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Project	<b>Income Tax</b>
Topic	<b>Scope – Cover note</b>

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### Purpose of this paper

1. This paper discusses:
  - (a) the objective of a limited scope project to amend IAS 12 *Income Taxes* and
  - (b) the scope of that project.
2. The other papers for this meeting deal with the following subjects:
  - (a) Practice issues which should be included in the project scope (agenda paper 4A)
  - (b) Proposals in the ED which attracted general support and should be finalised by amending IAS 12 in this project (agenda paper 4B)
  - (c) The proposed solution to the issue of the property revaluation (agenda paper 4C)

### Summary of recommendations in this paper

3. In this paper, the staff recommends:
  - (a) that the objective of the project should be to resolve problems in practice under IAS 12, without changing the fundamental approach under IAS 12 and preferably without increasing divergence from US GAAP.

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This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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- (b) the scope of the project should be those items listed in paragraph 14.

**Objective of the project**

4. At the November board meeting, the Board instructed the staff to bring back a list of issues which the Board should consider in a limited scope project to amend IAS 12.
5. Before forming a list of issues to be considered in the limited scope project, the staff thinks that the Board should make clear the objectives of the project.
6. In the course of the short term convergence project on income tax, the staff has learned that differences between IAS 12 and US GAAP (ASC Topic 740) arise not only from exceptions to the temporary difference approach, which differ under the standards, but also from differences between the notion of tax base in IFRSs and the notion of tax basis in US GAAP. While a tax basis under US GAAP is a matter of fact determined according to a tax law, IAS 12 prescribes how to determine a tax base where tax law may not be clear on the measurement of an asset and liability for tax purposes. In addition, although IAS 12 and Topic 740 both rely on the notion of recovery of an asset (or settlement of a liability), it is clear whether they do not always use this notion in the same way.
7. The IFRS notion of a tax base and the US GAAP notion of a tax basis have the same effect in many everyday situations, for example when depreciable assets have one useful life for financial reporting but a different useful life for tax, or when income is recognised on an accruals basis for financial reporting but is taxed on a cash basis. However, in some more complex cases, the two notions may lead to different results. The notions of tax base / basis and of recovery of an asset (or settlement) of a liability are fundamental to IAS 12 and Topic 740. The staff thinks it will not be possible to investigate these notions in detail in a limited scope project, because of both conceptual challenges and differences in tax laws around the world. Also, if the Board makes changes to the notions of tax base or recovery of an asset or settlement of a liability, these changes might

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conflict with any subsequent changes that might arise from a more fundamental review.

8. Many respondents to our exposure draft on income taxes suggested that the Board spend its time on other more pressing projects. In addition, the FASB has suspended its work on income tax. Further, there is a significant gap between US GAAP and IFRSs in accounting for liabilities in general. Given those factors, the staff thinks that the Board should not aim for full convergence with the US GAAP in the area of income tax at this time. Instead, the Board should aim to resolve problems in practice under IAS 12, preferably without increasing divergence from US GAAP.
9. In the October joint meeting with the FASB, both Boards indicated that they would consider undertaking a fundamental review of the accounting for income taxes sometime in the future. In the meantime, the staff thinks that any amendments to IAS 12 which the Board proposes to solve the practice issues in this limited scope project should not change the basic approach under IAS 12. The staff thinks that any fundamental changes to the current approach under IAS 12 should be considered in a future project.
10. For the those reasons, the staff recommends that the objectives of the project should be to resolve problems in practice under IAS 12, without changing the fundamental approach under IAS 12 and preferably without increasing divergence from US GAAP.

**Scope of the project**

11. To assess which practice problems the Board should address in this limited scope project, the staff has applied the criteria that the IFRIC uses to determine whether to take on an issue. We have applied those criteria to issues raised with the IFRIC that were rejected because the Board had a project on income taxes and to practice issues raised by respondents to the ED.

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12. Further, the staff has considered whether the Board can resolve the issues without departing from the revised objective of the project which the staff proposed above. Please see Agenda Paper 4A for these assessments.
13. The staff has also assessed whether to proceed with proposals in the ED that attracted general support. The Board made these proposals to improve IAS 12 and, given their general acceptance, it may be possible to proceed with them relatively quickly. Please see Agenda Paper 4B for this assessment.
14. As a result, the staff recommends that the Board should undertake a limited scope project to consider the following issues.

*Practice issues (Agenda Paper 4A)*

- (a) Uncertain tax positions, but after the revision of IAS 37 is finalised.
- (b) Deferred tax on property revaluation.

*Improvements proposed in the ED (Agenda Paper 4B)*

- (c) Introduction of an initial step to consider whether recovery of an asset or settlement of liability will affect taxable profit
  - (d) Recognising a deferred tax asset in full and an offsetting valuation allowance to the extent necessary
  - (e) Guidance on assessing the need for a valuation allowance
  - (f) Guidance on substantive enactment.
  - (g) Allocation of current and deferred taxes within a group that files a consolidated tax return
15. We do not plan to look at disclosure, other than disclosure issues, if any, that relate directly to the other issues we would consider in this project.

**Question 1 – the objective of the project**

Does the Board agree that the objective of the project should be to resolve problems in practice under IAS 12, without changing the fundamental approach under IAS 12 and preferably without increasing divergence from US GAAP.?

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**Question 2 – the scope of the project**

Does the Board agree with the scope recommended in paragraph 14?