European Financial Reporting Advisory Group
35 Square de Meeüs
B-1000 Brussels
Belgium

3 July 2009

Dear Sirs,

Subject: Draft Comment Letter – IASB Exposure Draft "Income Taxes"

I attach the comments of the Accounting Standards Committee of the Institute of Certified Public Accountants of Cyprus on the *Draft Comment Letter* of the European Financial Reporting Advisory Group to the International Accounting Standards Board for *Exposure Draft ED/2009/2 "Income Tax"* released in March 2009.

Should you require any additional information or clarifications please do not hesitate to contact us.

Yours sincerely

Lina Lemessiou
Senior Officer

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From:	**Accounting Standards Committee** **Institute of Certified Public Accountants of Cyprus (ICPAC)**
Subject:	**EFRAG Draft Comment Letter** **International Accounting Standards Board Exposure Draft ED/2009/2 "Income Tax", March 2009**

We agree in the main with the content of your Draft Comment Letter to the International Accounting Standards Board (IASB) on Exposure Draft 2009/2 "Income Taxes" (ED), and your conclusion that you are not convinced that the proposals in the ED represent an improvement to the existing IAS 12 hence the ED should not be used as a basis for a revised standard on income taxes.

With regard to your specific questions posed to EFRAG's constituents, our comments are set out below.

Replies to questions to EFRAG's constituents

Question 10 – Distributed or undistributed rate

IAS 12 prohibits the recognition of tax effects of distributions before the distribution is recognised. The exposure draft proposes that the measurement of tax assets and liabilities should include the effect of expected future distributions, based on the entity's past practices and expectations of future distributions. (See paragraphs BC74–BC81 of the Basis for Conclusions.)

Do you agree with the proposals? Why or why not?

Question to EFRAG's constituents

84 Which of the above two views do you support and why?

Extracts from ED:
BC79 Others argue that before the entity has a liability to make the distribution (ie before there is a present obligation to make the distribution), it cannot have a liability to pay any additional income tax relating to the distribution. There is no present obligation. The event that triggers the income tax consequence of the distribution is the distribution.

ICPAC's comments

We support the views expressed in BC79 of the ED, and we believe that the current IAS 12 provisions that prohibit the recognition of the tax effects of a distribution before the distribution is recognised should remain. The tax consequence of the settlement of a liability cannot be recognised without the liability being recognised, and accordingly the tax consequence of a distribution should not be recognised before the distribution is recognised.

In certain jurisdictions, including Cyprus, the tax effects of a distribution also depend on the tax residency or the corporate/physical person status of the recipients of such distribution. For example, in Cyprus dividends paid to either shareholders who are not tax resident in Cyprus or to Companies, are not subject to deduction of the relevant tax. Under the proposed ED it is not clear how a company should calculate the tax effects of a potential distribution. Should the calculation be based on the company's shareholder base status at the end of the year or on the expected future shareholder base status when the distribution is expected to be made?

Question 13 – Allocation of tax to components of comprehensive income and equity

IAS 12 and SFAS 109 require the tax effects of items recognised outside continuing operations during the current year to be allocated outside continuing operations. IAS 12 and SFAS 109 differ, however, with respect to the allocation of tax related to an item that was recognised outside continuing operations in a prior year. Such items may arise from changes in the effect of uncertainty over the amounts reported to the tax authorities, changes in assessments of recovery of deferred tax assets or changes in tax rates, laws, or the taxable status of the entity. IAS 12 requires the allocation of such tax outside continuing operations, whereas SFAS 109 requires allocation to continuing operations, with specified exceptions. The IAS 12 approach is sometimes described as requiring backwards tracing and the SFAS 109 approach as prohibiting backwards tracing.

The exposure draft proposes adopting the requirements in SFAS 109 on the allocation of tax to components of comprehensive income and equity. (See paragraphs BC90–BC96 of the Basis for Conclusions.)

Question 13C

Do you think such an approach would give more useful information than the approach proposed in paragraphs 29-34? Can it be applied consistently in the tax jurisdictions with which you are familiar? Why or why not?

Question to EFRAG's constituents

98 We would appreciate your views on whether you believe the alternative approach could be applied consistency, and, if it could do you think it would represent a better approach than the one in existing IAS 12, and if so why ?

ICPAC's comments

We believe that alternative approach could be applied consistently, but we do not think that it represents a better approach than the one in the existing IAS12.

We share EFRAG's view that the alternative approach has a rule-based guidance approach as opposed to the more principle-based approach of the current IAS12, and its requirements will result in an allocation which is unduly complex and costly for preparers.