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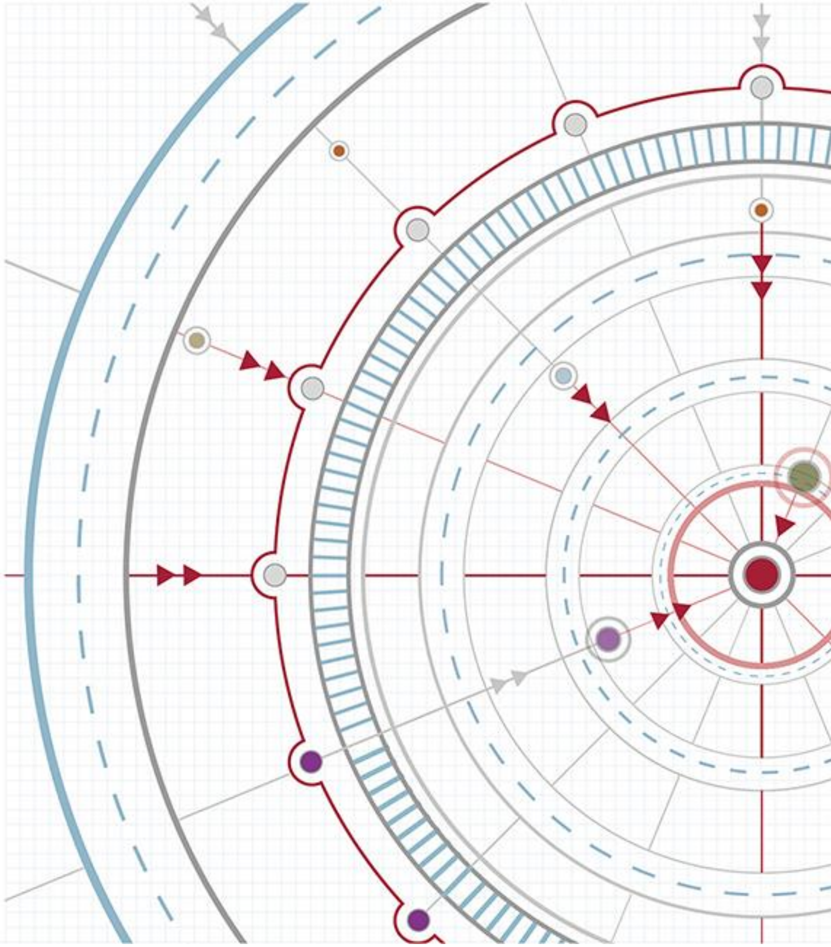

GPF meeting, 8 March 2017

Agenda Paper 2B

Implementation activities and maintenance projects: Breakout

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Introduction to break-out session

- The purpose of the break-out session is to obtain GPF members views on:
  - two proposed amendments included in the Exposure Draft: *Annual Improvements to IFRS® Standards 2015-2017 Cycle*:
    - Income tax consequences of payments on financial instruments classified as equity (Issue I)
    - Long-term interests in associates and joint ventures (Issue II)
  - interest and penalties related to income taxes (Issue III)

- You will discuss the questions in this agenda paper in groups.

- Feedback from each group will then be shared and discussed by the GPF in plenary session.

Income tax consequences of payments on financial instruments classified as equity (Issue I)

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Issue

- The Board received a request to clarify where to recognise the income tax consequences of payments on financial instruments classified as equity—in equity or in profit or loss.
- Paragraph 52B of IAS 12 requires entities to recognise the tax consequences of dividends in profit or loss, unless those consequences arise as a result of transactions or events recognised outside profit or loss, or business combinations.
- If paragraph 52B does not apply, then paragraph 61A of IAS 12 applies. This paragraph requires the recognition of income tax in equity if it relates to items recognised in equity.

The Issue (cont.)

- The issue: Do the requirements in paragraph 52B of IAS 12 apply:
  - only in the circumstances described in paragraph 52A of IAS 12 (ie when there are different tax rates for distributed and undistributed profits), or
  - beyond those circumstances (eg to all payments on financial instruments classified as equity if those payments are distributions of profit)?

The Board's proposal to amend IAS 12

- The Board proposes to clarify that the requirements in paragraph 52B of IAS 12 (now proposed as paragraph 58A of IAS 12) apply to all distributions of profit.
  - Accordingly, if dividends/payments on instruments are distributions of profit, an entity would generally recognise the income tax consequences of these dividends/payments in profit or loss
  - If payments on instruments classified as equity are not distributions of profit, an entity would recognise any income tax consequences in equity
- Judgement is still required to assess whether dividends/ payments are distributions of profit

Questions

- The Basis for Conclusions in the Exposure Draft* explains the basis for the Board's proposal. Having considered the Board's rationale, please answer the following questions:

  - Do you agree with the proposed amendments to IAS 12? Why or why not?
  - If not, what alternative would you recommend and why?
  - Do you think the benefit of amending IAS 12 in this respect outweighs the cost of the change?

* The Exposure Draft *Annual Improvements to IFRS Standards 2015-2017 Cycle* can be accessed by clicking on the following link: http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Documents/ED-Annual-Improvements-2015-2017.pdf

Long-term interests in associates and joint ventures (Issue II)

Annual Improvements to IFRS Standards 2015-2017 Cycle

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The Issue

- Long-term interests are interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- The Board was asked whether an entity applies IFRS 9, as well as the loss allocation and impairment requirements in IAS 28, to long-term interests.
- This issue was previously discussed at the November 2015 Global Preparers Forum.

The Board's proposal to amend IAS 28

- IFRS 9 excludes only those interests in an associate or joint venture to which the equity method is applied; it does not exclude long-term interests from its scope.
- IAS 28 does not specify how to account for long-term interests (ie it does not specify recognition and measurement requirements for long-term interests; it specifies only how to allocate losses of an associate or joint venture to long-term interests and that they are subject to IAS 28 impairment testing).
- The Board proposes to amend IAS 28 to clarify those requirements.

Questions

- The Basis for Conclusions in the Exposure Draft* explains the basis for the Board's proposal. Having considered the Board's rationale, please answer the following questions:

  - Do you agree with the proposed amendments to IAS 28? Why or why not?
  - If not, what alternative would you recommend and why?
  - Do you think the benefit of amending IAS 28 in this respect outweighs the cost of the change?

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Interest and penalties related to income taxes (Issue III)

Background

- In October 2015, the IFRS Interpretations Committee published Draft IFRIC Interpretation *Uncertainty over Income Tax Treatments* (ED).
- Some respondents to the ED suggested that the scope of the Interpretation should be widened to include interest and penalties related to uncertain tax treatments.
- In September 2016, the IFRS Interpretations Committee decided that:
  - The Interpretation on uncertain tax treatments should address income taxes within the scope of IAS 12 only (and thus not explicitly address interest and penalties).
  - It would separately consider the accounting for interest and penalties related to income taxes (interest and penalties).

Background (cont.)

- We understand that interest charges (or receipts) related to income taxes are generally intended to compensate the tax authority (or the entity) for the time value associated with the under/over payment of income taxes.
- Penalties related to income taxes are generally charges that are levied on an entity, under income tax legislation, related to the underpayment or late payment of income taxes. The amount of the penalty may be fixed or variable depending on the magnitude, timing, intent and severity of non-compliance with the income tax legislation of the particular jurisdiction.

Background (cont.)

- There are no specific requirements for interest and penalties in IFRS Standards.
- We understand that entities typically apply either IAS 12 *Income Taxes* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to interest and penalties.

Questions

- Based on your experience:
  1. are interest and penalties related to income taxes material?
     a) have you seen material amounts of interest or penalties receivable?

  2. do entities typically account for interest and penalties applying IAS 12 or IAS 37, and why?
     a) do you think that differences in the recognition, measurement, presentation or disclosure requirements in IAS 12 and IAS 37 affect how preparers chose to account for interest and penalties?
     b) if entities apply IAS 37, where do they present interest and penalties in the income statement—within finance costs or as an operating expense?

Questions (cont.)

- Based on your experience:
   3. have you encountered situations in which it is not possible to separately identify amounts relating to interest and penalties from amounts relating to income taxes?
   4. do you think that the absence of specific requirements for interest and penalties related to income taxes causes difficulties in practice? If so, what would you suggest?

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