

International Accounting Standards Board
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Correspondant	Your references	Our references	Date
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Dear Sir, Madam,

Invitation to comment – IASB ED *Recognition of Deferred Tax Assets for Unrealised Losses*

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on *Recognition of Deferred Tax Assets for Unrealised Losses* issued by the IASB (the “Board”) on 20 August 2014 (hereinafter the “ED”).

After deliberation, the BASB understands the reasoning behind the issuance of this ED, however, we would like to encourage the IASB for a thorough review of the current IAS 12.

Question 1—Existence of a deductible temporary difference

The IASB proposes to confirm that decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost. This applies irrespective of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use, i.e. by holding it to maturity, or whether it is probable that the issuer will pay all the contractual cash flows.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the IASB’s clarification that a decrease in the carrying amount of a fixed-rate debt instrument for which the contractual cash flows are still expected to be received until maturity gives rise to a deductible temporary difference. Furthermore, we agree with the principle described in the proposed example illustrating paragraph 26(d), that the taxable profit (tax loss) upon which income taxes are payable (recoverable) is determined before deduction of the related tax base. We believe that in this respect the amendments remove an existing uncertainty where some believe that the receipt of the principal is a non-taxable event – because the receipt of the principal does not affect the taxable profit that is reported in the tax return – that should not give rise to a deferred tax balance.

Question 2—Recovering an asset for more than its carrying amount

The IASB proposes to clarify the extent to which an entity's estimate of future taxable profit (paragraph 29) includes amounts from recovering assets for more than their carrying amounts.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the proposed amendment as it will reduce diversity in practice in how entities estimate future taxable profits, making explicit that they should consider the effects of recovering assets for more than their carrying amounts (even in situations when the carrying amount is measured at fair value).

We agree with the argument in paragraph BC13 of the ED that allowing an entity to consider future taxable profits in assessing the recoverability of deductible temporary differences implies that an entity would include the effect of recovering some of its assets (e.g. PP&E and inventory) for an amount in excess of their carrying amount.

The ED clarifies the principle that an entity should consider the recovery of assets for amounts in excess of their carrying amount, even if those assets are carried at fair value.

The introduction and invitation to comment explicitly seem to limit the scope of the ED to 'fixed-rated debt instruments', but the amendment actually establishes a much broader principle that could also apply to other classes of assets (e.g. investment property or equity instruments, where entities might believe they have cause to assume that market values will increase over the longer term).

While we do not object to the drafting of paragraph 29A as such, we believe it should incorporate the clarification in paragraph BC15. That is, while it is generally inappropriate to assume recovery of an asset for more than its fair value as at the reporting date, it would be appropriate to do so where the contractual cash flows provide for the recovery of an asset for an amount in excess of its fair value.

For example, we believe it would be inappropriate for entities to recognize deferred tax assets on the basis that the fair value of their investment properties was 'bound to' increase in the future.

Question 3—Probable future taxable profit against which deductible temporary differences are assessed for utilisation

The IASB proposes to clarify that an entity's estimate of future taxable profit (paragraph 29) excludes tax deductions resulting from the reversal of deductible temporary differences.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the clarification in paragraph 29(a)(i) as it will reduce diversity in practice on how entities estimate future taxable profits against which deductible differences can be utilized. However, we would encourage the IASB express the requirement in clearer

language as the current drafting – while correct – is not self-explanatory and we believe relies too much on the Basis for Conclusions and Example 7.

Although the ED does not amend paragraph 27 of IAS 12, we believe an example should be included in paragraph 27 that illustrates that in determining whether ‘sufficient taxable profits’ exist, an entity should consider profits that may arise from selling assets for an amount in excess of their carrying amount.

Question 4—Combined versus separate assessment

The IASB proposes to clarify that an entity assesses whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilisation of tax losses so that an entity can only deduct tax losses against income of a specified type or specified types (e.g. if it can deduct capital losses only against capital gains), the entity must still assess a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the proposed wording of paragraph 27A, as it clearly explains the principle underlying IAS 12 that an entity needs to take account of any restrictions that may exist under tax law regarding the utilization of tax losses. Paragraph 27A identifies that the tax law may restrict utilization of losses to deduction against income of a specific type.

We believe it would be helpful to include that management intent may be a necessary consideration to determine whether there are restrictions on the utilization of losses against income of a specific type. Paragraph IE5 of Example 7 identifies the differences that management’s intent may have with respect to accounting for deferred tax assets.

Question 5—Transition

The IASB proposes to require limited retrospective application of the proposed amendments for entities already applying IFRS. This is so that restatements of the opening retained earnings or other components of equity of the earliest comparative period presented should be allowed but not be required. Full retrospective application would be required for first-time adopters of IFRS.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We believe that the drafting of the transitional relief is ambiguous as it is not clear whether it merely applies to the restatement of an equity section (*‘...an entity is not required to restate the opening retained earnings or other components of equity of the earliest comparative period’*) or whether it does not require restatement of the deferred tax balances. In addition, there is some confusion in the ED as to whether the IASB is proposing ‘to require limited retrospective application’ (Question 5), ‘limited mandatory retrospective application’ (paragraph BC24) or that ‘an entity is not required to restate’ (paragraph 98G). For those reasons, we believe that the drafting of paragraph 98G and the Basis for Conclusions should be clarified.

The IASB has identified undue costs or effort as an issue, but rather than merely permitting constituents not to restate comparative information, we believe it is more appropriate to refer to the guidance in IAS 8 on limited retrospective application.

We do agree with the requirements not to propose transition relief for first-time adopters, as this would result in comparative information based on an unhelpful hybrid of IFRS and previous GAAP requirements.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'J. Verhoeye', written in a cursive style.

Jan Verhoeye
Chairman BASB