IFRS

STAFF PAPER

May 2014

IFRS Interpretations Committee Meeting

Project	**IAS 12 *Income Taxes***		
Paper topic	Impact of an internal reorganisation on deferred tax amounts related to goodwill		
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Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) received a request for guidance on the calculation of deferred tax as a consequence of an internal reorganisation of an entity. In particular, the request describes a circumstance in which:

   (a) an entity (Entity H) transfers a group of assets, including the related goodwill, that meets the definition of a business in IFRS 3 *Business Combinations* to its new wholly-owned subsidiary (Subsidiary A); however,

   (b) for tax purposes, the (tax) goodwill is not transferred to Subsidiary A.

2. In this circumstance, the submitter asked the Interpretations Committee to clarify how to calculate deferred tax assets and deferred tax liabilities in Entity H's consolidated financial statements.

3. At its January 2014 meeting, the Interpretations Committee discussed this issue and noted that:

   (a) When entities in the same consolidated group file separate tax returns, separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12 *Income Taxes*. Consequently, when an entity prepares its consolidated financial statements, deferred tax balances would be determined separately for those temporary differences, using the applicable tax rates for each entity's tax jurisdiction.

(b) When calculating the deferred tax amount for the consolidated financial statements:

  (i) the amount used as the carrying amount for an asset or a liability is the amount included in the consolidated financial statements; and

  (ii) the assessment of whether an asset or a liability is being recognised for the first time for the purpose of applying the initial recognition exception described in paragraphs 15 and 24 of IAS 12 is made from the perspective of the consolidated financial statements.

(c) Transferring the goodwill to Subsidiary A would not meet the initial recognition exception described in paragraph 15 and 24 of IAS 12. Consequently, deferred tax would be recognised for any temporary differences arising in each separate entity by using the applicable tax rates for each entity's tax jurisdiction (subject to meeting the recoverability criteria for recognising deferred tax assets described in IAS 12); and

(d) If there is a so-called 'outside basis difference' (ie a temporary difference between the carrying amount of the investment in Subsidiary A and the tax base of the investment), deferred tax for such a temporary difference would also be recognised, subject to the limitations and exceptions applying to the recognition of a deferred tax asset (in accordance with paragraph 44 of IAS 12) and a deferred tax liability (in accordance with paragraph 39 of IAS 12).

4. On the basis of the analysis above, the Interpretations Committee tentatively decided not to add this issue to its agenda.

Comments received

5. We received four comment letters[1] on the Interpretations Committee's tentative agenda decision, which are attached to this paper as Appendix B.

6. All of the comment letters agreed with the Interpretations Committee's decision not to add this item onto its agenda. However, one comment letter did not agree with the reasons set out in the tentative agenda decision. In addition, the four comment letters proposed some suggestions for wording.

7. The comment letter that did not agree with the rationale in the tentative agenda decision (KPMG IFRG Limited) referred to paragraph 11 of IAS 12. It said that from the rationale in the tentative agenda decision, paragraph 11 of IAS 12 implies that a single asset would have two carrying amounts. However, it pointed out that there are differing views over how to interpret paragraph 11 of IAS 12; that is, "if there is one asset that is recorded in books of two different entities for accounting and tax purposes, then such asset would have only one carrying amount in the consolidated financial statements." Accordingly, it suggested that:

   (a) "the agenda decision removes the technical analysis and any reference to paragraph 11 from the wording of it"; or

   (b) "the Interpretations Committee propose that the IASB amend IAS 12 to state explicitly that an entity should determine separate temporary differences in relation to one asset in the consolidated financial statements, if that asset is recorded for accounting purposes in the books of one entity in the group, and for tax purposes, in the books of another entity in the group."

8. Two of the letters (Deloitte Touche Tohmatsu Limited and KPMG IFRG Limited) proposed that the wording of the tentative agenda decision should be

[1] Deloitte Touche Tohmatsu Limited, KPMG IFRG Limited, Organismo Italiano di Contabilità (OIC) and PricewaterhouseCoopers International Limited.

clarified so that the decision refers only to the consolidated financial statements. They stated that:

> the statement that 'transferring the goodwill to Subsidiary A would not meet the initial recognition exception described in paragraph 15 and 24 of IAS 12' should refer to the consolidated financial statements of Entity H (Deloitte Touche Tohmatsu Limited); and
>
> we recommend that it clarifies that the decision refers only to the consolidated financial statements, specifically non-application of the initial recognition exception. (KPMG IFRG Limited)

9. One of the letters (Deloitte Touche Tohmatsu Limited) suggested that the wording of the agenda decision describe that Entity H is not able to transfer tax losses to Subsidiary A via group relief when the consolidated group claims deductions on the (tax) goodwill. It stated that:

> the description of the circumstances makes no reference to whether Entity H is able to transfer tax losses to Entity A via group relief as it claims deductions on the (tax) goodwill. We recommend that the agenda decision state that this is not the case as such an ability could alter the accounting analysis.

10. One of the letters (PricewaterhouseCoopers International limited) suggested that the agenda decision should clarify its implications. The letter said that:

> the tentative agenda decision only addresses the narrow set of fact included in the submission, rather than the principle that intra-group transfers of assets would not typically affect the consolidated financial statements unless there is an effect on the tax base of assets or liabilities, the tax rate applicable to the recovery or settlement of those assets or liabilities or the recoverability of any related deferred tax asset.

11. Accordingly, it suggested adding a statement to the tentative agenda decision on the following lines:

> The Interpretations Committee also noted that an intra-group transfer of assets would not typically affect the consolidated financial statements if there is no effect on the tax base of assets, the tax rate applicable to the recovery of those assets or liabilities, the tax rate applicable to the recovery or settlement of those assets or liabilities or the recoverability of any related deferred tax asset.

12. One of the letters (Organismo Italiano di Contabilità (OIC)) noted that it is unnecessary to refer to paragraph 24 of IAS 12 in the agenda decision because the initial recognition exception described in that paragraph is not relevant to the submission. Accordingly, it suggested deleting the part that mentions paragraph 24 of IAS 12 in the tentative agenda decision. OIC stated that:

> In particular, in its response, the IFRS IC refers both to the inapplicability of the initial recognition exception under paragraph 15 (taxable temporary difference on goodwill) and under paragraph 24 (deductible temporary difference for the parent) in the consolidated financial statements. We believe that there is no specific need to mention the inapplicability of the initial recognition exception under paragraph 24 since it does not seem that it is applied in the parent's separate financial statements. Indeed the deductible temporary difference in the parent separate financial statements (difference A) does not stem from an "initial recognition" of goodwill but rather from its "derecognition". In consequence of this derecognition, as described in the fact pattern, a deductible temporary difference arises.
>
> Therefore it is suggested to the IFRS IC that, in rejecting the submission, refers only to the inapplicability of the exception under paragraph 15 of IAS 12, and not also to the one of paragraph 24.

13. OIC also noted that it would be helpful to clarify that if deferred tax assets and deferred tax liabilities are offset in accordance with the requirements of

IAS 12, the consolidated financial statements would not be affected by the internal reorganisation transaction in the submission.

Staff analysis

14. We will examine the five points that the comment letters raised as follows:

    (a) **Point A**—clarification of wording by making reference to the consolidated financial statements of Entity A;

    (b) **Point B**—adding a statement that Entity H is not able to transfer tax losses to Subsidiary A via group relief, when the consolidated group claims deductions on the (tax) goodwill;

    (c) **Point C—**deleting the reference to paragraph 11 of IAS 12; and

    (d) **Point D**—specifying the implication of the agenda decision.

    (e) **Point E**—deleting the reference to paragraph 24 of IAS 12 and mentioning the reference to offset requirements of IAS 12

Analysis of Point A (ie clarification of wording by making reference to the consolidated financial statements of Entity A)

15. The comment letters (Deloitte Touche Tohmatsu Limited and KPMG IFRG) proposed that the wording of the tentative agenda decision clarify that the decision refers only to the consolidated financial statements in several paragraphs.

16. We agree that making reference to ‘consolidated financial statements of Entity H’ would add clarity to what the tentative agenda decision intended to deliver. Accordingly, we think that it would be appropriate to reflect the respondents’ suggestion.

Analysis of Point B (ie adding a statement that Entity H is not able to transfer tax losses to Entity A via group relief)

17. We do not agree with the respondent's statement that 'if Entity H is able to transfer tax losses to Subsidiary A[2] via group relief[3] as it claims deductions on the (tax) goodwill, such an ability of Subsidiary A could alter the accounting analysis [in the tentative agenda decision].' The analysis in the tentative agenda decision was that the tax base is determined by reference to the tax returns of each entity in the group. We note that 'group relief' would generally mean that each entity in the consolidated group calculates its tax amount separately and then the net tax payment or tax credit is available for offset with that of other entities in the same consolidated group. In this sense, we think that the deferred tax amounts that are recognised in the financial statements of Subsidiary A would not be affected by whether Entity H is able to transfer tax losses to its subsidiaries via group relief.

18. Consequently, we think that it is not necessary to add a statement that the respondent suggested.

Analysis of Point C (ie deleting the reference to paragraph 11 of IAS 12)

19. The comment letter (from KPMG IFRG Limited) said that the wording of the tentative agenda decision would imply that a single asset can have two carrying amounts. This is because (1) Entity H would compare the carrying amount of the (accounting) goodwill, which is zero, with its tax base in Entity H and (2) Subsidiary A would compare the carrying amount of the (accounting) goodwill transferred to Subsidiary A with its tax base of nil. The

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[2] To align the wording in the comment letter with that in the submission, the term 'Entity A' has been changed to 'Subsidiary A'.

[3] An example of the meaning of 'group relief' can be described as:

> The basic principle is that each company is a separate taxable entity for UK tax purposes, required to complete returns and account for tax to HMRC. However, special rules mean that some transactions between group companies are ignored for tax purposes and, for some tax purposes, groups can be treated as if they were one entity. (http://www.out-law.com/topics/tax/corporate-tax-/group-relief/)

comment letter argued that it is, however, neither clear nor explicit whether paragraph 11 of IAS 12 should be read to imply that a single asset can have two carrying amounts and therefore there is a differing view: that is, if there is one asset that is recorded in books of two different entities for accounting and tax purposes, such an asset would have only one carrying amount in the consolidated financial statements.

20. With regard to Point C, the tentative agenda decision was worded as follows:

> The Interpretations Committee noted that when entities in the same consolidated group file separate tax returns, separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12. Consequently, the Interpretations Committee noted that when an entity prepares its consolidated financial statements, deferred tax balances would be determined separately for those temporary differences, using the applicable tax rates for each entity's tax jurisdiction.

21. We note that paragraph 11 of IAS 12 states that:

> In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the group.

22. We do not think that the reference to paragraph 11 of IAS 12 in the analysis of the tentative agenda decision means that a single asset can have two carrying amounts. Instead, we think that the analysis is based on how Entity H allocates its (accounting) goodwill to its subsidiaries. Suppose that Entity H transfers a 50 per cent of the carrying amount of the (accounting) goodwill to Subsidiary A rather than the entire carrying amount of the (accounting) goodwill as in the submission. This comparison shows that the transfer of the

(accounting) goodwill in the submission is just one of the ways to allocate the goodwill to its subsidiaries. In this sense, we think that the analysis in the tentative agenda decision is consistent with a statement that an asset would have one (total) carrying amount in the consolidated group.

23. Consequently, we do not think that there would be different interpretations of paragraph 11 of IAS 12 in terms of whether an asset can have one carrying amount or two carrying amounts. We therefore think that it is not necessary to reflect the suggestion of the comment letter.

Analysis of Point D (ie specifying the implication of the agenda decision)

24. The comment letter (PricewaterhouseCoopers International Limited) suggested that the wording of the agenda decision should clarify that an intra-group transfer of assets would not typically affect the consolidated financial statements if such conditions as in the submitter's case do not apply. The comment letter proposed adding a paragraph as follows:

> The Interpretations Committee also noted that an intra-group transfer of assets would not typically affect the consolidated financial statements if there is no effect on the tax base of assets or liabilities, the tax rate applicable to the recovery or settlement of those assets or liabilities or the recoverability of any related deferred tax asset.

25. We agree that if the conditions described by the comment letter, an intra-group transfer of assets would not typically affect the consolidated financial statements. We think that the statement as suggested by the comment letter would help understand the effects of the specific fact patterns in the submission. Consequently, we think that it is appropriate to add the statement.

***Analysis of Point E (ie* deleting the reference to paragraph 24 of IAS 12 and mentioning the reference to offset requirements of IAS 12**

26. The comment letter (OIC) suggested deleting the reference to paragraph 24 of IAS 12, which is related to deductible temporary difference because initial recognition exception described in that paragraph is not relevant to the temporary difference in Entity H (the parent company).

27. We agree that initial recognition exception for deductible temporary difference would not apply to the deductible temporary difference of Entity H with regard to the transferred goodwill. However, we think that the temporary difference for Subsidiary A arising from the transferred (accounting) goodwill can be either taxable temporary difference or deductible temporary difference, depending on the tax base of the transferred goodwill in Subsidiary A.

28. Consequently, we think that it would be more appropriate to maintain the reference to paragraph 24 of IAS 12 in the agenda decision.

29. The comment letter (OIC) also suggested mentioning the requirements relating to offsetting requirements of IAS 12. It proposed that the agenda decision describe such that if deferred tax assets and deferred tax liabilities are offset in accordance with the requirements of IAS 12, the consolidated financial statements would not be affected by the internal reorganisation transaction in the submission.

30. We note that the consolidated financial statements would be affected not only by offsetting requirements of IAS 12 but also other conditions, for example, tax base, applicable tax rates, recoverability criteria of any deferred tax asset, as noted in 'analysis of Point D' above. We therefore think that it is appropriate to reflect this comment when adding a paragraph suggested by the respondent considered in 'analysis of Point D'.

Staff recommendation

31. After considering the comments received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise its decision not to add this issue to its agenda. The proposed wording of the final agenda decision is shown in Appendix A to this paper.

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add this issue to its agenda? 2. Does the Interpretations Committee have any comments on the proposed wording in Appendix A for the final agenda decision?

Appendix A—Proposed wording for final agenda decision

A1 The proposed wording for the final agenda decision is presented below (new text is underlined and deleted text is struck through).

IAS 12 *Income Taxes*—Impact of an internal reorganisation on deferred tax amounts related to goodwill

The Interpretations Committee received a request for guidance on the calculation of deferred tax as a consequence of an internal reorganisation of an entity. The submitter describes a situation in which an entity (Entity H) recognised goodwill that had resulted from the acquisition of a group of assets (Business C) that meets the definition of a business in IFRS 3 *Business Combinations*. Entity H subsequently recorded a deferred tax liability relating to goodwill deducted for tax purposes. Against this background, Entity H effects an internal reorganisation in which:

- Entity H set up a new wholly-owned subsidiary (Subsidiary A);
- Entity H transfers Business C, including the related (accounting) goodwill to Subsidiary A; however,
- for tax purposes, the (tax) goodwill is retained by Entity H and not transferred to Subsidiary A.

The submitter asked how Entity H should calculate deferred tax on this internal reorganisation transaction in its consolidated financial statements in accordance with IAS 12 *Income Taxes*.

The Interpretations Committee noted that when entities in the same consolidated group file separate tax returns, the tax base is determined by reference to the tax returns of each entity in the group separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12. Consequently, the Interpretations Committee noted that when an entity prepares its consolidated financial statements, deferred tax balances would be determined separately for those temporary differences, using the applicable tax rates for each entity's tax jurisdiction.

The Interpretations Committee also noted that when calculating the deferred tax amount for the consolidated financial statements:

- the amount used as the carrying amount for an asset or a liability is the amount included in the consolidated financial statements; and
- the assessment of whether an asset or a liability is being recognised for the first time for the purpose of applying the initial recognition exception described in paragraphs 15 and 24 of IAS 12 is made from the perspective of the consolidated financial statements.

The Interpretations Committee noted that transferring the goodwill to Subsidiary A would not meet the initial recognition exception described in paragraph 15 and 24 of IAS 12 <u>in the consolidated financial statements</u>. Consequently, it noted that deferred tax would be recognised <u>in the consolidated financial statements</u> for any temporary differences arising in each separate entity by using the applicable tax rates for each entity's tax jurisdiction (subject to meeting the recoverability criteria for recognising deferred tax assets described in IAS 12).

The Interpretations Committee also noted that if there is a so-called 'outside basis difference' (ie a temporary difference between the carrying amount of the investment in Subsidiary A and the tax base of the investment) <u>in the consolidated financial statements</u>, deferred tax for such a temporary difference would also be recognised subject to the limitations and exceptions applying to the recognition of a deferred tax asset (in accordance with paragraph 44 of IAS 12) and a deferred tax liability (in accordance with paragraph 39 of IAS 12).

<u>The Interpretations Committee also noted that transferring assets between the entities in the consolidated group would not typically affect the consolidated financial statements in terms of recognition, measurement and presentation of deferred tax, if there is no effect on the tax base of assets or liabilities, the tax rate applicable to the recovery or settlement of those assets or liabilities or the recoverability of any related deferred tax asset and</u>

offsetting requirements of IAS 12 are met.

The Interpretations Committee considered that, in the light of its analysis, the existing IFRS requirements and guidance were sufficient and therefore, an Interpretation was not necessary. Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Appendix B—Comment letters received

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Wayne Upton
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7 April 2014

Dear Mr Upton

Tentative agenda decision - IAS 12 *Income Taxes*: Impact of an internal reorganisation on deferred tax amounts related to goodwill

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the January IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on the calculation of deferred tax as a consequence of an internal reorganisation of an entity.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision but note that the initial recognition exemption would apply from the point of view of the individual financial statements of Entity A. For that reason, we suggest that the agenda decision could be made clearer by noting that the statement that "transferring the goodwill to Subsidiary A would not meet the initial recognition exception described in paragraph 15 and 24 of IAS 12" refers to the consolidated financial statements of Entity H. In addition, we note that the description of the circumstances makes no reference to whether Entity H is able to transfer tax losses to Entity A via group relief as it claims deductions on the (tax) goodwill. We recommend that the agenda decision state that this is not the case as such an ability could alter the accounting analysis.

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

Yours sincerely

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Our ref MV/288
Contact Mark Vaessen

14 April 2014

Dear Mr Upton

Tentative agenda decision: IAS 12 - Impact of an internal reorganisation on deferred tax amounts related to goodwill

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (Committee) tentative agenda decision, *IAS 12 Income Taxes - Impact of an internal reorganisation on deferred tax amounts related to goodwill* (IFRIC Update January 2014). We have consulted with, and this letter represents the views of, the KPMG network.

We agree with the Committee's decision not to take this issue onto its agenda and have sympathy for the accounting outcome that would be reached following the Committee's discussion. However, we do not concur with the arguments used by the Committee in its analysis of the issue, and therefore recommend that the Committee amends the wording of the agenda decision or proposes amendments to paragraph 11 of IAS 12.

In essence, the issue addressed by the Committee is how to apply paragraph 11 of IAS 12 - i.e. how to determine a temporary difference in consolidated financial statements - to situations in which an item is recorded for accounting purposes in the books of one entity in the group, and for tax purposes, in the books of another entity in the group.

We note that the Committee seems to interpret paragraph 11 of IAS 12 to require determining separate temporary differences in such circumstances. We have sympathy for the outcome of this approach, because it would reflect the tax consequences of the transaction, and therefore would arguably meet the objective of IAS 12. However, we do not believe that this requirement is clear or explicit from the wording of paragraph 11 of IAS 12 and we are aware of differing views. Some read it to imply that if there is one asset that is recorded in books of two different entities for accounting and tax purposes, then such asset would have only <u>one</u> carrying amount in the consolidated financial statements. Following the Committee's interpretation of paragraph 11, a single asset would have two carrying amounts.

Noting these differing views on the wording of paragraph 11 of IAS 12, if the Committee were to proceed with the agenda decision, then we recommend that it removes the technical analysis and any reference to paragraph 11 from the wording of the agenda decision. Alternatively, the Committee may propose that the Board amend IAS 12 to state explicitly that an entity should determine separate temporary differences in relation to one asset in the consolidated financial statements, if that asset is recorded for accounting purposes in the books of one entity in the group, and for tax purposes, in the books of another entity in the group. If the Committee decides to propose such amendments to IAS 12, then it would need to further analyse instances to which separation of temporary differences relating to a single asset may apply in practice, in order to avoid any potential unintended consequences.

In addition, if the Committee were to proceed with the agenda decision, then we recommend that it clarifies that the decision refers only to the consolidated financial statements, specifically non-application of the initial recognition exception. We note that the initial recognition exception in paragraphs 15 and 24 of IAS 12 would apply in Subsidiary's A individual financial statements. Our proposed changes are included in Appendix 1 to this letter.

Please contact Mark Vaessen +44 (0)20 7694 8871 or Thomas Schmid + 41 58 249 2922 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

cc Reinhard Dotzlaw

Appendix 1

Proposed changes to the tentative agenda decision

IAS 12 *Income Taxes*—Impact of an internal reorganisation on deferred tax amounts related to Goodwill

The Interpretations Committee received a request for guidance on the calculation of deferred tax as a consequence of an internal reorganisation of an entity. The submitter describes a situation in which an entity (Entity H) recognised goodwill that had resulted from the acquisition of a group of assets (Business C) that meets the definition of a business in IFRS 3 *Business Combination.* Entity H subsequently recorded a deferred tax liability relating to goodwill deducted for tax purposes. Against this background, Entity H effects an internal reorganisation in which:

- Entity H set up a new wholly-owned subsidiary (Subsidiary A);
- Entity H transfers Business C, including the related (accounting) goodwill to Subsidiary A; however,
- for tax purposes, the (tax) goodwill is retained by Entity H and not transferred to Subsidiary A.

The submitter asked how Entity H should calculate deferred tax on this internal reorganisation transaction in its consolidated financial statements in accordance with IAS 12 *Income Taxes.*

The Interpretations Committee noted that when entities in the same consolidated group file separate tax returns, separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12. Consequently, the Interpretations Committee noted that when an entity prepares its consolidated financial statements, deferred tax balances would be determined separately for those temporary differences, using the applicable tax rates for each entity's tax jurisdiction.

The Interpretations Committee also noted that when calculating the deferred tax amount for the consolidated financial statements:

- the amount used as the carrying amount for an asset or a liability is the amount included in the consolidated financial statements; and
- the assessment of whether an asset or a liability is being recognised for the first time for the purpose of applying the initial recognition exception described in paragraphs 15 and 24 of IAS 12 is made from the perspective of the consolidated financial statements.

The Interpretations Committee noted that transferring the goodwill to Subsidiary A would not meet the initial recognition exception described in paragraph 15 and 24 of IAS 12 in the consolidated financial statements. Consequently, it noted that deferred tax would be recognised in the consolidated financial statements for any temporary differences arising in each separate entity by using the applicable tax rates for each entity's tax jurisdiction (subject to meeting the recoverability criteria for recognising deferred tax assets described in IAS 12).

The Interpretations Committee also noted that if there is a so-called ‘outside basis difference’ (ie a temporary difference between the carrying amount of the investment in Subsidiary A and the tax base of the investment) in the consolidated financial statements, deferred tax for such a temporary difference would also be recognised subject to the limitations and exceptions applying to the recognition of a deferred tax asset (in accordance with paragraph 44 of IAS 12) and a deferred tax liability (in accordance with paragraph 39 of IAS 12).

The Interpretations Committee considered that, in the light of its analysis, the existing IFRS requirements and guidance were sufficient and therefore, an Interpretation was not necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

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29 April 2014

Re: Interpretation Committee tentative agenda decisions

Dear Wayne,

We are pleased to have the opportunity to provide our comments in order to contribute to the IFRS IC agenda decision (issued in January 2014) on IAS 12 – "*Impact of an internal reorganization on deferred tax amounts related to goodwill*".

IAS 12 – "Impact of an internal reorganization on deferred tax amounts related to goodwill"

The issue relates to the calculation of deferred taxes as a consequence of an internal reorganization of an entity. The Interpretations Committee noted that when entities in the same consolidated group file separate tax returns, separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12. Consequently, when an entity prepares its consolidated financial statements, deferred tax balances would be determined separately for those temporary differences. The IFRS IC also noted that transferring the goodwill to the subsidiary would not meet the initial recognition exception described in paragraphs 15 and 24 of IAS 12. The Interpretations Committee considered that existing IFRS requirements and guidance were sufficient and decided not to add this issue to its agenda.

The IFRS IC believes that the exceptions in paragraphs 15 and 24 of IAS 12 would not apply to the submitter's case because from the perspective of the consolidated financial statements, the transfer of the goodwill to Subsidiary A does not trigger either "the initial recognition of goodwill" or "the initial recognition of an asset or liability in a transaction".

In relation to this position, we would like to highlight some points of attention referring to the wording of the tentative decision.
In particular, in its response, the IFRS IC refers both to the inapplicability of the initial recognition exception under paragraph 15 (taxable temporary difference on goodwill) and under paragraph 24 (deductible temporary difference for the parent) in the consolidated financial statements. We

believe that there is no specific need to mention the inapplicability of the initial recognition exception under paragraph 24 since it does not seem that it is applied in the parent's separate financial statements. Indeed the deductible temporary difference in the parent separate financial statements (difference A) does not stem from an "*initial recognition*" of goodwill but rather from its "*derecognition*". In consequence of this derecognition, as described in the fact pattern, a deductible temporary difference arises.

Therefore it is suggested to the IFRS IC that, in rejecting the submission, refers only to the inapplicability of the exception under paragraph 15 of IAS 12, and not also to the one of paragraph 24.

Finally, it seems to be helpful that the Interpretations Committee remind that an entity, in the consolidated accounts, shall offset deferred tax assets and deferred tax liabilities if the requirements of IAS 12 for offsetting are met. In this situation, the restructuring transaction would be presented in the consolidated financial statement as nothing has happened.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(Chairman)

pwc

Mr Michael Stewart
Director of Implementation Activities
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14 April 2014

Dear Mr Stewart

Tentative agenda decisions on IAS 12 Income Taxes:

- recognition and measurement of deferred tax assets when an entity is loss-making
- impact of an internal reorganisation on deferred tax amounts related to goodwill
- threshold of recognition of an asset in the situation in which the tax position is uncertain

We are responding to the invitation to comment on the above tentative agenda decisions, published in the January 2014 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 decisions. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the Committee's decision not to take these items onto the agenda because of the reasons set out in the tentative agenda decisions. We however suggest a clarification to the tentative agenda decision on the impact of an internal reorganisation on deferred tax amounts related to goodwill. The tentative agenda decision only addresses the narrow set of facts included in the submission, rather than the principle that intra-group transfers of assets would not typically affect the consolidated financial statements unless there is an effect on the tax base of assets or liabilities, the tax rate applicable to the recovery or settlement of those assets or liabilities or the recoverability of any related deferred tax asset.

We believe that the Committee discussed this principle and thus suggest that the following might be added to the tentative agenda decision to reflect that discussion:

> The Interpretations Committee also noted that an intra-group transfer of assets would not typically affect the consolidated financial statements if there is no effect on the tax base of assets, the tax rate applicable to the recovery of those assets or liabilities, the tax rate applicable to the recovery or settlement of those assets or liabilities or the recoverability of any related deferred tax asset.

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If you have any questions in relation to this letter please do not hesitate to contact John Hitchins (020 7804 2497).

Yours sincerely

PricewaterhouseCoopers International Ltd