



Association pour la participation des  
entreprises françaises à l'harmonisation  
comptable internationale



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London  
UK

November 14, 2019

**Ref: ED/2019/5: Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

Dear Mr Hoogervorst,

We accept that there has been diversity in practice and that the application of IFRS 16 has increased the number of transactions potentially affected by this issue. We agree therefore that the issue must be addressed.

However, we are not convinced by the approach proposed by the IASB and think that it may not fully resolve the questions raised and may lead to increased complexity. In our view:

1. Before applying the amendments proposed in paragraph 15(b)(iii), the entity must analyse the causes of any temporary differences that may exist at the time of the initial recognition of the transaction.

The explanations provided in the Basis for Conclusions illustrate what the Board considers to be the right process for assessing such differences. The crucial point is to determine whether the deductibility is attributable to the asset or the liability. However, in many jurisdictions the trigger for the fiscal treatment is the payment of the lease instalment and, from a fiscal point of view, neither asset nor liability exists. We understand that it is therefore necessary to consider a « hypothetical » transaction, which might be assimilated to an in-substance purchase of the asset, for example, in order to understand to which component of the contract the deduction is attributable. In the course of the many discussions we have had in the preparation of this response, we have noted that there are numerous different assessments that can be made even within one jurisdiction.

This first step is not as straight-forward as it might first seem and requires a comprehensive explanation which goes beyond the simple statements made in the Basis for Conclusions.

Moreover, this this practical obligation to consider a hypothetical transaction seems, in our view, to illustrate the conceptual limits of the balance-sheet approach to the calculation of deferred tax that the IASB has adopted.

Following on from this first step, we understand that differences in treatment will continue to result from the initial accounting for a lease contract despite the proposed amendments:

- If the temporary difference is attributable to the asset the amendment has no effect since the exemption provided by paragraph 15 is not applicable if there are no temporary differences on initial recognition. However, temporary differences will arise subsequently, and deferred tax balances will have to be recognised.
- If the temporary difference is attributable to the liability the amendment will have an impact since it will require the recognition of deferred tax on initial recognition.

We therefore understand that the impact of the amended standard on P&L in future periods will be the same as at present, but that the amounts of Deferred Tax Assets and Deferred Tax Liabilities would be different initially. However, we are uncertain about this understanding since paragraph BC15(a) states that, “regardless of whether the tax deductions are attributable to the lease asset or the lease liability, the amendment would result in entities accounting for the deferred tax assets and deferred tax liabilities (on initial recognition and subsequently)”.

2. We are not convinced by the explanations provided in respect of the potential effects of the causes of differing amounts that may arise between the lease asset and the lease liability, such as advances lease payments and initial direct costs.

We therefore suggest that the Board provide some illustrative examples to facilitate understanding of the effects.

The explanation of paragraph BC18 implies that entities will have to track these elements separately from the leased asset, thus complicating the task in accounting systems. Moreover, in view of the capping of the amount of deferred tax liabilities at the amount of the deferred tax asset (proposed paragraph 22A(b)), we wonder whether there will be cases in which the limiting of the deferred tax liabilities on these elements would be inappropriate.

With regard to the « cap » impose by paragraph 22A(b), we wonder whether it is necessary and helpful to pile exemptions on top of other exemptions and rules on other rules. If the Board maintains this arbitrary cap, we think that it will be necessary also to deal with the related accounting in future periods in order to avoid creating new sources of diversity in practice.

3. Overall, we are concerned about the potential consequences of these proposed amendments (and some of the explanations in the Basis for Conclusions) on transactions other than lease contracts and decommissioning provisions. We think that a better way to achieve consistent accounting for leases and decommissioning provisions would be as follows:

- To state clearly that deferred tax must be calculated on these transactions (leases and decommissioning provisions) as long as temporary differences exist on a net basis (see point 2) and thus avoid the necessity to make other amendments to the standard. As a rule, we are in favour of robust principles rather than specific rules, but the solution proposed by the IASB in the ED does not appear justifiable from a conceptual point of view and we understand that the Board does not intend to undertake a comprehensive review of IAS 12 in the near future.
- To consider that the relevant unit of account for the purpose of deferred tax accounting is the contract as a whole (asset and liability). Even though the deferred tax assets and liabilities on each side are expected to be equal and opposite on day one, the entity will nonetheless be required to present them separately in the notes to the financial statements. This would not provide relevant information.
- To make the cap on deferred tax liabilities optional rather than mandatory. This would help avoid any unforeseen consequences of these amendments for entities which, a priori, should not be affected.

If you require any further explanation of the above, please do not hesitate to contact us.

Yours sincerely,

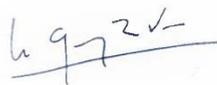
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