



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

31 July 2009

Our ref: ICAEW Rep 80/09

Your ref:

Sir David Tweedie  
The International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

By email: [commentletters@iasb.org](mailto:commentletters@iasb.org)

Dear David

## **INCOME TAX**

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the Exposure Draft ED/2009/2 *Income Tax*, published by the International Accounting Standards Board in March 2009.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

Desmond Wright  
Senior Manager, Corporate Reporting  
T +44 (0)20 7920 8527  
E [desmond.wright@icaew.com](mailto:desmond.wright@icaew.com)



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## ICAEW REPRESENTATION

### ICAEW REP 80/09

### INCOME TAX

Memorandum of comment submitted in July 2009 by The Institute of Chartered Accountants in England and Wales, in response to the Exposure Draft ED/2009/2 *Income Tax*, published by the International Accounting Standards Board in March 2009.

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## **INTRODUCTION**

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the Exposure Draft ED/2009/2 *Income Tax*, published by the International Accounting Standards Board in March 2009.

## **WHO WE ARE**

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 165 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.
4. Our members occupy a wide range of roles throughout the economy. This response was developed by the Financial Reporting Committee of the Institute, which includes preparers, analysts, standard-setters and academics as well as senior members of accounting firms and public sector bodies.

## **MAJOR ISSUES**

### **Opposition to the proposals**

5. We are completely opposed to the proposals in the exposure draft. They fail the essential test of moving to a high-quality principles-based standard, and signally fail to improve IAS 12. We agree that the information provided by the current standard is of limited value to users, but in the absence of a fundamental review of income tax accounting we suggest that the board should seek no more than to make incremental improvements to IAS 12, rather than substituting even more complex rules for those already in the standard. If the board is determined to address IAS 12, we suggest some possible areas for improvement in paragraph 13 below, but it is difficult to recommend devoting time and resources to tweaking a poor standard.

### **Choice of model**

6. IAS 12 is complicated, difficult to apply and results in numbers in the financial statements that are not decision-useful. Deferred tax is of no interest to users, because it does not shed light on what they are most interested in, which is effective future tax rates. For this reason, we believe there may well be a case for abandoning the temporary difference model applied in IAS 12 in favour of a flow-through approach supported by appropriate disclosures. However, we do not advocate making such a fundamental change in the short term, although we would support a fundamental review in the future when more important issues have been dealt with.

## **Complexity of the proposed approach**

7. The exposure draft is rules-based and extremely complex, even more so than the existing IAS 12. This is evident from the fact that, in order to understand what the exposure draft requires, it is necessary to have recourse to the flowchart and illustrative examples, suggesting that the rules themselves are not properly expressed in the proposed standard. Understanding is further inhibited by the constant cross-referencing between the text and the appendix. We trust that the board will not proceed with these proposals, but, if it does, significant drafting improvements will be required in the final standard if it is to be implemented.

## **Initial recognition and measurement**

8. We oppose replacing the initial recognition exception in IAS 12 with rules for the initial measurement of assets and liabilities that have tax bases different from their initial carrying amounts. This approach is not based on any discernable principle, and is more complex than the rule in the present standard, while for the most part leading to the same result. We can see no theoretical or practical benefit to this proposed change – it replaces one rule with another rule. Furthermore, the evidential basis for values used in the calculations, in particular the exclusion of entity specific tax effects, could be difficult for preparers of accounts to both ascertain and validate.

## **Management intent**

9. We note that the board, while moving to a management intent approach in other standards, is seeking to depart from it in relation to deferred tax, where it does at least serve to reflect some commercial reality (regarding the future reversals of temporary timing differences) into what is otherwise a highly theoretical number. We do not accept the distinction made in BC70 that while the tax basis is a matter of fact that establishes whether a temporary difference exists, the measurement of any deferred tax asset or liability may be affected by management expectations on the manner of recovery. We do not, therefore, agree that the definition of tax basis should be changed so that it would no longer depend on management's intentions. Nor do we agree that, when different rates apply to different ways in which an entity may recover the carrying amount of an asset, the sale rate should be mandated. We advocate the approach in IAS 12 whereby the deferred tax assets and liabilities are measured using the rate that is consistent with the expected manner of recovery, reflecting management's intent.
10. Moreover, the board is inconsistent in its approach to management intent even within the deferred tax proposals. For example, the exposure draft disregards management expectations in the way it determines the tax basis of an asset and a liability, but considers management expectations:
  - (a) when an entity decides whether to recognise a deferred tax asset or a liability (paragraph 10 of the exposure draft);
  - (b) when measuring deferred tax assets and liabilities including the deferred tax implications that arise on the subsequent re-measurement of assets and liabilities (paragraph 25);
  - (c) in relation to the exception to investments in other entities (paragraph B6);
  - (d) when an entity considers whether a temporary difference arises on the re-measurement of assets to fair value (paragraph B15); and

(e) in relation to distributions (paragraph B31).

### **Probability-weighted averages**

11. We oppose in principle using probability-weighted averages, because they seek to apply an analysis of probabilities that, in reality, cannot be estimated. The approach therefore implies an accuracy that is entirely spurious. We do not, therefore, agree that, where there is uncertainty over whether the tax authority will accept the amounts reported to it, the current and deferred tax items should be measured at the probability-weighted average of all possible outcomes (see paragraph 24 below). We accept that IAS 12 is silent on this issue, but we submit that this has not proved to be a problem in practice, because preparers are able to arrive at appropriate estimates of the numbers required. We believe that this is the best approach.
12. We accept that sometimes management's estimates of the current and deferred tax items may be arrived at by assigning probabilities to alternative outcomes, but we do not believe that such an approach should be mandated. We believe that all relevant facts and circumstances (both quantitative and qualitative) should be taken into account in estimating the amounts the entity expects to pay. We would expect the resulting estimate to be consistent with management's relevant internal documentation.

### **Short-term improvements to IAS 12**

13. We believe that, although IAS 12 is conceptually flawed and often difficult to apply in practice, the board should not attempt to make short-term changes to the accounting. Absent a thorough overhaul of accounting for income taxes, we suggest that the best way forward would be to provide enhanced guidance in key areas, to provide preparers with a sounder basis for their judgments and so lead to greater consistency and comparability. Areas that would benefit from improved guidance include:
  - (a) Sale or use of assets - guidance on what evidence to look at and how to make the judgement. For example, at present, SIC 21 can be interpreted in practice to mean that only land can be assumed automatically to be recoverable via sale, while all other assets are by their nature depreciable. The Basis for Conclusions (BC73) suggests that the board believes that 'non-depreciable' should be read as being 'not depreciated' (or nominal depreciation). This needs to be clarified, as it is a big issue where investment properties are being fair valued.
  - (b) Revaluation of tax base - guidance on the interaction with the initial recognition exemption. Does revaluation create a new temporary difference, or the elimination of a previously unrecognised difference?
  - (c) Tax elections - is the correct approach to have regard to the principles of deferred tax asset recovery or to the suggested words on tax status?
  - (d) Dual use assets - how should an asset be viewed if recovery is partly through use and partly through sale, and the tax impact is under two distinct income taxes with no interaction?

## **SPECIFIC QUESTIONS**

### ***Question 1 - Definitions of tax basis and temporary difference***

**The exposure draft proposes changes to the definition of tax basis so that the tax basis does not depend on management's intentions relating to the recovery or settlement of an asset or liability. It also proposes changes to the definition of a temporary difference to exclude differences that are not expected to affect taxable profit. (See paragraphs BC17–BC23 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

14. We do not agree that the definition of tax basis should be changed so that it would not depend on management's intentions. Using the sale basis for ascertaining the tax basis by assuming a sale does not necessarily reflect the actual circumstances of recovery of the asset. Furthermore, the method of recovery can affect which tax regime the recovery falls into (for example, income or capital gains). Consequently the approach reinforces the tendency of both the existing IAS 12 and the exposure draft to produce a theoretically ascertained rather than a commercially realistic value for deferred tax.
15. We assume that the changes to the definition of a temporary difference, to exclude differences that are not expected to affect taxable profit, are intended to clarify the existing situation under IAS 12. As such, the revised definition has the potential to be useful, but as it can only be understood by reference to the illustrative examples it is not properly expressed.

### ***Question 2 – Definitions of tax credit and investment tax credit***

**The exposure draft would introduce definitions of tax credit and investment tax credit. (See paragraph BC24 of the Basis for Conclusions.)**

**Do you agree with the proposed definitions? Why or why not?**

16. The reasons for introducing these definitions are not properly explained, with the result that it is unclear whether or not the intention is to deal with withholding tax credits.

### ***Question 3 – Initial recognition exception***

**The exposure draft proposes eliminating the initial recognition exception in IAS 12. Instead, it introduces proposals for the initial measurement of assets and liabilities that have tax bases different from their initial carrying amounts. Such assets and liabilities are disaggregated into (a) an asset or liability excluding entity-specific tax effects and (b) any entity-specific tax advantage or disadvantage. The former is recognised in accordance with applicable standards and a deferred tax asset or liability is recognised for any temporary difference between the resulting carrying amount and the tax basis. Outside a business combination or a transaction that affects accounting or taxable profit, any difference between the consideration paid or received and the total amount of the acquired assets and liabilities (including deferred tax) would be classified as an allowance or premium and recognised in comprehensive income in proportion to changes in the related deferred tax asset or liability. In a business combination, any such difference would affect goodwill. (See paragraphs BC25–BC35 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

17. We disagree. We note that the proposed change to the rule will often have no practical effect in comparison with existing practice. However, we oppose grossing up the asset/liability; and we oppose moving from a market participant basis to an entity-specific basis, which we do not believe will be easy to achieve in practice. We also question the assertion in BC34 that recognising the effect of the original temporary difference and an offsetting premium or allowance will make tracking subsequent changes easier.
18. In general, we are concerned at the tendency in the original standard, exacerbated in the exposure draft, to produce complex and 'theoretical' numbers that do not seem to be easily matched to an underlying commercial reality or principles. This is highlighted by the examples in the exposure draft, which are complex and show the difficulty of implementing the proposals in practice.

***Question 4 – Investments in subsidiaries, branches, associates and joint ventures***

**IAS 12 includes an exception to the temporary difference approach for some investments in subsidiaries, branches, associates and joint ventures based on whether an entity controls the timing of the reversal of the temporary difference and the probability of it reversing in the foreseeable future. The exposure draft would replace these requirements with the requirements in SFAS 109 and APB Opinion 23 *Accounting for Income Taxes—Special Areas* pertaining to the difference between the tax basis and the financial reporting carrying amount for an investment in a foreign subsidiary or joint venture that is essentially permanent in duration. Deferred tax assets and liabilities for temporary differences related to such investments are not recognised. Temporary differences associated with branches would be treated in the same way as temporary differences associated with investments in subsidiaries. The exception in IAS 12 relating to investments in associates would be removed.**

**The Board proposes this exception from the temporary difference approach because the Board understands that it would often not be possible to measure reliably the deferred tax asset or liability arising from such temporary differences. (See paragraphs BC39–BC44 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not? Do you agree that it is often not possible to measure reliably the deferred tax asset or liability arising from temporary differences relating to an investment in a foreign subsidiary or joint venture that is essentially permanent in duration? Should the Board select a different way to define the type of investments for which this is the case? If so, how should it define them?**

19. We do not agree with the proposals. The current wording in IAS 12, based on control, is operational. We also oppose amending the exemption so that it would no longer apply to domestic subsidiaries. The proposed exemption is apparently based on the practicality of achieving a reliable measurement, but this is not a principled basis and would anyway appear to be equally relevant to domestic subsidiaries.

### ***Question 5 – Valuation allowances***

The exposure draft proposes a change to the approach to the recognition of deferred tax assets. IAS 12 requires a one-step recognition approach of recognising a deferred tax asset to the extent that its realisation is probable. The exposure draft proposes instead that deferred tax assets should be recognised in full and an offsetting valuation allowance recognised so that the net carrying amount equals the highest amount that is more likely than not to be realisable against taxable profit. (See paragraphs BC52–BC55 of the Basis for Conclusions.)

#### ***Question 5A***

**Do you agree with the recognition of a deferred tax asset in full and an offsetting valuation allowance? Why or why not?**

20. We question the need for this change, which appears simply to adopt US practice on presentation to achieve the same net value in the balance sheet as IAS 12. However, we would not necessarily oppose it.

#### ***Question 5B***

**Do you agree that the net amount to be recognised should be the highest amount that is more likely than not to be realisable against future taxable profit? Why or why not?**

21. We disagree. We accept that recognising the highest amount that is more likely than not to be realisable is superficially attractive, but we believe that using management's best estimate of the likely outcome provides the most useful information.

### ***Question 6 – Assessing the need for a valuation allowance***

#### ***Question 6A***

The exposure draft incorporates guidance from SFAS 109 on assessing the need for a valuation allowance. (See paragraph BC56 of the Basis for Conclusions.)

**Do you agree with the proposed guidance? Why or why not?**

22. We do not agree that this prescriptive guidance should be included. In practice, preparers will arrive at an appropriate estimate, which we believe is a satisfactory approach.

#### ***Question 6B***

The exposure draft adds a requirement on the cost of implementing a tax strategy to realise a deferred tax asset. (See paragraph BC56 of the Basis for Conclusions.)

**Do you agree with the proposed requirement? Why or why not?**

23. We disagree. The proposal assumes a specific tax jurisdiction, such as the US, in which the initial tax liability may be subject to a separate recovery. In other jurisdictions, such as the UK, the original filing stands, but is subject to measurement,

in agreement with the tax authorities. In such jurisdictions, these negotiation costs cannot be accurately attributed to specific elements of the tax charge. Moreover, such costs are not included in the tax line in the financial statements.

#### ***Question 7 – Uncertain tax positions***

**IAS 12 is silent on how to account for uncertainty over whether the tax authority will accept the amounts reported to it. The exposure draft proposes that current and deferred tax assets and liabilities should be measured at the probability-weighted average of all possible outcomes, assuming that the tax authority examines the amounts reported to it by the entity and has full knowledge of all relevant information. (See paragraphs BC57–BC63 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

24. We disagree about how to account for the uncertainty over whether the tax authority will accept the amounts reported to it. We see no need for this guidance, given that this issue does not lead to problems in current practice. Measurement of the uncertainty is anyway a secondary issue - disclosure is far more important than the methodology of measurement. If there is to be guidance on measurement, we oppose probably-weighted average for the reasons set out in paragraphs 11 and 12 above. We note also that the proposal falls short of fully converging with US practice, so we wonder why the board is proposing it.

#### ***Question 8 – Enacted or substantively enacted rate***

**IAS 12 requires an entity to measure deferred tax assets and liabilities using the tax rates enacted or substantively enacted by the reporting date. The exposure draft proposes to clarify that substantive enactment is achieved when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. (See paragraphs BC64–BC66 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

25. We neither agree nor disagree with the proposals, since they do not change current practice. It is not clear to us that any change was necessary in order to accommodate different jurisdictions. It would be helpful if the Basis for Conclusions were to clarify that there is no change to current practice.

#### ***Question 9 – Sale rate or use rate***

**When different rates apply to different ways in which an entity may recover the carrying amount of an asset, IAS 12 requires deferred tax assets and liabilities to be measured using the rate that is consistent with the expected manner of recovery. The exposure draft proposes that the rate should be consistent with the deductions that determine the tax basis, ie the deductions that are available on sale of the asset. If those deductions are available only on sale of the asset, then the entity should use the sale rate. If the same deductions are also available on using the asset, the entity should use the rate consistent with the expected manner of recovery of the asset. (See paragraphs BC67–BC73 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

26. We disagree. We do not believe that the sale basis should be mandated regardless of whether the deductions are different. The most appropriate approach is to use the rate that is most likely to apply, reflecting management's intent. There is no conceptual basis for an approach that is partly rule-driven (the sale rate) and partly based on expectation (the rate consistent with the expected manner of recovery if the deductions are the same for sale and usage).

***Question 10 – Distributed or undistributed rate***

**IAS 12 prohibits the recognition of tax effects of distributions before the distribution is recognised. The exposure draft proposes that the measurement of tax assets and liabilities should include the effect of expected future distributions, based on the entity's past practices and expectations of future distributions. (See paragraphs BC74–BC81 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

27. We disagree. There is an attraction in moving to a management intent basis, but we would only be more inclined to support it in this instance if it had been applied consistently throughout the exposure draft. The proposal is inconsistent with IAS 10, which prohibits accrual of the dividend. We believe the correct approach is to disclose the impact of a planned or possible distribution. These proposals overturn best practice purely to address a perceived issue in certain jurisdictions. We understood that the purpose of international standards was to apply best practice in all jurisdictions.
28. A possible alternative approach would be to say that in providing deferred tax the entity should assume that any conditions necessary to maintain the current tax status will be assumed to be met.

***Question 11 – Deductions that do not form part of a tax basis***

**An entity may expect to receive tax deductions in the future that do not form part of a tax basis. SFAS 109 gives examples of 'special deductions' available in the US and requires that 'the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return'. SFAS 109 is silent on the treatment of other deductions that do not form part of a tax basis.**

**IAS 12 is silent on the treatment of tax deductions that do not form part of a tax basis and the exposure draft proposes no change. (See paragraphs BC82–BC88 of the Basis for Conclusions.)**

**Do you agree that the exposure draft should be silent on the treatment of tax deductions that do not form part of a tax basis? If not, what requirements do you propose, and why?**

29. We agree.

***Question 12 – Tax based on two or more systems***

**In some jurisdictions, an entity may be required to pay tax based on one of two or more tax systems, for example, when an entity is required to pay the greater of the normal corporate income tax and a minimum amount. The exposure**

**draft proposes that an entity should consider any interaction between tax systems when measuring deferred tax assets and liabilities. (See paragraph BC89 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

30. It is helpful that the exposure draft acknowledges this issue. Some implementation guidance might be helpful to indicate what is at issue. This is, of course, a situation that is already being dealt with in practice, and satisfactorily as far as we know.

***Question 13 – Allocation of tax to components of comprehensive income and equity***

**IAS 12 and SFAS 109 require the tax effects of items recognised outside continuing operations during the current year to be allocated outside continuing operations. IAS 12 and SFAS 109 differ, however, with respect to the allocation of tax related to an item that was recognised outside continuing operations in a prior year. Such items may arise from changes in the effect of uncertainty over the amounts reported to the tax authorities, changes in assessments of recovery of deferred tax assets or changes in tax rates, laws, or the taxable status of the entity. IAS 12 requires the allocation of such tax outside continuing operations, whereas SFAS 109 requires allocation to continuing operations, with specified exceptions. The IAS 12 approach is sometimes described as requiring backwards tracing and the SFAS 109 approach as prohibiting backwards tracing.**

**The exposure draft proposes adopting the requirements in SFAS 109 on the allocation of tax to components of comprehensive income and equity. (See paragraphs BC90–BC96 of the Basis for Conclusions.)**

***Question 13A***

**Do you agree with the proposed approach? Why or why not? The exposure draft deals with allocation of tax to components of comprehensive income and equity in paragraphs 29–34. The Board intends those paragraphs to be consistent with the requirements expressed in SFAS 109.**

31. We disagree. Our understanding is that preparers of financial statements do not experience untoward difficulty in backwards tracing in practice and therefore the difficulties referred to at BC93 do not appear to be significant. Moreover, the general discussions at BC90 and BC91 suggest that both the IFRS and US approaches produce counter-intuitive results, and that neither therefore provides a completely satisfactory solution. We acknowledge that there are imperfections in the current approach, but they are not sufficiently compelling reasons for adopting a different but also imperfect approach.

***Question 13B***

**Would those paragraphs produce results that are materially different from those produced under the SFAS 109 requirements? If so, would the results provide more or less useful information than that produced under SFAS 109? Why? The exposure draft also sets out an approach based on the IAS 12 requirements with some amendments. (See paragraph BC97 of the Basis for Conclusions.)**

32. We believe that the results are potentially different, but we anyway oppose this approach.

***Question 13C***

**Do you think such an approach would give more useful information than the approach proposed in paragraphs 29–34? Can it be applied consistently in the tax jurisdictions with which you are familiar? Why or why not?**

33. We do not advocate change, but if a change were to be made we would support one based on IAS 12 rather than SFAS 109.

***Question 13D***

**Would the proposed additions to the approach based on the IAS 12 requirements help achieve a more consistent application of that approach? Why or why not?**

34. We do not perceive a problem with consistency under the current standard.

***Question 14 – Allocation of current and deferred taxes within a group that files a consolidated tax return***

**IAS 12 is silent on the allocation of income tax to entities within a group that files a consolidated tax return. The exposure draft proposes that a systematic and rational methodology should be used to allocate the portion of the current and deferred income tax expense for the consolidated entity to the separate or individual financial statements of the group members. (See paragraph BC100 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

35. We do not agree. We do not believe that the standard should address this issue. The issue is highly jurisdiction-specific, and the risk of unintended consequences of applying guidance appropriate to one jurisdiction to all jurisdictions outweighs any notional benefit arising from establishing a 'constraint' on the treatment of tax in the separate financial statements of entities.

***Question 15 – Classification of deferred tax assets and liabilities***

**The exposure draft proposes the classification of deferred tax assets and liabilities as current or non-current, based on the financial statement classification of the related non-tax asset or liability. (See paragraphs BC101 and BC102 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

36. We disagree. In aligning the classification of the tax items with the underlying asset rather than basing it on actual payment of the tax, the exposure draft distinguishes current and non-current items on a different basis from that used in other contexts. Furthermore, the expected timing of likely reversals of deferred tax may not actually match the classification of timing differences. This is at the heart of one of our major concerns about the exposure draft (and to a lesser extent IAS 12) - that the information is mathematically constructed rather than reflecting underlying

commercial reality. Consequently, we question whether it provides useful information.

***Question 16 – Classification of interest and penalties***

**IAS 12 is silent on the classification of interest and penalties. The exposure draft proposes that the classification of interest and penalties should be a matter of accounting policy choice to be applied consistently and that the policy chosen should be disclosed. (See paragraph BC103 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not?**

37. We are content with these proposals.

***Question 17 – Disclosures***

**The exposure draft proposes additional disclosures to make financial statements more informative. (See paragraphs BC104–BC109 of the Basis for Conclusions.)**

**Do you agree with the proposals? Why or why not? The Board also considered possible additional disclosures relating to unremitted foreign earnings. It decided not to propose any additional disclosure requirements. (See paragraph BC110 of the Basis of Conclusions.)**

**Do you have any specific suggestions for useful incremental disclosures on this matter? If so, please provide them.**

38. We have not considered additional disclosures in detail. In general we believe that disclosures should be focused on providing decision-useful information to users, and their potential value measured accordingly.
39. We have the following specific comments.
- (a) We disagree with the proposal in paragraph 41(b) to require disclosure of the effect of the possible outcomes of a review by the tax authorities; Such disclosure would be seriously prejudicial, and there is no equivalent requirement in respect of other provisions.
  - (b) We disagree with the requirement in paragraph 43, that the applicable tax rate should be the rate in the country in which the entity is domiciled. Entities are routinely domiciled in countries where they are not liable to tax.
  - (c) We see no useful purpose in disclosing the information required in paragraph 48(g), relating to an entity that is not subject to tax because its income is taxed directly to its owners. Moreover, it is not clear that it would be possible to establish tax bases in an untaxed entity.

***Question 18 – Effective date and transition***

**Paragraphs 50–52 of the exposure draft set out the proposed transition for entities that use IFRSs, and paragraph C2 sets out the proposed transition for first-time adopters. (See paragraphs BC111–BC120 of the Basis for Conclusions.)**

**Do you agree with these proposals? Why or why not?**

40. We do not agree with these proposals, because we completely oppose the implementation of any standard based on this exposure draft.

Email: [desmond.wright@icaew.com](mailto:desmond.wright@icaew.com)

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