

STAFF PAPER

March 2015

IFRS Interpretations Committee meeting

IFRS IC November 2014

Project	IAS 12 <i>Income Taxes</i>		
Paper topic	Selection of applicable tax rate for measurement of deferred tax relating to investment in associate		
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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. In November 2014, the IFRS Interpretations Committee (the ‘Interpretations Committee’) discussed a request to clarify the requirement for the selection of the applicable tax rate for the measurement of deferred tax relating to an investment in an associate in a multi-tax rate jurisdiction.
2. The Interpretations Committee noted that paragraph 51A of IAS 12 *Income Taxes* states that an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. Accordingly, the tax rate should reflect the expected manner of recovery or settlement. If one part of the temporary difference is expected to be received as dividends, and another part is expected to be recovered upon sale or liquidation (for example, an investor has a plan to sell the investment later and expects to receive dividends until the sale of the investment), different tax rates would be applied to the parts of the temporary difference to be consistent with the expected manner of recovery.
3. The Interpretations Committee observed that it had received no evidence of diversity in the application of IAS 12 and that the Standard contains sufficient guidance to address the matters raised. Accordingly, the Interpretations

Committee thought that neither an Interpretation of, nor an amendment to, IAS 12 was necessary.

4. The Interpretations Committee's full tentative agenda decision can be found in *IFRIC Update* (November 2014).¹

Comment letter summary

5. The comment period for the tentative agenda decision ended on 20 January 2015. We received one response. The comment letter is in Appendix B.
6. The respondent, Deloitte, agreed with the tentative agenda decision for the reasons provided in the agenda decision.

Staff recommendation

7. We recommend confirming the tentative agenda decision with minor editorial changes. We have set out the wording for the final agenda decision in **Appendix A** of this paper for the Interpretations Committee's approval.

Questions for the Interpretations Committee

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<ol style="list-style-type: none"> 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 agree with the wording for the final agenda decision shown in Appendix A?

¹ IFRIC *Update* (November 2014):
<http://media.ifrs.org/2014/IFRIC/November/IFRIC-Update-November-2014.html>

Appendix A—Final agenda decision

A1. We propose the following wording to finalise the agenda decision (new text is underlined):

IAS 12 *Income Taxes*—Selection of applicable tax rate for the measurement of deferred tax relating to an investment in an associate

The Interpretations Committee received a request to clarify the selection of the applicable tax rate for the measurement of deferred tax relating to an investment in an associate in a multi-tax rate jurisdiction. The submitter asked how the tax rate should be selected when local tax legislation prescribes different tax rates for different manners of recovery (for example, dividends, sale, liquidation). The submitter described a situation in which the carrying amount of an investment in an associate could be recovered by:

- (a) receiving dividends (or other distribution of profit);
- (b) sale to a third party; or
- (c) receiving residual assets upon liquidation of the associate.

The submitter stated that an investor normally considers all of these variants of recovery. One part of the temporary difference will be received as dividends during the holding period, and another part will be recovered upon sale or liquidation.

The Interpretations Committee noted that paragraph 51A of IAS 12 states that an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. Accordingly, the tax rate should reflect the expected manner of recovery or settlement. If one part of the temporary difference is expected to be received as dividends, and another part is expected to be recovered upon sale or liquidation (for example, an investor has a plan to sell the investment later and expects to receive dividends until the sale of the investment), different tax rates would be applied to the parts of the temporary difference to be consistent with the expected manner of recovery.

The Interpretations Committee observed that it had received no evidence of diversity in the application of IAS 12 and that the Standard contains sufficient guidance to address the matters raised. Accordingly, the Interpretations Committee thought that neither an Interpretation of, nor an amendment to, IAS 12 was necessary.

Consequently, the Interpretations Committee ~~decided~~ not to add this issue to its agenda.

Appendix B—Comment letter received

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

20 January 2015

Dear Mr Upton

Tentative agenda decision - IAS 12 *Income Taxes*: Selection of applicable tax rate for measurement of deferred tax relating to investment in associate

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on the selection of an appropriate tax rate for the measurement of deferred tax relating to an investment in an associate in a multi-tax rate jurisdiction.

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.

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 IFRS Leader