STAFF PAPER

13 March–14 March 2012

IFRS Interpretations Committee Meeting

Project	**IAS 12 *Income taxes***
Paper topic	Accounting for market value uplifts on assets that are to be introduced by a new tax regime

CONTACT(S) Kenichi Yoshimura kyoshimura@ifrs.org +44 (0)20 7246 6905

Objective and introduction

1. The IFRS Interpretations Committee (the Committee) received a request to clarify the accounting for market value uplifts on certain assets that are to be introduced in a new tax regime. This request was submitted by two submitters following the Committee Meeting in January 2012 in which the issue of the presentation of production-based royalty payments under the same proposed tax regime was introduced as a new item for initial consideration. The issue of the presentation of production-based royalty payments is discussed separately in Agenda Paper 8.
2. The objective of this Agenda Paper is to provide the Committee with the background for and an update on the staff's research and analysis to date on this issue. In addition, the staff are seeking to obtain preliminary views and guidance from the Committee to assist them.
3. This Agenda Paper includes:
   (a) background information on the issue;
   (b) staff analysis to date;
   (c) outreach activities to date;
   (d) agenda criteria and staff recommendation on the next steps; and
   (e) questions for the Committee.

Background

4. In January 2012, the Committee received a request to clarify an issue relating to IAS 12 *Income Taxes*. In particular, the submitters are asking the Committee to clarify the accounting for the market value uplift on related assets to be permitted under a proposed new tax regime in Australia.
5. In June 2011, the Australian Government released an exposure draft of proposed Minerals Resource Rent tax (MRRT) legislation. The proposed MRRT would apply to the mining of iron ore and coal in Australia. The MRRT imposed by the new tax regime is in addition to general corporate taxes, but it is deductible in calculating taxable profit for general corporate tax.
6. The MRRT is levied based on the net profit of a mining project (mining profit = mining revenue – mining expenditure – allowances (including the 'starting base allowance')).
7. The 'starting base allowance' represents the annual tax depreciation of the underlying assets of a mining project for a MRRT year. The key features of the 'starting base allowance' are described below:

   (a) The starting base allowance reduces the MRRT liability for a mining project interest for an MRRT year.

   (b) The starting base allowance recognises investments in assets that relate to the upstream activities of a mining project interest ('starting base assets') that existed before the announcement of the new tax regime on 2 May 2010.

   (c) The starting base allowance reflects the annual tax depreciation of the starting base assets. If there is insufficient profit to use the amount of annual tax depreciation, it is carried forward[1].

   (d) An entity can generally choose to calculate the starting base allowance based on either the market value of starting base assets ('market value approach') or the most recent accounting book value of starting base assets

[1] Under the MRRT the real value of any unused allowance is preserved by increasing it by the consumer price index.

(‘accounting book value approach’). The term ‘market value uplift’ used in this submission stands for an adjustment to the starting base allowance for the difference between the market value and accounting book value when the market value approach is chosen.

8. The tax legislation is proposed to be effective from 1 July 2012 in the jurisdiction but the date of substantive enactment under IAS 12 is likely to be earlier than 1 July 2012.
9. According to the submissions, there are three views on the accounting for the market value uplift:
   (a) View 1: Adjustment to the tax base
   (b) View 2: Tax holiday
   (c) View 3: Initial recognition exception.
10. For ease of reference, the submissions are reproduced in Appendix A to this paper.
11. In December 2011 and February 2012, the Australian Accounting Standards Board (AASB) discussed the issue of the market value uplift under the proposed MRRT. At the time of writing this Agenda Paper, the AASB’s tentative view under AASB 112 *Income Taxes*, which incorporates IAS 12, was View 1. That is, the application of AASB 112 would require an entity to reflect an adjustment to the tax base of an asset due to an increase in the deductions available (resulting in future tax payments being smaller than if no uplift were to occur) as a deductible temporary difference, which would give rise to a recognised deferred tax asset to the extent it meets the recognition criteria in AASB 112.
12. As stated in paragraph 9, the following views are those set out in the submissions.

View 1: Adjustment to the tax base

13. Under this view, the starting base allowance is considered to be the IAS 12 tax base of the related assets. Because the carrying amount of the assets would probably be lower than the tax base when the market value approach is chosen,

deductible temporary differences arise and a deferred tax asset is recognised to the extent that it meets the recognition criteria under IAS 12.

14. This accounting will ensure that the effective tax rate of the entity better reflects the underlying rate of the tax regime in future years.
15. The submitters expect the amount of market value of the asset to be materially different from the carrying amount of the asset. Consequently, this accounting may result in the recognition of a material deferred tax asset upon the proposed MRRT being enacted.
16. Considering the fact that the MRRT imposed by the new tax regime is in addition to general corporate taxes, the submitters are concerned that the recognition of a deferred tax asset and tax income upon the enactment of the tax regime maybe counterintuitive and would mislead users of financial statements of the entity.

View 2: Tax holiday

17. Under this view, the starting base allowance under the market value approach is accounted for as a tax holiday and therefore no deferred tax asset or upfront tax income is recognised.
18. Even though the term 'tax holiday' is not clearly defined in any IFRSs[2], supporters of this view describe the tax holiday approach as applying a lower or nil tax rate for a relevant tax holiday period. We think that common accounting method for the tax holiday is to use a lower or nil tax rate for the relevant tax holiday periods.
19. The supporters of this view consider that the starting base allowance to be akin to a tax holiday for an amount of tax equal to the amount of starting base assets under the market value approach. In some cases, the effect of the market value uplift can result in the entity expecting no payment of income taxes over the entire remaining life of the project, and therefore, a zero tax rate would probably be applied, which would result in the entity not recognising any deferred tax asset during the tax holiday period.

[2] The only reference is in paragraph 2(b) of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

View 3: Initial recognition exception

20. Proponents of this view think that the initial recognition exception in paragraph 24 of IAS 12 is, by analogy, applicable to the market value uplift and therefore no deferred tax asset is required to be recognised.
21. Those who disagree with View 3 think that the initial recognition exception is not applicable, because the market value uplift arises from the introduction of a change in the tax regime rather than from the initial recognition of an asset or liability in a transaction.
22. However, the submitters state that it could be argued that this accounting could be applicable to the case when a deductible temporary difference arises upon a change in a tax law, if there would be no impact on accounting profit or taxable profit at the time when the temporary difference arises. Consequently, the exception could apply to the scenario described above even though such a scenario was not envisaged when IAS 12 was written.

Staff analysis to date

Analysis of View 1 (Tax base)

23. IAS 12 defines tax base as "the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes" (paragraph 5). Furthermore, paragraph 7 of IAS 12 states that "the tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset." In addition, paragraph 10 of IAS 12 states that "where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences."

24. The starting base allowance represents the amount that will be deductible against future taxable economic benefits arising from the recovery of the carrying amount of the related asset. The amount of the allowance, including the part of market value uplift, is attributed to the related asset under the tax regime and will become the basis for depreciation expense for tax purposes. Consequently, we think that the market value uplift permitted under the tax regime is part of the tax base of the related assets and that it should be considered as a temporary difference that gives rise to the recognition of a deferred tax asset to the extent that it meets the recognition criteria under IAS 12.

Analysis of View 2 (Tax holiday)

25. The tax holiday approach reflects the effect of future tax reductions by using effective income tax rates for a period that are lower than would otherwise have been if the reduction had not been permitted. Nevertheless, the increase in total future deductions arising from the allowance does not arise from a decrease of the tax rate levied by the taxation authority. We understand that the effect of the tax reductions depends on the taxable profit of the entity in future years. The staff are concerned that applying the tax holiday approach would not faithfully represent the fact that the tax benefits to be received by the entity are dependent on taxable profit of the entity in the future.
26. Moreover, the tax holiday approach would effectively result in measuring current tax liabilities by a tax rate which is different from the tax rate which is enacted or substantively enacted by the end of the reporting period. This accounting does not meet the requirement in paragraph 46 of IAS 12 which states:

    > *46 Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.*

27. In addition, the reduction in income taxes to lower amounts or nil in future periods represents future economic benefits that will flow to the entity. We think that the future economic benefits would meet the definition of deductible temporary differences under IAS 12.

28. Accordingly, we think that applying the approach in View 2 is not appropriate under IAS 12.

Analysis of View 3 (Initial recognition exception)

29. According to the submissions, supporters of View 3 argue that the initial recognition exception in paragraph 24 of IAS 12 is, by analogy, applicable to the market value uplift because there is no accounting profit or taxable profit recognised at the time of the change in the tax regime.
30. Those who support View 3 admit that in accordance with paragraph 24 of IAS 12, a deferred tax asset should be recognised for all deductible temporary differences to the extent that it meets the recognition criteria, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit (tax loss).
31. Regarding the initial recognition exception, paragraph IN5 of IAS 12 states as follows (emphasis added):

    IN5 As an exception to the general requirement set out in paragraph IN3 above, IAS 12 (revised) prohibits the recognition of deferred tax liabilities and deferred tax assets arising from certain assets or liabilities whose carrying amount differs on initial recognition from their initial tax base. <u>*Because such circumstances do not give rise to timing differences, they did not result in deferred tax assets or liabilities under the original IAS 12.*</u>

32. With regard to the timing difference, paragraph IN 2 of IAS 12 states:

    IN2 […] Timing differences are differences between taxable profit and accounting profit that originate in one period and reverse in one or more subsequent periods.[…]

33. The staff empathise with the opinion supporting View 3 that the initial recognition exception could also be applied to a deductible temporary difference that arises from the introduction of changes in a tax regime in that, in this specific case, there is also no accounting profit or taxable profit recognised at the time of the change in the tax regime.
34. However, we note that paragraph 60 of IAS 12 states that (emphasis added):

> *60. The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences.*
> *This can result, for example, from:*
> *(a) a change in tax rates or tax laws;[…]*

35. Although paragraph 60 of IAS 12 refers to the situation in which there is a deferred tax liability (asset) that was recognised before the change in a tax law and in which there is no change in the amount of the temporary differences, the intention of the wording of this paragraph is, in our view, that the change in the carrying amount of a deferred tax asset resulting from a change in a tax law or a new deferred tax asset should be recognised regardless of whether the amount of the temporary differences changes. Consequently, we think that the deductible temporary difference stemming from the change in the tax legislation would give rise to the recognition of deferred tax assets to the extent that it meets the recognition criteria under IAS 12.
36. In addition, we think that the scenario in the submissions is not similar to the situation of the initial recognition exception as described in IAS 12 in that, as the supporters of View 3 admit, paragraph 24 of IAS 12 addresses the situation of initial recognition of assets and liabilities while the submissions deal with the situation of a change in the tax regime. Therefore, we are of the view that it is inappropriate to apply, by analogy, the initial recognition exception to the situation in the submissions which is not similar to the situation in paragraph 24 of IAS 12
37. On the basis of the analysis above, we are of the view that notwithstanding the arguments supporting View 3 that were expressed in the submission, it is not appropriate under IAS 12.

Summary of staff analysis

38. On the basis of the discussions above, we are of the view that the market value uplift on the starting base asset should be considered as an adjustment to the tax base of the asset and that a deferred tax asset should be recognised to the extent that it meets the recognition criteria for a deferred tax asset under IAS 12.

Outreach request

39. We sent a request for information to the National Standard-Setters Group in order to help assess the Committee's agenda criteria as summarised below:

    (a) In your jurisdiction, do you have a similar tax regime with those described above? If similar, but not identical, please tell us about the differences.

    (b) If there is a similar tax regime, what is the prevalent accounting for such type of changes in the tax base of an asset or liability, in particular, the part of the uplift?

    (c) Based on your response to question (b), would your view be that there is diversity in practice for these types of tax allowances?

40. Please refer to Appendix B for the details of the outreach request. The request was still outstanding when this agenda paper was completed. We will provide the Committee with an update of the results of this outreach at the March Committee meeting.

Agenda criteria and staff recommendation

41. In this section, we assess the submission against the agenda criteria of the Committee as follows:

    (a) The issue is widespread and has practical relevance.

    (b) The issue indicates that there are significant divergent interpretations (either emerging or existing in practice).

    (c) Financial reporting would be improved through the elimination of the diverse reporting methods.

    (d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.

    (e) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.

(f) *If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?*

42. We will assess the criteria of (a) to (e) once the outreach activity is completed. Any update of the assessment of the criteria will be provided along with the update on the outreach that we will present at the March Committee meeting.
43. For criterion (f), taking into consideration the Board's discussions and tentative decisions taken in relation to IAS 12, we are not aware of any forthcoming amendments that would affect the issue discussed in this agenda paper.
44. Consequently, if the Committee agrees with our technical analysis as shown in paragraphs 23-38, our recommendation on next steps depends on the results of the outreach:

    (a) If it turns out that the issue satisfies the criteria of (a) to (e) in paragraph 41 of this paper, we will propose that the Committee should recommend to the Board that a clarification of the recognition and measurement requirements of deferred tax assets should be included in annual improvements. In that case, we will present a proposed amendment for the annual improvements project at the March Committee meeting, which will include an assessment against the annual improvement criteria.

    (b) If it turns out, however, that the issue does not satisfy those criteria, we will recommend that the Committee should not add the issue to its agenda. In that case, we will present a draft tentative agenda decision at the March Committee meeting.

Questions for the Committee

Question for the Committee
1, Does the Committee agree with our technical analysis in paragraphs 23-38?
2. Does the Committee agree with our recommendations in paragraph 44?

Appendix A—Submissions

Appendix A

Background

There is an increasing tendency for taxation arrangements, particularly in the extractive activities sector, to be based on a sliding scale that is designed to more closely align tax payments with the economic returns achieved by entities. The specific issue below, whilst discussed in the context of the proposed MRRT in Australia, may therefore become far more pervasive across many jurisdictions in future years. This issue therefore has the potential to have broad and significant ramifications if not adequately addressed on a timely basis.

Under the proposals of the MRRT, allowances are to be made for entities that allow the cost base of assets to be set at 'market value', which may materially differ from the carrying value of the asset. The impact of such an allowance is to potentially reduce the tax that will be payable under the regime, compared with the amount of tax that would be payable had such an allowance not be provided.

We are aware of the following three possible alternative accounting treatments for such allowances that will have substantially different accounting outcomes:

1) **Recognise the market value uplift as the 'tax base' of the related assets** using the existing guidance contained in IAS 12 'Income Taxes'. In the case of the MRRT, this will potentially result in the recognition of a material deferred tax asset upon the proposals being substantively enacted. This asset would reflect the fact that the allowance results in the payment of less than tax than would otherwise be payable had such an allowance not have been available and will ensure the effective tax rate of the entity reflects the underlying rate of the taxation regime in future years. However, the recognition of an asset upon the substantive enactment of a new tax regime that increases the tax obligations of an entity may be viewed as counterintuitive and is unlikely to provide users of the accounts with relevant information.
2) **Account for the fair value market uplift allowance as a tax holiday**. Some entities may conclude that such an approach may be more aligned to the underlying nature of the allowance, with no deferred tax asset recognised on substantive enactment of the legislation. This approach will result in an entity having a tax rate of nil over the period of the tax holiday and a lower effective tax rate than under option 1 for the duration of the tax holiday.
3) **Apply the initial recognition exemption.** Some entities may conclude that the initial recognition exemption may be applicable in these circumstances. It would appear, prima facie, as though such an option is not allowable under IAS 12 given the deferred tax asset arises on enactment of a new taxation regime and not the initial recognition of the associated assets. However, such an approach may be argued as being consistent with the principles of the exemption, albeit under a scenario that was not envisaged in the accounting standards.

We have assessed this issue against the Board's criteria as follows:

1) *The issue is widespread and has practical relevance.*

   As outlined above we consider that this issue is of practical relevance in numerous jurisdictions and is likely to continue increasing in relevance given the trends of taxation regimes globally.

2) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice).*

   There are already three alternative possible accounting treatments as highlighted above.

3) *Financial reporting would be improved through the elimination of diversity*

   We believe that there exists a significant risk of divergent practices if the issue is not addressed in a timely manner. We further believe the potential magnitude of differences in practice may detract markedly from the comparability affected entities, thereby detracting from the quality of financial reporting.

4) *The issue is a narrow implementation or application issue that can be resolved efficiently within the confines of existing IFRSs and the Framework for the Preparation and Presentation of Financial Statements, but not so narrow that it is inefficient to apply the interpretation process.*

   This issue is specifically narrow enough in scope to allow for its efficient resolution within the confines of existing IFRS. We further consider the issue is not so specific that it would be inefficient to apply the interpretation process.

5) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance on a more timely basis than would be expected from that project.*

   There is a pressing need for additional guidance on this matter given the anticipated substantive enactment of the MRRT legislation. Without timely guidance we consider there is a risk of divergent practices emerging which may materially impact the comparability of affected entities.

IFRIC Potential Agenda Item Request

The issues:

Background

There is a growing trend for governments to levy taxes and royalties payable by companies, particularly those in the extractive industry, based on a sliding scale and sometimes on a calculated ‘economic return’ rather than applying a uniform rate to accounting profits. Examples are the Mineral Resource Rent Tax (‘MRRT’) in Australia and mining taxes in Peru, Chile and Quebec. In addition certain jurisdictions such as those in California and France are putting in place, as an austerity measure, temporary limitations on the use of tax loss carry-forwards that will affect tax payers in all industries.

The relationship between accounting profit and tax expense is becoming increasingly difficult to explain and even harder to predict for future periods. Deferred tax accounting will therefore become overly complicated under these types of tax regimes. The concept of deferred tax accounting is to record, at the reporting date, the difference between the tax basis of an asset or liability and its reported book value in the financial statements. A deferred tax asset reflects future deductions in taxable profits but based on rates that are currently enacted or substantially enacted. When the enacted rate is subject to a sliding scale IAS 12 is clear that companies should attempt to predict the rate that will be applicable to profits to be made in future periods. However we have a concern that the increasing level of complexity and volatility will cause confusion for users of financial statements. This is of particular relevance for the extractive industry since the applicable tax rate depends on levels of profit that will be made several years, often decades, in the future and these levels are affected by changes in commodity prices. The resulting volatility in deferred tax assets is not a fair reflection of a change in shareholder value relating to the reporting period in which it is recorded but rather reflects changes in expectations about the tax that will be applicable to future, unearned profits.

We acknowledge that fundamental changes to accounting for deferred taxation will need to be addressed as part of a major project on Income Taxes should this be reactivated. However we request that the following specific issues of interpretation are considered separately in light of the growing trends in taxation regimes and complexity in general and specifically in light of the significant and imminent impact that the MRRT will have when it is enacted in 2012.

Issue1

Certain taxes may include provisions for allowances that reduce the amount of tax payable by an entity compared to the amount payable in the absence of such allowances. We believe that there are two potential accounting treatments for such allowances as described in more detail below. Furthermore we believe that the first of these treatments, which is to record a significant deferred tax asset upon substantial enactment of the tax legislation, will reduce the relevance of financial statements given the counter-intuitive result of recording an asset whilst the payment of tax will ultimately result in a decrease in value for shareholders.

Issue 2

A second issue is the classification of royalties that are permitted to be offset against income taxes payable. We note that this issue has been added to the IFRIC agenda for March following a submission by the Australian Accounting Standards Board ('AASB').

Current and emerging practice:

Our view is that there are several possible interpretations of IAS 12 in relation to allowances that are available in relation to newly enacted tax legislation. Using as an example the market value uplift allowed in the MRRT we have outlined the three most likely treatments below. We would refer the IFRIC to the recent discussion papers on the website of the AASB at the following addresses for further information on the MRRT and the AASB's deliberations on this topic.

http://www.aasb.gov.au/admin/file/content102/c3/Sept_2011_AP_4.1_MRRT_education_session.pdf

http://www.aasb.gov.au/AASB-Board/Current-Board-papers.aspx

1. The market value uplift could be treated as the 'tax base' of the related assets using the guidance in IAS 12. This would lead to a significant asset being recorded on substantial enactment. The value of this asset could be several billions of dollars for a large mining company. The deferred tax asset would reflect the fact that the allowance results in the payment of less tax than would

otherwise be payable under the new MRRT had no allowance been available. However the recognition of an asset upon enactment of a tax may be interpreted by some readers as the anticipated payment of less tax under the new regime than under the old regime. This is a particular risk for users that are unfamiliar with the complicated allowance mechanism. This result may therefore lead to confusion and even a misunderstanding of the impact of the new tax on companies.

2. Some companies may conclude that an acceptable treatment is to account for the allowance as a tax holiday and therefore not record a deferred tax asset and upfront gain at all. Essentially the starting base allowance is considered to be akin to a tax holiday for an amount of tax equal to the initial starting base ascribed to the assets. Application of a zero tax rate would result in no deferred tax amounts being recognised during the holiday period.
3. A third possible interpretation could be that the initial recognition exemption is intended to apply to the market value uplift and therefore no deferred tax asset is required to be recorded. IAS 12 para 24 would indicate that the initial recognition exemption cannot apply since the starting base allowance is determined on application of the new regime and not on initial recognition of the associated assets. However it could be argued that the spirit of the exemption was intended to capture such scenarios and that these types of allowances were not envisaged when IAS 12 was written, because the starting base represents the value of an asset on which a temporary difference arises and there is no impact on accounting profit or taxable profit at the time of its initial recognition.

Reasons for the IFRIC to address this issue:

We have assessed this issue against the Board's criteria as follows:

4. The issue is widespread and practical. The issues relate to a number of countries and industries and there is an emerging trend that other countries may seek to follow.
5. The issues involve significantly divergent interpretations as outlined above.
6. Financial reporting would be improved. For allowances such as the market uplift allowance in the MRRT the treatments outlined above give a significantly different outcome therefore eliminating potential for diversity would improve comparability. Furthermore the tax holiday approach for the market uplift allowance to measure deferred tax assets would make financial statements more relevant for users.
7. The issues are sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the Framework.
8. There is a pressing need to provide guidance on a more timely basis than would be expected from the IASB's agenda consultation which, depending on the outcome, may reactivate the Income taxes project. The MRRT is the most

significant of the types of taxes that are forming the current trend and the accounting is likely to affect financial statements for periods ending 30 June 2012 and may be considered a disclosable event under companies' continuous disclosure requirements even before this date.

Appendix B—Outreach

Dear all,

[…] in January 2012, the Committee received an additional request to clarify an issue relating to IAS 12 *Income Taxes*. In particular, the submitters are asking the Committee to clarify the accounting for market value uplifts on certain assets that are to be introduced by the same tax regime […].

According to the submitters, in addition to the allowance described above, an entity subject to the proposed tax regime is generally entitled to an allowance which is described in details below:

- The allowance reduces income taxes under the new tax regime.
- The allowance recognises investments in assets that relate to projects ("starting base assets") that existed before the announcement of the new tax regime.
- The tax reduction is achieved through the tax annual depreciation of the amount of starting base assets determined under the tax regime. If there is insufficient profit to use the amount of annual tax depreciation, it is carried forward.
- An entity can generally choose to calculate the tax depreciation allowance based on either the market value of starting base assets or the most recent accounting book value of starting base assets.

The submitters are asking for the clarification on how to account for the market value uplift for tax depreciation purposes on the starting base assets which results in further tax reduction of income taxes in the future. In more general sense, this issue can be seen as how an entity should account for changes in the tax base of an asset or liability stemming from 1) changes in value of the asset held or liability owed by the entity or 2) the introduction of changes in the tax regime.

According to the submission, there are three most likely accountings for the market value uplift as shown below:

1) Recognise the market value uplift as the “tax base” of the related assets
2) Account for the market value allowance as a whole as a tax holiday
3) Apply the initial recognition exception under IAS 12 to the change in the tax base caused by the market value uplift

For further details I have attached the relevant extracts from the submission.

In the context of these requests, I would very much appreciate your observations on the following aspects of the issues:

1) In your jurisdiction, do you have a similar tax regime with those described above? If similar, but not identical, please tell us about the differences.
2) If you answered yes to question one, what is the prevalent accounting for such type of changes in the tax base of an asset or liability, in particular, the part of the uplift?
3) Based on your response to question two, would your view be that there is diversity in practice for these types of tax allowances?

At this stage of the process I am especially interested in the observations that you have made in practice with respect to the questions above, but if you would like to provide other comments please feel free to do so.

In order to incorporate your feedback into the process for the next Committee meeting, I would appreciate receiving your input on this issue by **28 February 2012**.

If you have any questions, please do not hesitate to contact me.

Best regards,