IFRS

STAFF PAPER

June 2020

IFRS® Interpretations Committee meeting

Project	**Deferred Tax related to an Investment in a Subsidiary (IAS 12)**
Paper topic	Comments on tentative agenda decision

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Introduction

1. In March 2020, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission on IAS 12 *Income Taxes*. The submitter asked how an entity, in its consolidated financial statements, accounts for deferred tax related to its investment in a subsidiary.

2. In the fact pattern described in the submission:

   (a) undistributed profits of the subsidiary give rise to a taxable temporary difference associated with the entity's investment in the subsidiary.

   (b) the entity has determined that the conditions in paragraph 39 of IAS 12 for applying the exception from recognising a deferred tax liability related to its investment in the subsidiary are not satisfied. This is because the entity expects the subsidiary to distribute its profits (which are available for distribution) in the foreseeable future.

   (c) the entity and subsidiary operate in a jurisdiction in which:

      (i) profits are taxable only when distributed—that is, the income tax rate applicable to undistributed profits is nil (undistributed tax rate).

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(ii) a 20% tax rate applies to profit distributions (distributed tax rate). However, profit distributions made by the entity are not taxable to the extent that the subsidiary has already been taxed on that profit—that is, profit distributions are taxed only once.

3. The submission asked whether the entity recognises a deferred tax liability for the taxable temporary difference associated with its investment in the subsidiary.

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

   (a) paragraph 39 of IAS 12 requires an entity to recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, except to the extent that (a) the parent 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.

   (b) paragraph 51 of IAS 12 requires an entity to reflect—in the measurement of deferred tax assets and deferred tax liabilities—'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'.

5. In the fact pattern described in the submission:

   (a) there is a taxable temporary difference associated with the entity's investment in the subsidiary and the entity has determined that the recognition exception in paragraph 39 of IAS 12 does not apply; and

   (b) the entity expects to recover the carrying amount of its investment in the subsidiary through distributions of profits by the subsidiary, which would be taxed at the distributed tax rate.

6. Accordingly, the Committee concluded that the entity recognises a deferred tax liability for the taxable temporary difference associated with its investment in the subsidiary and, applying paragraph 51 of IAS 12, the entity uses the distributed tax rate to measure this deferred tax liability.

7. The Committee also observed that, in the fact pattern described in the submission, the entity does not apply paragraph 57A of IAS 12—that paragraph applies only in the

context of dividends payable by the reporting entity. Further, paragraph 52A of IAS 12 does not apply to the measurement of tax that itself reflects the tax consequences of a distribution of profits.

8. 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.

9. 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

10. We received 11 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website.[1] This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Appendix B to this paper.

11. 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.

12. Two respondents—the Estonian Accounting Standards Board (EASB) and Masahiro Hoshino—do not express a view on the Committee's technical analysis and conclusions. The EASB requests the Committee consider the consequences of applying the tentative agenda decision to two specific transactions. Masahiro Hoshino requests a clarification to the fact pattern.

13. One respondent—the Swedish Financial Reporting Board (SFRB)—says IAS 12 does not provide an adequate basis for the Committee's conclusions on this matter.

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

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

Staff analysis

Consequences of applying the agenda decision to specific transactions

Respondents' comments

15. The EASB expresses concerns about the outcome of applying the accounting described in the tentative agenda decision to the following two transactions:

    (a) *setting up a new holding company*—a holding company is set up for a stand-alone operating company with no subsidiaries. Before setting up the holding company, the stand-alone operating company would have recognised no deferred tax in respect of its undistributed profits because it applied paragraphs 52A and 57A of IAS 12.[2] However, applying the accounting described in the tentative agenda decision, the new reporting group—comprising the holding company (parent) and the operating company (subsidiary)—would recognise a deferred tax liability in respect of any undistributed profits in the subsidiary and a corresponding tax expense.

    (b) *merging an operating company and its holding company*—a subsidiary (an operating company) merges with its parent holding company. As a result, the new reporting entity (a single legal entity) would no longer apply the accounting described in the tentative agenda decision, and would instead apply paragraphs 52A and 57A of IAS 12. Consequently, the new reporting entity would derecognise the deferred tax liability in respect of any undistributed profits and recognise a corresponding tax income.

[2] As discussed in paragraphs 29–31 of Agenda Paper 3 for the Committee's March 2020 meeting (March Agenda Paper), applying paragraphs 52A and 57A of IAS 12 an entity would (a) in particular circumstances, measure current and deferred tax at the tax rate applicable to undistributed profits; and (b) recognise the income tax consequences of dividends when it recognises a liability to pay dividends. As noted in paragraph 7 of this paper, the Committee observed that these paragraphs do not apply to the fact pattern in the submission. However, the EASB says these paragraphs would apply to the stand-alone operating company in the two transactions that the EASB describes in its letter.

16. The EASB says these transactions, which are common in the context of capital market transactions and acquisitions, affect neither the tax position of the entity nor the taxes that will be payable upon distribution of profits. Accordingly, in its view, recognising (or derecognising) deferred tax in respect of these transactions does not reflect their economic substance.

17. The EASB asks:

    (a) whether applying the accounting in the tentative agenda decision to these transactions meets the objective of financial statements and the qualitative characteristic of useful financial information in the *Conceptual Framework for Financial Reporting*; and if not

    (b) whether the application of the true and fair override in IAS 1 *Presentation of Financial Statements* would be appropriate.[3]

18. The EASB also says, if the Committee were to agree with its concern, the Committee could suggest an amendment to IAS 12 to require consistent accounting for deferred taxes within a group, regardless of which legal entity within that group accumulates profits.

Staff analysis

19. As part of its initial consideration of the matter at its March 2020 meeting, the Committee considered the submitter's concern that the accounting for deferred tax might differ solely based on a group's legal structure.[4] The EASB expresses that same concern by highlighting the changes in the accounting for deferred tax that result from changes in a group's legal structure—that is, creating a new parent, or combining a parent and subsidiary into a single legal entity, may result in an entity recognising (or derecognising) deferred tax associated with an investment in a subsidiary, with a corresponding debit or credit in profit or loss.

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[3] Paragraph 19 of IAS 1 states that 'in the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.' Paragraph 20 of IAS 1 sets out disclosure requirements that apply when an entity departs from a requirement in an IFRS Standard in accordance with paragraph 19 of IAS 1.

[4] See paragraphs 36–41 of the March Agenda Paper.

20. As discussed in March 2020, we acknowledge this concern. However, we note that:

    (a) differences in legal structure can lead to different tax consequences—a single legal entity would incur the tax consequences of distribution when it distributes profits to its shareholders; a group with a parent and a subsidiary would, however, incur the tax consequences of distribution when the subsidiary makes a distribution to the parent, regardless of whether the parent subsequently pays dividends to its shareholders.

    (b) some would say the accounting outcome that results from applying the tentative agenda decision reflects the differing nature of the tax consequences in the different situations described—in one case, tax arises from the recovery of the investment in the subsidiary (internal distribution); in the other, tax arises from the distribution of dividends to the group's shareholders.

21. We therefore continue to agree with the Committee that there is insufficient evidence at this stage to justify a standard-setting project to address the respondent's concerns. As discussed in March 2020, we note that:

    (a) reconsidering the applicable requirements in IAS 12 could not be done solely in the context of the fact pattern described in the submission, or the transactions described in paragraph 15 of this paper. Instead, it would require a broader-scope project.

    (b) as part of its 2015 Agenda Consultation, the International Accounting Standards Board (Board) considered a number of unresolved concerns about the application of IAS 12, which include concerns about the application of paragraph 52A of IAS 12. At that time, the Board decided not to prioritise further work on IAS 12. We therefore think there is insufficient evidence at this stage to suggest that a potential project to address the EASB's concern should be prioritised ahead of (i) a potential project to address other unresolved concerns regarding IAS 12, or (ii) other projects currently in the Board's research pipeline; and

    (c) as part of its 2020 Agenda Consultation, the Board will publish a Request for Information in the first half of 2021 to seek formal public input on its strategy and 2022–2026 work plan. Therefore, the EASB and other stakeholders who

share EASB's concern will have an opportunity to respond to the Request for Information and provide input to help the Board assess whether it should prioritise a project on IAS 12.

22. Finally, in our view considering the applicability of the requirements in paragraph 19 of IAS 1 to the transactions described in paragraph 15 of this paper is beyond the scope of the matter addressed in the submission.

The principles and requirements in IAS 12 do not provide an adequate basis

Respondents' comments

23. The SFRB disagrees with the Committee's conclusion 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 submission. It says the Committee reached its conclusion after analysing (a) the wording in IAS 12 prior to amendments made to the Standard in 2000; (b) the purpose of these amendments; and (c) an agenda paper for the International Accounting Standards Committee's October 2000 meeting.[5] In the SFRB's view, the conclusion in the tentative agenda decision constitutes an interpretation of the requirements in IAS 12.

Staff analysis

24. The Committee's conclusions on this matter (and thus the explanation in the tentative agenda decision) are based on applying the applicable requirements in IAS 12 to the fact pattern described in the submission—namely, paragraphs 39 and 51 of IAS 12. The March Agenda Paper, in discussing amendments made to IAS 12 in 2000, provided additional context by explaining the development of particular requirements in IAS 12. That information however did not form the basis of the Committee's conclusions. Rather, it was provided to ensure the Committee had all relevant information available to it in reaching an informed decision about the application of IAS 12 to the fact pattern submitted. Accordingly, we continue to agree with the Committee that IAS 12 provides an adequate basis for an entity to account for

[5] See paragraphs 32–33 of the March Agenda Paper.

deferred tax in the fact pattern described in the submission for the reasons set out in the tentative agenda decision.

Clarification to the fact pattern

Respondents' comments

25. Masahiro Hoshino suggests clarifying whether, in the fact pattern described in the submission, the entity files consolidated tax returns. The respondent says the tax base of a parent's investment in a subsidiary depends on whether it files consolidated tax returns and this could, in turn, affect whether there is a related temporary difference.[6]

Staff analysis

26. The existence of a taxable temporary difference associated with the entity's investment in the subsidiary is part of the fact pattern submitted to the Committee. Accordingly, we consider it unnecessary to clarify whether the entity files consolidated tax returns.

Staff recommendation

27. Based on our analysis, we recommend finalising the agenda decision as published in IFRIC Update in March 2020, with an editorial change proposed to the penultimate paragraph. 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 27 of this paper to finalise the agenda decision as set out in Appendix A?

[6] 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.'

Appendix A—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision, which includes an editorial change to the wording of the tentative agenda decision (new text is underlined; deleted text is struck through).

Deferred Tax related to an Investment in a Subsidiary (IAS 12 *Income Taxes*)

The Committee received a request about how an entity, in its consolidated financial statements, accounts for deferred tax related to its investment in a subsidiary. In the fact pattern described in the request:

a. undistributed profits of the subsidiary give rise to a taxable temporary difference associated with the entity's investment in the subsidiary.

b. the entity has determined that the conditions in paragraph 39 of IAS 12 for applying the exception from recognising a deferred tax liability related to its investment in the subsidiary are not satisfied. This is because the entity expects the subsidiary to distribute its profits (which are available for distribution) in the foreseeable future.

c. the entity and subsidiary operate in a jurisdiction in which:

    i. profits are taxable only when distributed—that is, the income tax rate applicable to undistributed profits is nil (undistributed tax rate).

    ii. a 20% tax rate applies to profit distributions (distributed tax rate). However, profit distributions made by the entity are not taxable to the extent that the subsidiary has already been taxed on that profit—that is, profit distributions are taxed only once.

The request asked whether the entity recognises a deferred tax liability for the taxable temporary difference associated with its investment in the subsidiary.

Paragraph 39 of IAS 12 requires an entity to recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, except to the extent that (a) the parent 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.

In the fact pattern described in the request, there is a taxable temporary difference associated with the entity's investment in the subsidiary. The entity has also determined that the recognition exception in paragraph 39 of IAS 12 does not apply because it is probable that the temporary difference will reverse in the foreseeable future when the subsidiary distributes its undistributed profits. Accordingly, the Committee concluded that the entity recognises a deferred tax liability for that taxable temporary difference.

Paragraph 51 of IAS 12 requires an entity to reflect—in the measurement of deferred tax assets and deferred tax liabilities—'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'.

In the fact pattern described in the request, the entity expects to recover the carrying amount of its investment in the subsidiary through distributions of profits by the subsidiary, which would be taxed at the distributed tax rate. Accordingly, the Committee concluded that, in applying paragraph 51 of IAS 12, the entity uses the distributed tax rate to measure the deferred tax liability related to its investment in the subsidiary.

The Committee observed that, in the fact pattern described in the request, the entity does not apply paragraph 57A of IAS 12—that paragraph applies only in the context of dividends payable by the reporting entity. Further, paragraph 52A of IAS 12 does not apply to the measurement of a current or deferred tax asset or liability that itself reflects the tax consequences of a distribution of profits.

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

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IFRS Technical Committee
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Berlin, 8 April 2020

Dear Sue,

IFRS IC's tentative agenda decisions in its March 2020 conference call

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 March 2020 *IFRIC Update*.

We agree with the **tentative agenda decision on IAS 12**.

In respect of the **tentative agenda decision on IFRS 16**, we support the IFRS IC's findings that help answering the main questions of (i) how to measure the right-of-use (ROU) asset and (ii) to what extent gains/losses be recognised at the transaction date, while recommending the IASB specify how to (subsequently) measure the lease liability.

We agree with the IFRS IC's observation that IFRS 16.100(a) is the relevant requirement. We appreciate the agenda decision containing an illustrative example that underlines the IFRS IC's conclusions. However, we are not entirely convinced by the conclusions drawn from applying para. 100(a) to the transaction described.

Our main concern is that the way how the retained proportion of PPE (25 %) is determined implicitly determines the (initial) measurement of the lease liability, which appears doubtful to us. We acknowledge that the retained proportion of PPE is derived from the present value of expected lease payments (which equal 25 % of the fair value of the entire PPE). Determining the present value of expected lease payments with the aim of measuring the ROU asset (which equals 25 % of the previous carrying amount of the PPE sold) would, to our understanding, suggest that this present value virtually represents the measurement of the lease liability.

If so, applying para. 100(a) to this specific transaction would lead to (initially) measuring a lease liability (comprising variable payments only that do not depend on an index or rate) different from nil. This seems contradictory to the general principle for measuring a lease liability (paras. 26, and 27, in particular), which would foresee measuring such a lease liability (i.e. with variable payments only that do not depend on an index or rate) at nil.

This said, we suggest the IFRS Interpretations Committee not only reconsider the subsequent measurement of a lease liability arising in a sale and leaseback transaction, but also the initial measurement in the same breath. In particular, we suggest examining whether para. 100(a) would lead to a measurement of the lease liability that conflicts with the general principle in para. 27.

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

PO Box 1411
Beenleigh QLD 4207
13 May 2020

Ms Sue Lloyd
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Online submission: https://www.ifrs.org/projects/work-plan/deferred-tax-related-to-an-investment-in-a-subsidiary-ias-12/

Dear Sue

Tentative agenda decision - Deferred Tax Related to a Subsidiary's Undistributed Profits (IAS 12)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Deferred Tax Related to a Subsidiary's Undistributed Profits (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.

Overall

I agree with the TAD, and with the IFRS Interpretations Committee not adding the issue to its agenda.

The conclusion in the TAD is similar to the accounting if there was an intended dividend by a foreign subsidiary that was subject to withholding tax.

While the accounting may appear odd for a wholly-owned group in the same country, the outcome seems to be the consequence of the group comprising different legal entities. With different legal entities, there is a deferred tax liability to the group when the tax is paid by the subsidiary. For a single company there is no deferred tax liability, and the liability for tax arises when the parent pays the dividend.

Yours sincerely,

David Hardidge
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13 May 2020

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Dear Ms Lloyd

Tentative agenda decision – Deferred Tax Related to an Investment in a Subsidiary (IAS 12 *Income Taxes*)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2020 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on how an entity, in its consolidated financial statements, accounts for deferred tax related to its investment in a subsidiary.

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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REPUBLIC OF ESTONIA
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20 April 2020

Comments on the tentative agenda decision: Accounting for deferred tax in respect of undistributed profits in the subsidiaries in tax regimes where income tax is payable upon distribution rather than profit

Dear members of the IFRS Interpretation Committee,

We would like to thank you for discussing our original request during your March meeting. Based on the public recording of the meeting and tentative agenda decision it appears that at that stage the majority of the Committee members lean towards view 2 of the original paper. Following your invitation for comment and having discussed this topic further with the market participants, we would like to bring to your attention some further examples that highlight the peculiar consequences of applying this view in practice.

Both examples provided in this letter are quite common in practice, especially in the context of capital market transactions and acquisitions. The examples illustrate how setting up a holding company or merging it with the operating company can cause recognition of huge amounts of deferred tax expense or income that are difficult to justify by economic substance as nothing has changed in the actual taxes payable by those entities.

We would appreciate your comments on whether in the context of those examples you believe that application of the accounting treatment based on view 2 would meet the objectives and fundamental qualitative characteristics in the Conceptual Framework (especially faithful presentation, comparability and understandability), and if not, whether application of true and fair override (IAS 1.20) could be considered appropriate in the circumstances. Furthermore, in case the Interpretation Committee shares our concerns about the unwished consequences of applying current guidance in IAS 12 for distribution-based tax regimes, we would highly appreciate any initiatives to amend the guidance to make it consistent regardless of whether the profit is accumulated in a standalone entity, in a parent or in subsidiaries.

Yours sincerely,

Sander Kallasmaa

Chairman of the Estonian Accounting Standards Board (easb@fin.ee)

Examples about deferred tax consequences of applying view 2 in practice

We have described below two scenarios that are rather common in the context of capital market transactions and acquisitions. In both cases, the changes in the group structure will have no impact on the actual amounts of taxes payable. However, in case view 2 is believed to be the right interpretation of the existing literature, the changes in the legal structure will have extreme impact on deferred tax recognition or derecognition, not reflecting the economic consequences of the transactions.

Example 1 - setting up a new holding company

Company A is a stand-alone operating entity without any subsidiaries. Therefore, it does not recognize any deferred tax in respect of its accumulated profits in line with IAS 12.52A.

In order to prepare for a capital market transaction (eg IPO or bonds issue), the owners decide to set up a new holding company H at the top of the operating entity that will issue securities to the investors. As a result, the entity becomes a group, consisting of empty holding company H and an operating entity A.

Setting up a holding company has no impact on actual taxes payable by the entity as both before and after 20% of tax is payable on any dividends distributed to the shareholders. Distributing accumulated profits from A to H will not cause any additional tax expense, as dividends are taxed only once – dividends that are taxed at the moment of distribution from A to H are not further taxed when they are distributed to the shareholders.

While there is no impact on actual tax position, there is a severe impact on deferred tax recognition. As by setting up the holding company the entity becomes a ‘group’, it has to recognize deferred tax in respect of all the historically accumulated retained earnings in entity A (assuming view 2 is applied). This amount can be many times larger than the annual profit of A and it would be reflected as one off deferred tax expense in the new 'group', distorting fully its financial results. Setting up a holding company may lead to reduction of equity by up to 20% (in case most of A’s equity consists of retained earnings) making it incomparable with other similar entities without holding company that are subject to the same taxation.

Example 2 - merging with the holding company

Company B was acquired by new owners who used for that purpose a newly established holding company H. If view 2 is applied than deferred tax shall be recognised in the purchase price allocation exercise in respect of all the historically accumulated retained earnings in B (this seems to be the case even if reverse acquisition accounting would be applied).

Some time after the acquisition (it can be in the same or in the following accounting periods), H will be merged with B as it often happens in that kind of transactions. At the moment of merger, H-B group ceases to be a 'group' and becomes standalone entity again, resulting in the derecognition of the previously recognised deferred tax liability through the income statement. Like in the first example, it can be a huge amount, distorting the financial results and increasing the equity of B for 'no reason' by up to 20%, making it incomparable with other market participants. Similarly to the first scenario, neither the acquisition of B by H nor the subsequent merger changed anything in the actual taxes payable by the entity and the sudden deferred tax income and increase of equity would be hardly understandable for the users of the financial statements.

As both scenarios illustrate, the deferred tax accounting under view 2 would be purely based on the number of legal entities (ie whether the profit is accumulated in a standalone entity, parent or subsidiary) having no correlation with economic reality and actual taxes payable. From the taxation perspective, accumulated profits in the subsidiaries are treated exactly in the same way as accumulated profits in the parent - in both cases the same amount of tax is payable and **moving accumulated profits from the subsidiary to the parent via dividends does not cause any extra cost for the owners** (it only affects the moment of tax payment). However, if view 2 is believed to be the correct interpretation of IAS 12 then deferred tax accounting for accumulated profits in the subsidiary (where deferred tax is recognised immediately) is drastically different from deferred tax accounting for accumulated profits in the parent or standalone entity (where no deferred tax is recognised until dividends are declared), causing illogical inconsistencies that can hardly be substantiated by economic substance.

In the context of the two practical and common scenarios illustrated above, we would appreciate the comments of the Interpretation Committee on:

1) how such accounting treatment would meet the objectives and fundamental qualitative characteristics in the Conceptual Framework (especially faithful presentation, comparability and understandability); and
2) whether application of true and fair override (IAS 1.20) could be considered appropriate in the circumstances.

In case the Interpretation Committee shares our concerns about the current guidance in IAS 12 for distribution-based tax regimes (especially whether it meets the objectives and qualitative characteristics in the Conceptual Framework), we would highly appreciate any initiatives to amend the guidance and make it consistent regardless of whether the profit is accumulated in a standalone entity, in a parent or in subsidiaries.

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9 April 2020

Dear IFRS Interpretations Committee members,

Tentative agenda decision (*IFRIC Update* March 2020) – Deferred Tax related to an Investment in a Subsidiary (IAS 12 *Income Taxes*) — Agenda Paper 3

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) published in the March 2020 *IFRIC Update*.

The Committee received a request about how an entity, in its consolidated financial statements, accounts for deferred tax related to its investment in a subsidiary. The Committee concluded that 'the principles and requirements set out in IAS 12 provide an adequate basis for an entity to account for deferred tax in the fact pattern described in the request' and 'not to add the matter to its standard-setting agenda'.

We agree with the Committee's tentative agenda decision as it explains clearly that:

- paragraph 39 of IAS 12 applies to the recognition of taxable temporary differences associated with the entity's investment in its subsidiary; and
- paragraph 51 of IAS 12 requires the measurement of any deferred tax liabilities to reflect the manner in which the entity expects to recover the carrying amount of its investment; whereas
- paragraphs 52A and 57A of IAS 12 only apply to the measurement of temporary differences related to distributions by a reporting entity to its outside shareholders.

Accordingly, we support the tentative agenda decision as worded in the March 2020 *IFRIC Update* and do not believe that standard-setting is required.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Ms. Sue Lloyd
Chairperson
IFRS Interpretations Committee

Date: May 13, 2020
New Delhi, India

Dear Ms. Lloyd

Sub: Comments of the Institute of Chartered Accountants of India (the ICAI) on Tentative Agenda Decision issued by IFRS Interpretations Committee on 'Deferred tax related to a Subsidiary's Undistributed Profits (IAS 12)'

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the Tentative Agenda Decision on 'Deferred tax related to a Subsidiary's Undistributed Profits (IAS 12)' issued by IFRS Interpretations Committee.

We agree with the view taken by the IFRS Interpretations Committee in the Tentative Agenda Decision that the entity recognises a deferred tax liability for the taxable temporary difference associated with its investment in the subsidiary applying paragraphs 39-40 of IAS 12, *Income Taxes* and not to add this matter to its standard-setting agenda.

Our comments are based on deliberations at the ASB on the Tentative Agenda Decision.

With kind regards,

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

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

Our Ref: STA/001

09 May 2020

International Financial Reporting Standards Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Members of the IFRS Interpretations Committee,

TENTATIVE AGENDA DECISION: DEFERRED TAX RELATED TO AN INVESTMENT IN A SUBSIDIARY (IAS 12)

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to comment on the above tentative agenda decision as published in the March 2020 IFRIC Update.

Enclosed in **Appendix 1** are our comments in detail. We hope that you find them helpful.

In case of any queries relating to this comment letter, please contact the undersigned at clutimba@icpau.co.ug

Yours faithfully,

CPA Charles Lutimba
MANAGER STANDARDS AND TECHNICAL SUPPORT
For: **SECRETARY/CEO**

Encl (ICPAU's Comments on Tentative Agenda Decision: Deferred Tax Related to an Investment in a Subsidiary (IAS 12))

NNN/…….

Appendix 1

The IFRS Interpretations Committee (Committee) received a request about how an entity, in its consolidated financial statements, accounts for deferred tax related to its investment in a subsidiary.

The Committee concluded that the principles and requirements in IAS 12: Income Taxes 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.

Our Comments

The Institute of Certified Public Accountants of Uganda (ICPAU) is in support of the Committee's conclusion that the principles and requirements set out in IAS 12: Income Taxes provide an adequate basis for an entity to account for deferred tax in the fact pattern described in the request.

We agree with the Committee that the matter need not be added to its standard setting agenda.

As explained in the Committee's tentative agenda decision, we believe that:

(a) Paragraph 39 of IAS 12 adequately provides for recognition of a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries;
(b) Paragraph 51 of IAS 12 clearly requires the measurement of any deferred tax liabilities to reflect the manner in which the entity expects to recover the carrying amount of its investment; while
(c) Paragraphs 52A and 57A of IAS 12 only apply to the measurement of temporary differences related to distributions by a reporting entity to its shareholders.

Therefore, ICPAU fully supports the tentative agenda decision.

May 13, 2020

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear IFRS Interpretation Committee Members,

Re: Tentative Agenda Decisions –
Deferred Tax Related to an Investment in a Subsidiary

We welcome the opportunity to provide our comments on the Tentative Agenda Decision - Deferred Tax Related to an Investment in a Subsidiary.

1. We are wondering whether the fact pattern described in the tentative agenda decision give rise to the taxable temporary difference on the parent company's investment in a subsidiary.

2. We believe the tax base of the parent's investment in a subsidiary in its consolidated financial statements can be different by how the parent company files a tax return in its jurisdiction. According to paragraph 11 of IAS12, it stipulates the following.

   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.

3. If the parent company is not filed by its consolidated tax return which includes a subsidiary that has its undistributed profits in this fact pattern, the taxable temporary difference is not arisen because the carrying amounts of investment in a subsidiary in their consolidated financial is same

as amounts of tax base in its individual tax return. In short, the parent company is not subject to taxable obligation when it receives the dividends. In this case, therefore the parent company does not recognize the deferred tax liability in their consolidated financial statements for investment of a subsidiary. The subsidiary should recognise the income tax consequences of dividends as defined in IFRS 9 when it recognises a liability to pay a dividend in accordance with paragraph 57A of IAS12.

4. If the parent company is filed by its consolidated tax return which includes a subsidiary that has its undistributed profits in this fact pattern, the taxable temporary difference is arisen because the carrying amounts of investment in a subsidiary in their consolidated financial is different from amounts of tax base in their consolidated tax return. In this case, therefore the parent company should recognize the deferred tax liability in its consolidated financial statements for investment of a subsidiary in this fact pattern in accordance with paragraph 39 of IAS12.

5. We recommend IFRS Interpretation Committee to make clear whether this submission addresses the issue either on consolidated tax return or individual tax return in the fact pattern.

We hope our comments will contribute to the forthcoming deliberations in the meeting of IFRS Interpretation Committee. Please feel free to contact us if you have any questions with respect to this letter.

Yours sincerely,

Masahiro Hoshino
Certified Public Accountant of Japan

13 May 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:

- Deferred Tax Related to an Investment in a Subsidiary (IAS 12 *Income Taxes*)
- Sale and Leaseback with Variable Payments (IFRS 16 *Leases*)

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

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

MAZARS

Mrs Sue Lloyd

IFRS Interpretations Committee Chair

Columbus Building,
7 Westferry Circus, Canary Wharf

London E14 4HD
United Kingdom

Paris, 13 May 2020

Tentative Agenda Decisions – IFRIC Update March 2020

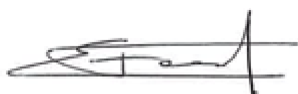
Dear Sue,

MAZARS is pleased to comment on the IFRS Interpretations Committee Tentative Agenda Decisions published in the March 2020 IFRIC Update.

We have gathered 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 Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



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Appendix 2

Deferred Tax related to an Investment in a Subsidiary (IAS 12 Income Taxes)

We agree with the analysis made by the Committee and with its conclusion on how to measure and to account for the deferred tax liability in the fact pattern described in the request. We also agree that the principles and requirements in IAS 12 provide an adequate basis to reach that conclusion, and that there is no need to add the matter to the Committee's standard-setting agenda.

Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2020:02

IFRS Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
London
E14 4HD

Dear Committee members,

Re: Tentative agenda decisions Sale and Leaseback with Variable Payments (IFRS 16 *Leases*) and Deferred Tax related to an Investment in a Subsidiary (IAS 12 *Income Taxes*)

The Swedish Financial Reporting Board (SFRB) is responding to your invitation to comment on the tentative agenda decisions regarding Sale and Leaseback with Variable Payments (IFRS 16 *Leases*) and Deferred Tax related to an Investment in a Subsidiary (IAS 12 *Income Taxes*).

We have analyzed the committee's decision not to add the two issues to the standard setting agenda. As we understand the committee's due process, not adding an issue to the standard setting agenda means that the answers to the questions posed to the committee can be derived from reading current IFRS without having to add any new principles or rules and, in effect, ruling out alternative interpretations of the standards. Adding the issues to the agenda would have meant that the committee must suggest formal interpretations, i.e. IFRICs, or suggest changes to the standards to clarify the accounting because the standards are not sufficiently clear.

The committee has however in this case also reached the conclusion that answers to the questions shall be issued as so-called agenda decisions and published in the committee's newsletter. This means that guidance is given, even though not as formal interpretations, about how to apply IFRS as a response to the questions. However, these are not formal interpretations which create uncertainties among prepares, auditors and other stakeholders if the agenda decisions are the only acceptable way to interpret the principles in IFRS, or if there could be other equally possible interpretations.

For one of the issues addressed, the sale and leaseback issue, the committee has also reached the conclusion that even though no interpretation is needed, an annual improvement of IFRS 16 is needed because of the conclusion drawn by the committee in the agenda decision.

The SFRB has some concerns related to these decisions. Our concerns follow below under separate headings.

Sale and leaseback with variable payments

The SFRB has two concerns related to this tentative agenda decision. The first concern is that we don't agree that the answer to the question addressed by the committee follows from a reading of the standard. In our opinion the committee has interpreted the standard and added new principles regarding measurement that cannot be found in the standard. The tentative agenda decision suggests a possible way to measure the sale and the lease back that changes the definition of lease liabilities by including variable lease payments, thus actually setting some form of preferred measurement standard, but at the same time leaving the area open for uncertainty and judgement. A change in the definition of what payments to include in the lease liability shall not be dealt with in a tentative agenda decision. Such a change should be made via an amendment of the standard.

Secondly, we find it hard to understand why the consequence of the suggested measurement of the liability results in a need to amend IFRS 16 through an annual improvement. The committee has reached the conclusion that the suggested measurement approach for the lease back liability in the tentative agenda decision effects the accounting treatment of the leased back right-of-use asset. For some reason the committee believes the accounting treatment of the right-of-use asset should be addressed through an annual improvement of IFRS 16. If there was no need to address the question posed to the committee through a change of the standard or through an IFRIC, then why is it necessary to update the standard for a conclusion drawn in an agenda decision? An agenda decision and an annual improvement does not have the same standing in the "GAAP-hierarchy" and the due processes are not similar. For an annual improvement, a formal comment period is required, and the outcome changes the actual standard. That is not the case with an agenda decision. We would have expected that an interpretation of the standard and a suggested change or clarification to measurement principles for a linked transaction (sale and lease back), was treated in one coherent way for both the sale and the leased back right-of-use asset.

Deferred tax related to an investment in a subsidiary

We cannot see that the conclusion made by the committee in this case follows from a simple reading of the standard.

The committee has reached its conclusion after taking into its analysis (refer to committee staff paper ap03):

- what the standard said in paragraph 3 before an amendment in 2000,
- what the purpose of the amendments in 2000 were,
- Agenda Paper 7 for the International Accounting Standards Committee's October 2000 meeting

This shows in our opinion that the conclusion in the tentative agenda decision cannot be made without interpreting IAS 12 to such a degree that it means a change in the standard is needed in order to reach the conclusion. Thus, we believe that this conclusion is above the level of dismissing it from the standard setting agenda. We don't agree to the approach that guidance as to how the standard is supposed to be read should be given through an agenda decision if the standard is unclear and can be

read in more than one way. In such a situation, the standard should be adjusted, and a formal due process applied.

If you have any questions concerning our letter, please address our Executive member Mikael Scheja by e-mail to: mikael.scheja@radetforfinansiellrapportering.se.

Stockholm, 12 May 2020

Yours sincerely

Anders Ullberg
Chairman

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