

29 May 2017

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Warren Allen  
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Dear Warren

## **Exposure Draft NZASB 2017-1 Amendments to RDR For Tier 2 For-Profit Entities**

We appreciate the opportunity to comment on the exposure draft *Amendments to RDR For Tier 2 For-Profit Entities* (ED NZASB 2017-1).

The focus of this submission is to provide comments on the outcome of the application of the proposed decision marking framework to NZ IAS 12 *Income Taxes* (question 4 of the Invitation to Comment).

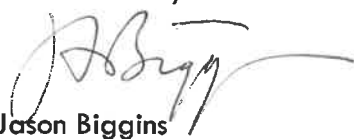
We disagree with certain proposed RDR changes as they remove useful information from the tax note. We do not consider that the cost of providing these disclosures exceeds the benefits. Most of the required tax disclosure are summaries of the underlying tax calculations. They should not be difficult to prepare, and they provide useful information to help the reader understand the tax balances.

The Audit New Zealand website includes a tax calculation and disclosure example, which may be a useful reference resource. This spreadsheet shows how the figures in the tax note are drawn from the underlying tax calculations.

Detailed comments on the proposed disclosure concessions for NZ IAS 12 are attached.

If you would like to discuss any of these comments, please call me on 021 222 4001 or email me at [Jason.Biggin@auditnz.govt.nz](mailto:Jason.Biggin@auditnz.govt.nz).

Yours sincerely



Jason Biggin  
Tax Director

## Response to Question 4 in the Invitation to Comment

**Do you agree with the outcome of the application of the proposed RDR-decision making framework and operational guidance to the disclosure requirements in NZ IFRS to determine the disclosure requirements for Tier 2 for-profit entities? If you disagree with the outcome, please identify, with reasons:**

***Which disclosures that are identified as requirements that you believe Tier 2 entities should not be required to provide?***

### *Paragraph 81(c)*

Paragraph 81(c) requires a reconciliation from tax on accounting profit to tax expense. This reconciliation can be the most challenging section of the tax note, and is often not as informative as the other sections of the tax note.

The logic in the staff analysis paper for not including this as a concession is incorrect. The information provided to IRD about assessable income is not the same as that required to be disclosed by paragraph 81(c). The calculation of assessable income is used to determine the figure for current tax expense. However, this is only one of the components of tax expense. The figure for tax expense also includes prior period adjustments and movements in relation to deferred tax.

It should also be noted that the figure for current tax expense disclosed in the financial statements is only an estimate of the tax liability that will be included in the tax return. The current tax calculation will generally be amended or refined before the tax return is filed. The information disclosed in the tax note reconciliation is of no interest to the IRD.

It could be argued that the costs of preparing the disclosure required by paragraph 81(c) outweigh the benefits. You may wish to consider providing a disclosure concession in relation to paragraph 81(c).

### *Paragraph 81(g)(ii)*

Paragraph 81(g)(ii) requires the amount of deferred tax recognised in profit or loss for each type of temporary difference and for unused tax losses. The total of these adjustments agree to the deferred tax movements disclosed in the components of tax expense. However, the amounts for each type of temporary difference or for tax losses would often be manually calculated, and are not particularly informative.

It could be argued that the costs of preparing the disclosure required by paragraph 81(g)(ii) outweigh the benefits. You may wish to consider providing a disclosure concession in relation to paragraph 81(g)(ii).

***Which disclosures that are identified as concessions that you believe Tier 2 entities should be required to provide?***

*Paragraphs 79 and 80*

It is proposed that the disclosure of the major components of tax expense would not be required under RDR.

This disclosure provides useful information to the readers about the main components of the tax expense balance for the year, such as current tax expense, prior period adjustments, and deferred tax movements. There should generally be no additional cost in producing this information as the components are determined in accounting for tax expense in the financial statements.

*Paragraph 81(e)*

It is proposed that the disclosure of information about unrecognised temporary differences and unrecognised tax losses would not be required under RDR.

This disclosure provides useful information to readers about balances that may be of benefit to the entity in future. For example, it may indicate whether an entity could potentially pay tax in the near future, or whether tax losses were available for transfer to other entities in the group. This information would also be required for consolidation purposes, as unrecognised deferred tax asset in certain subsidiaries can often be recognised at a group level. Additionally, there should be negligible cost in disclosing this information as the figures come directly from the underlying deferred tax calculation, and the disclosure itself is usually only one or two lines of text.

*Paragraph 81(g)(i)*

It is proposed that the disclosure of information about the main components of the deferred tax balance would not be required under RDR.

This disclosure provides useful information to help the reader understand the deferred tax balance. For example, it would disclose whether the deferred tax liability primarily related to property, plant and equipment or other adjustments. It would highlight whether the entity has recognised a deferred tax asset in relation to tax losses. It would also show deferred tax liabilities that were offset by deferred tax assets for entities that disclosed a net deferred tax balance of zero. There should be negligible cost in disclosing this information as the figures come directly from the underlying deferred tax calculation.