IFRS

STAFF PAPER

April 2020

IFRS® Interpretations Committee meeting

Project	**Multiple tax consequences of recovering an asset (IAS 12)**		
Paper topic	Comments on tentative agenda decision		
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Introduction

1. In November 2019, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission on IAS 12 *Income Taxes*. The submission asked how an entity accounts for deferred taxes when the recovery of the carrying amount of an asset gives rise to multiple tax consequences.

2. In the fact pattern described in the submission:

   (a) an entity acquires an intangible asset with a finite useful life (a licence) as part of a business combination. The carrying amount of the licence at initial recognition is CU100. The entity intends to recover the carrying amount of the licence through use, and the expected residual value of the licence at expiry is nil.

   (b) the applicable tax law prescribes two tax regimes: an income tax regime and a capital gains tax regime. Tax paid under both regimes meets the definition of income taxes in IAS 12. Recovering the licence's carrying amount through use has both of the following tax consequences:

      (i) under the income tax regime—the entity pays income tax on the economic benefits it receives from recovering the licence's carrying

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amount through use, but receives no tax deductions in respect of amortisation of the licence (taxable economic benefits from use); and

(ii) under the capital gains tax regime—the entity receives a tax deduction of CU100 when the licence expires (capital gain deduction).

(c) the applicable tax law prohibits the entity from using the capital gain deduction to offset the taxable economic benefits from use in determining taxable profit.

3. The submission asked how the entity determines the tax base of the asset and, consequently, how it accounts for deferred tax.

4. In considering the question, the Committee observed that:

(a) 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'. The same paragraph describes, as that fundamental principle, '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'.

(b) in the fact pattern described in the submission the tax base of the asset is not immediately apparent. The recovery of the asset's carrying amount gives rise to two distinct tax consequences—it results in taxable economic benefits from use and a capital gain deduction that cannot be offset in determining taxable profit. Accordingly, applying the fundamental principle in IAS 12, an entity reflects separately the distinct tax consequences of recovering the asset's carrying amount.

(c) an entity identifies temporary differences in a manner that reflects these distinct tax consequences by comparing:

(i) the portion of the asset's carrying amount that will be recovered under one tax regime; to

(ii) the tax deductions that will be received under that same tax regime (which are reflected in the asset's tax base).

5. Accordingly, the Committee concluded that, in the fact pattern described in the submission, the entity identifies both:

   (a) a taxable temporary difference of CU100—the entity will recover the licence's carrying amount (CU100) under the income tax regime, but will receive no tax deductions under that regime (that is, none of the tax base relates to deductions under the income tax regime); and

   (b) a deductible temporary difference of CU100—the entity will not recover any part of the licence's carrying amount under the capital gains tax regime, but will receive a deduction of CU100 upon expiry of the licence (that is, all of the tax base relates to deductions under the capital gains tax regime).

   The entity then applies the requirements in IAS 12 considering the applicable tax law in recognising and measuring deferred tax for the identified temporary differences.

6. The objective of this paper is to:

   (a) analyse comments on the tentative agenda decision; and

   (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

7. There are two appendices to this paper:

   (a) Appendix A—proposed wording of the agenda decision; and

   (b) Appendix B—comment letters.

Comment letter summary

8. We received nine comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website.[1] This

[1] At the date of posting this agenda paper, there were no late comment letters.

agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Appendix B to this paper.

9. Eight respondents agree with the Committee's decision not to add the matter to its standard-setting agenda for the reasons set out in the tentative agenda decision. Nonetheless, two of these respondents (Mazars and David Hardidge) comment on the Committee's technical analysis. One respondent (KPMG) disagrees with the Committee's technical analysis and conclusions.

10. Four respondents (the Accounting Standards Committee of Germany (ASCG), the Malaysian Accounting Standards Board (MASB), David Hardidge and the Universidad de Chile's IFRS Technical Committee (UdC)) suggest clarifications to the tentative agenda decision. Mazars and KPMG say the agenda decision could also affect other fact patterns.

11. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

Multiple tax bases

Respondents' comments

12. KPMG says the underlying question is whether, applying IAS 12, a single asset or liability can have multiple tax bases. It says the Committee's conclusions in the tentative agenda decision imply that this can be the case. However, KPMG says the staff did not analyse this question and the Committee did not discuss it.

13. KPMG says it disagrees with that implicit conclusion because:

    (a) all references to 'tax base' in IAS 12 are singular rather than plural—for example, example B following paragraphs 51A of IAS 12 and paragraphs BC9 and BC12 of the Basis for Conclusions on IAS 12 use language in the singular even though they discuss situations in which there is a dual manner of recovery.

(b) the agenda decision '*IAS 12* Income Taxes—*Selection of applicable tax rate for the measurement of deferred tax relating to an investment in an associate'* published in March 2015 (March 2015 agenda decision) implies that an asset or liability has a single temporary difference, which is split into components if an entity recovers an investment in multiple ways.[2]

(c) in the Exposure Draft *Income Tax* published in 2009, the International Accounting Standards Board (Board) acknowledged that the definition of tax base in IAS 12 is open to interpretation.[3]

14. Further, KPMG disagrees that, in the fact pattern described in the submission, the tax base of the asset is not immediately apparent. KPMG says the entity always receives a tax deduction of CU100, regardless of the manner of recovery—the asset therefore has a tax base of CU100, which is immediately apparent. KPMG says the differing views identified in the outreach were not about the amount of the tax deductions, but whether the asset has multiple tax bases.

15. KPMG says, because the Committee did not analyse this underlying question, finalising the agenda decision would, in its view, result in standard-setting via an agenda decision.

Staff analysis

16. We disagree with KPMG's view that the tentative agenda decision implies that, applying IAS 12, an asset or a liability can have more than one tax base. In describing how an entity applies the fundamental principle in IAS 12 and identifies temporary differences, the tentative agenda decision says the following:

(a) an entity compares the portion of the asset's carrying amount that will be recovered under one regime with 'the tax deductions that will be received

[2] For example, that agenda decision states that '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 in order to be consistent with the expected manner of recovery'.

[3] In that Exposure Draft, the Board proposed changing the definition of 'tax basis'. In explaining the rational for that proposal, the Board considered that the proposed definition would be 'less open to different interpretations than the [existing] definition of tax base in IAS 12'.

under that same tax regime (which are reflected in the asset's tax base)'. The tentative agenda decision does not refer to comparing a portion of the asset's carrying amount with a particular tax base and another portion of the carrying amount with a different tax base.

(b) in the fact pattern described in the submission, 'none of the tax base relates to deductions under the income tax regime' and 'all of the tax base relates to deductions under the capital gains tax regime'. Again, the tentative agenda decision does not say the asset has multiple tax bases.

17. As explained in the Committee's November 2019 paper, we think this description is also consistent with the explanation in paragraph BC9 of IAS 12 for investment property measured using the cost model in IAS 40.[4] Paragraph BC9 indicates that IAS 12 requires an entity to split the carrying amount of the asset to reflect the tax consequences arising from different manners of recovery of the asset (ie through use and through sale).

18. Further, in our view, the tentative agenda decision is consistent with the conclusions in the March 2015 agenda decision. In both cases, the entity disaggregates the temporary difference in a manner that reflects the applicable tax consequences. In the fact pattern described in the submission, such disaggregation results in a taxable temporary difference and a deductible temporary difference.

19. We also continue to agree with the Committee's conclusion that, in the fact pattern described in the submission, the tax base of the asset is not immediately apparent. We think the differing views identified about how an entity determines the tax base of the asset, including whether there is more than one tax base, justifies the conclusion that the tax base is not 'immediately apparent'.[5]

20. Finally, we think that whether an entity considers the asset described in the agenda decision as having a single tax base that reflects amounts that will be deductible under more than one tax regime, or a different tax base under each tax regime, would not

[4] Paragraph 51C of IAS 40 states that there is a rebuttable presumption that the carrying amount of investment property measured using the fair value model will be recovered entirely through sale. Paragraph BC9 of IAS 12 explains the Board's rationale for this requirement.

[5] See also paragraphs 24–26 of Agenda Paper 7 of the Committee's November 2019 meeting.

affect the outcome—in either situation, the resulting deferred tax should reflect the two distinct tax consequences that will follow from recovering the asset's carrying amount through use. For this reason, we think it is unnecessary to address this matter.

21. Consistent with our analysis above, we continue to view the tentative agenda decision as appropriately explaining how an entity applies IAS 12 to the fact pattern described in the submission—it does not add or change requirements in IAS 12. Therefore, finalising the agenda decision would not, in our view, result in standard-setting via an agenda decision.

Basis for the Committee's conclusion

Respondents' comments

22. Mazars says the Committee could more fully develop the rational for its conclusion. In Mazars view, the Committee's conclusion in the agenda decision could be supported by:

    (a) emphasising that the tax law described in the submission prohibits using deductions from one tax regime to offset taxable profits under the other tax regime; and

    (b) specifying that:

        (i) applying paragraph 7 of IAS 12, an entity identifies a tax base of nil under the income tax regime, and a tax base of CU100 under the capital gain regime;

        (ii) the entity allocates the carrying amount of the licence to each tax regime applying paragraphs 51 and 51A of IAS 12 (ie based on the manner of recovery); and

        (iii) the entity then identifies the temporary differences by comparing those amounts with the corresponding tax base.

23. Similarly, David Hardidge says the entity recovers the carrying amount of the asset through two manners of recovery, which in his view results in two tax bases—an entity recovers the portion of the asset's carrying amount subject to amortisation

through use under the income tax regime, and the residual value (even if nil) under the capital gains tax regime.

Staff analysis

24. Mazars and David Hardidge suggest that, applying paragraph 51 of IAS 12, the entity considers that it recovers the carrying amount of the asset through two manners of recovery.[6] Because different tax regimes apply to each manner of recovery, and deductions from one regime cannot be used to offset taxable profits under the other regime, an entity also determines different tax bases.

25. However, the submission describes a fact pattern in which there is only one manner of recovery—the entity recovers the entire carrying amount of the asset through use (ie none of the asset's carrying amount is recovered through disposal). Therefore, applying paragraph 51 of IAS 12, an entity would consider the tax consequences of recovering the asset only through use—in the fact pattern described in the submission, the recovery of the asset's carrying amount through use gives rise to two distinct tax consequences.

26. Further, the agenda decision already states that the tax law prohibits offsetting the capital gain deduction against the taxable economic benefits from use. We therefore see no need to further emphasise this point.

Effect on other fact patterns

Respondents' comments

27. KPMG says finalising the tentative agenda decision could have far reaching consequences that have not been considered by the Committee. It says it is unclear whether the agenda decision would apply to any asset or liability:
    (a) for which the carrying amount can be recovered or settled in more than one way (ie for which there is a dual manner of recovery)—KPMG says entities

[6] Paragraph 51 of IAS 12 states that 'the measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities'.

currently do not recognise more than one deferred tax amount for an asset or liability with multiple tax consequences;

(b) with more than one tax consequence that cannot be offset; or

(c) with more than one tax consequence that cannot be offset, but only in circumstances in which the entity determines that the tax base is not immediately apparent.

28. KPMG also says it is unclear whether the proposed amendments to IAS 12 in the Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Exposure Draft) would apply to scenarios in which the initial recognition of a single asset or liability gives rise to equal amounts of taxable and deductible temporary differences.[7]

29. Mazars comments on the application of IAS 12 to a similar fact pattern in which an entity acquires a licence in a separate transaction, rather than as part of a business combination. In this fact pattern, the recognition exemption in paragraphs 15 and 24 of IAS 12 apply to any temporary differences arising on initial recognition of the licence, and the entity would recognise no deferred tax (either on initial recognition or subsequently).[8] Mazars suggests ways this matter could be addressed—for example, by adding this transaction to the scope of the proposals in the Exposure Draft.

Staff analysis

30. The tentative agenda decision explains how an entity applies IAS 12 to the fact pattern it describes. Therefore, if finalised, we would expect entities with that same fact pattern to account for deferred tax in the manner set out in the agenda decision. However, as with any agenda decision, we would also expect entities to consider the explanatory material in the agenda decision in accounting for other similar fact

[7] The Exposure Draft proposes to narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12. Applying these proposals, the recognition exemption (see footnote 8) would not apply to the extent that the initial recognition of a transaction gives rise to equal amounts of deferred tax assets and liabilities.

[8] Paragraphs 15 and 24 of IAS 12 prohibit an entity from recognising deferred tax on the initial recognition of an asset and liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (recognition exemption).

patterns to the extent the explanatory material is relevant to those fact patterns, but not to do so when not.

31. Applying IAS 12, an entity reflects the tax consequences of recovering or settling the carrying amount of an asset or liability in accounting for deferred tax associated with that asset or liability, unless an exemption applies. We acknowledge that, in the situation described in paragraph 29 of this paper, an entity may be required to apply the recognition exemption. However, this is a consequence of the recognition exemption's scope, which results in different deferred tax accounting for assets acquired as part of a business combination and those acquired outside a business combination.

32. The Exposure Draft included proposals that apply to transactions that give rise to equal and offsetting temporary differences. Therefore, the proposals, if finalised, could potentially apply to the situation described in paragraph 29 of this paper. The Board will consider at a future meeting the feedback received on the Exposure Draft, which include comments on the scope of the proposed amendments. That consideration will include situations in which equal amounts of taxable and deductible temporary differences may arise from the initial recognition of a single asset or liability.

Other comments

33. The table below summarises other comments together with our analysis.

Comments	Staff analysis and recommendations
1. *Clarifications to the wording of the tentative agenda decision* Some respondents suggest the Committee clarify the following aspects of the agenda decision: (a) the ASCG suggests clarifying why 'capital gains tax' is in the scope of IAS 12. Similarly, UdC suggests that the Committee clarify the concept of a ‘capital gains tax regime’. (b) David Hardidge suggests clarifying that the agenda decision also applies to intangible assets with an indefinite life. (c) MASB says the agenda decision should state that an entity considers all relevant applicable jurisdictional tax requirements in arriving at the appropriate accounting treatment.	*We recommend no change.* We recommend no change to the wording of the tentative agenda decision as a result of these suggestions, for the following reasons: (a) the fact that income tax paid under the capital gains tax regime is in the scope of IAS 12 is an assumption of the fact pattern. Clarifying the concept of capital gains tax or why capital gains tax is in the scope of IAS 12 in that fact pattern is beyond the scope of the question asked in the submission. (b) commenting on intangible assets with an indefinite life would be beyond the scope of the submission. (c) entities should always consider all applicable tax law in determining their accounting for income taxes—the agenda decision refers to ‘considering the applicable tax law in recognising and measuring deferred tax…’. We therefore see no need to say more in this respect.
2. *Recognition of a deferred tax asset* David Hardidge says diversity in reporting will continue even if the Committee finalises the agenda decision—this is because many entities will recognise no deferred tax asset in	*We recommend no change.* Depending on the particular facts and circumstances, entities may reach different conclusions about the extent to which it is probable that taxable profit will be available

Comments	Staff analysis and recommendations
situations in which it is uncertain whether future capital gains will be available against which the capital gain deduction can be utilised.	when assessing whether to recognise deferred tax assets. Any differences in accounting for deferred tax resulting from that assessment would reflect the differing facts and circumstances.
3. *Consequences of recognising deferred tax in a business combination* KPMG says the tentative agenda decision does not explain the consequences of recognising both a deferred tax asset and a deferred tax liability for a licence acquired in a business combination (ie the increase in goodwill and potential impairment on initial recognition).	*We recommend no change.* We think commenting on the broader accounting for a business combination is beyond the scope of the question asked in the submission. Further, as part of its 2015 Agenda Consultation, the Board considered issues related to the interaction between fair value measurement and tax effects, including in the context of business combinations.[9] At that time, the Board decided not to prioritise further work on IAS 12.

Staff recommendation

34. Based on our analysis, we recommend finalising the agenda decision as published in IFRIC Update in November 2019 with no changes. Appendix A sets out the proposed wording of the final agenda decision.

Question for the Committee
Does the Committee agree with our recommendation in paragraph 34 of this paper to finalise the agenda decision as set out in Appendix A?

[9] See paragraphs 43–45 of Agenda Paper 19A for the May 2016 Board meeting. One of the questions identified in Case 3 of Example 4 is whether the recognition of a deferred tax liability results in an overstatement of goodwill.

Appendix A—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision, which is unchanged from the tentative agenda decision except to remove the square brackets in the last paragraph (deleted text is struck through).

Multiple Tax Consequences of Recovering an Asset (IAS 12 *Income Taxes*)

The Committee received a request about deferred tax when the recovery of the carrying amount of an asset gives rise to multiple tax consequences. In the fact pattern described in the request:

a. an entity acquires an intangible asset with a finite useful life (a licence) as part of a business combination. The carrying amount of the licence at initial recognition is CU100. The entity intends to recover the carrying amount of the licence through use, and the expected residual value of the licence at expiry is nil.

b. the applicable tax law prescribes two tax regimes: an income tax regime and a capital gains tax regime. Tax paid under both regimes meets the definition of income taxes in IAS 12. Recovering the licence's carrying amount through use has both of the following tax consequences:

   i. under the income tax regime—the entity pays income tax on the economic benefits it receives from recovering the licence's carrying amount through use, but receives no tax deductions in respect of amortisation of the licence (taxable economic benefits from use); and

   ii. under the capital gains tax regime—the entity receives a tax deduction of CU100 when the licence expires (capital gain deduction).

c. the applicable tax law prohibits the entity from using the capital gain deduction to offset the taxable economic benefits from use in determining taxable profit.

The request asked how the entity determines the tax base of the asset and, consequently, how it accounts for deferred tax.

The fundamental principle in IAS 12

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'. The same paragraph describes, as that fundamental principle, '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'.

Applying the fundamental principle to the fact pattern

The Committee observed that, in the fact pattern described in the request, the tax base of the asset is not immediately apparent. The Committee also observed that the recovery of the asset's carrying amount gives rise to two distinct tax consequences—it results in taxable economic benefits from use and a capital gain deduction that cannot be offset in determining taxable profit. Accordingly, applying the fundamental principle in IAS 12, an entity reflects separately the distinct tax consequences of recovering the asset's carrying amount.

An entity identifies temporary differences in a manner that reflects these distinct tax consequences by comparing:

a. the portion of the asset's carrying amount that will be recovered under one tax regime; to

b. the tax deductions that will be received under that same tax regime (which are reflected in the asset's tax base).

In the fact pattern described in the request, the Committee concluded that the entity identifies both:

a. a taxable temporary difference of CU100—the entity will recover the licence's carrying amount (CU100) under the income tax regime, but will receive no tax deductions under that regime (that is, none of the tax base relates to deductions under the income tax regime); and

b. a deductible temporary difference of CU100—the entity will not recover any part of the licence's carrying amount under the capital gains tax regime, but will receive a deduction of CU100 upon expiry of the licence (that is, all of the tax base relates to deductions under the capital gains tax regime).

The entity then applies the requirements in IAS 12 considering the applicable tax law in recognising and measuring deferred tax for the identified temporary differences.

The Committee concluded that the principles and requirements in IAS 12 provide an adequate basis for an entity to account for deferred tax in the fact pattern described in the request. Consequently, the Committee [decided] not to add the matter to its standard-setting agenda.

Appendix B—comment letters

Date: February 11, 2020

Ms Sue Lloyd,
Chair, IFRS Interpretations Committee,
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Ms Sue,

Subject: Comments of the Institute of Chartered Accountants of India (the ICAI) on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee on Multiple Tax Consequences of Recovering an Asset (IAS 12)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decisions of IFRS Interpretations Committee.

We agree with the conclusions in TAD pertaining to accounting for deferred taxes when the recovery of the carrying amount of an asset gives rise to multiple tax consequences. However, the fact pattern described in the TAD is not applicable in case of Indian tax laws

With kind regards,

CA. M.P. Vijay Kumar
Chairman
Accounting Standards Board
Institute of Chartered Accountants of India

MAZARS

Mrs Sue Lloyd

IFRS Interpretations Committee

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Paris, 12 February 2020

Tentative Agenda Decisions – IFRIC Update November 2019

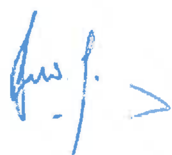
Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee Tentative Agenda Decisions published in the November 2019 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

Should you have any questions regarding our comments on the tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



Michel Barbet-Massin

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Appendix 2

Multiple Tax Consequences of Recovering an Asset (IAS 12)

https://www.ifrs.org/projects/work-plan/multiple-tax-consequences-of-recovering-an-asset/comment-letters-projects/tad-multiple-tax-consequences-of-recovering-an-asset/

We agree with the Committee's conclusion that under the fact pattern in the submission, the reading of IAS 12 leads to identifying a taxable temporary difference under the "income tax regime" and a deductible temporary difference under the "capital gains tax regime".

We nevertheless believe that the rationale for that conclusion should be better developed. Indeed, the Committee only refers to paragraph 10 of IAS 12 and the "fundamental principle in IAS 12". We believe there are other rationale and other paragraphs in IAS 12 that would better support the demonstration:

1. One key element of the analysis, that is not sufficiently emphasized in the Tentative agenda decision, is that the applicable tax law described in the submission prohibits using deductions from one tax regime to offset taxable profits under another tax regime. This is essential, in our opinion, to conclude that the tax consequences from these two tax regimes should be reflected separately under IAS 12;

2. We do not believe that the difficulty lies so much in identifying the tax bases, as one could understand from the quote of IAS 12.10: the entity is not entitled to any deduction under one tax regime and to a full deduction of the licence's initial carrying amount under the other tax regime.
   After considering according to paragraph 1 above that the two tax regimes should be considered separately, the entity should apply the definition of a tax base in IAS 12.7 (and we recommend the Committee to quote paragraph 7 in the final Agenda decision) in order to measure the tax base in each of the tax regimes. Applying IAS 12.7, the tax base is obviously CU 0 under the "income tax regime" and CU 100 under the "capital gains tax regime";

3. The main difficulty relies in allocating the proper portion of the carrying amount of the license to each tax regime. That allocation should be made consistently with IAS 12.51-51A, i.e. based on the expected manner of recovery. Reference to those paragraphs could valuably be made in the Agenda decision.

4. Having dealt in point 2 above with the tax base in each tax regime and in point 3 with the book value in each tax regime, the entity is able to identify the taxable and

deductible temporary differences that exist respectively in the tax regimes and that are clearly described as the relevant outcome in the Tentative agenda decision.

We also would like to point out that, while the accounting outcome of the Committee's conclusion appears perfectly satisfactory in the case of a business combination, it raises question in the case of a separate acquisition of the licence: as the temporary differences identified under both tax regimes would fall in the scope of the initial recognition exemption (IAS 12.15 and 24), no differed tax would be recognised initially or subsequently; thus, the entity would only recognise a current tax expense under the "income tax regime" throughout the period of use of the licence and a current income tax deduction under the "capital gains tax regime" on expiry of the licence (provided there is sufficient taxable profits under this tax regime to offset this deduction).

We identify two possible ways to mitigate this outcome, should the Committee decide to address this issue:

- either to include the transaction within the scope of the forthcoming amendments to IAS 12 relating to deferred taxes on leases, considering that the transaction generates on initial recognition of the licence a deductible and a taxable temporary differences of the same amount);
- or to consider that only the "capital gains tax regime" applies to the licence and therefore conclude that there is no temporary difference on initial recognition (with a carrying amount of CU 100, and a tax base of the same amount to which the "capital gains tax regime" applies. Thus, a temporary difference would only arise – and a differed tax asset would be recognised if recoverable – as the asset is amortised. That approach would lead to recognizing each year a tax expense (profit) for the difference between the current tax expense linked to the non-deductibility of the amortization expense under the "income tax regime", and the deferred tax asset relating to the newly generated deductible temporary difference under the "capital gains tax regime". That expense (profit) would only represent the effects of the difference of tax rates between the two tax regimes.

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Our ref RD/288

13 February 2020

Dear Ms Lloyd

Tentative agenda decision: *IAS 12 Income Taxes – Multiple Tax Consequences of Recovering an Asset*

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (the Committee) tentative agenda decision *IAS 12 Income Taxes – Multiple Tax Consequences of Recovering an Asset* (IFRIC Update November 2019). We have consulted with, and this letter represents the views of, the KPMG network.

We are concerned that the Committee's tentative agenda decision represents standard-setting by agenda decision as the Committee has not analysed or discussed the key underlying issues. This is particularly concerning in light of the debate about the Committee's role and the authoritative status of agenda decisions. The key question underlying the issue in the submission is whether a single asset or a liability may have *multiple* tax bases under IAS 12. This question is not raised in the staff's analysis and the Committee did not debate it. This implies that the Committee presumes that the standard is clear on this point – i.e. that it is appropriate for an asset or a liability to have more than one tax base.

We disagree with the Committee that IAS 12 is clear about whether there can be more than one tax base for a single asset or liability, for the following reasons.

— In IAS 12, all references to 'tax base' are singular rather than plural. Example B that follows paragraph 51A, and paragraphs BC9 and BC12 of IAS 12 all discuss aspects of 'dual intention' using singular language for tax base, with no suggestion that an item may have more than one tax base.

— The March 2015 IFRIC agenda decision on measuring deferred taxes on investments in associates (paragraph 51A of IAS 12) implies that an asset or a liability has a single temporary difference, which needs to be split into components if an investment may be recovered in multiple ways.

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Registered office: 15 Canada Square, London, E14 5GL

— The Board proposed amending the definition of a tax base as part of the 2009 ED *Income Tax*. In explaining its reasons in paragraph BC20 of the Basis for Conclusions to the 2009 ED, the Board acknowledged that the definition of the tax base in IAS 12 is open to interpretations. The tentative agenda decision implies that there is only one correct interpretation in this situation.

In addition, we disagree with the statement that in the scenario considered the tax base of the asset is not immediately apparent. The tax base of an asset is defined as 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 the fact pattern discussed by the Committee, the entity always receives the tax deduction of 100 regardless of the manner of recovery – i.e. whether the asset reaches the end of its useful life or the entity sells it. As a result, we believe that the tax base of the asset in this case is apparent – i.e. it is 100. There is no suggestion in the agenda paper that an amount other than 100 will be deductible, or that respondents to the outreach believed that an amount other than 100 will be deductible. The differing views identified in the outreach are not about the amount of the tax deduction but about whether there are one or two tax bases – i.e. the issue we note above.

We are also concerned that if the agenda decision is finalised as drafted, then it may have far reaching consequences that have not been considered by the Committee. We believe that the Committee needs to consider and clarify the following points.

— ***Scope:*** It is not clear whether the agenda decision would apply to any asset or liability:

  — that can be realised or settled in more than one way – i.e. for *any* instance of 'dual intention'. If this is the case, then it would be a significant change in practice. We are not aware of entities recognising *multiple* deferred taxes for an asset or a liability with multiple tax consequences at present;

  — with more than one tax consequence that cannot be offset; or

  — with more than one tax consequence that cannot be offset, but only in circumstances in which an entity determines that the tax base is not clear.

— ***Interaction with forthcoming amendments to IAS 12:*** If the intention is to recognise multiple deferred taxes for a single asset or liability, then it is not clear whether the forthcoming amendments to IAS 12 addressing deferred taxes arising from a single transaction would apply to the scenarios – e.g. if an entity identifies equal amounts of taxable and deductible temporary differences on initial recognition.

— ***Business combinations:*** The agenda decision does not explain the consequences of recognising two deferred taxes in a business combination, which is the scenario addressed in the submission – i.e. the increase in goodwill and potential impairment issue on Day 1.

For the reasons outlined in this letter, we urge the Committee to carry out a broader analysis of the issue and consider all consequences to determine if this matter requires standard-setting rather than an agenda decision.

Please contact Reinhard Dotzlaw at Reinhard.Dotzlaw@kpmgifrg.com or Fred Versteeg at Versteeg.Fred@kpmg.nl if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

CC Brian O'Donovan

MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

14 February 2020

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions:

- Player Transfer Payments (IAS 38 *Intangible Assets*) – Agenda Paper 6

- Multiple Tax Consequences of Recovering an Asset (IAS 12 *Income Taxes*) – Agenda Paper 7

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decisions for not adding these items onto its agenda.

With regard to Agenda Paper 7, we further recommend that the final Agenda Decision includes a reminder that all relevant applicable local jurisdictional tax requirements must be carefully considered in arriving at the appropriate accounting treatment.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

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PO Box 1411
Beenleigh QLD 4207
14 February 2020

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: https://www.ifrs.org/projects/work-plan/multiple-tax-consequences-of-recovering-an-asset/

Dear Sue

Tentative agenda decision - Multiple Tax Consequences of Recovering an Asset (IAS12)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Multiple Tax Consequences of Recovering an Asset (IAS 12).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Explaining the reasoning for the decision

While I agree with the TAD conclusions, and the reference to the two tax regimes, I believe that the decision can be better explained. I believe that the TAD should directly link the recovery through use to the income tax regime, and the recovery of the residual value (even if nil) to the capital gains regime. I believe it is the two component methods of recovery that drives the two tax bases.

Continued diversity

I expect continued diversity in practice from issues around the recognition (or lack of recognition) of the deferred tax asset arising from the future capital gains deduction. In practice, I find that many companies do not recognise the deductible temporary difference based on the argument that the company is uncertain as to future capital gains required to absorb the deduction.

Indefinite life intangible assets

The TAD should clarify that it also applies to indefinite life intangible assets following the IFRIC Agenda Decision "Expected manner of recovery of intangible assets with indefinite life". That Agenda Decision provides that such assets man be assessed as being recovered through use, and presumably the same disposal at the end of its useful life.

I noticed that after the Agenda Decision was issued in 2016 that companies revised their business combination accounting. The revision appeared to be to recognise a higher deferred tax liability from the business combination (and corresponding increase in goodwill) relating to indefinite life intangible assets (e.g. brandnames). The change appeared to arise from using a tax base of nil, presumably based on the view that the asset will be recovered from use, and the allocated cost not deductible for income tax. Also, presumably, the capital gains deduction and future capital loss was not recognised.

Yours sincerely,

David Hardidge
https://www.linkedin.com/in/davidhardidge/

Mrs Sue Lloyd

IFRS Interpretations Committee

Columbus Building
7 Westferry Circus, Canary Wharf

London E14 4HD
United Kingdom

Santiago, February 14th 2020

Tentative Agenda Decisions – IFRIC Update November 2019

Dear Sue

Universidad de Chile's IFRS Technical Committee is pleased to comment on Tentative Agenda Decisions published in the November 2019 IFRIC Update.

You'll find our comments on Appendices A and B attached to this letter.

Yours faithfully,

Leonardo Torres
President
Universidad de Chile's IFRS Technical Committee

Appendix B

Multiple tax consequences of recovering an asset

We agree with the conclusions of the tentative agenda decision on IAS 12.

We also believe that it is necessary to clarify the concept of "capital gains tax regime" in order to guide its practical application.

Deloitte.

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14 February 2020

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E14 4HD

Dear Ms Lloyd

Tentative agenda decision – Multiple Tax Consequences of Recovering an Asset (IAS 12 Income Taxes)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November 2019 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the determination of the tax base of an asset and the accounting for the related deferred tax when the recovery of the carrying amount of an asset gives rise to multiple tax consequences.

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

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Berlin, 14 January 2020

Dear Sue,

IFRS IC's tentative agenda decisions in its November 2019 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the November 2019 *IFRIC Update*.

Whilst we agree with the technical conclusions of the **tentative agenda decision on IAS 38**, we deem the line of argument of gross vs. net presentation and the relation to IAS 2 or IFRS 15 to have much broader relevance beyond the specific issue discussed (especially as regards arrangements concerning the development and use of intellectual property). Although we agree with the Committee's application of the current standard to the specific fact pattern, we are concerned that the accounting treatment may not be the most decision-useful and, hence, most appropriate in other scenarios. Against the background of an increasing number and variety of arrangements over intangibles, and irrespective of the appropriate conclusion on the issue discussed, we believe that the agenda item request highlights again that IAS 38 deserves being revisited and possibly revised.

Further, we also agree with the conclusions of the **tentative agenda decision on IAS 12**. However, we suggest making clearer why the Committee believes that a "capital gains tax" undoubtedly falls in the scope of IAS 12 – as is presumed in the respective Agenda Paper. As this is an important element in the IFRS IC's tentative decision, we suggest clarifying this point explicitly in the final wording of the agenda decision.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Tentative Agenda Decision?Multiple Tax Consequences of Recovering an Asset (IAS 12)

Md. Mazedul Islam
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Email:keinsmith58@gmail.com

Yes, I agree with the Board. Since the standard covers the total accounting system.

But since capital gain tax regime effects after end of license period and deferred tax isn't applicable due to it's under mentioned characteristics :

1. Effective time (End of useful life)
2. Specific Method
3.Specific Rate

This characteristics doesn't support the deferred tax provision.

Actually deferred tax should have specific characteristics at IAS12.

Journal
under the income tax regime?the entity pays income tax on the economic benefits it receives from recovering the licence?s carrying amount through use, but receives no tax deductions in respect of amortisation of the licence (taxable economic benefits from use);

A)Cash /Bank
To, Revenue Income

B) Income Tax
To, Retained Earnings

C) Deferred Tax
To, Retained Earnings
Or

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Retained Earnings
To, Deferred Tax
(For compliance)
and
under the capital gains tax regime?the entity receives a tax deduction of CU100 when the licence expires (capital gain deduction).

A) Cash/Bank
Income Tax
To, Capital Gain

B) Income Tax
To, Retained Earnings
(If capital Gain is not specific)

C) Deferred Tax
To, Retained Earnings
Or
Retained Earnings
To, Deferred Tax
(For compliance)

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