



At its meeting held on 7-8 December 2011, the Australian Accounting Standards Board reviewed three matters:

1. scope of AASB 112 *Income Taxes*;
2. accounting for the starting base allowance market value uplift in the proposed resource rent tax Bills; and
3. substantive enactment of resource rent tax Bills

and tentatively decided that they should not be added to the Board's work program. These tentative decisions, including proposed reasons for not adding the items to the Board's work program, will be reconsidered at the Board meeting in February 2012.

Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to e-mail those concerns by **17 January 2012** to:

standard@asb.gov.au.

Written comments will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

1. Scope of AASB 112 *Income Taxes*

Issue

At its December 2011 meeting the AASB considered the issue of whether the proposed Australian Minerals Resource Rent Tax (MRRT), which passed the House of Representatives on 23 November 2011, would be an income tax within the scope of AASB 112 *Income Taxes*.

Reasons for Not Adding the Issue to the AASB's Agenda

In considering this issue the AASB noted the previous International Financial Reporting Interpretations Committee (IFRIC) decision in March 2006 not to provide guidance on which taxes, in various jurisdictions, are within the scope of IAS 12. In that decision, the IFRIC noted that (i) not all taxes are within the scope of IAS 12, but (ii) because taxable profit is not the same as accounting profit, taxes do not need to be based on a figure that is exactly accounting profit to be within the scope. The IFRIC further noted that the term 'taxable profit' implies a notion of a net rather than gross amount.

The Board observed that there are differences between the calculation of the proposed Australian MRRT taxable profit and accounting profit. However, the existence of such differences was not considered to preclude the Australian MRRT, as proposed on 23 November 2011, from being a tax based on taxable profit.

In considering this issue the AASB also noted the similarities between the calculation of the proposed Australian MRRT and the Australian Petroleum Resource Rent Tax (PRRT) which is subject to the existing



Interpretation, AASB Interpretation 1003 *Australian Petroleum Resource Rent Tax*. The consensus reached by the Board in AASB Interpretation 1003 is that Australian PRRT is an income tax within the scope of AASB 112.

The Board thinks that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue of whether the proposed Australian MRRT, if legislated in its current form, should be accounted for as an income tax, either by applying the requirements of AASB 112 directly, or by applying the requirements of AASB Interpretation 1003 by analogy.

The Board does not expect that significantly divergent interpretations would arise in practice. Consequently, the AASB [decided] not to add this issue to its work program.

2. Accounting for the starting base allowance market value uplift in the proposed resource rent tax Bills

Issue

At its December 2011 meeting, the AASB considered the issue of how to apply the requirements of AASB 112 *Income Taxes* to the starting base allowance market value uplift in the proposed *Minerals Resource Rent Tax Bill 2011* and *Petroleum Resource Rent Tax Assessment Amendment Bill 2011* (the 'resource rent tax Bills'). The resource rent tax Bills passed the House of Representatives on 23 November 2011.

Reasons for Not Adding the Issue to the AASB's Agenda

The AASB considered the issue of how to apply the requirements of AASB 112 to the starting base allowance market value uplift in the proposed resource rent tax Bills. The starting base allowance market value uplift is an option that would be available to entities on transition to the proposed resource rent tax regime in Australia. The option would permit entities to elect an initial tax value for assets based on the market value of each eligible operation.

In considering this issue, the Board noted that the application of AASB 112 requires an entity to reflect an increase in the deductions available (resulting in future tax payments being smaller than if no uplift were to occur) as a deductible temporary difference giving rise to a deferred tax asset to the extent it meets the recognition criteria in AASB 112.

The Board thinks that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue of how to apply the requirements of AASB 112 to the starting base allowance market value uplift in the proposed resource rent tax Bills, if legislated in their current form, and the Board does not expect that significantly divergent interpretations would arise in practice. Consequently, the AASB [decided] not to add this issue to its work program.



3. Substantive enactment of resource rent tax Bills

Issue

At its December 2011 meeting, the AASB considered the issue of when it would be appropriate to conclude that substantive enactment of the proposed *Minerals Resource Rent Tax Bill 2011* and *Petroleum Resource Rent Tax Assessment Amendment Bill 2011* (the 'resource rent tax Bills') has occurred. The resource rent tax Bills passed the House of Representatives on 23 November 2011.

Reasons for Not Adding the Issue to the AASB's Agenda

The AASB considered the issue of substantive enactment of the resource rent tax Bills, particularly as the legislation had passed the House of Representatives, but not the Senate.

In considering this issue, the Board noted that AASB Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia* requires that substantive enactment of a tax Bill shall be taken to have occurred once the Bill has been tabled in Parliament and there is majority support for the passage of the Bill through both Houses of Parliament.

The Board observed that the assessment of whether there is majority support for the passage of a Bill through both Houses of Parliament requires the application of judgement. It did not wish to override that requirement by introducing any arbitrary approach.

The Board thinks that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue of when substantive enactment has occurred, and the Board does not expect that significantly divergent interpretations would arise in practice. Consequently, the AASB [decided] not to add this issue to its work program.
