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28 June 2012

Re: EFRAG Discussion Paper *Improving the financial reporting of income tax*

Dear Françoise,

We are pleased to have the opportunity to provide our comments on the Discussion Paper "Improving the financial reporting of income tax" (DP).

First of all, we completely support the effort to improve the way income tax is currently accounted for. The evidence from users of financial statements suggests that the IAS 12 is not able to provide a fully satisfactory information on income tax.

This said, as already pointed out in occasion of the consultation on the IASB ED on Income tax, we believe that at this stage the best way to move is to improve the current IAS 12 rather than to replace it with a completely new standard.

Taking this approach, we think that the most important point to address is the discounting of deferred taxes. Even understanding that discounting of deferred taxes could require, in some circumstances, a difficult estimate of the scheduling of the timing of the reversal, discounting would significantly improve the information reported in those specific cases in which there is clear evidence of the reversal of temporary differences.

Another important issue is represented by the uncertain position. We believe that this fact pattern should be treated according to IAS 37. The measurement should be based on the most likely outcome, as this approach is more consistent with the definition of liability stated by the Framework and is easier to apply.

We have no specific comments regarding the part 2 of the document. Recognizing the completeness of the analysis made in the DP, we think that the choice between different accounting models should be driven by the deep understanding of how users utilize the information provided in IAS 12 to estimate future outflows for tax purpose. We support, on principle, the approach pursued by IAS 12, focused on the determination of the effective tax rate applicable to gross earnings. Nevertheless we understand the criticisms raised pointing out that the accounting model proposed by IAS 12 could provide misleading information in some circumstances (as in the case of the deferred taxes that gives raise to liabilities that are not liabilities according to the Framework).

To this respect, the most important contribution should be expected from analysts associations, and – in general – from the users' category.

Detailed comments follow below.

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 misunderstanding 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?

Yes, we believe that it is of crucial importance to clarify the relationship between the cash outflows for taxes paid in the period and the tax expense. This should contribute in permitting to the user a better assessment of future cash outflows.

Question 1.2

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

Yes. We believe that the main goal of tax accounting should be to enable the user to understand what part of the gross future cash flows will be absorbed by taxation. To this respect tax losses and tax credits could be used to compensate future tax outflows and that is why it is very important to fully understand how their recovery will take place.

Question 1.3

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

Yes, we agree with the proposed analysis.

Question 1.4

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

We believe that it is impossible, at this stage, to answer this question as it implies the definition of a comprehensive disclosure framework.

Question 1.5

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 standard rate of tax applied to the accounting profit? Why or why not?

We believe that the proposals contained in the paper are useful in clarifying why current tax charge is not equivalent to standard rate of tax applied to the accounting profit. Above all, we appreciate the suggestion to categorize the typical items that have to be reconciled in the way proposed in the document.

Question 1.6
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?

N/A.

Question 1.7
The possibility of discounting deferred tax balances is discussed in paragraph 2.44 to 2.50. In your view, should discounting of deferred tax amounts be required? Please explain.

See comments above.

Question 1.8
Currently IAS 12 neither provides explicit guidance for accounting for uncertain tax positions nor contains any specific disclosure requirements regarding tax risk position.

(a) Do you agree required information regarding uncertain tax position should be disclosed? If so, which alternative 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 statements. Part 2 would include all other uncertainties regarding income taxes for which no provision is recognized. (Paragraph 1.10 to 1.12)

(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 that tax position will be reviewed by the tax authorities or should that review be assumed?

The disclosure about uncertain positions should be provided to the extent that this information is relevant to the user of financial statements, as in case of any other item.

For the question sub (a) we have no position, as the issue should be analyzed in a wider project on the disclosure framework.

For the question sub (b) see comments above.

Question 1.9
Are there any issues with IAS 12 that are not addressed in Part 1 that would significantly improve the standard? What amendments would address these issues?

N/A.

Question 1.10
What is your view on the exemptions that currently exist in IAS 12?

We believe that the exemptions of IAS 12 are useful in applying the temporary differences approach as designed in the standard. In their absence, it would be unduly complex to apply the model without any significant improvement in the quality of information provided.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)