Australian Government

Australian Accounting Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear David

IASB Exposure Draft ED/2010/11
Deferred Tax: Recovery of Underlying Assets (Proposed amendments to IAS 12)

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on Exposure Draft ED/2010/11 *Deferred Tax: Recovery of Underlying Assets (Proposed amendments to IAS 12)*. In formulating these comments, the AASB sought and considered the views of Australian constituents. Comment letters received are published on the AASB's website.

Overall view

The AASB considers that the proposals would add to the complexity of IAS 12 *Income Taxes* with another exception and move that Standard further from a principles-based approach. The AASB also considers that the proposals would bias financial reporting in relation to entities' judgements about the manner in which assets are expected to be recovered, such that financial statements would not reflect management's view about the expected tax outcomes.

The AASB understands the IASB's concerns with some of the difficulties in applying the principles in the basic model in IAS 12. In particular, the AASB acknowledges the difficulties that might arise in determining the expected manner of recovery of investment property measured at fair value in certain circumstances). However, the AASB does not support these proposals, on the basis that the existing principles in IAS 12 can be applied in most cases, with some reasonable assumptions based on the entity's business model in other cases, to achieve relevant outcomes and therefore the exception is not needed. The IASB could more usefully provide additional guidance on the application of the principles rather than provide an exception to the principles.

The AASB's specific comments on the questions in the exposure draft are set out in the attached submission. If you have any queries regarding matters in this submission, please contact me or Jessica Lion (jlion@aasb.gov.au).

Yours sincerely

K.M. Stevenson

Kevin M. Stevenson
Chairman and CEO

AASB's Specific Comments on the IASB Exposure Draft ED/2010/11 ***Deferred Tax: Recovery of Underlying Assets (Proposed amendments to IAS 12)***

The AASB's views on the questions in the exposure draft are as follows:

> **Question 1**:
>
> The Board proposes an exception to the principle in IAS 12 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 exception would apply when specified underlying assets are remeasured or revalued at fair value.
>
> Do you agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value?
>
> Why or why not?

The AASB understands the IASB's concerns with some of the difficulties in applying the principles in the basic model in IAS 12. In particular, the AASB acknowledges the difficulties that might arise in determining the expected manner of recovery of investment property measured at fair value in certain circumstances). However, the AASB does not support these proposals, on the basis that the existing principles in IAS 12 can be applied in most cases, with some reasonable assumptions based on the entity's business model in other cases, to achieve relevant outcomes and therefore the exception is not needed. The IASB could more usefully provide additional guidance on the application of the principles rather than provide an exception to the principles.

Furthermore, the AASB notes that a decision by management to remeasure an asset or revalue it to fair value might be a relevant indicator as to management's expectations as to how the carrying amount will be recovered, but the AASB does not think that such measurement should lead to a presumption of realisation by sale alone. For example, if fair value has been used because a jurisdiction had mandated that choice, then it is unlikely to be "predictive" of management expectations.

> **Question 2**:
>
> The Board identified that the expected manner of recovery of some underlying assets that are remeasured or revalued at fair value may be difficult and subjective to determine when deferred tax liabilities or deferred tax assets arise from:
>
> (a) investment property that is measured using the fair value model in IAS 40;
> (b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38;
> (c) investment property, property, plant and equipment or intangible assets initially measured at fair value in a business combination if the entity uses the fair value or revaluation model when subsequently measuring the underlying asset; and

(d) other underlying assets or liabilities that are measured at fair value or on a revaluation basis.

The Board proposes that the scope of the exception should include the underlying assets described in (a), (b) and (c), but not those assets or liabilities described in (d).

Do you agree with the underlying assets included within the scope of the proposed exception?

Why or why not? If not, what changes to the scope do you propose and why?

The AASB does not support these proposals, on the basis that the existing principles in IAS 12 can be applied in most cases, with some reasonable assumptions based on the entity's business model in other cases, to achieve relevant outcomes and therefore the exception is not needed. The IASB could more usefully provide additional guidance on the application of the principles rather than provide an exception to the principles.

The use of fair value should not lead to a rebuttable presumption that the carrying amount will be realised by sale, but instead it might be an indicator of management's expectations.

If the proposals were to proceed the AASB thinks that they should be limited to investment property that is measured using the fair value model in IAS 40 *Investment Property* and where the principles in IAS 12 cannot be operationalised through the business model of the entity.

Question 3:

The Board proposes that, when the exception applies, deferred tax liabilities and deferred tax assets should be measured by applying a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely through sale. This presumption would be rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.
Do you agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies?

Why or why not? If not, what measurement basis do you propose and why?

The AASB does not support these proposals, on the basis that the existing principles in IAS 12 can be applied in most cases, with some reasonable assumptions based on the entity's business model in other cases, to achieve relevant outcomes and therefore the exception is not needed.

The AASB also considers that the proposals would bias financial reporting in relation to entities' judgements about the manner in which assets are expected to be recovered, such that financial statements would not reflect management's view about the expected tax outcomes.

If the IASB proceeds with a rebuttable presumption approach, the IASB should include guidance as to the meaning of 'clear evidence'.

Question 4:

The Board proposes that the amendments should apply retrospectively. This requirement includes retrospective restatement of all deferred tax liabilities or deferred tax assets within the scope of the proposed amendments, including those that were initially recognised in a business combination.

Do you agree with the retrospective application of the proposed amendments to IAS 12 to all deferred tax liabilities or deferred tax assets, including those that were recognised in a business combination?

Why or why not? If not, what transition method do you propose and why?

If the proposals were to proceed, the AASB would support retrospective application.

Question 5:

Do you have any other comments on the proposals?

If the proposals were to proceed, the AASB thinks that SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* should not be withdrawn, as the scope of SIC 21 is different from the scope of these proposals and hence entities may still need to apply SIC 21 in circumstances not covered by the scope of these proposals.