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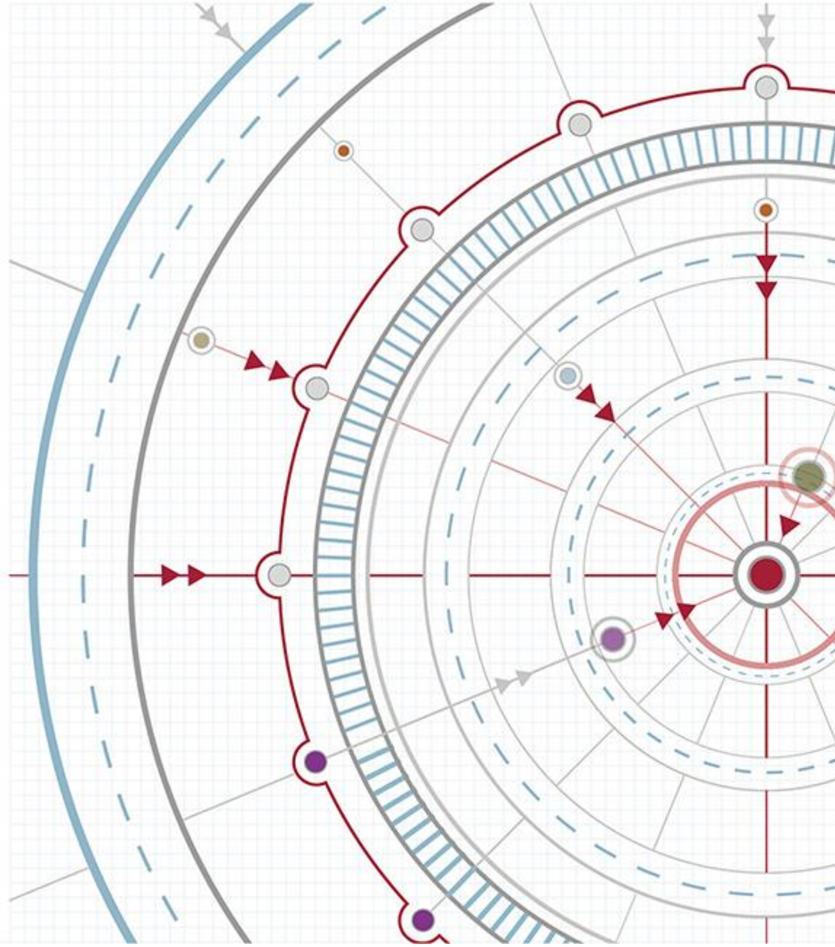

Is the information in IAS 12 useful?

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IFRS

The objective of financial reporting

In the Conceptual Framework

"… to provide financial information about the reporting entity <u>that is useful</u> to existing and potential investors, lenders and other creditors…"

"… depend on their assessment of the amount, <u>timing</u> and uncertainty of (the prospects for) future net cash inflows to the entity."

The rationale in IAS 12

- the rationale to recognize a deferred tax liability or asset <u>is the existence </u>of a future recovery of the recognized assets or the <u>future settlement of the recognized liabilities</u>
- **Exceptions:**
  - a) the initial recognition of goodwill; or
  - (b) the initial recognition of an asset or liability in a transaction which:
    - (i) is not a business combination; and
    - (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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The rationale in IAS 12

- **Other exception:**
  - An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:
    - (a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and
    - (b) it is probable that the temporary difference will not reverse in the foreseeable future.

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The rationale in the exception in pa. 39

- The required conditions are :

  - The entity controlling an asset has the capacity to determine the form and timing of its recovery, and

  - At the measurement date the future payment of the income tax on the difference between the carrying amount in the statement of financial position and its tax base is unlikely to take place in the foreseeable future.

The situation of non-depreciable assets

- When an entity accounts for certain fixed assets using the revaluation model in IAS 16, if the assets are non-depreciable, their expected use is indefinite (for example land in agricultural activity) and their sale is not expected to occur in the foreseeable future, the recognition of a liability does not meet the criteria for recognition of liabilities in the Conceptual Framework

The recognition criteria in the CF

- …"A liability is recognised in the balance sheet <u>when it is probable </u>that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. ..."

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The situation of non-depreciable assets

- Even we agree that the “probability” criteria is not adequate to determine the recognition of an asset or liability, we otherwise are sure that the probability have to be considered in the measurement of the corresponding item.
- The problem is magnified because of pa.53

  53 “Deferred tax assets and liabilities shall not be discounted.”

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Undiscounted amounts

- In our view, it is unacceptable that the amounts are not discounted because, even in the case of depreciable assets, the effect of non-recognition of the fair value of liabilities at initial measurement creates a significant and unjustified difference with financial instruments that are measured at present value.

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Undiscounted amounts

- The described situation is very common in countries with medium or high inflation where the tax authority does not recognize certain restatement of assets for tax purposes, resulting in a significant temporary difference for non- depreciable or long life items, in entities applying the Revaluation Model in IAS 16, the Fair Value option in IAS 40 or the Fair Value option in IFRS 1 as deemed cost.

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Justification for not discounting in IAS 12

- ***54 “The reliable determination of deferred tax assets and liabilities on a discounted basis requires detailed scheduling of the timing of the reversal of each temporary difference. In many cases such scheduling is impracticable or highly complex.***
- ***Therefore, it is inappropriate to require discounting of deferred tax assets and liabilities. To permit, but not to require, discounting would result in deferred tax assets and liabilities, which would not be comparable between entities. Therefore, this Standard does not require or permit the discounting of deferred tax assets and liabilities.”***

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Justification for not discounting in IAS 12

- The calculation of the probable future timing of the reversal of the amounts of assets and liabilities is significantly less complex than many of the required calculations for financial instruments in IFRS 9 and IFRS 17, and therefore the argument seems to be unacceptable now.

Arguments against not to discount

- IFRS 17 Basis for Conclusions:

  BC189 "… The Board also concluded that discount rates and the amount and timing of future cash flows <u>can generally be estimated without excessive measurement uncertainty at a reasonable cost</u>. Absolute precision is unattainable, but it is also unnecessary. <u>The Board is of the view that the measurement uncertainty caused by discounting does not outweigh the additional relevance of the resulting measurement of the entity's obligations</u>. Furthermore, many entities have experience in discounting, both to support investment decisions and to measure items for which other IFRS Standards require discounting, such as financial instruments, employee benefit obligations and long-term non-financial liabilities. …"

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Non acceptable exception

- Also, in our view the second exception in paragraph 15 creates an unacceptable situation as a result of not recognizing a liability when a transaction creates a probable future outflow of resources, as a future increase in the income tax payment.
- For example, when the tax deductibility of an item of property, plant & equipment is limited by the tax law, the future limitation (total or partial) of the deductibility of the cost of the asset for tax purposes creates the obligation to pay future income tax when the consumption of the asset occurs.
- In our view, the proper treatment is to recognize a deferred tax liability as part of the cost of the asset.

Non acceptable exception

- On the other pursuant to US GAAP (ASC 740-10-25-51), an additional deferred tax liability is required.
- We understand that some time ago the IASB had reached a tentative conclusion to eliminate this exception, but we are not aware of any action having been taken.

Our proposal

- To modify paragraph 15 by adding the following text at the end:

"However, for taxable temporary differences associated with non-depreciable items of property, plant and equipment and investment property, a deferred tax liability shall be recognised in accordance with paragraph 39A."

39A "An entity shall recognise a deferred tax liability for all taxable temporary differences associated with non-depreciable items of property, plant and equipment and investment property, except to the extent that it is highly probable that the temporary difference will not reverse in the foreseeable future."

IFRS

Our proposal

- To delete the exception in 15(b).
- To replace paragraph 53 with the following text:

"53 "Deferred tax assets and liabilities shall be measured at the present value of the amounts estimated to reverse, discounted from the estimated dates of reversal of the taxable temporary differences.

53A "The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the deferred tax asset or the deferred tax liability."

¡¡¡Thank You!!!