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Ms Sue Lloyd
Chair, IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
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Our ref RD/288

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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.

- 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

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CC Brian O'Donovan