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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)*

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)* ("ED").

Question
Do you agree with the Board's proposal to amend IAS 12 in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

Comment:
We agree with the Board's proposal to amend IAS 12 in the manner described in the ED on condition that the following issues are carefully considered by the Board.
We believe appropriate initial and subsequent accounting treatments could be achieved by excluding from the recognition exemption a transaction that gives rise to equal amounts of taxable and deductible temporary differences at the time of the transaction.

This is because, as discussed in the Basis of Conclusion, the issue of making an adjustment to the carrying amount of the related asset or liability, which was the original purpose of providing the recognition exemption, would not arise in those particular transactions considered in the ED. The other reason is that the fluctuation in effective tax rates would become smaller by recognising deferred tax assets or deferred tax liabilities at subsequent measurements.

We further suggest that the Board should consider the following issues related to the proposal.

1. According to the proposal in the ED, a deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised for particular transactions. At the same time, a deferred tax liability is recognised for taxable temporary differences; however, the amount shall not exceed the amount of the deferred tax asset recognised. We recommend that the Board should provide a clear explanation about this new idea of limiting the amount to be recognised. Further, the following issues may also arise due to the limitation:
   (1) When a deferred tax liability is recognised only up to the amount of a deferred tax asset at initial measurement, the current ED does not clearly stipulate whether or not the deferred tax liability should be remeasured subsequently, and if subject to remeasurement, how it should be remeasured.
   (2) When there is not enough taxable income to cover the entire amount of deductible temporary differences and unused tax losses, the issue may arise as to how taxable income should be allocated to deductible temporary differences and unused tax losses. Depending on the allocation method applied, the allocated amount to deductible temporary differences could be different from those identified in the ED, affecting the limited amount of deferred tax liability to be recognised.

2. To determine the tax base of an asset or liability, an entity is required to apply judgement in identifying whether tax deductions are attributable to the asset or liability. We recommend that a further guidance should be provided to avoid inconsistencies in making the judgement.

Yours faithfully,

Takako Fujimoto
Executive Board Member－Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants