IFRS

IASB Meeting | Agenda reference | **1A**

Staff Paper | Date | **3 December 2010**

Project	**Income Taxes**
Topic	**Comment letter summary**

Background and objective of this paper

1. This paper summarises responses to the Exposure Draft *Deferred Tax: Recovery of Underlying Assets* (the ED) that the IASB published for public comment in September 2010.

2. The purpose of this paper is only to summarise the comment letters received in order to provide the Board with an overview of the main themes and issues mentioned by respondents. No staff recommendations are made in this paper. Agenda paper 1B will provide staff recommendations regarding the most important issues raised by the respondents.

Overview of the comment letters

3. The 60-day comment period ended on 9 November 2010. At the time of writing this paper, the Board had received 75 comment letters which are summarised in Appendix A by type of respondent and geographic region.

4. A fairly broad range of respondents sent comment letters to the Board. The staff note that no users responded to the ED. In the geographic analysis, New Zealand, Hong Kong, Singapore, South Africa, and Canada are highlighted because the issues the ED addresses are particularly important in these jurisdictions. A more detailed analysis of the responses from these jurisdictions appears in Appendix B.

Summary of comments and issues

Overall

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

5. Respondents were generally supportive of the Board's efforts to provide guidance regarding the measurement of deferred tax liabilities and deferred tax assets in cases where the application of IAS 12 *Income Taxes* is difficult or subjective in practice. However, there were mixed views on whether the specific exception contained in the ED is the best way to address the issue. Some respondents were supportive of the ED in its entirety, while others argued that application or implementation guidance would be a more appropriate way to address the issue. Other respondents felt that no revisions to IAS 12 were necessary or that the issue should be addressed as part of a comprehensive project re-examining the entire standard. The most respondents suggested application or implementation guidance, followed by respondents supporting the proposed exception, followed by respondents generally disagreeing with the ED.

6. There were certain trends with regards to geography and respondent type when analysing general responses to the ED. Preparers, along with some professional bodies and accounting firms, were most likely to agree with the proposed exception, while national standard setters, along with some professional bodies and accounting firms, were most likely to advocate application guidance. Those who disagreed with the proposed exception were split between respondent types.

7. In terms of geography, respondents from Hong Kong, New Zealand, North America (especially Canada), and Africa (especially South Africa) were most likely to agree with the ED. Respondents from Europe were most likely to suggest application guidance, and respondents from the Asia-Pacific area (except those from Hong Kong and New Zealand) were most likely to disagree with the proposed exception.

8. Some respondents agree with the Board's reasoning in the Basis for Conclusions that the decrease in subjectivity in measuring deferred taxes will result in financial information that is more consistent. Other respondents think that the proposed exception will make financial information less consistent. These respondents warned of unintended consequences and the increased costs and burden on preparers as a result of the ED.

9. This paper covers the main areas of the ED as follows:

   (a) Exception to the measurement principle

   (b) Scope of the exception

   (c) Measurement basis used in the exception

   (d) Transition

   (e) Other issues raised by respondents

   This paper also summarises some specific jurisdictional issues that were raised by respondents.

Exception to the measurement principle (Question 1 in the ED)

ED Proposal:

10. The ED proposed an exception to the principle in IAS 12 that deferred tax assets and liabilities should be calculated based on the manner in which an entity expects to recover the carrying amount of the underlying assets or liabilities. The ED proposed that, for certain assets that are remeasured or revalued at fair value, an exception be made to calculate the related deferred tax assets and liabilities with a presumption that the carrying amount would be recovered through sale. The ED stated that the proposed exception is meant to provide:

    > a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery.

Respondent Feedback:

11. Many respondents supported the Board's efforts to deal with the practical issues involved in applying the measurement principle in IAS 12. Some respondents agreed with the proposed exception in the ED. These respondents stated that the proposed exception would appropriately address difficult practice issues that require the use of subjective and complicated estimates, resulting in inconsistencies and diversity in practice. Respondents also supported the ED because it helps to address the issue of "double counting" that is present when

tax effects are counted both in the valuation of an asset and in the measurement of the related deferred taxes when deferred taxes are calculated based on an expectation of recovery through use.

12. Many respondents, however, did not agree with the proposed exception. These respondents felt that an exception would be too prescriptive, would represent a rules-based "bright line" inconsistent with principles-based standards and would not have a conceptual basis. Respondents argued that the proposed exception is inconsistent with the IAS 12 measurement principle and would therefore result in deferred tax amounts that would not reflect the entity's actual expectations of recovery. Some respondents acknowledged that accounting for the assets included in the scope of the exception involved significant estimates and judgement, but felt that related judgements had to be made in other areas of accounting for the assets and that such judgement is necessary for quality financial reporting.

13. Many respondents suggested including application guidance or illustrative examples that would seek to clarify the application of the measurement principles of IAS 12 without explicitly mandating a rule-based exception, stating that application guidance would address many of the same problems as the proposed exception while providing a more operational solution that would be more appropriate in the context of principles-based standards. Specific recommendations for application guidance will be discussed later in the paper.

14. A minority of respondents felt that the Board should not proceed with the proposed exception for various reasons:

    (a) IAS 12 should stand as written; no additional guidance is necessary.

    (b) The issue should be addressed as part of a comprehensive review of IAS 12.

    (c) The issue should be addressed as part of an amendment to SIC 21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets*.

Basis for application of exception

ED Proposal:

15. The ED proposed that the exception apply to certain assets remeasured or revalued at fair value. In the Basis for Conclusions of the ED, the Board explained that the exception should apply to assets measured at fair value and not at cost because it would not be as difficult to determine an expected manner of recovery for assets measured at cost because:

> there is a general presumption that the asset's carrying amount is recovered by use to the extent of the depreciable amount and by sale to the extent of the residual value.

Respondent Feedback:

16. Some respondents supported the Board's proposal to apply the exception to certain assets measured at fair value. These respondents stated that revaluing or remeasuring an asset reflects changes and tax consequences that will not be recognised until sale. Respondents also stated that assuming a fair valued asset will be recovered through sale is consistent with the measurement of that asset.

17. However, many other respondents did not agree with applying the proposed exception on the base of a measurement basis. These respondents argued that an accounting policy choice relating to the measurement basis of an asset does not have a correlation to the expected recovery of an asset. Since this measurement basis is an accounting policy choice, this could lead to abuse of the standard by entities that choose a measurement basis in order to achieve the most favourable deferred tax amounts. Respondents also pointed out that the depreciation assumptions mentioned by the Board in the Basis for Conclusions in paragraph BC12 of the ED are already applied to revalued assets that are subsequently depreciated. They could also be applied to remeasured investment properties that are not depreciated if such assets would be depreciable under the provisions of IAS 16 *Property, Plant and Equipment*. Other respondents argued that the exception should apply to all assets regardless of measurement basis.

18. Many respondents who disagreed with the proposed basis of the exception offered other suggestions for ways in which similar guidance could be applied.

Many respondents suggested that the Board include application or implementation guidance in IAS 12 providing guidance on the basis of the:

(a) depreciability of an asset;

(b) business model of an entity; or

(c) principle manner of expected recovery.

Respondents also suggested that the exception only apply if it is impossible or impractical to determine the expected manner of recovery.

19. Finally, respondents suggested that the initial recognition exception in IAS 12 could be extended to remeasured assets and liabilities, which would help to solve the double counting issue the proposed exception partially addresses.

Scope of the exception (Question 2 in the ED)

ED Proposal:

20. The ED proposed that the exception to the principle in IAS 12 be extended to:

(a) investment property measured using the IAS 40 *Investment Property* fair value model;

(b) property, plant and equipment or intangible assets measured using the IAS 16 or IAS 38 *Intangible Assets* revaluation model; and

(c) investment property, property, plant and equipment or intangible assets acquired in a business combination that are subsequently measured at fair value or revalued.

The Basis for Conclusions explained that the Board understands that the primary practice issues concern investment properties but believes that the scope should extend to revalued property, plant and equipment and intangible assets because there is no underlying difference between revaluation and the fair value measurement model.

Respondent Feedback:

21. A minority of respondents agreed with the proposed scope in its entirety, noting that they agreed with the reasoning in the ED. A number of other respondents, however, raised issues regarding the general scope, including:

    (a) The proposed solution should not just apply to certain specific assets; there would be no need for a specific scope with general application guidance.

    (b) The Board needs to provide more rationale for extending the scope beyond investment properties.

    (c) The Board should provide guidance regarding whether analogising the guidance to assets outside of the scope is appropriate.

Investment properties measured at fair value (Question 2a)

22. Of the respondents who specifically commented on the inclusion of investment properties measured at fair value in the scope of the ED, the majority agreed with the inclusion. Even a number of those respondents that did not support the original exception stated that, if the exception goes forward, they would support limiting the scope to only investment properties measured at fair value. Respondents stated that accounting for deferred taxes relating to investment properties measured at fair value seems to be the most common issue in practice because it is so difficult to determine the expected manner and amount of recovery of these assets; the ultimate method and timing of recovery is contingent on many different factors.

23. Respondents also noted that it is often appropriate to presume that investment properties at fair value are recovered through sale because, even if an investment property earns income through rental use in a given period, the value or future earnings capacity of the investment property will not decrease and that value will ultimately be recovered through sale. Respondents noted that the Board should resolve this issue quickly given the urgency and the significant value of deferred taxes relating to these assets.

24. However, respondents did question the implication of including investment properties under operating leases in the scope of the exception since these properties used under the operating lease. These respondents requested that the Board reconsider the inclusion of such assets.

Revalued property, plant and equipment and intangible assets (Question 2b)

25. In regards to property, plant and equipment measured using the revaluation method, a few respondents, especially those from New Zealand, explicitly agreed with the Board's inclusion of such assets in the scope. The respondents from New Zealand noted that long-lived property, plant and equipment, especially buildings, presented a major practice issue for them.

26. The majority of respondents disagreed with the Board's choice to include property, plant and equipment measured using the revaluation in the scope of the exception. These respondents argued that such assets are normally recovered through use, even being defined in IAS 16 as assets that:

> are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

27. Respondents also stated that depreciation is still required for revalued property, plant and equipment and argued that the Board's reasoning is inconsistent, because depreciation assumptions about useful life and residual value can still be made for these assets and used for deferred tax measurements. Other respondents argued that the exception increased complexity in accounting for deferred taxes on these assets with little or no benefit.

28. Some respondents also suggested that the scope only be extended to IAS 16 assets that are owner-occupied properties held for both use and capital appreciation; these respondents argued that the exception would be helpful in solving practical issues for such properties but would not be useful for other types of property, plant and equipment.

29. Regarding intangible assets measured using the revaluation model, a few respondents explicitly supported the inclusion of such assets in the scope of the exception. The majority of respondents, however, did not agree with the

inclusion. Many of these respondents echoed the concerns expressed above regarding revalued property, plant and equipment.

30. Respondents also warned of the varying and different natures of intangible assets and questioned whether the board has considered the full impact of extending the scope. Respondents also recommended distinguishing between assets with definite and indefinite useful lives and only including those with indefinite useful lives in the scope.

Assets acquired in a business combination (Question 2c)

31. Those respondents that explicitly commented on the inclusion of certain assets acquired in a business combination mainly echoed their previous comments on scope and applied those same views to assets acquired in business combinations.

32. Many respondents, however, used the area of business combinations to point out the inconsistencies they felt would arise in practice because of the choice to use a measurement basis to determine whether the proposed exception can be applied. These respondents pointed out that if two entities acquired an identical business, but one entity chose to measure the related assets at cost and the other using the revaluation method, then the deferred tax assets and liabilities relating to two identical assets would be different.

Other assets and liabilities (Question 2d)

33. A number of respondents also commented on the question of whether other assets and liabilities should be included in the scope. Many respondents requested that other assets be included in the scope, such as:

    (a) biological and agricultural assets measured at fair value under IAS 41 *Agriculture*;

    (b) financial instruments measured at fair value under IAS 39 *Financial Instruments: Recognition and Measurement*; and

    (c) buildings, land and leasehold land carried at cost.

    Respondents from New Zealand especially supported the inclusion of biological assets and buildings, land and leasehold land carried at cost.

Measurement basis used in the exception (Question 3)

ED Proposal:

34. The ED proposed that, for assets included in the scope of the exception, there would be a rebuttable presumption that the carrying amount of the assets would be recovered entirely through sale in the calculation of deferred tax assets and deferred tax liabilities. The Board explained in the Basis for Conclusions that it felt a rebuttable presumption of recovery through sale was appropriate because it would provide:

> a practical approach that avoids subjective estimates of an entity's expected manner of recovery of an asset.

The Basis for Conclusions also mentions other factors the Board considered, namely that using a sale approach avoids the double-counting of tax effects that can happen with a use approach and that a sale approach would be appropriate given that fair valued assets are measured at an exit price.

Respondent Feedback:

35. A number of respondents agreed with the Board's proposal to establish a rebuttable presumption of recovery through sale for certain assets. These respondents commended the Board for providing guidance that would reduce the complexity involved in determining appropriate tax rates and the need for subjective judgements relating to future events that would determine the manner of recovery. Other respondents noted that a rebuttable presumption of recovery through sale was conceptually supportable when applied to assets measured at fair value and revalued amounts because these amounts represent sale amounts and reflect economic reality because entities are most likely to sell such assets.

36. Other respondents noted that a presumption of recovery through sale solves the issue of the double counting of tax effects that is present in calculations based on recovery through use because the valuation of assets in the scope of the exception already takes into account tax effects of use. Other respondents requested that the presumption of sale only apply to non-depreciable assets,

arguing that the depreciation assumptions made for depreciable assets should also be made in calculating the related deferred taxes. Respondents used the term "non-depreciable assets" to refer to both assets that are non-depreciable by nature (eg land) and assets that are not depreciated because standards prohibit depreciation (eg intangible assets with indefinite useful lives). Other respondents requested guidance regarding how the timing of recovery through sale should be taken into account for deferred tax calculation.

37. However, many respondents disagreed with the proposed presumption of recovery through sale for assets included in the scope of the exception. Respondents stated that the fair value or revaluation measurement basis does not imply or predict recovery through sale; many times, it is an accounting policy choice that is completely dependent on the entity. Some respondents felt that separate guidance was needed for assets that were expected to be recovered through both sale and use since a presumption of sale would not reflect reality or an entity's expectations of the future.

38. Other respondents offered alternative measurement bases for calculation of deferred taxes; some respondents advocated a presumption of use, saying that this presumption was more:

    (a) prudent than a presumption of sale;

    (b) appropriate for property, plant and equipment and other long term assets; and

    (c) reflective of the entity as a going concern acquiring assets for use in operations.

39. Some respondents advocated considering an entity's business model and past practice of recovering assets when making the decision of how to determine the expected recovery of an asset. Some respondents recommended basing the determination on the assumptions used in depreciation. Other respondents recommended basing the measurement decision on the principal manner of recovery or the manner of recovery that would result in the lowest tax consequences.

Rebutting the presumption

ED Proposal:

40. The ED stated that the presumption of sale can be rebutted:

> if an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

The Basis for Conclusions explained that the Board made the presumption of sale rebuttable because:

> the Board believes that it is not appropriate to assume the recovery of the underlying asset by sale when the entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

Respondent Feedback:

41. Some respondents agreed that the proposed exception should provide a possibility to rebut the presumption of recovery through sale. These respondents stated that it is important that, if an entity expects to recover the carrying amount of an asset through use and there is evidence to support that expectation, the entity should be required to calculate deferred taxes on the basis of recovery through use. Respondents argued that the presumption will be easy to rebut in many cases where it is clear that an entity will recover an asset through use.

42. The majority of respondents who commented on this issue, however, disagreed with the wording of the rebuttable presumption. Many of these respondents thought the phrase "throughout its economic life" was too prescriptive and not operational since it implied that an asset needed to be entirely recovered through use if the presumption was to be rebutted. Respondents interpreted this requirement to indicate that an entity could not rebut the presumption if even a relatively small residual value, such as the scrap value of an asset, would be recovered through sale and the rest of the asset would be recovered through use. Respondents pointed out that, if the rebuttable presumption was interpreted this way, then the proposed exception would result in assets in the scope being accounted for as recovered either entirely through use or entirely through sale.

43. Respondents were not comfortable with only these two extremes being represented and stated that entities should be allowed to calculate deferred taxes based on a dual recovery through use and sale if that is how an entity expects to recover an asset. These respondents requested that the proposed presumption be reworded so that it allows for deferred taxes to be calculated on the expectation of recovery through both use and sale when this best reflects an entity's expectations of recovery.

44. Additionally, respondents from New Zealand thought that the presumption should be binding and should not be allowed to be rebutted, stating that a sale presumption would always provide more useful information.

"Clear evidence"

45. Respondents also commented on the proposed requirement for an entity to have "clear evidence" in order to rebut the presumption of recovery through sale. Many respondents stated that this phrase was unclear and that the Board should provide a definition of "clear evidence" or guidance regarding what type of evidence would actually be required. This sentiment was expressed both by those who generally supported the proposed exception and rebuttable presumption and by those who disagreed. Respondents warned that entities could interpret the phrase differently and that, while the proposed exception eliminated subjectivity from the estimation of manner of recovery, it would introduce subjectivity in determining what would constitute "clear evidence."

46. A number of other respondents warned that the requirement for "clear evidence" could be too prescriptive for entities and that such evidence would be difficult and costly to provide. This could result in entities using the sale presumption even if they expected assets to be recovered through use because they could not provide clear evidence. Respondents also warned that this requirement places a burden on entities that had previously measured deferred tax liabilities based on a reasonable expectation of recovery through use. These entities did not previously have problems with the application of IAS 12 but, under the ED, they would now be required to provide "clear evidence" of recovery through use.

Respondents noted that these entities did not request that changes be made to IAS 12 but would have to bear the cost of implementation of the proposed guidance.

47. Respondents also pointed out that entities could choose whether they want to rebut the presumption; there is nothing in the proposed exception that would force an entity to present clear evidence to rebut the presumption of sale if it did not want to. Respondents pointed out that this would decrease consistency and comparability and the quality of reported financial information. Respondents also suggested alternatives to the provided method of rebutting the presumption, stating that an entity could rebut the presumption:

    (a) when other recovery assumptions would give more relevant and meaningful information; or

    (b) when an entity has sufficient information to make an alternative assumption.

Transition (Question 4)

ED Proposal:

48. The ED proposed that the amendments to IAS 12 be applied retrospectively; retrospective restatement of all deferred tax assets and liabilities in the scope of the proposals would be required, including those relating to assets acquired in a business combination. The Board explained in the Basis for Conclusions that it did not think that retrospective application would be unduly burdensome because:

    > the proposed changes apply only to specific circumstances, do not require judgement and do not require disclosure of complex information.

Respondent Feedback:

49. The majority of respondents agreed with the Board's recommendation for retrospective application. These respondents argued that retrospective application would increase comparability and would not be difficult or unduly burdensome for companies. Respondents noted that IAS 8 *Accounting Policies,*

Changes in Accounting Estimates and Errors would provide guidance if it became impracticable for entities to retrospectively apply the amendments.

50. However, some respondents disagreed with retrospective application, arguing that:

    (a) the proposed exception is similar to a change in accounting estimate and should therefore be accounted for prospectively; and

    (b) retrospective application would be too costly.

51. Other respondents agreed generally with retrospective application with certain limitations, specifically relating to business combinations. Respondents warned that it would be difficult to restate goodwill and recalculate previous impairment reassessments when certain information would no longer be available and the entity could not separate the effects of hindsight. Also, respondents asked for additional guidance on whether the adjustment for previous business combinations should be made to goodwill or retained earnings.

52. As a related issue, some respondents also requested more clarification relating to the reassessment of deferred tax assets as a result of decreased deferred tax liabilities because of the effects of the proposed exception. Respondents echoed the previously discussed concerns about hindsight, stating that it would be impossible to separate the effects of hindsight when recalculating deferred tax assets as part of the application of the ED.

Other issues (Question 5)

53. The ED also asked respondents to comment on any other issues. Respondents brought up a number of other issues.

54. Many respondents stated that a comprehensive review of IAS 12 is necessary. Some respondents commended the Board for issuing the proposed guidance in the meantime, while other respondents stated that a piecemeal approach to releasing guidance is inappropriate and a comprehensive review would be better. Other respondents stated that the Board needs to address other specific issues with accounting for income taxes, including the issue of entity wrappers. The

staff's response to some of these requests will be discussed in Agenda paper 1B Appendices A and B.

55. Other respondents raised cost-benefit concerns relating to the costs of implementation of the proposed guidance. These respondents also warned of unintended consequences of the ED. Respondents also noted that the majority of the costs of implementation fall onto entities who have not requested any additional guidance regarding IAS 12 from the Board and requested that the costs of implementation be shifted to those entities that had previously had problems with calculating deferred taxes.

56. Many respondents stated that the proposed disclosure requirements are costly and do not add value to the financial statements, especially since IAS 1 *Presentation of Financial Statements* already requires disclosures regarding material judgements. Respondents offered various other suggestions for required disclosures.

57. A number of respondents also commented on the Board's proposal to withdraw SIC 21. While some respondents did agree with the withdrawal of SC 21, many felt that this would be inappropriate. Respondents gave a variety of reasons, including:

    (a) unintended consequences;

    (b) entities apply SIC 21 by analogy to many different assets, such as land measured at cost and intangible assets with indefinite useful lives; and

    (c) SIC 21 has a different scope than the proposed amendments.

    Respondents suggested clarifying SIC 21 or incorporating it into IAS 12.

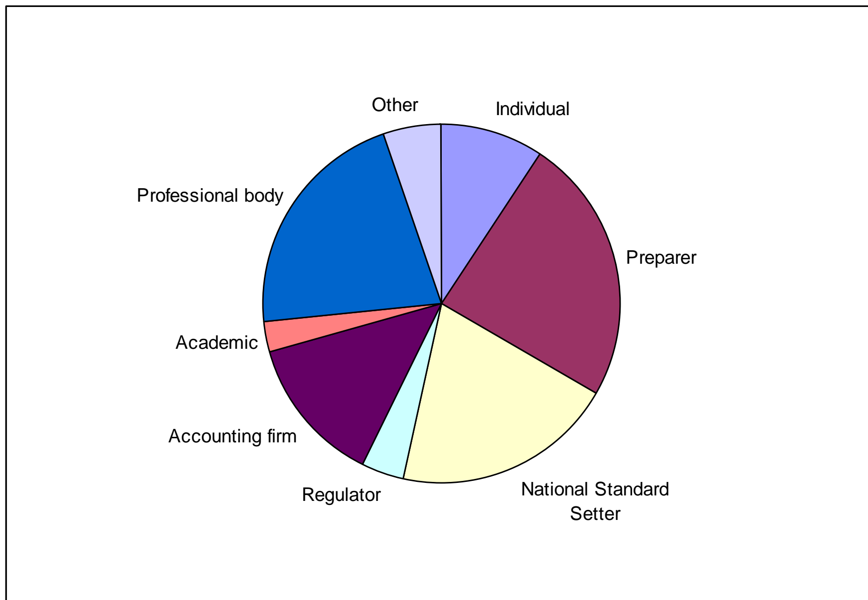
58. One respondent questioned why the Board limited the comment period to only 60 days instead of the normal 120 days, noting that were many other important documents out for public comment during the comment period.

59. Finally, respondents discussed the effective date of the proposed amendments. Respondents commented that it was extremely important that the Board issue the document in a timely manner and provide for at least a possibility of early

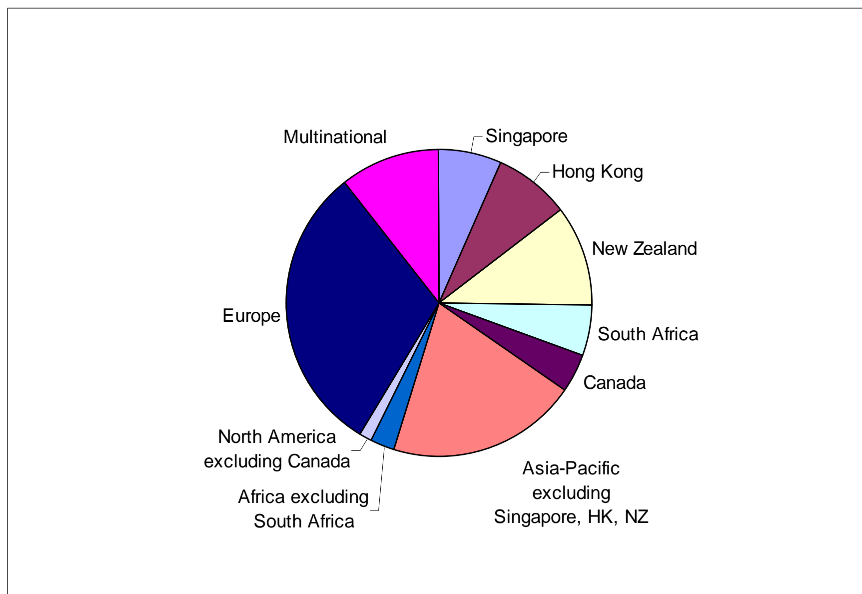
adoption in late 2010 or early 2011 to ensure that countries who are adopting IFRS in 2010 and 2011 will not have to calculate deferred tax assets and liabilities for both the periods before, and after, the amendments become effective.

Appendix A—Summary of respondent demographics

Type of respondents:



Geography of respondents:



Appendix B—Specific jurisdictional issues

B1. Respondents from a number of specific jurisdictions commented on the proposed amendments and their application to the tax issues in their specific jurisdictions. These jurisdictions included New Zealand, Singapore, South Africa, Hong Kong, Canada, and China.

Hong Kong

B2. A number of constituents in Hong Kong also responded to the ED. In Hong Kong, there is no capital gains tax. In addition, many leases in Hong Kong are very long term, lasting 50 to 999 years. Respondents argued that they believed that these long-term leasehold properties are analogous to land in that they are not depreciated and should be accounted for in the same way, through a presumption of recovery by sale. Therefore, respondents from Hong Kong were supportive of the proposed exception since it would result in deferred taxes for these long-term leasehold properties and land being calculated in essentially the same way.

B3. Respondents from Hong Kong stated that there is often a lack of directly comparable transactions when accounting for investment properties, so valuations for these assets are calculated using a discounted cash flow method that takes into account some tax consequences. These respondents also supported the proposed amendment because it also avoids the double-counting issue.

China

B4. Respondents from China specifically mentioned one concern. In China, there is a land appreciation tax that applies to entities and individuals receiving income from the transfer of State-owned land use rights, buildings, and attached facilities. Respondents from China expressed confusion over whether this tax would qualify as income tax and, if so, were concerned that their deferred tax liabilities would increase as a result of the application of the proposed exception to this tax. One respondent commented on the ED's impact in Hong Kong and China; although this respondent supported the ED's application in Hong Kong

for the reasons discussed above, the respondent had concerns over the application in China because of the land appreciation tax issue.

Canada

B5. Respondents from Canada also commented on the ED. Two of these respondents represented the Canadian insurance industry and stated that the proposed exception solves a problem that has been prevalent in their industry. Many insurance companies hold investment properties, such as real estate, that collect rental income but are taxed on a capital gain at sale. Capital gains tax rates are 50% of those rates applied to normal business income. These respondents stated that there is a lot of diversity in practice regarding how to account for the deferred taxes for such assets and that the proposed exception will greatly clarify and simplify the accounting. These respondents also generally supported the proposed scope but noted that their main concerns related to investment properties.

Singapore and South Africa

B6. The staff understand that there are also similar issues in Singapore and South Africa, since capital gains are either tax-exempt or taxed at a favourable tax rate. Respondents from these countries did not discuss their particular circumstances in much detail, however. Respondents from Singapore expressed mixed support for the proposed exception; some respondents agreed, some suggested application guidance, and some disagreed. Respondents from South Africa, however, expressed broad support for the proposed exception.

New Zealand

B7. A number of respondents from New Zealand responded to the ED. Respondents noted that there is no capital gains tax in New Zealand, so preparers would not have to report any deferred tax liability on the basis of recovery through sale. These respondents broadly supported the ED's proposals, especially the proposal to introduce a presumption of recovery through sale. Also, the preparers from New Zealand that responded were primarily in non-financial industries, such as utilities and agriculture. For these respondents, the inclusion

of revalued property, plant and equipment in the scope of the exception was very important, as these respondents' most significant assets are property, plant and equipment and, in most cases, these assets are revalued.

B8. Respondents from New Zealand supported extending the scope of the exception to cover buildings measured at cost, stating that these buildings were economically similar to revalued buildings and that they would eventually be recovered through sale. These respondents also stated that, especially for long-lived assets, it is important not to overstate deferred tax liabilities, because these liabilities are not discounted and it will be a long time until any tax effects will be realised, if they are at all.

B9. The New Zealand legislature has recently changed and no longer allows tax depreciation on buildings with a useful life of 50 years or more. This has lead to reduction of the tax base of those buildings in applying IAS 12 in New Zealand. This means that many entities are now forced to record very large deferred tax liabilities on the basis of recovery through use. Respondents from New Zealand also pointed to this legislative change as another reason to support the ED.

B10. Respondents from New Zealand also supported restricting the ability of entities to rebut the presumption of sale and limiting the amount of recognised deferred tax liabilities to the amount of tax an entity could not avoid paying.