KPMG

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Bo 204
Collins Street West
Victoria 8007

Your ref

Our ref ITC – Appendix to TTC

27 February 2018

Dear Kris,

Submission Invitation to Comment - Draft Appendix to the Tax Transparency Code

We are pleased to have the opportunity to comment on the Invitation to Comment – *Draft Appendix to the Tax Transparency Code* (Draft Appendix).

We broadly support the guidance and illustrative examples included in the Draft Appendix. The Tax Transparency Code (TTC) is one of the measures designed to assist an entity in being more transparent about its tax affairs. The target audience of this transparency measure is 'interested' and general users rather than the Australian Taxation Office. Accordingly, the use of 'plain English' will greatly assist in achieving one of the core aims of the TTC. We believe that the Draft Appendix needs to be drafted with this in mind to promote the use of plain English by preparers. Much of the current language is very technical and sentences are lengthy and confusing at times. We urge the AASB to simplify the language in any resulting re-issue of the Appendix to the TTC.

Please refer to Appendices 1 and 2 for our detailed comments on the specific matters for which feedback was requested, and on specific paragraphs of the Draft Appendix, respectively.

We understand that, from time to time, the AASB is requested to reconsider the nature of tax disclosure in the financial statements. We urge the AASB to continue to consider the broader tax landscape and reporting measures that already exist in Australia to facilitate greater tax transparency. With so many varying tax reporting requirements and measures being levied on entities across Australia, it is important to keep these in mind when drafting disclosure requirements, to minimise confusion, enhance understandability, ensure consistency for users and reduce duplication and information overload.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9335 7329 or Julie Locke on (02) 6248 1190.

Yours sincerely

Zuzana Paulech
Partner

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Appendix 1 – Specific questions for which the AASB is seeking feedback

1. *Whether the guidance outlining factors to consider in preparing and presenting tax disclosures for the purposes of the TTC is useful*

   The proposed guidance is useful for preparers, providing clarification of some of the TTC requirements and forms a common supporting framework to draw on when preparing and presenting the disclosures in the TTC.

2. *Whether the TTC effective tax rates should be calculated using accounting profit determined in accordance with accounting standards as the denominator, or an alternative denominator where considered useful (e.g. underlying earnings) or if, as currently proposed in this guidance the TTC effective tax rate should be based on either, as considered appropriate by the entity? Please indicate reasons why you prefer one or the other, and the impact, if any, on comparability with other entities*

   We believe the TTC effective tax rate (ETR) should always be calculated using accounting profit determined in accordance with accounting standards as the denominator. This will provide a consistent and comparable ETR measure across all entities.

   Where an entity wishes to disclose an alternate ETR using an alternative denominator that it considers useful and appropriate, this could be provided in addition to the first-mentioned ETR. This alternate ETR should be disclosed with reference to the guidelines for presenting non-IFRS financial information included in RG 230 *Disclosing non-IFRS financial information*.

   Providing an alternate ETR with the accompanying RG 230 information would further enhance comparability with other entities operating in similar industries and may enhance a user's understanding of the entity's tax position and profile.

   Refer to Appendix 2 for additional considerations on ETR disclosures.

3. *Whether further guidance in relation to Part B TTC disclosures would be useful, and if so, what specific matters should be addressed?*

   Further guidance in relation to total tax contributions for Part B TTC disclosures would be useful. Guidance on the types of payments that should be considered for inclusion in the total tax contributions from an Australian context would improve the consistency of information being reported.

   For example, should an entity consider including the following as part of their tax contributions:

   - Australian withholding taxes paid on dividends, interest and royalties going out of Australia to related parties of a foreign multinational entity;
   - Payroll tax

- Petroleum Resource Rent tax
- Net Goods and Services taxes paid
- Royalties, rates and levies paid to government authorities
- Excise tax

Such guidance would also assist an entity choosing to include this as part of their alternate ETR for Part A TTC disclosures.

The remaining disclosures in relation to Part B are qualitative in nature and would vary based on each entity's facts and circumstances. We consider the discussion of the framework for TTC disclosure, characteristics of useful information and materiality included in the Appendix sufficient to supplement the guidance provided in the TTC for Part B.

4. *Whether the illustrative examples are helpful, and if not, why not*

   The illustrative examples are helpful in visually presenting one way of applying the key concepts addressed in the Appendix and disclosure requirements included in the TTC. There are, however, a number of inconsistencies which we detail in our comments in Appendix 2.

   We also recommend considering providing an illustrative example relating to a multiple entry consolidated (MEC) group.

5. *Whether an illustrative example setting out Part A TTC disclosures for an entity that incurs tax losses for a financial year would be helpful?*

   We encourage the AASB to provide an example for an entity that incurs tax losses for a financial year. Given the application of the TTC and AASB Appendix to these entities is not intuitive, any examples provided would assist them in meeting the objectives of the TTC.

6. *Whether the guidance, when finalised, should be issued as AASB extrinsic material (e.g. a Practice Statement) or as an Appendix to the TTC*

   The guidance should be issued as an Appendix to the TTC and should be clearly accessible from the AASB website as well.

   Given the guidance is directly referable to the TTC, we consider it is appropriate to include it as an Appendix to the TTC. In addition, given the AASB developed this guidance, a direct link to it from the AASB's website would be beneficial so that preparers can access all relevant guidance relating to this topic regardless of their starting navigation point.

   We would also caution issuing the guidance under more than one context due to the risk of future version control. With current technology we consider our above suggested approach would be effective for all preparers to efficiently access the guidance.

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7. *Whether there are any other matters pertaining to Part A of the TTC that this Appendix should cover.*

   As noted in question 4 above, we recommend the inclusion of considerations or guidance for an MEC group on how to apply or meet the objectives of the TTC.

   There are no other matters pertaining to Part A of the TTC that we believe should be covered by this Appendix.

Appendix 2 – Specific comments on the Draft Appendix

We have taken this opportunity to provide specific comments on various paragraphs included in the Draft Appendix to assist in improving the drafting of the guidance.

i. *Mapping of TTC Part A disclosures to AASB Appendix*

To make this Appendix as useful as possible we recommend having a section in the introduction that maps the TTC requirements to the relevant guidance in the Appendix.

ii. *Consistency of terminology*

To reduce confusion and enhance clarity, we recommend the Appendix be internally consistent in the use of terminology. This is particularly important when referencing the various ETRs and the numerous forms of numerators and denominators.

iii. *Call out summary boxes on pages 12, 15 and 17*

Whilst trying to provide a summary of the points embodied in the relevant sub-section, these boxes are often too summarised. Some of the bullet points appear to contradict each other, are repetitive in nature or use inconsistent terminology.

Take for example:

- The last bullet point in the call out box summarising how the TTC ETR should be calculated (page 12). This states that accounting profit is adjusted to include or exclude specific items. However, paragraph 35 explicitly states that where accounting profit as defined by accounting standards is used, it cannot be adjusted.
- The second and fifth bullet points on the call out box summarising what entities should disclose regarding ETRs (page 15). These appear to be duplicating each other as both relate to presenting the various ETRs with equal prominence.

Should these call out boxes be referred to in isolation by a preparer, there is a risk the entity may not address the TTC requirements, meet the objective of the TTC or be in a position to state compliance with the Appendix (as recommended in paragraph 2).

iv. *The number of various ETRs that can be presented*

The TTC Part A disclosure recommendations and the AASB Draft Appendix highlight that numerous ETR disclosures could be included in the financial report, such as:

- AASB 112 Accounting profit Australian operations ETR
- AASB 112 Accounting profit Global operations ETR
- TTC Accounting profit Australian operations ETR
- TTC Accounting profit Global operations ETR
- Alternate profit Australian operations ETR
- Alternate profit Global operations ETR
- Alternate tax expense and profit Australian operations ETR

- Alternate tax expense and profit Global operations ETR

Given the number of ETRs that could possibly be presented under the Part A disclosures, and the potential for disclosure overload, we recommend that the AASB include some form of guiding principles around minimising the number of ETR's disclosed to maximise the usefulness and understandability of the ETR disclosures made.

v. *Other general comments*

Paragraph extract	Comment
About this Appendix	
...this Appendix does not prescribe a particular format of presentation nor degree of disclosure, but rather sets out principles and guidance (including examples) for entities to consider for both Part A and B disclosures set out in the TTC.	This second introductory paragraph implies that examples and guidance are provided for both Part A and B disclosures. We recommend this is clarified to specify that the guidance and examples relate to Part A of the TTC disclosures, and that the general principles included in the Appendix should be considered in preparing Part B disclosures.
Terminology (Table 1: Key TTC Terms)	
Tax expense (income) Tax expense (income) may be different to <u>TTC</u> company tax expense in some instances as it includes all domestic and foreign taxes which are based on taxable profits (e.g. withholding taxes, Petroleum Resources Rent tax).	We recommend making the <u>underlined</u> changes to the paragraph to improve the clarity and understandability of this definition. Further, we recommend considering whether it would be worthwhile to highlight the R&D tax incentive as another area of potential difference between the TTC and Accounting terminologies. We note that some entities recognise the R&D tax incentive partially within tax expense with the remainder as an other income item for accounting purposes. The full R&D incentive would presumably be included in TTC company tax expense as it is governed by the Australian Income Tax Act
Income tax payable for a tax year	It is not clear in the accounting terminology definition how any

Paragraph extract	Comment
Current tax expense (income), separately disclosed in the income tax note reflects income tax payable for a tax year. Income tax expense (income) in the Statement of Comprehensive Income comprises both current and deferred tax expense (tax expected to be paid in future years)	under/overpayments related to prior tax years would be treated. These payments can impact both current and deferred tax expense, but do not represent tax payable for the current tax year. We recommend that the treatment of prior period under or over payments in arriving at the income tax payable for a tax year is clarified in this definition.
What factors should be considered when preparing TTC tax disclosures	
Figure 1 – A framework for TTC disclosures	The relevance, faithful representation and timeliness of useful tax information principles also apply in deciding when to release and what to include in a Taxes Paid Report. Take for example, a June reporter that issues financial statement by 31 October. The numbers included in the financial statements include estimates of the tax payable for the 30 June year. By the time that the Taxes paid report is prepared, the entity may be further progressed with their tax returns and have more certainty over their final tax payable. In such circumstances, it would be more appropriate to include this more up to date tax information in any taxes paid report that is issued, with a possible reconciliation to the amount disclosed in the financial statements. Further, some entities may prefer to wait to issue a Taxes Paid Report after the tax return has been lodged. In such circumstances an entity needs to consider the timing of this release and whether the information will still be considered relevant. For example, issuing a taxes paid report in January 2019 when the financial year end was 30

Paragraph extract	Comment
	June 2018 reduces the relevance of the information provided. Finding a balance between these two factors is key in maximising the usefulness of the TTC disclosures.
Figure 1 – Materiality	We expect that the AASB will look to amend the discussion around Materiality to reflect any changes arising from the recently issued *AASB Practice Statement 2: Making Materiality Judgements* and *ED 282 Definition of Material.*
Figure 1 – Comparability Separately disclose in the reconciliation of accounting profit to income taxes paid or payable the line items necessary to allow users to understand the income tax position relative to another entity.	It is not clear what is meant by "understand the income tax position relative to another entity". It may be helpful to expand on what is meant by this or provide a specific example.
6. When determining where, what and how to communicate tax disclosures for TTC purposes, an entity considers the following: (b) materiality; (i) where to locate the TTC information, <u>including:</u> (ii) duplication and cross referencing; (iii) audit implications; and (iv) other considerations…	"including" at the end of 6(b)(i) seems to disconnect with the rest of the paragraph as the bullet points below are at the same hierarchy level as (b)(i). It appears from the remainder of the document that this section may need to read as follows: (b) materiality; (c) where to locate the TTC information, including: (i) duplication and cross referencing; (ii) audit implications (iii) other considerations… We recommend appropriate changes are made to enhance understandability of this section.

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Paragraph extract	Comment
7. The factors and specific examples are depicted in Figure 1.	We think it would be better to locate Figure 1 after its reference in paragraph 7 rather than before. Figure 1 appears without context, with explanation only occurring after its introduction.
Materiality	
14. …Applying the materiality concepts assists an entity~~ies~~ to identify the right balance of detailed information to be disclosed enabling a user to ~~appropriately balance providing users with enough detailed information to~~ understand ~~an~~ the entity's income tax position~~, without providing an overload that compromises understandability~~.	Recommend the noted wording changes be made to make the paragraph easier to read and understand.
16. TTC disclosures will not be necessarily accurate to an absolute degree.	Suggest removing this paragraph as it is unclear what this means in the context of the Part A and B TTC disclosures.
Where to locate the TTC disclosures	
19. When deciding whether to locate the TTC information in the financial statements or in a separate report, an entity considers how duplication and cross-referencing impact the understandability of the information and the audit implications	We believe an entity would also consider materiality when considering where to locate the disclosures and what/ how much to disclose. For example, materiality of the financial statements may differ significantly to the materiality applied to a Taxes Paid Report. Further, materiality in the context of the users of the information may be a consideration. For example, an additional tax bill of $100 million is levied on an entity, this may be viewed as immaterial by the entity in the context of the financial statements disclosures, but not to other users of the information.
Duplication and cross-referencing	
20. Understandability of information is improved by setting out related information together, or cross	We recommend removing the statement that "duplicating information should be avoided" as it contradicts the first

Paragraph extract	Comment
referencing to related information. Duplicating information should be avoided, thereby enhancing…	statement in the paragraph which acknowledges that sometimes duplication may result in improved understandability. The AASB may instead consider highlighting that an entity should consider whether duplication of information across different reports is appropriate and important to users' understanding of the information being presented.
Audit implications	
24. Any reference in financial statements to a separate 'taxes paid' report should clearly identify whether the separate report is included or excluded from the financial statement audit.	There appears to be a disconnect between this paragraph and what is stated in paragraph 21 - that AASB 112 does not explicitly permit the inclusion of income tax disclosures by way of cross-reference from general purpose financial statements to another document. Paragraph 24 suggests that cross-references are appropriate. Recommend clarification that this paragraph contemplates the AASB 112 disclosures are included in the financial reports and this reference is only related to the additional TTC disclosures.
Other considerations	
26. …Accordingly, for the purposes of RG 230 where the accounting and TTC effective tax rate differ, the TTC effective tax rate is non-IFRS information. TTC disclosures prepared in compliance with this Appendix will also comply with the requirements of RG 230.	We note that RG 230.25 states *…non-IFRS financial information may not be included in financial statements. It may only be included in the notes to the financial statements in those <u>rare circumstances where inclusion of that information is necessary to give a true and fair view</u> of the financial position and performance of an entity.* The TTC Appendix primarily addresses the guidelines for presenting non-IFRS information contained in RG 230.56, but

Paragraph extract	Comment
	does not explicitly address the true and fair view requirement. Given that the TTC disclosures are voluntary and hence not a requirement of any particular legislation, we would recommend that the AASB specifically consider whether it would be worthwhile to include some commentary around the Part A TTC disclosures meeting the requirements of paragraph 25 of RG 230 when included in the notes to the financial statements.
How to calculate TTC effective rates	
29. The TTC ETRs are defined as company tax expense divided by "accounting profit" for Australian operations (the Australian ETR) and divided by "accounting profit" for the worldwide accounting consolidated group (the global TTC ETR).	This sentence does not flow as it appears to try and address too much in one sentence. We recommend separating out the Australian TTC ETR definition and that of the global TTC ETR as follows: The TTC ETRs are defined as: • Company tax expense attributable to Australian operations divided by "accounting profit" for Australian operations; and • Company tax expense attributable to global operations divided by "accounting profit" for global operations.
What is company tax expense?	
30. …From an Australian perspective this would only include amounts payable under the Income Tax Acts and would not include, for example, Petroleum Resources Rent Tax.	Given an example is provided to assist preparers in identifying income tax expense from an Australian perspective, it may be useful to provide some guidance around global income tax expense. Given different tax jurisdictions have varying tax legislations, some guiding principles for identifying what global taxes should be considered for this disclosure would assist in ensuring

Paragraph extract	Comment
	consistency and comparability across entities.
What is accounting profit?	
33. …this guidance allows entities to use either accounting profit in accordance with accounting standards or other measures of profits, such as underlying earnings, whether this is considered more relevant to users.	We recommend cross-referencing this section of the Appendix to the discussion on non-IFRS information as any TTC ETR based on an alternate profit measure, not in compliance with accounting standards would represent non-IFRS information.
35. …regardless of whether preparing special purpose or general purpose financial statements, should be complying with all the recognition and measurement requirements of Australian Accounting Standards ~~as a result of~~ with reference to ASIC Regulatory Guide 85.	Recommend the noted wording changes be made to make the paragraph easier to read and understand.
What do Australian and global operations mean?	
37. An entity's Australian operations for the purposes of the Australian TTC ETR calculation should encompass…	The TTC does not define "Australian operations". We recommend footnoting the basis of the definition included in this paragraph, e.g. discussions with the Board of Taxation.
39-41. Information about an entity's TTC ETR may help users better understand an entity's income taxes position relative to the company tax rate/s…	These paragraphs would be better located after paragraph 42 in the "How does the TTC ETR compare with the accounting ETR" section.
What should entities disclose regarding ETRs	
45. ~~Where the TTC and accounting ETRs differ, a~~As there is a clearly defined accounting ETR in AASB 112, where the TTC and accounting ETRs differ~~based on IFRS numbers (regardless of whether the actual ETR is disclosed in the financial statements), to avoid misleading users of either the financial~~	The term "IFRS" is used for the first time without reference to what it means. Recommend the noted wording changes be made to make the paragraph easier to read and understand.

Paragraph extract	Comment
~~statements or a separate taxes paid report, the TTC ETRs are considered non-IFRS numbers. Accordingly~~, both the accounting and TTC ETRs should be presented together, regardless of where the TTC ETRs are located, to avoid misleading users of the financial statements or a separate taxes paid report.	
47-48. In setting out its ETR disclosures, entities consider the characteristics of useful information as outlined....	These two paragraphs seem to duplicate the same guidance. They both include discussions on the principles of useful information and following the RG 230 guidelines around the presentation of non-IFRS information. It is not clear what independent messages the two paragraphs are trying to relay and whether it would be easier to understand this message if the guidance was combined into one succinct point.
49. When adjusting the accounting ETR for an alternative metric, calculation of the numerator (tax expense) and denominator (accounting profit) must remain comparable and consistent. Examples of circumstances in which an additional ETR metric might be calculated by adjusting either the numerator or denominator could include: (a) adding industry specific taxes to better reflect actual taxes paid; (b) eliminating one-off or unusual items of either revenue or expense...	This is the first time in the AASB Appendix that adjusting the company tax expense for non "Income Tax Act" taxes is discussed. This is in contradiction the guidance in paragraph 30 and the definition of income tax expense included in the Terminology section of the Appendix which states that such taxes should be excluded. We acknowledge that the TTC section 8.1 on Part A disclosures highlights: *Businesses in certain industries may choose to publish an additional ETR based on a 'total tax expense' figure that included taxes other than income tax.* To ensure consistency with the TTC, the AASB should consider whether the section on "What is company tax expense" needs to be updated to reflect this additional ETR may be disclosed

Paragraph extract	Comment
	under Part A and could be considered useful information for a user.
Footnote 16 This does not represent the AASB's view on the approach that should be adopted in respect to the ETR calculation...	We question why an approach that is inconsistent with the AASB's view of an appropriate approach is included in the guidance.
Impact of specific transactions on the ETR calculation	
51. To the extent that the underlying accounting treatment in respect of transactions affects either or both the calculation of tax expense and accounting profit before tax, the accounting ETR should reflect the outcome of such transactions as appropriate. However, if additional metrics for ETR are presented, such as the TTC ETR (which excludes one or more items that are included in the accounting ETR), then the entity should provide clear explanations on how the adjustments made to arrive at the additional ETR are internally consistent between the numerator and the denominator	It is unclear what message this paragraph is portraying and how this differs to the other sections of the Appendix that deal with reconciliations and consistency such as paragraphs 31, 34, 47 and 48.
Reconciliation of accounting profit to tax expense and to income tax paid or payable guidance	
53. The TTC requires entities to disclose 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 and non-temporary differences.	If providing the TTC reconciliation in the financial statements, a user may naturally try to tie any "income tax paid" amount to that disclosed in the statement of cash flows. As the income tax paid in a particular year will include a combination of: • final instalments/refunds relating to prior years; • current year income tax instalments;

Paragraph extract	Comment
	• payments for amended assessments related to prior years; and • other taxes paid not governed by the "Income Tax Acts", entities may be challenged in explaining how the current year income tax expense relates to income tax paid in the current year. The AASB may wish to articulate this challenge/ complexity to assist preparers in formulating their approach to these disclosures. Further, this section should clearly state that accounting profit for the purposes of this disclosure is the accounting profit as determined by the accounting standards, not an alternate profit measure. This is important as in other areas of this Appendix, we use the term accounting profit to also represent an alternate profit measure.
60. In determining the extent of disclosure that entities may want to provide in the reconciliation to enhance comparability and understandability for users, entities could consider separately identifying: a) income taxes paid or payable relating to foreign and domestic entities… b) accounting profit before tax relating to foreign and domestic entities… c) recurring and non-recurring income tax adjustments…	Specifically as it relates to paragraph 60(c), we recommend including "relating to foreign and domestic entities" in the articulation of the recurring and non-recurring income tax adjustments. We would expect that where a company is separately reconciling income tax paid or payable to accounting profit before tax for foreign and domestic entities, then reconciling items would also be provided separately for the income tax adjustments.

Paragraph extract	Comment
Illustrative examples	
65-66 Illustrative example 1	We recommend clearly stating the assumption that the accounting profit and tax expense under accounting standards equals the amounts calculated under the TTC.
67-68 Illustrative example 2	It is unclear how the Australian operation ETRs reconcile to the accounting profit and tax expense presented on page 23, (adjusted for the amounts detailed in the footnotes on page 22). Whilst the narrative footnotes [1] through [4] discuss the differences, the amounts do not readily correspond to the detailed reconciling amounts in A and D on pages 23 and 24. There is no disclosure of Australian tax expense per AASB 112 to assist with the ETR disclosures. We recommend that this may be useful information to disclose in addition to the Australian tax payable/current tax expense for the year. Suggest including the $ value of transactions with foreign entities included in the Australian TTC ETR calculation. As it presently stands, only a qualitative reconciliation has been provided to the Australian accounting profit of $650k.
	We suggest including an example that includes a prior period under/over calculation.
Attachment 1: Impact of specific transactions on the ETR calculation	
	We recommend that it is clarified which ETR is impacted by each transaction, i.e. the AASB 112 ETR?, the TTC ETR? etc.
Amended assessments	
73. Amended assessments may be recognised as a prior period error recognised by restating prior year comparatives without impacting	This paragraph seems to suggest that amended assessment related to prior periods may impact either the current or prior year ETR. In our experience,

Paragraph extract	Comment
current year ETR or a change in estimate recognised in the year the assessment is amended (through profit or loss) and will likely impact the current year ETR.	amended assessments are usually a result of a change in estimate and are rarely a result of a prior period error. In addition, this seems to be in contradiction to paragraph 31 which suggests that the impact of any amended assessments should not be reflected in the current period ETR. It is unclear which ETR is being referred to i.e. AASB 112 ETR or TTC ETR. We can see how paragraph 73 would apply to a AASB 112 ETR but not a TTC ETR given the paragraph 31 guidance. We suggest that the AASB revisit the guidance to clarify its application. This paragraph introduces a whole new concept of prior period errors not previously raised in the Appendix, without reference to AASB 108. We question whether it would be useful to explain what a prior period error is, or at least refer to AASB 108 for guidance.
Penalties	
79. Where a penalty is non-deductible for income tax purposes, it will represent a non-temporary difference in the period in which the penalty is incurred. In such instances, all else being equal, an entity that incurs a penalty will show a higher tax expense amount, and therefore higher ETR compared to a similar entity that has not suffered a penalty.	Similar to our comments on paragraph 73 related to amended assessments, paragraph 79 seems to contradict paragraph 31 which suggests that the impact of any penalties should not be reflected in the current period ETR. Further, we question whether this section needs to be updated for the recent IFRIC agenda decision related to interest and penalties associated with income taxes. Depending on an entity's individual facts and circumstances in particular jurisdictions, some interest or penalties may form part of income tax expense or be an operating/financing charge. Should this section of the Appendix consider a consistent treatment for all penalties and interest or acknowledge different outcomes may apply?