing disclosures under the TTC.

39 Staff note that where corporate groups choose to present income tax disclosures under the TTC within financial reports, the income tax disclosures are subject to the conceptual framework as set out in the *Framework for the Preparation and Presentation of Financial Statements*[6] (Framework). Given that that the TTC does not mandate the income tax disclosure be presented within financial reports, corporate groups may choose to present income tax disclosures in separate tax specific reports. The development of an overarching framework, including the concept of materiality and having regard to the requirements of ASIC Regulatory Guide 230, setting out the principles to which the income tax information presented should adhere to could facilitate consistency and comparability between income tax disclosures both within and outside of financial reports.

40 The Board could take one of the following approaches:

(a) **Approach 1.** Do nothing.

Staff consider assisting with the development of a framework for tax disclosures made outside the financial report is beyond the scope of the request to the AASB. Further, staff think that to be useful, developing this framework should not be actioned with regard only to the content of a TTC. Staff are also concerned that a conceptual framework will not be viewed as being particularly useful to preparers.

(b) **Approach 2.** Signal to the Board of Tax that consideration should be given to developing some overarching concepts that underpin disclosures to improve the relevancy of information provided.

41 **Staff view.** Staff support Approach 1. Staff do not think there is a need at the present time to develop this guidance, although staff recognise it may be useful to promote consistency in application of the TTC, and the relevance and usefulness of the information presented.

Question to Board members

Q7 Do Board members agree with the staff recommendation not to develop a (conceptual) Framework to provide entities with guidance in presenting information in accordance with the TTC?

Project plan

42 Staff propose the following project plan, having regard to the staff views above:

December 13-14	Determine form and content of response to the Board of Tax request

[6] http://www.aasb.gov.au/admin/file/content105/c9/Framework_07-04_COMPjun14_07-14.pdf

Mid December – end January	Communicate Board decisions to the Board of Tax, Develop the response to the Board of Tax in conjunction with a subcommittee of Board members
February – April 2017	Issue an Invitation to Comment / Exposure Draft on proposed response for public comment
May 2017	Allow the Board of Tax the opportunity to provide comment on a draft AASB Appendix to the TTC
June / August 2017	Board to discuss and approve the response to the Board of Tax at the AASB meeting

43 Staff note that per the project plan above, the deliverables in respect of the response to the Board of Tax are unlikely to be completed prior to June 2017 reporting.

Question to Board members

Q8 Do Board members have any comment on the proposed project plan?