Comments of the Polish Accounting Standards Committee (KSR) on the Exposure Draft "Deferred Tax: Recovery of Underlying Assets"

The key change to IAS 12 to be introduced by the Exposure Draft "Recovery of underlying assets" is paragraph 51B of the proposed amendment to IAS 12. It is worded as follows: "Despite paragraphs 51 and 51A, there is a rebuttable presumption that the measurement of a deferred tax liability and a deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the asset entirely by sale if that deferred tax liability or deferred tax asset arises from:
(a) investment property that is measured usingthe fair value model in IAS 40; or
(b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38.
However, if an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life, this presumption is rebutted and the requirements of paragraphs 51 and 51A shall be followed."

The Polish ASC would like to note that **paragraph 51 provides 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."**

According to the above, in general terms, the manner of recovering benefits from assets would entail the manner of determining the tax amount and possibly (not in Poland) the tax rate to be applied. An exception would apply to non-financial assets measured at fair value where it is assumed that their value would be recovered through sales. The Board provides the following justification for the above-mentioned approach (Basis for Conclusions, paragraph BC 21):
1. the tax effect would be double-counted in some situations if deferred taxes are measured on the basis of the tax consequences of use because the underlying asset is measured at fair value which reflects some of these tax consequences; and
2. presuming the sale is consistent with measurement of the underlying asset on a fair value measurement basis that reflects the price that would be received if the asset is sold.

In our opinion, the solutions adopted in the proposed amendment to IAS 12 are going in the wrong direction. The fact that the same item is measured differently should not result in different assumptions as to the manner of determining the tax effects. If for example fixed assets are measured at cost, then the tax effects would have to be determined under different principles than the tax effects under the revalued amount (fair value) method. Obviously, a different measurement method already gives different deferred tax results (e.g. if the fair value is 200 and the cost is 100, and the tax value is 60 – the temporary differences will amount to 100 using one

method and 140 using the other method – thus the deferred tax provisions will be different). This does not mean however, that with different measurement methods one should take into account different methods of recovering the carrying amount. In general, the methods should be consistent with the economic reality and not with the artificial assumption that certain assets will be sold (as it is the case in the proposed amendment to IAS 12).

Thus, arguments 1 and 2 are insufficient.

Question 1

Does the exception from the principle specified in IAS 12 as to measurement aimed at reflecting the tax consequences of realization or settlement ["the measurement of a deferred tax liability and a deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the asset entirely by sale"] (…)

No.

The fact that the same item is measured differently should not result in different assumptions as to the manner of determining the tax effects. If for example fixed assets are measured at cost, then the tax effects should be determined under different principles than the tax effects under the revalued amount (fair value) method. Obviously, a different measurement method already gives different deferred tax results (e.g. if the fair value is 200 and the cost is 100, and the tax value is 60 – the temporary differences will amount to 100 using one method and 140 using the other method – thus the deferred tax provisions will differ). This does not mean, however, that with different measurement methods one should take into account different methods of recovering the carrying amount. In general, the methods should be consistent with the economic reality and not with the artificial assumption that certain assets will be sold (as is the case in the proposed amendment to IAS 12).

Question 2

Scope of the exception

The measurement of a deferred tax liability and a deferred tax asset should reflect the tax consequences of recovering the carrying amount of the asset entirely by sale if that deferred tax liability or deferred tax asset arises from:
(a) investment property that is measured using IAS 40; or
(b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38.
However, if an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life, this presumption is rebutted and the requirements of paragraphs 51 and 51A shall be followed."

No.

See answer to question 1

Question 3

Measurement resulting from an exception

See answer to question 1

Question 4

Retrospective application of changes

See answer to question 1