IFRS

STAFF PAPER

3 November–4 November 2011

IFRS Interpretations Committee Meeting

Project	**Review of tentative agenda decision from September 2011**		
Paper topic	IAS 12 *Income Taxes*—Recognition of deferred tax for a single asset in a corporate entity		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. The Interpretations Committee received a request for clarification of the calculation of deferred tax in circumstances where an entity holds a subsidiary that has a single asset within it. Specifically, the question asked was whether the tax base described in paragraph 11 of IAS 12 and that is used to calculate the deferred tax should be the tax base of the (single) asset within the entity that holds it, or whether it should be the tax base of the shares of the entity holding the asset. The submission explained that the question arises because it is common that the asset will be realised by selling the shares of the entity that holds the asset, rather than selling the asset on its own.
2. The Committee discussed the issue at its meeting in September 2011 and made a tentative decision not to take the issue onto its agenda.
3. Our full analysis that was presented at the Committee meeting in September 2011 was set out in paper 13, which can be found on the public website[1].

[1] http://www.ifrs.org/NR/rdonlyres/473641D0-E35D-4836-A25A-5CDABEC5355B/0/131109AP13IAS12corporatewrapper.pdf

Comments received on the tentative agenda decision published in the September 2011 *IFRIC* Update

4. We have received 5 comment letters[2] with respect to the tentative agenda decision published in the September 2011 IFRIC Update on this issue. Three comment letters[3] supported the decision not to take the issue to the Committee's agenda, while two[4] of them did not object to it.
5. Two constituents[5] agree with the tentative agenda decision that there are broader concerns relating to this issue that raise fundamental questions about the principles in IAS 12 and that these concerns should be addressed by the Board and not the Committee.
6. Three comment letters[6] raise the concern that the second and the third paragraph of the tentative agenda decision appear to be inconsistent. While the second paragraph suggests that the existing guidance is clear and that all entities should record deferred tax on temporary differences arising from both the underlying asset and the investment in the shares of the entity that holds the underlying asset. The third paragraph seems to imply that there will be no clear answer until the Board resolves the issue through a broader reconsideration of the principles of IAS 12.
7. Three constituents[7] consider the statement in the tentative agenda decision that entities are unable to avoid recognising deferred tax for temporary differences relating to underlying assets, even if the entity does not expect to dispose of the asset separately from the entity which holds it, to be inappropriate for an agenda decision. Only the reasons for this conclusion differ between constituents:

[2] AcSB, BDO, DTT, EY, PwC

[3] AcSB, EY, PwC

[4] BDO, DTT

[5] BDO

[6] BDO, EY, PwC

[7] DTT, EY, PwC

(a) One constituent[8] thinks that it is inappropriate to address this complex issue without addressing the broader concerns.

(b) The other constituent[9] considers that this statement is inappropriate for an agenda decision, because it might require some entities to alter their accounting policies, because the constituent currently notes that there is significant diversity in practice on this issue.

(c) Finally, the third constituent[10] considers the statement to be inappropriate because:

(i) The resulting accounting treatment does not provide a faithful representation of the underlying commercial reality. This is because it requires the entity to recognise a deferred tax although it is not probable that the underlying asset will be recovered through sale.

(ii) It does not consider the expected manner of recovery of the carrying amount as required by paragraph 51 of IAS 12, which requires measuring deferred taxes on the basis of the expected manner of recovery. Because the underlying asset is not sold, no tax effect on an inside basis is expected.

(iii) It is based on an analogy to specific paragraphs of IAS 12 rather than on the overall principle laid down in paragraph 51.

This constituent also notes that there is significant diversity in practice on this issue.

8. Finally, one constituent[11] proposes editorial changes.

Staff response

9. We are still convinced that the statement in the analysis reflected in the second paragraph of the tentative agenda decision is correct. Paragraphs 15, 24 and 39 of

[8] DTT

[9] PwC

[10] EY

[11] AcSB

IAS 12 require entities to recognise deferred tax for all temporary differences related to underlying assets unless certain conditions are satisfied. According to these paragraphs, the recognition of deferred tax relating to underlying assets is not dependent on the expectation that the carrying amount of the asset will be recovered in the foreseeable future. According to paragraph 39(b) of IAS 12, this expectation is only relevant for deferred tax related to the investment in the shares of the entity that holds the underlying asset.

10. The expectation of recovery is also irrelevant to meeting the definition of a temporary difference in paragraph 5 of IAS 12. According to the definition, it is only relevant that the difference is 'temporary' and not 'permanent', ie it will result in a taxable, or a deductible, amount when the underlying asset or liability is recovered or settled.
11. This conclusion is supported by paragraphs 39(b) and 44(a) of IAS 12. According to both paragraphs differences between the carrying amounts of assets in the statement of financial position and their tax bases that will not reverse in the foreseeable future are considered temporary differences. The expectation of whether temporary differences related to investments in subsidiaries, branches and associates and interests in joint arrangements will reverse in the foreseeable future or not is only relevant for the recognition of deferred tax for such temporary differences.
12. Moreover, we think that paragraph 51 of IAS 12 is irrelevant to this analysis. Paragraph 51 of IAS 12 does not address the recognition of deferred tax for temporary differences, but only their measurement. In other words, the manner of recovery is not relevant to the recognition of deferred tax for temporary differences but to the measurement of those temporary differences.
13. In addition, we agree that the wording of the tentative agenda decision could be improved, especially to resolve the apparent inconsistency between the second and the third paragraph of the tentative agenda decision. However, we disagree that there is an inconsistency between those paragraphs. The second paragraph of the tentative agenda decision solely addresses the accounting according to the current standard, whereas the third paragraph relates to the perceived need to

make fundamental revisions to the principles in IAS 12 for deferred tax accounting.

14. Moreover, we disagree that the second paragraph of the tentative agenda decision should be redrafted to consider significant diversity in practice on this issue.
15. If there is significant diversity in practice on this issue, we do not think that the tentative agenda decision should be redrafted to avoid some entities having to alter their accounting policies. Instead, we need to address this issue either through the annual improvements process or by an interpretation to clarify the requirements of current IAS 12 and thereby to achieve consistent application.

Staff recommendation

16. We recommend undertaking outreach to the National Standard Setters group and IOSCO to determine whether:
    (a) the issue is widespread and has practical relevance; and whether
    (b) the issue indicates that there are significant divergent interpretations (either emerging or already existing in practice).
17. In addition, we are interested in the observations that the Committee members made on the issue addressed in this paper. Did you observe that:
    (a) the issue is widespread and has practical relevance; and that
    (b) the issue indicates that there are significant divergent interpretations?
18. If the Committee agrees with our technical analysis and our recommendation to undertake outreach, our recommendation on the next steps depends on the results of the outreach:
    (a) If it turns out that the issue satisfies the criteria listed in paragraphs 16 and 17 above, we will propose that the Committee should recommend to the Board that it should make a clarification through the annual improvements process.
    (b) If it turns out, however, that the issue does not satisfy these criteria, we will recommend that the Committee should not add the issue to its

agenda and that it should proceed with the agenda, but with the amendments proposed in Appendix A to this paper.

19. If the Committee agrees with our recommendation, we would present a discussion of the outreach results together with either a draft tentative agenda decision, or a proposed amendment for the annual improvements project, at the January 2012 Committee meeting.

Questions to the Committee

Questions to the Committee
1. Have the Committee members observed that: (a) the issue is widespread and has practical relevance; and that (b) there are significant divergent interpretations? 2. Does the Committee agree with the staff's recommendation to carry out further outreach and report on it at the January 2012 Committee meeting, with recommendations derived from the results of that outreach? 3. Does the Committee have any comments on the proposed wording for the tentative agenda decision in Appendix A?

Appendix A—proposed wording for agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through):

> **IAS 12 *Income Taxes*—Corporate wrapper**
>
> The Interpretations Committee received a request for clarification of the calculation of deferred tax in circumstances where an entity holds a subsidiary which has a single asset within it. Specifically, the question asked was whether the tax base described in paragraph 11 of IAS 12 and used to calculate the deferred tax should be the tax base of the (single) asset within the entity which holds it, or the tax base of the shares of the entity holding the asset. The submission explained that the question arises because it is common that the asset will be realised by selling the shares of the entity that holds the asset, rather than selling the asset on its own.
>
> The Committee noted that paragraphs 15 and 24 of IAS 12 require that deferred taxes must be recognised for all temporary differences associated with an asset except when certain conditions are satisfied. The Committee also noted that paragraph 39 of IAS 12 requires that deferred tax must be~~is~~ recognised for all temporary differences associated with investments in a subsidiary that holds the underlying asset unless certain conditions are satisfied. The Committee also noted that paragraphs 7 and 38 of IAS 12 require that the tax bases used to calculate those temporary differences are those relating to both the underlying asset and the investment in the shares of the entity that holds the underlying asset. As a result, the Committee noted~~s~~ that entities must, under current IAS 12,~~are unable to avoid~~ recognise~~ing~~ deferred tax for temporary differences relating to underlying assets even if the entity does not expect to dispose of the asset separately from the entity that~~which~~ holds it. The only exception to the recognition of deferred tax would be in the circumstances in which the initial recognition exceptions in paragraphs 15 or 24 of IAS 12 apply. The Committee acknowledges that recognising deferred tax for temporary differences that are not probable to reverse in the foreseeable future could be challenged as not being a faithful representation of transactions and this concern needs to be resolved by the Board through a broader reconsideration of the principles of current IAS 12,
>
> ~~Although t~~The Committee thinks that the current~~the requirements of~~ IAS 12 provides sufficient guidance~~in respect of this issue are clear, it acknowledges that there are other broader concerns relating to this issue and that these concerns need to be resolved by the Board through a broader reconsideration of its principles~~. Consequently, the Committee decided not to add this issue to its agenda.

Accounting Standards Board
AcSB
CNC
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October 18, 2011

(by e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 12 *Income Taxes* – corporate wrappers

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on determining the tax base described in paragraph 11 of IAS 12 *Income Taxes* when an entity holds a subsidiary which has a single asset within it. This tentative agenda decision was published in the September 2011 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda. However, we think that the wording of the tentative agenda decision needs to be modified as follows:

- We recommend revising the first sentence of the first paragraph to refer to the tax base to better reflect the issue submitted; and

- We recommend combining (or alternatively, deleting) the last two sentences of the second paragraph for the following reasons:
    - The sentence that states "[a]s a result, the Committee notes that entities are unable to avoid recognising deferred tax for temporary differences relating to underlying assets even if the entity does not expect to dispose of the asset separately from the entity which holds it" is incorrect because entities do not need to recognise deferred tax if the conditions of paragraphs 15 and 24 of IAS 12 are met; and
    - The sentence that states "[t]he only exception to the recognition of deferred tax would be in the circumstances in which the initial recognition exceptions in paragraphs 15 or 24 of IAS 12 apply" is redundant with the first sentence of the second paragraph.

The Appendix reflects our recommendations and drafting suggestions.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail peter.martin@cica.ca), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail kathryn.ingram@cica.ca).

Yours truly,

Peter Martin, CA
Director,
Accounting Standards

Appendix

We suggest clarifying the tentative agenda decision as follows:

IAS 12 *Income Taxes* – corporate wrapper

The Interpretations Committee received a request for clarification of the tax base used to calculate~~ion~~ ~~of~~ deferred tax ~~in circumstances where~~when an entity holds a subsidiary which has a single asset within it. Specifically, the question asked was whether the tax base described in paragraph 11 of IAS 12 and used to calculate the deferred tax should be the tax base of the (single) asset within the entity which holds it, or the tax base of the shares of the entity holding the asset. The submission explained that the question arises because it is common that the asset will be realised by selling the shares of the entity that holds the asset, rather than selling the asset on its own.

The Committee noted that paragraphs 15 and 24 of IAS 12 require that deferred taxes be recognised for all temporary differences associated with an asset except when certain conditions are satisfied. The Committee also noted that paragraph 39 of IAS 12 requires that deferred tax is recognised for all taxable temporary differences associated with investments in a subsidiary that holds the underlying asset unless certain conditions are satisfied. The Committee ~~also~~ noted that paragraphs 7 and 38 of IAS 12 require that the tax bases used to calculate those temporary differences are those relating to both the underlying asset and the investment in the shares of the entity that holds the underlying asset. As a result, the Committee noted~~s~~ that entities must ~~are unable to avoid~~ recognise~~ing~~ deferred tax for temporary differences relating to underlying assets except ~~even if the entity does not expect to dispose of the asset separately from the entity which holds it. The only exception to the recognition of deferred tax would be in the circumstances in which~~ when the initial recognition exceptions in paragraphs 15 or 24 of IAS 12 apply.

Although the Committee thinks that the requirements of IAS 12 in respect of this issue are clear, it acknowledges that there are other broader concerns relating to this issue and that these concerns need to be resolved by the Board through a broader reconsideration of its principles. Consequently, the Committee [decided] not to add this issue to its agenda.

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Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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14 October 2011

Dear Mr Upton

Tentative agenda decision: IAS 12 *Income Tax* - corporate wrapper

We are pleased to respond to the IFRS Interpretations Committee's (the Committee) publication of the above tentative agenda decision.

We note that the Committee has tentatively concluded, in the second paragraph of its tentative agenda decision, that the requirements of IAS 12 in relation to assets held in corporate wrappers are clear. This conclusion might be viewed as being inconsistent with the text of the final paragraph, which notes that there are wider concerns relating to the issue that need to be resolved by the IASB through broader consideration of the principles involved.

We agree that there are wider concerns, and believe that these do not fall within the remit of the Committee to resolve. Consequently, the Committee's tentative agenda decision might be amended such that the analysis of IAS 12 is described as being one that might reflect a valid interpretation of the requirements of that standard, but also notes the broader concerns and indicates that the issue will be referred to the IASB for consideration in the context of an amendment to IAS 12.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact Andrew Buchanan at +44 (0)20 7893 3300.

Yours sincerely

BDO IFR Advisory Limited.

BDO IFR Advisory Limited

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Mr Wayne Upton
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17 October 2011

Dear Mr Upton,

Tentative agenda decision: IAS 12: Income Tax – Corporate wrapper

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the September 2011 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda requests for Interpretations of IAS 12, *Income Tax*, with respect to providing guidance on the calculation of deferred tax in circumstances where an entity holds a subsidiary which has a single asset within it.

Whilst we agree with the basic analysis of the requirements of IAS 12 included in the tentative agenda decision, we note that the categorical statement included in the proposed rejection that 'inside basis' deferred tax must be recognised is inconsistent with the subsequent statement acknowledging broader concerns relating to this issue. We agree that it would be inappropriate to address this complex issue without addressing the broader concerns, notably the measurement of deferred tax balances on the 'inside basis' in circumstances when a market exists only for shares in corporate wrapper companies, not for investment properties themselves.

Accordingly, we recommend that the tentative agenda decision be amended to read as follows:

"The Committee noted that paragraphs 15 and 24 of IAS 12 require that deferred taxes be recognised for all temporary differences associated with an asset except when certain conditions are satisfied. The Committee also noted that paragraph 39 of IAS 12 requires that deferred tax is recognised for all temporary differences associated with investments in a subsidiary that holds the underlying asset unless certain conditions are satisfied. The Committee also noted that paragraphs 7 and 38 of IAS 12 require that the tax bases used to calculate those temporary differences are those relating to both the underlying asset and the investment in the shares of the entity that holds the underlying asset. ~~As a result, the Committee notes that entities are unable to avoid recognising deferred tax for temporary differences relating to underlying assets even if the entity does not expect to dispose of the asset separately from the entity which holds it. The only exception to the recognition of deferred tax would be in the circumstances in which the initial recognition exceptions in paragraphs 15 or 24 of IAS 12 apply.~~

Although the Committee thinks that the requirements of IAS 12 in respect of this issue are clear, it acknowledges that there are other broader concerns relating to this issue and that these concerns need to be resolved by the Board through a broader reconsideration of its principles. Consequently, the Committee decided not to add this issue to its agenda."

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,

Veronica Poole
Global Managing Director
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17 October 2011

Dear IFRS Interpretations Committee members,

Tentative Agenda Decision – IAS 12 *Income Taxes* – corporate 'wrapper'

The global organisation of Ernst & Young is pleased to submit its comments on the above Tentative Agenda Decision as published in the September 2011 *IFRIC Update*.

The Interpretations Committee received a request for clarification of the calculation of deferred tax in circumstances where an entity holds an asset through a subsidiary of which that asset is the only asset (a corporate 'wrapper'). Specifically, should the tax base used to calculate the deferred tax be the tax base of the single asset within the corporate wrapper, or the tax base of the shares of the entity holding the asset? It was tentatively concluded:

> 'The Committee noted that paragraphs 15 and 24 of IAS 12 require that deferred taxes be recognised for all temporary differences associated with an asset except when certain conditions are satisfied. The Committee also noted that paragraph 39 of IAS 12 requires that deferred tax is recognised for all temporary differences associated with investments in a subsidiary that holds the underlying asset unless certain conditions are satisfied. The Committee also noted that paragraphs 7 and 38 of IAS 12 require that the tax bases used to calculate those temporary differences are those relating to both the underlying asset and the investment in the shares of the entity that holds the underlying asset. As a result, the Committee notes that entities are unable to avoid recognising deferred tax for temporary differences relating to underlying assets even if the entity does not expect to dispose of the asset separately from the entity which holds it. The only exception to the recognition of deferred tax would be in the circumstances in which the initial recognition exceptions in paragraphs 15 or 24 of IAS 12 apply.
>
> Although the Committee thinks that the requirements of IAS 12 in respect of this issue are clear, it acknowledges that there are other broader concerns relating to this issue and that these concerns need to be resolved by the Board through a broader reconsideration of its principles. Consequently, the Committee [decided] not to add this issue to its agenda.'

Ernst & Young Global Limited is a company limited by guarantee registered in England and Wales.
No. 4328808

We agree with the Committee's decision not to add this item to its agenda. As the Committee itself notes, there are other broader concerns relating to this specific issue. Moreover, in our view, there are a number of other issues relating to the determination of the tax base used for calculating deferred tax that sometimes give rise to different interpretations in practice. We believe any consideration of these issues should be undertaken on a holistic, rather than a piecemeal, basis. However, we disagree with the Interpretation Committee's tentative view that IAS 12 is clear that the tax base to be used is that of the asset within the wrapper rather than that of the shares of the wrapper itself, for the following reasons, which we discuss further below:

- The resulting accounting treatment does not provide a faithful representation of the underlying commercial reality.
- The Committee's tentative decision does not explicitly consider paragraph 51 of IAS 12 about the manner of recovery of the carrying amount, which, together with the objective of the standard, we consider the most relevant guidance.
- The tentative decision can be read as implying that the Committee considers that in applying the standard to facts and circumstances not explicitly addressed in the standard, one should analogise to the requirements of the specific paragraphs of IAS 12 referred to in its draft agenda decision rather than the overall principle laid down in paragraph 51. If this is the case, we would disagree as we believe when analogising the principle should prevail.
- The two paragraphs of the agenda decision send conflicting messages, which would mean divergence in practice can be expected to remain.

Entities place individual assets in corporate wrappers for a number of different reasons. A key reason in many jurisdictions is that a direct disposal of the asset is taxable whereas a disposal of shares in a wrapper is either tax-free or taxed at a lower rate. Suppose that, in such a jurisdiction, Entity A has placed an asset in an individual corporate wrapper and effectively no longer has any exposure to tax on disposal of that asset (since it would dispose of the wrapper containing the asset), whereas Entity B holds an equivalent asset directly and still retains the exposure to tax. The accounting treatment set out in the draft agenda decision would draw no distinction between Entity A and Entity B. In our view, such a treatment does not faithfully represent a significant economic difference between them.

We note the paragraphs of IAS 12 specifically referred to in the draft agenda decision and agree with the Interpretations Committee that they can, in isolation, be construed as requiring the conclusion set out in the draft decision. However, in our view, it is also necessary to have regard to the following provisions of IAS 12 (our emphasis added):

- The Objective, which states: 'It is inherent in the recognition of an asset … that the reporting entity expects to recover … the carrying amount of that asset …. *If it is probable that recovery … of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery … were to have no tax consequences*, this Standard

requires an entity to recognise a deferred tax liability (deferred tax asset), with certain limited exceptions'.

- Paragraph 51, which requires the measurement of deferred tax to 'reflect the tax consequences that would follow from *the manner in which the entity expects … to recover … the carrying amount of its assets…*'.

We believe that the Interpretations Committee should explicitly consider these relevant provisions of IAS 12 in arriving at its conclusion.

In our view, the manner of recovery of an asset held in a single-asset wrapper can, even in consolidated financial statements, include the sale of the shares in the wrapper. There is a clear economic and qualitative difference between a 'normal' trading subsidiary and a wrapper (as is implicitly recognised in the definition of 'business' in IFRS 3 – *Business Combinations*.)

The general distinction in IAS 12 between inside temporary differences within a subsidiary and outside temporary differences associated with the investment in the subsidiary as a whole was – we understand – written in the context of a 'normal' trading subsidiary. It is quite appropriate to assume (as is implicitly done by the paragraphs of IAS 12 referred to in the draft decision) that an asset held by a 'normal' trading subsidiary will be recovered directly by that subsidiary, rather than indirectly through the disposal of that subsidiary by the group. In our view, however, it is not appropriate to make that assumption, or model an accounting treatment based on that assumption, in the case of a wrapper whose main, if not sole, *raison d'être* is to allow the group to make an effectively tax-free disposal of the asset within the wrapper through disposal of the shares in the wrapper.

We therefore disagree with the Interpretation Committee's view that the normal distinction between inside and outside temporary differences should continue to be made 'even if the entity does not expect to dispose of the asset separately from the entity which holds it'. To do so effectively requires an entity that has placed an asset in a wrapper to reflect the tax consequences that would follow from recovery of the asset in a transaction that the group expects never to occur and has no intention of undertaking – in direct contravention of paragraph 51, and the objective, of IAS 12.

We are also concerned that the draft decision could be read as implying that the Committee has in fact considered the requirements of paragraph 51 of IAS 12, but concluded that when applying the standard to a fact pattern that is not explicitly addressed, analogising to the requirements of the specific paragraphs of IAS 12 referred to in its tentative decision is more important than applying the principle laid down in paragraph 51. If this is the case, we disagree. We believe that such an analysis would be wrong in principle in the sense that it gives the 'rules' in IAS 12 precedence over the 'principle' in paragraph 51. We take the opposite view, namely that, in the event of conflict between the principles in paragraph 51 and the more detailed rules elsewhere in the standard, or in case the standard is applied to a fact pattern not specifically addressed by the standard, paragraph 51 should take precedence

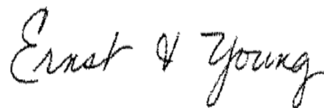
(in much the same way that the general description of 'tax base' in paragraph 10 of IAS 12 over-rides the more detailed definitions in paragraphs 7 and 8).

Moreover, there is nothing in IAS 12, as currently drafted, to suggest that the paragraphs referred to in the draft decision over-ride those of paragraph 51. Accordingly any analysis based on such an assumption effectively represents an amendment, rather than an interpretation, of IAS 12.

Finally, we would urge the Interpretations Committee to clarify its agenda decision as the two paragraphs of the agenda decision send conflicting messages. The first paragraph seems to imply the current standard is clear and all entities should record deferred tax on temporary differences arising from both the underlying asset and the investment in the shares of the entity that holds the underlying asset. The second paragraph seems to imply that there is no clear answer until the Board has resolved the broader concerns through a broader reconsideration of the principles. The latter would mean divergence in practice can be expected to remain.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully



Mr Michael Stewart
Director of Implementation Activities
International Accounting Standards Board
30 Cannon Street
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EC4M 6XH

17 October 2011

Dear Mr Stewart

Tentative agenda decision: IAS 12 Income taxes – Corporate wrapper

We are responding to your invitation to comment on the above tentative agenda decision, published in the September 2011 edition of IFRIC Update, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the tentative agenda decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We do not support the tentative agenda decision as drafted. We support the Committee's conclusion that this item should not be taken onto the agenda because it raises fundamental questions about the principles in IAS 12 that should be addressed by the IASB. The board should address these issues as soon as possible. However, we note that the Committee has stated clearly in the penultimate sentence of the second paragraph of the tentative agenda decision that entities are not able to avoid recognising deferred taxes relating to the underlying assets even if the entity does not expect to dispose of the asset separately. We are aware that there is currently significant diversity in practice on this issue and that the tentative agenda decision might be interpreted as requiring some entities to alter their accounting policies. We suggest that the Committee reconsider this aspect of the tentative agenda decision taking into account the existing diversity in practice.

The second and third paragraphs of the tentative agenda decision appear to be inconsistent. The second paragraph suggests that the existing guidance is clear. The third paragraph acknowledges that there are other broader concerns relating to this issue and that these concerns should be resolved by the board through a broader reconsideration of the principles of IAS 12. We suggest that the Committee clarifies and reconsiders the wording of the tentative agenda decision in this respect. We encourage the Committee to recommend to the IASB that this issue is taken onto the agenda at an appropriate time.

If you have any questions in relation to this letter please do not hesitate to contact John Hitchins, PwC Global Chief Accountant (020 7804 2497) or Tony de Bell (020 7213 5336).

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers