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VH/AP

EACB messages on IASB Consultation on Deferred Tax related to Assets and Liabilities arising from a Single Transaction (IAS 12)

The European Association of Cooperative Banks (EACB) gladly takes the opportunity to comment on the IASB consultation about the Deferred Tax which is related to Assets and Liabilities arising from a Single Transaction (amendments to IAS 12).

The EACB welcomes the IASB's effort to address the current diversity in initial recognition exemption of deferred tax for single transactions that give rise to an asset and liability. Currently, in some cases, the exemption is applied, and in other cases it is not. Under the proposed IASB amendments, the exemption in the IAS 12 would not apply to leases and decommissioning obligations—transactions for which companies recognize both an asset and a liability. The proposed amendments would result in companies recognizing deferred tax on such transactions.

In contrast with the EFRAG's view, we see merit in the IASB's approach ('gross method'), which considers the unit of account in IAS 12 as being the asset and the liability rather than a single transaction.

- We believe that the “gross method” leads to a relief. In a number of EU countries, leased assets are normally not capitalized in the tax balance sheet. Therefore, temporary differences are calculated independently from any circumstances and a difference between the IFRS balance sheet and the tax balance sheet would automatically be generated for the asset and the liability. Deviating from the gross approach would lead to an additional effort which would have to be analysed and netted for every single leasing contract.

On the other hand, the EACB disagrees with the IASB's recommendation concerning the recognition ‘cap’ in paragraph 22A (b) for a deferred tax liability because of the consequences of this proposal in subsequent periods.

- The recognition of a specific deferred tax asset to be used as a reference to cap a deferred tax liability arising from the same transaction seems contrary to the general principle in IAS 12 that all deferred tax liabilities should be recognised.
- Moreover a cap entails a number of difficulties, e.g. it is difficult to reconcile with the fact that the unit of account is the individual asset and the individual liability. In addition, the asset and liability are separate units of account, potentially recorded in different systems for which re-establishing a single transaction approach may reveal unnecessarily costly.

We thus believe that the “cap” should be removed. In this regard, the EACB agrees with the position of EFRAG more thoroughly examined in its draft comment letter to which we refer.



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