

New Zealand Institute of Chartered Accountants
September 2010

Request for Comment on Exposure Draft ED/2010/11 *Deferred Tax: Recovery of Underlying Assets* (proposed amendments to IAS 12)

Executive Summary of Proposals

The International Accounting Standards Board (IASB) is proposing to amend IAS 12 *Income Taxes*. The purpose of the amendments is to provide an exception to the principle that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Issued by the Financial Reporting Standards Board
New Zealand Institute of Chartered Accountants

Introduction

A copy of the Exposure Draft ED/2010/11 *Deferred Tax: Recovery of Underlying Assets* (proposed amendments to IAS 12) accompanies this Request for Comment. It can also be accessed on the IASB's website on the "Comment on a Proposal" page (located via the "Get involved" tab).

Constituents should refer to the summary on page 4 the Exposure Draft and paragraphs BC1 to BC5 of the IASB's Basis for Conclusions on pages 13 and 14 of the Exposure Draft for the reasons for the Exposure Draft being published.

IASB Proposals

The IASB is proposing to amend IAS 12 *Income Taxes*. The purpose of the amendments is to provide an exception to the principle that the measurement of deferred tax liabilities and deferred tax assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

The proposed amendments state that, in specified circumstances, the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale.

The specified circumstances are that the deferred tax liability or deferred tax asset arises from:

- (a) investment property, when an entity applies the fair value model in IAS 40 *Investment Property*; or
- (b) property, plant and equipment or intangible assets, when an entity applies the revaluation model in IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*.

The presumption is rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life. The proposed amendments are intended to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery.

PBE modifications and differential reporting concessions

The Ministry of Economic Development (MED) and the Accounting Standards Review Board (ASRB) are currently undertaking a review of the financial reporting framework in New Zealand. The outcome of this review is likely to change the application of New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) for some reporting entities in New Zealand. The MED and ASRB proposals include potential changes to both (a) the types of entities that would be required to prepare financial statements in accordance with accounting standards and (b) the particular set of accounting standards with which reporting entities would be required to comply. For example, if the proposal that many small companies and small public benefit entities (PBEs) should no longer be required to prepare financial statements in accordance with accounting standards were to be adopted, the proposed amendments would not be applicable to those entities.

In light of the current uncertainty regarding the future financial reporting framework in New Zealand and the possibility that, as a result of the IASB considering constituents' feedback, the requirements in the final standard may differ from those in the Exposure Draft, the FRSB concluded that currently it is not the appropriate time to issue proposals for PBE modifications or differential reporting concessions in respect of the Exposure Draft. However, the FRSB's expectation is that if the proposed standard were to be applicable to PBEs and qualifying entities, it is likely that no PBE modifications and differential reporting concessions would be appropriate.

Once there is some certainty regarding the outcome of the review of the financial reporting framework, including the expected timing of any changes, the FRSB (or its successor) and the Australian Accounting Standard Board (AASB) will consider whether PBE modifications and/or differential reporting concessions should be proposed. For example, if the final IFRS is expected to apply to PBEs, the two boards will assess the IASB's proposals against the criteria in the AASB-FRSB's *Process for Modifying IFRSs for PBE/NFPs* to identify possible PBE modifications. Similarly, if applicable under the revised financial reporting framework, differential reporting concessions will also be considered.

Although differential reporting concessions and PBE modifications have not yet been proposed, any views of New Zealand constituents on potential PBE modifications and differential reporting concessions would be welcomed. Those views will greatly assist the FRSB and AASB in their future deliberations as outlined above.

Invitation to Comment

The FRSB encourages constituents to respond to the IASB on the proposals in the Exposure Draft and to the FRSB on any issues that would affect the adoption of these requirements in the New Zealand context. Constituents who submit comments directly to the IASB are requested to forward a copy to the FRSB.

The FRSB requests that constituents supplement their opinions by detailed comments, whether supportive or critical, of the proposals. Supportive or critical comments are essential to a balanced review. The FRSB will consider all submissions received. Comments are invited on any aspect of the proposals. Comments are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Questions

The FRSB welcomes comment on the proposals in the Exposure Draft. In addition to the IASB's questions in the Exposure Draft, the FRSB seeks constituents' views on the following:

1. Do you agree with the proposals in the Exposure Draft? If not, please provide reasons supporting your response.
2. The FRSB has deferred consideration of proposals for PBE modifications for the Exposure Draft, for the reasons discussed above. Notwithstanding this, if the final IFRS were to apply to PBEs, do you consider that the proposals in the Exposure Draft would give rise to the need for PBE modifications? Please identify the modifications that you consider appropriate and provide reasons supporting your response.
3. The FRSB has deferred consideration of proposals for differential reporting concessions for the Exposure Draft for the reasons discussed above. Notwithstanding this, if the final IFRS were to apply to qualifying entities, do you consider that the proposals in the Exposure Draft give rise to the need for differential reporting concessions for qualifying entities? Please identify the concessions that you consider appropriate and provide reasons supporting your response.
4. Are there any regulatory issues or other issues arising in the New Zealand environment that may affect the implementation of the proposed New Zealand pronouncement arising from the Exposure Draft, particularly any issues relating to:
 - a. profit-oriented entities;
 - b. public benefit entities; or
 - c. the Privacy Act 1993.Please provide reasons supporting your response.
5. Do you consider the proposals in the Exposure Draft to be in the best interests of the users of general purpose financial reports in New Zealand and Australia? Please provide reasons supporting your response.

Comments should be addressed to:

Director – Accounting Standards
New Zealand Institute of Chartered Accountants
PO Box 11 342
WELLINGTON

Email: ASD@nzica.com

Submissions must be received by the FRSB no later than **22 October 2010**, the IASB no later than **9 November 2010**.

It would be appreciated if respondents to this Request for Comment include a copy of their submission in electronic form (preferably Microsoft Word format) as that allows for the efficient collation and analysis of comments. Unless otherwise requested, submissions will be made available to the public and may be forwarded to the IASB.

Respondents are requested to indicate, on their submission, on whose behalf the submission is being made (for example, own behalf, a group of people or an entity).