



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

September 29, 2014

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

Att: Mr. Koichiro Kuramochi, Email: kkuramochi@ifrs.org

RE: Outreach request - Measurement of deferred tax liability or asset that arises from investment in associate

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond the Outreach request - Measurement of deferred tax liability or asset that arises from investment in associate.

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

1. Summary of the issue

According to paragraph 51 of IAS 12, 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 to recover or settle the carrying amount of its assets and liabilities. However, no specific guidance is provided in relation to the investments in associates that accounted for using the equity method.

Normally the carrying amount of an investment in associate could be recovered by (a) receiving of dividends (or other distribution of profit), (b) sale to a third party, (c) receiving of residual assets upon liquidation of the associate. Part of the temporary differences may be recovered through receipt of dividends. Other parts of the temporary differences may be recovered through sale or liquidation of the associate. The submitter also notes that an investor usually does not have enough power to

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).



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

control the proportion of profit that will be distributed (as dividends) or retained (as sale or liquidation).

If local tax legislation prescribes application of different tax rates for different manners of recovery (dividends, sale, liquidation), what tax rate should be used? For example, if tax legislation prescribes application of different tax rates: (a) 9% for profit received in the form of dividends and (b) 20% for profit received in all other forms.

2. Questions

I would very much appreciate your observations in your jurisdiction, regarding the following aspects of the concerns raised:

Q1. Are you aware of examples of circumstances in which different tax rates would be applied for the recovery of investment in associates in the following cases?

- receiving of dividends (or other distribution of profit);
- sell to third party; or
- receiving of residual assets upon liquidation of the associate.

The Brazilian scheme presents different rates for taxation of recovery of investments in associates. Dividend received is not taxed, whereas sale to third party is taxed at the corporate rate of 34%.

Q2. If yes to Q1, please would you:

- (a) inform us about how common this is in your jurisdiction;
- (b) describe the prevalent accounting approach/basis followed in your jurisdiction;
and
- (c) provide us with examples that illustrate the practices that you observe and the reasons for the practice followed?

We believe that whenever there is a difference among the tax and the accounting basis, deferred taxes should be recognized under the expected tax rate applied to the situation. However, we also believe that this understanding is already clear in IAS 12. Thus, we suggest that the Committee revise its due process and does not include topics with a clear response in the literature itself in public hearing nor in the Committee agenda in order to prioritize the most relevant issues.

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

Yours sincerely,



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)