

ASC

ACCOUNTING STANDARDS COUNCIL
SINGAPORE

31 October 2019

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

(By online submission)

Dear Hans

RESPONSE TO EXPOSURE DRAFT ON DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION (PROPOSED AMENDMENTS TO IAS 12)

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Proposed amendments to IAS 12) (the ED) issued by the International Accounting Standards Board (the IASB) in July 2019.

We are generally supportive of the proposed amendments, subject to our below comments. The proposed amendments are expected to reduce the current diversity in determining whether the recognition exemption applies to transactions within the scope of the ED, which have increased with the application of IFRS 16 *Leases*. In addition, the proposed amendments ought to improve the accounting for deferred tax by reducing the scope of the recognition exemption, without giving rise to issues that the exemption is intended to address.

Subsequent accounting for deferred tax liability subject to proposed capping

We are concerned that the proposed capping of deferred tax liability, based on the amount of its corresponding deferred tax asset, could result in problematic accounting outcomes in subsequent periods.

Specifically, paragraph BC24 of the Basis for Conclusions on the ED concluded that the recognition exemption would continue to apply to any portion of the deferred tax liability for which a corresponding deferred tax asset had not been recognised. On the other hand, paragraph BC26 acknowledged that an entity might conclude that it did not recognise a deferred tax asset because of the recoverability requirement, rather than the recognition exemption (or vice versa). In such a case, the entity would subsequently reassess the unrecognised deferred tax asset, but would be precluded from recognising the unrecognised

deferred tax liability. Such an accounting outcome would not provide useful deferred tax information, but the IASB has decided against addressing reassessment of deferred tax asset as part of the proposed amendments.

We are not convinced of the IASB's rationale for not addressing reassessment, insofar as transactions within the scope of the ED are concerned. This is because:

- a) There may not be an adequate basis to conclude that the recoverability requirement is likely to be met for many transactions within the scope of the ED. The conclusion may differ, depending on various factors. Examples of such factors include: (i) the relative amounts of other sources of deductible temporary differences and future taxable profits; (ii) whether the tax laws prohibit the carry forward or carry back of tax losses; and (iii) whether the tax laws restrict the sources of future taxable profits against which deductions can be made on the reversal of deductible temporary difference arising from a transaction within the scope of the ED.
- b) It is possible to address reassessment for transactions within the scope of the ED, without significant implications for the other transactions. The proposed amendments *prohibit* the recognition exemption from being applied to temporary differences arising from transactions within the scope of the ED. It follows that any unrecognised deferred tax asset for those deductible temporary differences cannot be due to the recognition exemption. This differs from the other transactions, in which an entity might not recognise a deferred tax asset not only because of the recoverability requirement, but also because the recognition exemption would apply.

In addition, we believe that an entity should reach the same reassessment conclusion for the deferred tax liability and its corresponding deferred tax asset (i.e. whether the entity should recognise the unrecognised deferred tax liability and asset subsequently). This is because, at initial recognition, the amount of deferred tax liability recognised is capped only because its corresponding deferred tax asset cannot be fully recognised. We further believe that, in subsequent periods, the entity should recognise any unrecognised deferred tax liability only to the extent of a recovery of its corresponding unrecognised deferred tax asset at initial recognition. This approach would avoid adjusting the deferred tax liability, and recognising deferred tax expense, both immediately after initial recognition and subsequently in the absence of any recovery of the unrecognised deferred tax asset.

Accordingly, we recommend that the IASB should consider addressing the reassessment of deferred tax asset and liability collectively for transactions within the scope of the ED. In particular, the IASB could clarify that:

- a) At initial recognition, an entity does not apply the recognition exemption to the deferred tax asset, but recognises the deferred tax asset only to the extent permitted by the recoverability requirement. Therefore, the entity does not apply the recognition exemption to any portion of the deferred tax liability for which it does not recognise a corresponding deferred tax asset.
- b) In subsequent periods, the entity reassesses the unrecognised deferred tax asset and liability. However, the entity recognises any unrecognised deferred tax liability only to

the extent of a recovery of its corresponding unrecognised deferred tax asset at initial recognition.

If the IASB were to decide against addressing reassessment, it should at least consider: (a) explaining that an entity should reach the same reassessment conclusion for the deferred tax liability and its corresponding deferred tax asset; and (b) amending the Basis of Conclusions to avoid implying otherwise.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Nicole Cai at nicole_cai@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
Technical Director
Singapore Accounting Standards Council