



MINISTERIO
DE ECONOMÍA
Y EMPRESA

ic/a/c Instituto de Contabilidad y
Auditoría de Cuentas

Comment Letter on the ED/2019/5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Comment Letters

European Financial Reporting Advisory Group

35 Square de Meeüs

Brussels B-1000

Belgium

Madrid, 25th October 2019

Dear Madam/Sir,

In the present letter ICAC gives its view on EFRAG's position presented in your draft comment letter on IASB's Exposure Draft ED/2019/5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*. ICAC welcomes the initiative to reduce the diversity in practice observed in the implementation of the recognition exemption established in paragraphs 15 and 24 of the IAS 12 *Income Taxes*.

We agree with the EFRAG's general position expressed in your comment letter. In the amendments proposed to IAS 12, the ED narrows the scope of the recognition exemption by not applying it to transactions that give rise to both an asset and a liability. It fulfils the objective of recognising the tax effects of a lease as the company uses the lease asset and settles the lease liability. Notwithstanding, to do so the ED introduces a 'gross method' that requires the companies to separately track the reversal of the taxable and deductible temporary differences in subsequent periods. This requirement adds complexity to the standard, complexity which could be growing if different tax rates might be applied forward and the reversal periods for the deductible and taxable temporary differences might be different. We consider that it would be desirable to explore a simpler solution to address this accounting issue.

Notwithstanding, we reckon that, if the 'gross method' is established, it could be premature to remove the limit proposed in the paragraph 22A for the deferred tax liability to the amount of the deferred tax asset on initial recognition. This 'cap' maintains the offsetting amounts of both the



deferred tax asset and the deferred tax liability, which is a condition to do not affect the assessment of the lease asset or lease liability. In this way, the amendments keep the aim that the recognition exemption was designed for.

Besides that, we would like to recommend exploring other cases where the recognition exemption does not allow recognising taxable temporary differences and it would be desirable that IAS 12 would permit companies to include the deferred tax involved. This is case, for example, of non-monetary contribution of assets, which do not constitute a business combination, in exchange for participation in capital of the company contributed that give rise to differences between their carrying amount and their tax base.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Enrique Rubio Herrera
Chairman of the ICAC