



EFRAG
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Our Ref	Direct Line	Direct Fax	Date
DNE/HC	01625 518821	01625 516676	29 June 2012

Dear Sirs

Improving the Financial Reporting of Income Tax – Discussion Paper

AstraZeneca welcomes the opportunity to comment on the EFRAG's discussion paper on 'Improving the Financial Reporting of Income Taxes'.

Please find attached our comments on the 'Questions to constituents'.

Tax is a major operating cost of business and it is beneficial to engage with users of financial statements and include relevant and transparent tax disclosures in financial statements. Any updates to tax disclosures will need to be practical and straightforward for preparers to apply and users to interpret.

We recognise the perceived difficulties with IAS 12 as set out in the discussion document; however we do not consider that it will be helpful to move away from an accounting standard which has been in place for many years and is generally well understood by preparers and users of accounts. In particular, we consider that the alternative methodologies proposed in the discussion paper will not aid users in interpreting tax accounting, and will require significant cost and effort from business to change the approach.

If you have any questions regarding our comments, please do not hesitate to contact me on helen.clegg@astrazeneca.com or telephone +44 1625 518 821.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Helen Clegg', is written over a light blue horizontal line.

Helen Clegg
Senior Tax Manager – Group Reporting

Question 0.1 Do you consider that there are deficiencies in IAS 12 that should be addressed? If so, should they be addressed through limited amendments to the standard, or by developing a new standard based on different principles?

We agree that it is important to ensure that financial statements are straightforward to prepare and interpret. Deferred tax is a fairly complex area of accounting and this may cause some preparers and users to find that the current standard is cumbersome and difficult to understand or apply in practice. Our view is that the current standard (which has applied to financial statements effective 1 January 1998 with only minor revisions since that date) is well understood by most preparers and auditors, and that consistent interpretations are adopted in preparing financial statements. We therefore believe that to the extent there are deficiencies within IAS 12 they should be addressed through limited amendments and not by development of a new standard.

Whilst not necessarily a deficiency, we believe the level of disclosure of deferred tax required by IAS 12 is onerous to prepare and the information provided is complex, difficult to interpret and therefore potentially not readily understood by users. We would recommend that this disclosure should be reviewed and simplified, as discussed below in our response to Q1.2.

Question 1.1 Under current IAS 12, a difference between the tax paid and the current tax expense reported in the income statement leads to misunderstandings of these relationships.

Do you agree that additional disclosure that would provide a reconciliation of the taxes paid and current tax expense will help in understanding this relationship?

There will always be a disconnect between the timing of current tax expense accrued through the income statement and the taxes paid and we do not believe that a reconciliation will add additional value to users.

Q1.2 Do you agree that additional more detailed disclosures regarding deferred tax assets, especially unused tax losses and unused tax credits are necessary and useful?

In principle we are supportive of increased disclosure to make financial statements more informative, however we believe it is important to ensure that there is a balance as too much disclosure can result in the financial statements becoming unnecessarily lengthy and complex. Our view is that the current approach of disclosing deferred tax assets and movements during the period by class of asset already involves a significant administrative burden to business and is not widely understood by users. We would therefore disagree with increasing the requirement for more detailed disclosure for deferred tax items, except for very specific and focussed cases.

The proposal in the discussion paper identifies that users have requested additional information around geographical breakdown, maturity schedules, losses carried forward and other restrictions. The process of gathering data to analyse deferred tax assets by these categories will be overly onerous for multinational groups and will result in particularly detailed, complex and unwieldy deferred tax disclosures which will be difficult to interpret due to volume of data. Preparers would want to see clear evidence of benefit to users before supporting such proposals.

If users consider that additional detail on specific areas, for example loss carryforwards, is particularly relevant, then management judgement, following agreement with auditors, would need to be applied to determine whether deferred tax assets recognised in respect of unused tax losses and tax credits are significant, and, only on those significant items, could more detailed disclosure be provided. Unrecognised deferred tax assets on unused tax losses and unused tax credits should be ignored.

It should also be noted that, based upon availability of future profits, losses may be utilised in a shorter period than maturity period and businesses may find it difficult to forecast timing for reversal of these losses and tax credits with any degree of accuracy.

Q1.3 Do you agree with the identified users' information needs in Chapter 1 of Part 1? Do you have any suggestions for additional information requirements regarding reporting of income taxes?

Our comments on the identified users' information needs are set out in our responses below. We do not have any further suggestions for additional information requirements.

Q1.4 Do you agree that tax strategies to accommodate user information needs should be disclosed in the management commentary and not in the financial statements? Why or why not?

AstraZeneca agrees that users can benefit from a broader view of a group's tax strategy and tax risks and includes additional information to users as part of the Directors Report within the Group's 2011 Annual Report. We believe that it is more appropriate to provide this information within the Risk Management section of the management commentary where users can have visibility of tax risk in the context of overall business strategy and financial risks. Providing additional disclosure within the tax note in financial statements will result in duplication and increase the volume of the already lengthy financial statements.

Q1.5 The reconciliation of the actual tax charge to the charge on profit at the statutory tax rate (tax rate reconciliation) is quite complicated and leads to some misunderstandings.

Do you agree that the suggestions made in the paper are helpful by clarifying the explanation why the current tax charge is not equivalent to the standard rate of tax applied to the accounting profit? Why or why not?

We welcome the proposal to improve the clarity of the reconciliation between current tax charge and standard rate of tax and agree that using standard headings and grouping items into similar categories will aid understanding for users.

We would recommend that Effect of Foreign Tax Rates should be a separate category since this will apply to both current and deferred tax for those groups whose applicable tax rate is the tax rate of the country of the reporting entity.

We believe that the introduction of a standard reconciliation may provide more clarity for users of accounts. We would suggest retaining an element of flexibility to allow companies to minimise the number of lines or adjust language as appropriate.

Q1.6 The amounts currently disclosed provide limited information about future tax cash flows. How would you suggest the disclosures in IAS 12 be improved to provide better information about future cash flows?

Guidance to future profits and cash flows are typically communicated separately from financial statements. We believe that businesses should be able to retain the flexibility to communicate forecasts to stakeholders in a format and manner which is appropriate to their business and industry and therefore that it is not appropriate to disclose future cash flows in the financial statements. In addition, future cash flows are difficult to quantify and amounts may fluctuate significantly. Cash tax flows are event driven and can be influenced by both internal and external factors, including levels and mix of profitability in different jurisdictions, tax regime reforms, audit settlements and government's strategy on cash collection.

However, whilst it is difficult to quantify, we do agree that an understanding of the factors which may affect future tax costs can be helpful to users, and AstraZeneca's financial statements currently include a narrative description of such factors.

Q1.7 The possibility of discounting deferred tax balances is discussed in paragraphs 2.44 to 2.50. In your view, should discounting deferred tax amounts be required? Please explain.

Whilst we recognise that the Net Present Value of deferred tax assets and liabilities will be lower than the deferred tax balances computed without discounting, in our opinion, discounting deferred tax balances will add substantial complexity to the deferred tax calculation. It will be necessary to determine a forecast for reversal of the deferred tax on that asset using an appropriate discount factor on an asset by asset basis. This will involve substantial effort and judgement by management, is unlikely to add value for users of the financial statements, and will not aid comparability between companies and groups.

Q1.8 Currently IAS 12 neither provides explicit guidance for accounting for uncertain tax positions nor contains any specific disclosure requirements regarding the tax risk position.

(a) Do you agree required information regarding uncertain tax positions should be disclosed? If so, which of the following do you prefer?

Alternative 1: Disclosure requirements should be included in management commentary.

Alternative 2: Disclosure requirements should be split in two parts. Part 1 would include disclosure of all positions for which the tax payer must establish a tax provision under IFRS and will be disclosed in notes to the financial statements. Part 2 would include all other uncertainties regarding income taxes for which no provision is recognised.

AstraZeneca discloses information surrounding its tax provisions within the Commitments and Contingent Liabilities note in its 2011 Annual Report. We believe this approach benefits users by treating the disclosure of tax provisions consistently with other risks and provisions on the Group's balance sheet. We do not support additional disclosure relating to uncertain tax positions.

(b) Do you agree that IAS 12 should address the recognition and measurement of uncertain tax positions? Why or why not? If you agree, should the measurement be based on the most likely outcome or a probability weighted method? Should measurement include the likelihood the tax position will be reviewed by the tax authorities or should that review be assumed?

As AstraZeneca set out in its response to the IASB's Exposure Draft, we believe the current approach is a more meaningful presentation for users representing expected future cash outflows. Provisions are recognised to reflect the 'most likely' outcome which is consistent with the approach in 'IAS 37 – Provisions'. When assessing the impact of a provision, it would appear inconsistent to measure the provision on a 'most likely outcome' approach but the tax consequences to be based on a probability weighted average of all possible outcomes.

The probability weighted method may appear to be "conceptually superior" compared to the most likely outcome, but in practice, this will not be any more accurate than the most likely method. Tax audits typically give rise to binary outcomes. Assessing different outcomes and allocating a probability to each will consume a significant amount of management time whilst creating an answer which is unlikely to represent any likely outcome.

Q1.9 Are there any issues with IAS 12 which are not addressed in Part 1, that would significantly improve the standard? What amendments would address these issues?

As set out in our response to Q0.1 above, we would recommend review of the deferred tax disclosure requirements.

Q1.10 What is your view on the exemptions that currently exist in IAS 12?

Our view is that the current exemptions work well and are well understood.

Q2.1 If the development of a new standard for income tax, based on different principles from those used in IAS 12 is to be considered, which of the approaches discussed in Part 2 seem to have most merit and should be considered as a basis for further development?

We do not agree that a new standard for income tax should be considered. We do not believe that the deficiencies in IAS 12 are significant enough to justify the cost and effort of changing the basis of tax accounting within a multinational group operating in many jurisdictions. As noted in the Discussion Paper, each alternative proposal has its own deficiencies which limit its usefulness for users.

We do not believe that the Flow Through approach and the Partial Tax Allocation approach are useful to users because these limit recognition of deferred tax. Deferred tax matches tax charge and tax credits respectively against the expenses and income to which they relate and provides greater certainty on future tax rate both within management forecasting and for users' interpretation. Non or partial recognition of deferred tax will create additional fluctuation in tax charge and reduce usefulness for forecasting purposes. Also, these approaches will not give the correct accounting results because these treat some timing differences as permanent differences and so do not recognise the total future tax liabilities or assets arising.

We consider that the Valuation Adjustment approach will give rise to a result which is more difficult for users to understand and will be too difficult for preparers to apply. The approach could potentially impact actual tax cost since the calculation of tax amortisation is based upon the original cost of an asset. Additionally, it is not clear how deferred tax would be recorded on other types of timing difference e.g. interest which is deductible when paid.

The calculations under the Flow Through approach, Partial Tax Allocation approach and Valuation approach would require greater complexity and management judgement which could undermine comparability between different companies, for example, in the Partial Allocation approach, assessing those timing differences which should be recorded and which should not.

The Accruals approach could potentially be considered since this will accrue future tax liabilities as income and costs are incurred, and the information to calculate the tax charge would be readily available. However, this method does have its limitations, most notably disregarding those temporary differences which are not timing differences. By removing the split of current and deferred tax, users will have less information to determine the timing of settlement of tax liabilities. In addition, we do not believe that discounting of tax liabilities will be helpful to users and will require complex calculations and management judgment.

In conclusion, we consider that none of the proposals would be an appropriate basis to develop a new income tax accounting standard to replace IAS 12.

Q2.2 Do you think that there are any specific practical difficulties with implementing the approach(es) that you favour in practice? If so, how can those difficulties be addressed?

As outlined in our response to Q2.1 above, we consider that the Accruals approach would be difficult to implement. The accruals method is unlikely to significantly reduce the administrative burden for businesses because they would need to retain detailed records of the timing differences. Additional analysis would be required to substantiate the tax creditor which would relate to tax assets and liabilities which may be realised many years in the future.

It is not helpful to disregard those temporary differences which are not timing differences, for example business combinations, resulting in certain tax assets and liabilities being omitted from the company's balance sheet.

We do not agree that tax assets or liabilities should be discounted. We believe that discounting the liabilities will give greater complexity around the calculation, involve additional management judgement, be inconsistent with the treatment of other balance sheet liabilities and will not aid users to assess future tax payments.

Q2.3 Are there any approaches that are not discussed in Part 2 that should be considered?

There are no additional approaches which should be considered.

Q2.4 In your view, should a combination of approaches be considered? If so, which approach should be used in what circumstances?

As outlined above, we consider that the methodology employed in IAS 12 is fit for purpose, well understood by preparers, that any deficiencies are better addressed by limited amendments to current IAS 12 and that no new standard covering income taxes is required. We note that each proposal in the document has deficiencies which would need to be addressed through exceptions and / or additional disclosures and would require business and auditors to interpret the approach and therefore will not assist users in interpreting financial statements.

Q2.5 Do you have any further comments on the discussion of the various approaches in Part 2?

We have no further comments.