18 December 2014

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

**SAICA SUBMISSION ON ED 2014/3 – *RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES:* PROPOSED AMENDMENTS TO IAS 12 – *INCOME TAXES***

In response to your request for comments on ED 2014/3 – *Recognition of Deferred Tax Assets for Unrealised Losses:* Proposed Amendments to IAS 12 – *Income Taxes*, attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

**Prof Danie Coetsee**
**Chairman: Accounting Practices Committee**

**Bongeka Nodada**
**Project Director: Financial Reporting Standards**

cc: Sue Ludolph (Project Director: Financial Reporting)

**SAICA SUBMISSION ON ED 2014/3 – *RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES:* PROPOSED AMENDMENTS TO IAS 12 – *INCOME TAXES***

## GENERAL COMMENTS

We welcome the proposal to include further guidance and clarifications on the recognition of deferred tax for unrealised losses in IAS 12 – *Income Taxes*. While the majority of our constituents believe that IAS 12 is clear with respect to the proposed amendments, we are supportive of the changes if they will reduce the diversity in practice.

We also believe that the proposed amendments may be useful for first-time adopters of IFRS. We have specific concerns regarding the illustrative examples presented. We have presented these concerns in our response to Question 1 and under the other comments section.

## SPECIFIC COMMENTS

### 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 proposal to clarify that the decrease in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity gives rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. We acknowledge that this is in line with the definitions provided under IAS 12 paragraph 5. According to IAS 12 paragraph 5, temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Some of our constituents felt that Example Illustrating paragraph 26(d) on page 9-10 of the exposure draft does not address the application of the principle in paragraph 26(d) of IAS 12 in that it focuses only on debt instruments. The implication is that this is likely to be strictly applied only to debt instruments. Therefore, these constituents recommend that the International Accounting Standards Board (IASB) consider simplifying this example focusing on clarifying how the principle in paragraph 26(d) should be interpreted in practice without narrowing it to debt instruments. Others were of the view that the example contains details that are not relevant in illustrating the principle in paragraph 26(d). For example, Example Illustrating paragraph 26(d) states *"Tax law does not explicitly specify any tax consequences resulting from the payment of the entire principal of CU1 000"*. The solution to this example further states *"It is irrelevant that tax law does not explicitly specify any tax consequences resulting from the payment of the entire principal of CU1 000"*. The constituents were therefore of the view that the Example could therefore be shortened and still illustrate the principle in paragraph 26(d) sufficiently.

**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 if it will help to reduce the diversity in practice in determining future taxable profits against which deductible temporary differences are assessed for utilisation.

**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 IASB's proposal to amend paragraph 29 of IAS 12 to include clarification that an entity's estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences.

**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 that the proposed amendment adds clarity to IAS 12 regarding the grouping of deductible temporary differences when assessing their utilisation and that it will reduce the diversity in the application of the principles under IAS 12 on the assessment of deductible temporary differences for their utilisation.

**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 disagree with the transitional provisions for entities that are already applying IFRS. Paragraph 98G indicates that the amendments shall be applied retrospectively in accordance with IAS 8 –

*Accounting Policies, Changes in Accounting Estimates and Errors*. However, an entity is not required to restate the opening balance of retained earnings or other components of equity of the earliest comparative period presented. The proposal to require retrospective application and not require restatement of the opening balance of retained earnings is inconsistent with both prospective and retrospective application. The approach should therefore be fully retrospective. In addition, we do not believe that the proposal results in a benefit to preparers as the information required to present the comparative balance sheet would be calculated in order to present the opening retained earning adjustment in the year of adoption.

We agree with IASB's proposal to provide no transition relief for first-time adopters. We agree with paragraph BC26 which indicates that the non-provision of the relief for first-time adopters is consistent with the principles under IFRS 1 – *First-time Adoption of International Financial Reporting Standards* which does not include an exception to, or exemption from, the retrospective application of the requirements of IAS 12.

## OTHER COMMENTS

We feel that Example 7 on debt instruments measured at fair value under the Illustrative Examples section is too detailed, complex and contains too many principles being explained in one example. For example, within the same example, the following principles have been explained:

- i) That the decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity gives rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost. It also clarifies that the intention of holding the debt instrument, whether for utilisation through sale or utilisation through use is irrelevant.
- ii) That the extent to which an entity's estimate of future taxable profit includes amounts from recovering assets for more than their carrying amounts.
- iii) That an entity's estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences.
- iv) That an entity should assess whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets.

We recommend that the IASB considers simplifying this example to ensure that it is relevant in establishing the principle. If however the IASB wishes to address all of the above principles in the single example, we suggest that the explanations provided in words be shortened as the numerical illustrations of the principles are, to a large extent, sufficient to understand the principles.

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