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Correspondant
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Our references
C – 057 – 2012

Your references

Date
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Invitation to comment – Discussion Paper: *Improving the Financial Reporting of Income Tax*

Dear Sir, Madam,

The Belgian Accounting Standards Board (BASB) is pleased to respond to the EFRAG Discussion Paper on *Improving the Financial Reporting of Income Tax* issued by EFRAG in December 2011 (hereinafter the “DP”).

The BASB encourages the proactive work of EFRAG in Europe and believes that these activities will effectively enhance international financial reporting. In its Agenda Consultation 2011 issued in July 2011, the IASB also recognizes that IAS 12 is sometimes difficult to apply. An issue to be addressed is the accounting for uncertain tax positions, although resolution of this issue may first require completion of the non-financial liabilities project.

This Agenda Consultation also refers to a possible 'fundamental review' of accounting for income taxes. Based on the IASB's Press Release issued on the publication of the exposure draft ED/2009/2, which referred to 'the efforts of several national standard setters, in particular the UK Accounting Standards Board (ASB) and the German Accounting Standards Board (GASB), to undertake a fundamental review of income tax accounting'; the BASB is of the opinion that the DP is considered to be a step in the right direction.

With respect to the first part of the DP we are of the opinion that some aspects in relation to income taxes were not properly addressed; based on our understanding, the following fields also lead to difficulties in applying the principles of IAS 12:

- The treatment and measurement of outside temporary differences relating to subsidiaries, associates, branches and joint ventures,
- The application of the initial recognition exemption to certain assets and liabilities,
- The treatment of a technical goodwill as a result of the recognition of deferred tax liabilities within a business combination.

Given the different areas of implementation difficulties, the BASB acknowledges the need for a fundamental change in the approach of income tax accounting under IFRS. Hence we do not support the alternative of amending the current IAS 12 as described in part 1 of the DP.

The BASB is of the opinion that the accruals approach, as described in part 2 chapter 6, is the most beneficial approach for income tax accounting. Nevertheless, we fail to understand how all the comments on the current IAS 12, as described in part 1 of the DP, will be resolved by applying the accruals approach.

We believe that it should be beneficial within the scope of the proactive activities of EFRAG to investigate how the accruals approach would effectively overcome these IAS 12 application issues.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at jan.verhoeve@cnc-cbn.be.

Yours faithfully,

Jan Verhoeve
Chairman BASB