RSM International Limited
50 Cannon St
London
EC4N 6JJ
UK
T +44 (0)207 6011080
www.rsm.global

Mr Hans Hoogervorst
Chairman
IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

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Exposure draft ED/2019/5 - Proposed Amendments to IAS 12 Income Tax – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Dear Mr Hoogervorst

We welcome the opportunity to comment on the IASB's exposure draft ED/2019/5 Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

We support amendments to IAS 12, which will aid comparability in the application of IAS 12 and remove a widespread application diversity, which is likely to become even more prevalent with the implementation of IFRS 16 Leases.

Our responses to the specific question included in the consultation and our recommendations for improvement are set out in Appendix 1.

We would be pleased to respond to any comments the Board or its staff may have about our response. If you have any questions or comments please do not hesitate to contact Ralph Martin (+61 (0)8 9261 9374) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon
Global Leader, Quality &Risk
RSM International

Question

Do you agree with the Board's proposal to amend IAS 12 in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

We generally agree with the proposal to amend paragraphs 15, 22 and 24 and the addition of paragraph 22A to amend the recognition exemption in IAS 12. These amendments clarify that the recognition exemption will not apply to temporary differences that may arise on initial recognition of an asset and a liability relating to a lease or decommissioning obligation.

Notwithstanding our general support of clarifying the recognition exemption to aid consistency in application, we suggest the following for consideration:

i. Recognition cap – we have concern that the proposed 'recognition cap' for deferred tax liabilities in paragraph 22A(b) would introduce a new exception to the general recognition of deferred tax liability principles of IAS 12 and, consequently, might create new practical difficulties. Moreover, recoverability of deductible temporary difference cannot necessarily be estimated separately from other deductible temporary difference, as they are to be compared with future taxable profit. In addition, the introduction of a recognition cap will require complex on-going monitoring of deferred tax assets and liabilities at an individual asset level.

ii. Advance lease payments and initial direct costs - guidance included in BC18 referring to "an entity would apply the existing requirements in IAS 12 to any taxable temporary difference arising from such payments" should be specific as to whether the initial recognition exemption applies to these amounts or not. In addition, we would welcome guidance derived from BC16 to BC18 to be included in the standard itself for clarification purposes.

iii. Net approach - the potential for use of a 'net approach' as outlined in BC13(b) and we recommend the IASB perform further analysis to evaluate whether a net approach to the temporary differences avoids certain problems and complexity in application, for example, the determination of whether tax deductions are attributable to the lease asset or the lease liability;

iv. IFRS 16 Leases: Date of initial application (DIA) - paragraph C8(b) of IFRS 16 allows an entity a choice of two methods of measuring the Right of Use (ROU) asset at the DIA. If option (i) is chosen, the carrying amount of the ROU asset and lease liability will not be equal at the DIA. It would be helpful if the IASB clarified whether the amendments applied in these circumstances.

We would also welcome the optional transitional relief proposed.

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