Project **IFRS Interpretations Committee Work In Progress**

Topic **Outstanding issues list**

Introduction

Objective of this paper

1. The objective of this paper is to update the Committee on the current status of issues that are yet to be discussed by the Committee and the progress we have made.

2. We have received the following submission and we expect to bring it to a future meeting:

Ref.	Topic	Brief description	Progress
IAS 12-8	*Income taxes*: Clarification of circumstances in which presumption of manner of recovery of investment property can be rebutted	The amendment to IAS 12 issued in December 2010 introduced a rebuttable presumption that the carrying amount of the investment property accounted for using the fair value model in IAS 40 *Investment Property* will be recovered through sale. The request asks for clarification of the circumstances in which the presumption may be rebutted, specifically is it only when the investment property is depreciable and held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, or can it be rebutted in other circumstances?	The staff are in the progress of conducting their research and analysis of this issue and expect to present it at a future meeting. See Appendix for the submission received.

3. This paper does not include requests on issues that are still at a preliminary research stage, including where further information is being sought from the submitter, or other parties, to define more clearly the issue.

Question
Does the Committee have any questions or comments on the Committee Outstanding Issues List?

Appendix – Income taxes – Clarification of circumstances in which presumption of manner of recovery of investment property can be rebutted

On behalf of [the Submitter], I am writing to inform about a critical issue we have with the Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* issued by the IASB in December 2010 ('the Amendments').

In February 2011, [the Submitter] commenced its initial discussions […]. During our discussions it was not clear how the rebuttable presumption introduced by the amendments should be interpreted.

The purpose of this letter is to bring this issue to your attention, and to urge you to consider addressing it within a reasonable timeframe.

The issue

The Amendments introduce a 'default' single measurement attribute (in the form of a rebuttable presumption) to determine deferred taxes on investment property measured at fair value under IAS 40 *Investment Property*. IAS 12.51C (as amended) describes the rebuttable presumption as follows:

> *If a deferred tax liability or asset arises from investment property that is measured using the fair value model in IAS 40, <u>there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale</u>. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. <u>This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.</u> If the presumption is rebutted, the requirements of paragraphs 51 and 51A shall be followed.*

The rebuttable presumption could be interpreted in two different ways:

- View A – the presumption can be rebutted in circumstances other than those described in paragraph 51C (i.e. merely by demonstrating recovery other than through sale); and

- View B – the presumption can *only* be rebutted in the circumstances described in paragraph 51C (i.e. 'if and only if').

Those who hold View A believe that as paragraph 51C states that 'this presumption is rebutted *if*…', the condition that follows is not an exclusive condition because it is not preceded by the phrase '*if and only if*' (see also Appendix 1).

Those who hold View B believe that the final sentence of paragraph BC11 requires an entity to assume recovery entirely through sale even if the entity actually expects it to be recovered partly through sale and partly through use (see also Appendix 1).

Whether View A or View B is the appropriate interpretation is important to [the Submitter]'s assessment of the amendment to IAS 12 […] for the reason described below.

Impact

Under View A the interpretation the Amendments would not introduce a significant change in accounting, because entities would be able to rebut the presumption and could continue to apply the measurement principles in IAS 12. However, under View B, there is a loss of relevant information because, some entities that are currently able to apply the principles in IAS 12 using reasonable management assumptions, will be 'forced' to produce financial information on a basis that does not reflect actual fact. For these entities, the exemption in paragraph 51C of the Amendments is not needed.

The loss of relevance is likely to occur in situations where the tax rate applied on the sale of the asset is different to that of use of the asset, and an entity intends to use an investment property for a period of time and then sell it. In these cases, the carrying amount of the investment property will be recovered and taxed in two different ways (a dual-purpose asset) and the deferred tax amount should reflect the dual economic reality.

In some cases, the period during which an investment property is being 'used' to generate economic benefits will be insignificant relative to the period of its useful life. In those cases, the impact on relevance is unlikely to be significant. However, in other cases the 'use' period is not expected to be insignificant and the Amendments are likely to have an adverse effect on relevance.

Addressing the issue

As noted above, it was not clear during our discussions it was not clear how the rebuttable presumption introduced by the amendments should be interpreted. We would therefore urge you to consider addressing this issue within a reasonable timeframe by

(a) clarifying how the rebuttable presumption should be interpreted; and

(b) explaining how the final sentence in paragraph BC11 should be interpreted.

If you wish to discuss further, please do not hesitate to contact me.

Yours sincerely

[Submitter]