May 30, 2014

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International Accounting Standards Board
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Outreach Request - IAS 12 - Income Taxes - Recognition of deferred tax for a single asset in a corporate wrapper

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the Outreach Request – IAS 12 - Income Taxes - Recognition of deferred tax for a single asset in a corporate wrapper.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Background of the issue

The Interpretations Committee received a request to clarify the accounting for deferred tax in the consolidated financial statements of the parent, when a subsidiary has only one asset within it (the asset inside) and the parent expects to recover the carrying amount of the asset inside by selling the shares in the subsidiary (the shares).

The Interpretations Committee noted significant diversity in practice in accounting for deferred tax when tax law attributes separate tax bases to the asset inside and the parent's investment in the shares and each tax base is separately deductible for tax purposes:

a) some follow the tax perspective and recognise deferred tax related to both the asset inside and the shares; while

b) others recognise only the deferred tax related to the shares.

c) A third group of preparers determines deferred tax by comparing the carrying amount (in the consolidated financial statements) of the asset inside with the tax base of the shares and using the tax rate that applies if the parent recovers the carrying amount of the shares.

The Interpretations Committee also noted that current IAS 12 requires the parent to recognize both the deferred tax related to the asset inside and the deferred tax related

[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

to the shares, if tax law considers the asset inside and the shares to be two separate assets and if no specific exceptions in IAS 12 apply.

The Interpretations Committee noted that such amendments would be more than simply clarifying or correcting in nature and would therefore be beyond the scope of the Annual Improvements project. However, targeted narrow-scope amendments to IAS 12 could be developed by the Interpretations Committee in consultation with the IASB as separate amendments to IAS 12 (limited scope project to amend IAS 12).

Consequently, the staff analysed whether the requirements of IAS 12 should be amended in a limited scope project to amend IAS 12 in response to the concerns raised by commentators and consulted IASB members at various meetings in December 2013 to obtain their individual views on possible amendments to the principles in IAS 12.

Our comments

The paragraphs 11 and 38 of IAS 12 require distinguishing between the asset inside and the shares in the subsidiary in accounting for deferred taxes in the consolidated financial statements, if tax law distinguishes both assets. In our jurisdiction, the income taxes are based on the results of each entity and not on a consolidated basis.

We analyse the Staff Paper (March 2014) and on the basis of this analysis we agree with the argument that the deferred tax liability related to the asset inside represents future tax payments that result from achieving taxable inflows of economic benefits by using the asset inside. These tax payments affect the value of the shares in the subsidiary.

Thus, if the tax law attributes separate tax bases to the asset inside, and the parent's investment in the shares and each tax base is separately deductible for tax purposes (ie tax law considers the asset inside and the parent's investment in the shares to be two separate assets), we agree that the entity must recognize deferred tax related to both the asset inside and the subsidiary's shares.

So, we support the decision made by the Interpretations Committee related to this project, i.e., not to require an interpretation or an amendment in the IAS 12 or IFRS 10. However, we recommend that the IASB consider performing a complete project to revise entirely the IAS 12.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

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Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)