財團法人
會計研究發展基金會
ACCOUNTING RESEARCH AND DEVELOPMENT FOUNDATION

July 27, 2009

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

Dear Sir/Madam

**Exposure Draft ED/2009/2 Income Tax**

The Special Task Force of the Financial Accounting Standards Committee (FASC) of Accounting Research and Development Foundation in Taiwan appreciates the opportunity to respond to the above exposure draft.

The attachments are our comments to this exposure draft. The comments are those of the Special Task Force and do not necessarily represent official opinions of the FASC.

If you have any question about our comments, please contact us via mushenchen@ardf.org.tw.

Sincerely Yours,

Mushen Chen

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**Attachments - Exposure Draft ED/2009/2 Income Tax**

***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 recognized. 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?

**Response to the above Question:**

We agreed with the board’s proposal for the exception since 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. In addition, for those investments in domestic subsidiaries, the same situation would also apply, therefore we propose to include investment in domestic subsidiaries in such exception.



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***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 recognizing a deferred tax asset to the extent that its realization is probable. The exposure draft proposes instead that deferred tax assets should be recognized in full and an offsetting valuation allowance recognized so that the net carrying amount equals the highest amount that is more likely than not to be realizable 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?

*Question 5B*
Do you agree that the net amount to be recognized should be the highest amount that is more likely than not to be realizable against future taxable profit? Why or why not?

**Response to the above Question:**

*Question 5A*
We agreed with the recognition of a deferred tax asset in full and an offsetting valuation allowance in that this approach should encourage financial statement preparers to be more careful in calculating the net amount of a deferred tax asset which is a net of the full amount of deferred tax assets and its valuation allowance.

*Question 5B*
We are of the opinion that “the highest amount that is more likely than not to be realizable against future taxable profit” may need further clarifications in order to avoid any manipulations in applying this IFRS.

**Rationale:**
Please see above.



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***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?

*Question 6B*

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

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

**Response to the above Question:**

*Question 6A*

We agreed that the exposure draft incorporates such guidance from SFAS 109 on assessing the need for a valuation allowance.

*Question 6B*

We agreed to the adding of a requirement on the cost of implementing a tax strategy to realize a deferred tax asset.



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***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?

**Response to the above Question:**

We concurred with the exposure draft proposing that current and deferred tax assets and liabilities should be measured at the probability-weighted average of all possible outcomes in that this approach should better estimate the amounts of respective tax assets and liabilities. However, the calculation of such could be a complicated task for the financial statement preparers as well as for their agreement with the auditors. Further guidance to simplify the calculation and to avoid disputes in the formula may be necessary for inclusion in this IFRS.

**Rationale:**

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***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?

**Response to the above Question:**

We disagreed with the proposal to classify deferred tax assets and liabilities as current or non-current based on the financial statement classification of the related non-tax asset or liability.

**Rationale:**

The criteria for the classification of an asset or a liability into current or non-current has been explicitly provided in IAS 1 *Presentation of Financial Statements.* IAS 1 defines "current" as "no more than twelve months after the reporting period", and "non-current" as "more than twelve months after the reporting period", which should be a generic definition across all Standards. Deviation from IAS 1 might confuse preparers as well as users of financial statements.



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***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?

**Response to the above Question:**

We disagreed with the exposure draft's proposal 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."

**Rationale:**

The interest and penalties, even though they are income tax related per this exposure draft, are not income tax themselves. If the amounts of interest or penalties are material, they are required to be disclosed separately under paragraph 97 of IAS 1, "When items of income or expense are material, an entity shall disclose their nature and amount separately." Whereas if the amounts are not material, there should be no disclosure requirements. Therefore the accounting policy decision should be redundant.



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