

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

17 January 2012

Dear Kevin

Re: Accounting for the proposed Minerals Resources Rent Tax (MRRT) and Petroleum Resource Rent Tax (PRRT)

Deloitte Touche Tohmatsu is pleased to respond to the Australian Accounting Standards Board's (the Board) tentative agenda decisions published in December 2011 on its website of the Board's tentative decisions in respect of the proposed resource rent tax bills. At its meeting of 7 and 8th 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
3. Substantive enactment of resource rent tax bills

And tentatively decided that they should not be added to the Board's work programme.

With respect to matters 1 and 3, the scope of AASB 112 Income Taxes and substantive enactment of resource rent tax bills we accept the Board's tentative decisions not to add these items onto its agenda.

With respect to matter 2, accounting for the starting base allowance market value uplift in the proposed resource rent tax bill, we do not agree with the Board's decision to deal with this issue through a rejection notice.

Whilst we do not necessarily disagree with the outcome that we believe would result from the application of the accounting treatment implied by the proposed tentative agenda decision (being the recognition of a deferred tax asset arising from the increase in deductions available), we believe both that the Board's proposed wording lacks clarity as to the rational being applied (specifically as to whether the deferred tax asset arises from an adjustment to the tax base of the asset which has to be inferred from the discussion in the tentative agenda decision) and further, whether sufficient consideration has been given to alternative accounting treatments. In addition to the previously raised treatments the board could also consider whether the accounting for the starting base allowance market value uplift as an income tax credit is permissible, under AASB 112.



We note that whilst IAS 12 (and AASB 112) provides guidance in respect of the accounting for unused tax credits (IAS 12 paragraph 34) the standard does not currently define a tax credit. We believe that absent a definition of a tax credit in IAS 12 accounting for the starting base allowance market value uplift as a tax credit may be permissible under IAS 12. In forming this view we have considered the International Accounting Standards Board's (IASB) March 2009 Exposure Draft Income Tax (the Exposure Draft) which introduces a definition of a tax credit as a tax benefit that takes the form of an amount that reduces income tax payable (refer to Appendix A of the Exposure Draft). We also note that the proposed basis of conclusions to the Exposure Draft includes the following:

“BC24: IAS 12 does not define the terms tax credit or investment tax credit. It excludes from its scope the accounting for investment tax credits and prescribes different accounting for tax credits and tax deductions. This has led to questions about how some tax benefits should be classified. The exposure draft proposes definitions of tax credit and investment tax credit that converge with US GAAP. The Board acknowledges that the definitions focus on the way in which the tax authorities express the benefit. Because similar economic benefits could be expressed as either tax credits or tax deductions, this means that similar economic benefits may be accounted for in different ways. The Board concluded that it was beyond the scope of this project to include a comprehensive reconsideration of the accounting for tax credits and tax deductions. Nonetheless, clear definitions would make the new IFRS easier to use by removing doubt over the required treatment for tax benefits.”

We also note that in an agenda paper published by the IASB in January 2007 (Investment allowances (Agenda paper 6)) the IASB staff identified four possible ways of regarding a specific investment allowance under IAS 12, including as an investment tax credit, as part of the tax base of the qualifying asset, as a tax credit and as a special deduction. The staff recommended at that time no action to be taken on the specific issue other than as part of the forthcoming amendments to IAS 12 and that a broad overview of the treatment of tax deductions and tax credits be developed in the short-term convergence project to ensure a coherent and converged approach is developed. The short-term convergence project was subsequently suspended by the IASB.

Due to the significance of a number of outstanding issues including formal legislation, divergence in views around the treatment of starting bases, the contemplation of augmentation on the projects and other unique aspects of the legislation, we request that the Board reconsider its tentative agenda decision in respect of the starting base allowance market value uplift and allow further time for a considered approach and deliberation to occur.

We also note that at its meeting of 7 and 8th December 2011 the Board decided to initiate its Interpretations Protocols, including raising the issue with the IFRS Interpretations Committee, in relation to accounting for payments to State Governments for royalties that can be credited against MMRT payable. We support the Board in this conclusion.

Please feel free to contact us if you require further information.

Yours sincerely

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Deloitte Touche Tohmatsu

Yours sincerely

Tim Richards
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