



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
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phalgeri@ifrs.org

International Accounting Standards Board
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Outreach Request: IAS 12 – Income Taxes

Dear Mr. Halgeri,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the Outreach Request IAS 12 – Income Taxes - Expected manner of recovery of an indefinite life intangible asset for the purpose of measuring deferred taxes.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Background of the issue

IAS 12

As per paragraph 51 of IAS 12 Income Taxes the measurement of deferred tax liabilities and assets should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

In accordance with paragraph 107 of IAS 38 Intangible Assets, intangible assets with indefinite lives, such as brands, are not amortised. The tax treatment, in many jurisdictions, of such indefinite life intangible assets differs between its continued use in the business (for example, allowing deductions over a period determined by tax law that reduce the amount of income tax calculated at a rate applicable to trading profits) and its disposal (for example, deducting the tax base of the asset from a capital gain taxed at a different rate).

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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Questions and Answers

Q.1: In your jurisdiction, how common is the issue described in the submission related to the determination of the expected manner of recovery for the purposes of calculating deferred tax on indefinite life intangible assets?

The issue described, specifically involving intangible assets is not commonly observed in our jurisdiction. However, in Brazil, when the entity's tax regime is "lucro presumido" (deemed profit – income tax based on an estimated taxable profit), to an intangible assets classified as a non-current assets, its tax base and tax rate is different, for example, of an inventory. While a non-current intangible asset, its tax base assumes the occurrence of capital gains (or losses), but as an inventory, its tax base assumes that its sale produces operating income or trading profit (instead capital gain) and, by that tax regime (deemed profit), the income taxes is computed by the presumption of profit, which has different tax rate.

So, when the entity's tax regime is "lucro presumido" (deemed profit), all the deferred taxes on non-current assets (including intangible assets) are calculated using the tax rate (and tax base) applicable to capital gains, independently of the asset's life (indefinite or definite).

As a result, in this Brazilian tax regime (deemed profit), the manner in which the entity expects to recover or realize the carrying value of intangible assets or other non-current assets (by the use or sale) does not affect the measurement of deferred income taxes.

Q.2: If the issue described in Question 1 is common, what is the predominant approach used to determine the expected manner of recovery for the purposes of calculating deferred tax on indefinite life intangible assets?

In addition:

- could you please describe the rationale for that approach?; and
- if possible, please provide examples of the predominant approach you observe. Ideally, this should be examples from publicly available financial statements, but those on a confidential basis would also be helpful.
- to what extent do you observe diversity in the application of the requirements of paragraph 51 of IAS 12?

N/A.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

Silvio Takahashi
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)