Agenda ref 5B

STAFF PAPER

10 July–11 July 2012

IFRS Interpretations Committee Meeting

Project	**IAS 12 *Income taxes***		
Paper topic	Accounting for market value uplifts on assets that are to be introduced by a new tax regime		
CONTACT(S)	Kenichi Yoshimura	kyoshimura@ifrs.org	+44 (0)20 7246 6905

Introduction

1. In January 2012, the IFRS Interpretations Committee (the Committee) received a request to clarify an issue relating to IAS 12 *Income Taxes*. In particular, the submitters asked the Committee to clarify the accounting for the market value uplift on related assets to be permitted under a new tax regime in Australia, namely Minerals Resource Rent Tax (MRRT) legislation.

2. In March 2012, the MRRT legislation was approved by the Australian Parliament without major changes from the exposure draft issued in June 2011. The new tax regime applies to affected entities from 1 July 2012.

3. In calculating taxable profit under the MRRT regime, an entity is permitted to calculate tax depreciation for certain mining assets using the fair value of the assets as of a particular date as the 'starting base allowance', rather than the cost or carrying value of the assets. If there is insufficient profit against which the annual tax depreciation can be used, it is carried forward and can be used as a deduction against taxable profit in future years.

4. The Committee discussed this issue at the March 2012 meeting. In the discussions, the Committee noted that the starting base allowance, including the part that is attributable to the fair value uplift, is attributed to the related assets

under the tax regime and will become the basis for depreciation expense for tax purposes. Consequently, the market value uplift forms part of the related assets' 'tax base', as defined in paragraph 5 of IAS 12.

5. The Committee observed that IAS 12 requires an entity to reflect an adjustment to the tax base of an asset due to an increase in the deductions available as a deductible temporary difference. Accordingly, the Committee noted that a deferred tax asset should be recognised to the extent that it meets the recognition criteria in paragraph 24 of IAS 12.

6. On the basis of the above, the Committee tentatively decided that it should not take the issue to its agenda. Our full analysis that was presented at the Committee meeting in March 2012 was set out in Agenda Papers 9[1] and 9A[2], which can be found on the public website.

7. We received three comment letters with respect to the tentative agenda decision. We analyse those comment letters in the following paragraphs.

Comment analysis

8. All the three respondents[3] agree with the decision not to take the issue to the Committee's agenda. Two of them[4] also express their support for the rationale for the tentative agenda decision. However, one respondent[5] thinks that an important factor in the Committee's analysis is that the MRRT falls within the scope of IAS 12. In this regard, this factor should be stated in the explanation of the request in the final agenda decision.

9. We note that the submitters do not explicitly state that they assume that the MRRT is income taxes under IAS 12. However, we think that the Committee

---

[1] http://www.ifrs.org/NR/rdonlyres/EB03A923-2971-43F5-8F16-1D4545EA0257/0/091203AP09IAS12Accountingformarketvalueuplifts.pdf

[2] http://www.ifrs.org/NR/rdonlyres/2AEAF154-D45F-4355-857D-59C120C507BA/0/091203AP09AIAS12SupplementAccountingmarketvalueuplifts.pdf

[3] AcSB, DTT, E&Y

[4] AcSB, E&Y

[5] DTT

should modify the tentative agenda decision by adding wording indicating that the Committee made the tentative agenda decision based on that assumption.

10. We think that the view that the fair value uplift forms part of the related asset's 'tax base', as defined in paragraph 5 of IAS 12, cannot be understood without the assumption that the MRRT is income taxes under IAS 12. We think that the Committee implicitly assumed that the tax in question is income taxes under IAS 12 when issuing the tentative agenda decision. In this sense, we believe that this addition would not alter the substance of the tentative agenda decision, but would instead clarify the rationale and approach taken by the Committee in arriving at the decision.

11. Furthermore, unless that assumption is stated in the final agenda decision, there is a risk that some might think that the agenda decision would apply to other accounting areas such as government levies that are generally outside the scope of IAS 12.

12. Consequently, we think that the wording of the tentative agenda decision should be revised to indicate that the Committee assumed that the MRRT falls within the scope of IAS 12. We think, however, that the assumption should not be stated in the paragraph explaining the request received by the Committee, because the submissions do not explicitly refer to that assumption.

Staff recommendation

13. Given the support for the tentative agenda decision, we recommend that the Committee should finalise its decisions not to add this issue to its agenda. However, on the basis of the discussions above, we propose changes to the wording of the tentative agenda decision as illustrated in Appendix A to this Agenda Paper.

Question to the Committee

Question—final agenda decision
Does the Committee agree with the staff recommendation?

Appendix A—Proposed wording for final agenda decision

A1. The staff propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through):

IAS 12 *Income Taxes*—Accounting for market value uplifts introduced by a new tax regime

The Interpretations Committee received a request to clarify the accounting for market value uplifts introduced in a proposed tax regime in a jurisdiction~~.~~, which was enacted thereafter in March 2012.

In calculating taxable profit under the ~~proposed~~ tax regime, entities ~~will be~~ are permitted to calculate tax depreciation for certain mining assets using the fair value of the assets as of a particular date as the 'starting base allowance', rather than the cost or carrying value of the assets. If there is insufficient profit against which the annual tax depreciation can be used, it is carried forward and is able to be used as a deduction against taxable profit in future years.

The Committee noted that the starting base allowance, including the part that is attributable to the fair value uplift, is attributed to the related assets under the tax regime and will become the basis for depreciation expense for tax purposes. Consequently, assuming that the tax is an income tax in accordance with IAS 12, the market value uplift forms part of the related asset's 'tax base', as defined in paragraph 5 of IAS 12. The Committee observed that IAS 12 requires an entity to reflect an adjustment to the tax base of an asset that is due to an increase in the deductions available as a deductible temporary difference. Accordingly, the Committee noted that a deferred tax asset should be recognised to the extent it meets the recognition criteria in paragraph 24 of IAS 12.

On the basis of applying the analysis above, the Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
www.ey.com

International Financial Reporting Standards
Interpretations Committee
30 Cannon Street
London
EC4M 6XH

27 April 2012

Dear IFRS Interpretations Committee members,

Tentative Agenda Decision – IAS 12 *Income Taxes* - Accounting for market value uplifts introduced by a new tax regime

The global organisation of Ernst & Young is pleased to submit its comments on the Tentative Agenda Decision relating to IAS 12 *Income Taxes* - Accounting for market value uplifts introduced by a new tax regime as published in the March 2012 *IFRIC Update*.

We support the Committee's tentative agenda decision in relation to the request on the Australian Minerals Resource Rent Tax (MRRT), that the market value uplifts introduced, and available for use as the starting base allowance, will form part of the related asset's "tax base" as defined in IAS 12.

We agree that as entities will be permitted to calculate tax depreciation for certain mining assets using the fair or market value of these assets as their starting base, any uplift from carrying amount to market value will form part of the related asset's tax base. In practice, affected entities will recalculate their tax bases. This will, in turn, likely result in a deductible temporary difference and an associated deferred income tax asset. The recognition of this deferred income tax asset would then be subject to the criteria in paragraph 24 of IAS 12.

For the reasons stated by the Committee, we disagree with the other views expressed. We do not agree that this could be considered a tax holiday, or that the Initial Recognition Exception may be applied by analogy.

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

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

277 Wellington Street West, Toronto, ON Canada M5V 3H2 Tel: (416) 977-3222 Fax: (416) 204-3412 www.acsbcanada.org

277 rue Wellington Ouest, Toronto (ON) Canada M5V 3H2 Tél : (416) 977-3222 Téléc : (416) 204-3412 www.cnccanada.org

May 17, 2012

(by e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 12 *Income Taxes* – Accounting for market value uplifts introduced by a new tax regime

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the accounting for market value uplifts introduced by a new tax regime under IAS 12. This tentative agenda decision was published in the March 2012 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail peter.martin@cica.ca), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail kathryn.ingram@cica.ca).

Yours truly,

Peter Martin

Peter Martin, CA
Director,
Accounting Standards

Deloitte Touche Tohmatsu Limited
2 New Street Square
London EC4A 3BZ
United Kingdom

Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.com

Direct: +44 20 7007 0884
Direct Fax: +44 20 7007 0158
vepoole@deloitte.co.uk

Mr Wayne Upton
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@ifrs.org

22 May 2012

Dear Mr Upton,

Tentative agenda decision: IAS 12 Income Taxes – Accounting for market value uplifts introduced by a new tax regime

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the March 2012 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda a request for Interpretation of IAS 12 *Income Taxes* with respect to the accounting for an uplift of the value of an asset for tax purposes to fair value on introduction of a new tax regime.

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 but would note that an important factor in the Committee's analysis is that the tax in question falls within the scope of IAS 12. We believe that this should be stated in the explanation of the request.

We note that the recognition of a significant gain at the time of the market value uplift is likely to necessitate additional explanation in the financial statements of the entities affected, but recognise that this is a necessary consequence of the application of IAS 12 to this regime.

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 Managing Director
IFRS Technical