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

October 23, 2015

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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

Dear Mr. Yamagami,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the Outreach Request IAS 12 – Income Taxes - Presentation of tax consequences of interest payments on financial instruments classified as equity.

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

IAS 12

Paragraph 52B of IAS 12 sets out accounting for tax consequences of dividends and they require such tax consequences to be recognised in profit or loss in accordance with paragraph 58, except to the extent that the tax consequences of dividends arise from the circumstances described in paragraph 58(a) and (b) (ie from a transaction or event which is recognised outside profit or loss and a business combination). This is because the income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners.

The issue relates to tax consequences of interest payments on and costs of issuing financial instruments that are classified as equity. Some financial instruments are classified differently for accounting purposes and tax purposes. For example, perpetual bonds that provide interest payments at the discretion of an entity might be classified as equity in accordance with IAS 32 Financial Instruments: Presentation, but in some jurisdictions they are classified as a liability and give rise to tax-deductible expenses for tax purposes. In accordance with IAS 32, interest payments on and costs of issuing such financial instruments have to be recognised directly in equity.

[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).

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Questions and Answers

Q.1: In your jurisdiction, is the issue described commonly observed? If yes, please provide us with qualitative or quantitative information about how common it is?

The issue described is not commonly observed in our jurisdiction. First, it is worth mentioning that paragraph 52B of IAS 12 sets out accounting for tax consequences of dividends and the issue relates to tax consequences of interest payments on and costs of issuing financial instruments that are classified as equity. And, the nature of dividends is different of interest payments.

In Brazil, a financial instrument will be classified in equity if the restrictive conditions in IAS 32 is observed (perpetuity with the principal maturing only in very limited cases, such as liquidation of the issuer; participation in the issuer's profits as their only remuneration; subordination to other liabilities, being unnecessary its conversion to another instrument to become subordinate; absence of covenants; redemption at the sole discretion of the issuer; and the calculation of the reimbursement based on the net assets in liquidation of the issuing entity). And, if so the case, the taxes consequences arising from remuneration and costs (of issuing) of such instruments will be presented directly in equity according to paragraphs 57 and 58 of IAS 12 and paragraph 35 of IAS 32. So, in our jurisdiction, the accounting for the tax consequences, in such cases, are consistent with the accounting for the transaction or event itself.

Q.2: If you answered 'yes' to Question 1, what is the predominant accounting treatment for the issue? In addition, could you please briefly describe the rationale for that accounting treatment? (Please provide examples of the predominant approach that you observe. Ideally this should be an example from published financial statements but examples provided on a confidential basis will also be useful.)
N/A.

Q.3: On the basis of your response to Question 2, to what extent do you observe diversity in the accounting treatment?
N/A.

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

Yours sincerely,

Silvio Takahashi
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)