

Mr Wayne Upton  
Chairman  
International Financial Reporting Interpretations Committee  
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United Kingdom  
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15 May 2012

Dear Mr Upton,

**Tentative agenda decision: IAS 1 Presentation of Financial Statements and IAS 12 Income Taxes – Presentation of payments of non-income taxes**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the March 2012 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda a request for Interpretation of IAS 1, *Presentation of Financial Statements* and IAS 12 *Income Taxes* with respect to the presentation of production-based royalty payments payable to one taxation authority that are claimed as an allowance against taxable profit of another taxation authority.

Whilst we agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision, we note that there appears to be an inconsistency in the tentative agenda decision as drafted in that the production-based royalty payments being, in themselves, outside the scope of IAS 12 is stated as an assumption but this then is followed by a number of statements explaining why the Committee believes this to be the case.

Accordingly, we recommend that the tentative agenda decision be amended to read as follows:

“The Interpretations Committee received a request seeking clarification of whether production-based royalty payments payable to one taxation authority that are claimed as an allowance against taxable profit of another taxation authority should be presented as an operating expense or a tax expense in the statement of comprehensive income. As the basis for this request, the submitter assumed that the production-based royalty payments are, in themselves, outside the scope of IAS 12 Income Taxes while the tax payable to the other taxation authority is within the scope of IAS 12. The Committee used this same premise when discussing the issue, noting that it is the basis of the calculation that determines whether a tax meets the definition of an income tax rather than the manner of settlement or the identity of the recipient.”

The Committee observed that the line item of 'tax expense' that is required by paragraph 82(d) of IAS 1 Presentation of Financial Statements is intended to require an entity to present taxes that meet the definition of income taxes under IAS 12. ~~The Committee also noted that it is the basis of the calculation that determines whether a tax meets the definition of an income tax. Neither the manner of settlement of a tax liability nor the factors relating to recipients of the tax is a determinant of whether an item meets that definition.~~

The Committee further noted that royalty payments should not be treated differently from other expenses that are outside the scope of IAS 12, all of which may reduce income tax payable. Accordingly, because the production-based royalties do not meet the definition of an income tax they should not be presented as an income tax expense in the statement of comprehensive income.

On the basis of applying the analysis above the Committee decided not to add this issue to its agenda.”

In addition, we suggest that the intention of paragraph 82(d) of IAS 1 referred to in the tentative agenda decision could be made clearer through the Annual Improvements Project by amending that paragraph to refer to income tax expense (as defined in IAS 12).

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,



**Veronica Poole**  
Global Managing Director  
IFRS Technical