

Deferred Tax: Recovery of Underlying Assets

(proposed amendments to AASB 112)

Comments to AASB by 31 January 2011



Australian Government

**Australian Accounting
Standards Board**

Commenting on this Tier 2 Supplement to AASB Exposure Draft

Comments on this Tier 2 Supplement to AASB Exposure Draft ED 204 are requested by 31 January 2011. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@asb.gov.au

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

Obtaining a Copy of this Tier 2 Supplement to AASB Exposure Draft

This Tier 2 Supplement to AASB Exposure Draft ED 204 is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Supplement are available by contacting:

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AASB REQUEST FOR COMMENTS

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR).

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

This Tier 2 Supplement to AASB Exposure Draft ED 204 *Deferred Tax: Recovery of Underlying Assets (proposed amendments to AASB 112)* sets out the disclosures proposed in ED 204 [which incorporates International Accounting Standards Board (IASB) ED/2010/11 *Deferred Tax: Recovery of Underlying Assets (proposed amendments to IAS 12)*] and analyses whether they should be included in Tier 2 reporting requirements. The proposals should not be seen as any indication of AASB support or otherwise for the IASB's proposed disclosures in ED/2010/11. That will be determined through the ED 204 due process.

Due Date for Comments to the AASB

Comments on this Tier 2 Supplement to ED 204 should be submitted to the AASB by 31 January 2011.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether you agree with the AASB disclosure proposals under Tier 2 as set out in the attached analysis;
2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
 - (a) not-for-profit entities; and
 - (b) public sector entities;
3. whether, overall, the proposals would result in financial statements that would be useful to users;
4. whether the proposals are in the best interests of the Australian economy; and
5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

ANALYSIS OF PROPOSED DISCLOSURES

The purpose of this Tier 2 Supplement to ED 204 is to propose whether Tier 2 entities should be exempted from making certain disclosures proposed in ED 204 in their general purpose financial statements.

Determining Tier 2 Disclosure

In determining the proposed reduced disclosure requirements, consideration has been given to the principles that were applied in analysing full International Financial Reporting Standards (IFRSs) as adopted in Australia when the reduced disclosure requirements were first established for Tier 2 entities. The principles for determining Tier 2 disclosure requirements ('Tier 2 Disclosure Principles') are as follows:

- (a) drawing directly on the *International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs)* when the Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and
- (b) using the 'user need' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when the Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

Further explanation of the above principles is provided on the AASB website¹. Because the distinction between principles (a) and (b) above depends on whether there are differences in recognition and measurement requirements under Tier 2 and the *IFRS for SMEs*, the differences pertinent to this exposure draft are identified below.

Comparison of ED 204 and Section 9 of *IFRS for SMEs*

There are no equivalents in the *IFRS for SMEs* to the disclosures proposed in ED 204.

ED 204 proposes amendments to AASB 112 *Income Taxes*. The purpose of the amendments is to provide an exception from 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 in cases where specified underlying assets are remeasured or revalued at fair value.

Recognition, Measurement and Presentation Requirements

Section 29 of the *IFRS for SMEs* deals with accounting for income tax. The exception proposed in ED 204 is not included in Section 29 of the *IFRS fo SMEs*, and would result in a further recognition and measurement difference from AASB 112 in some circumstances.

Tier 2 Disclosure Proposals

It is proposed to include the disclosures proposed in ED 204 in Tier 2 disclosure requirements on the basis of users' needs because the proposed disclosures provide information about measurement uncertainties.

An analysis of the proposed disclosure requirements is available on the AASB website². The full text of the proposed reduced disclosure requirements, with shading to identify the proposed exemptions for Tier 2 entities, where relevant, is provided below.

¹ See www.aasb.gov.au/Work-In-Progress/Reduced-Disclosure-Requirements/Tier-2-Disclosure-Principles.aspx.

² See www.aasb.gov.au/Work-In-Progress/Reduced-Disclosure-Requirements/Analyses-of-Disclosure-Requirements.aspx.

Proposed Reduced Disclosure Requirements

The following are the disclosure requirements proposed in ED 204 *Deferred Tax: Recovery of Underlying Assets (proposed amendments to AASB 112)*, showing, where relevant, requirements from which it is proposed entities applying Tier 2 requirements should be exempt as shaded text.

81 The following shall also be disclosed separately:

...

- (l) if the entity has rebutted the presumption of recovery by sale in paragraph 51B, a description of that fact and an explanation of why the presumption was rebutted.**