



## Need to know

### IASB proposes amendments to IAS 12 *Income Taxes*

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This *Need to know* addresses the proposed amendments to IAS 12 Income Taxes set out in Exposure Draft ED/2019/5 Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Proposed Amendments to IAS 12) (the 'ED') published by the International Accounting Standards Board (IASB) in July 2019.

- The proposed amendments, if finalised, would introduce an exception to the initial recognition exemption in IAS 12.
- Applying this exception, the initial recognition exemption would not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of deferred tax assets and liabilities of the same amount.
- The proposed amendments would be applied retrospectively in accordance with IAS 8 and early adoption would be permitted.
- Simplification is provided for the assessment of the probability that a taxable profit will be available against which the deductible temporary difference can be utilised. A similar simplification is proposed for first-time adopters.
- The ED does not contain a proposed effective date as the IASB intends to decide on this after exposure.
- Comments on the ED are requested by 14 November 2019.

#### Background

For some transactions, IFRS Standards require the simultaneous recognition of both an asset and a liability. For example, when applying IFRS 16, an entity recognises a right-of-use asset and a lease liability when initially recognising a lease transaction. A consequence is that IAS 12 could also require the recognition of offsetting temporary differences. It is not clear whether IAS 12 requires recognition of deferred taxes for these temporary differences or whether the initial recognition exemption applies. That exemption prohibits an entity from recognising deferred tax assets and liabilities on initial recognition of an asset or liability in a transaction which is not a business combination.

For more information please see the following websites:

[www.ukaccountingplus.co.uk](http://www.ukaccountingplus.co.uk)

[www.deloitte.co.uk](http://www.deloitte.co.uk)

### The proposed amendments

The IASB proposes to amend IAS 12 to provide a further exception from the initial recognition exemption. If the proposals are finalised, an entity would not apply the initial recognition exemption for transactions that give rise to equal amounts of taxable and deductible temporary differences.

Instead, an entity would recognise:

1. A deferred tax asset for the deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.
2. A deferred tax liability for the taxable temporary difference. However, the amount of the deferred tax liability shall not exceed the amount of the deferred tax asset recognised in (a).

#### Observation

The initial recognition exemption in IAS 12 was included to avoid recognising a deferred tax liability or asset for temporary differences that do not affect accounting profit or taxable profit. The related adjustment to the carrying amount of the asset or liability, by the amount of the deferred tax liability or asset, was also seen to make the financial statements less transparent.

The proposed amendment highlights that recognising a deferred tax asset and liability of the same amount does not require any adjustment to the carrying amount of the related asset or liability nor would it have any effect on profit or loss. Thus, the problem the recognition exemption was designed to prevent does not arise in these situations.

### Transitional provisions, effective date and comment period

Should the amendments be finalised, the IASB proposes that an entity applies the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the following optional relief:

A deferred tax liability would only be recognised to the extent that an entity recognises a deferred tax asset, which in turn depends on whether the entity assesses that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. As a transition relief, an entity does not have to make this assessment for the date when the transaction was recognised initially. Instead an entity is permitted to make this assessment at the beginning of the earliest comparative period presented, based on the facts and circumstances at that date. A first-time adopter is permitted to make the assessment at the date of transitioning to IFRS Standards, based on the facts and circumstances at that date.

The ED does not propose an effective date. The IASB will set the effective date for the amendments after the comment period ends. Application of the amendments before the effective date is proposed to be permitted.

The IASB requests comments on the ED by 14 November 2019.

### Further information

If you have any questions about the proposed amendments to IAS 12, please speak to your usual Deloitte contact.



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