

IFRS in Focus

IASB proposes amendments to IAS 12 *Income Taxes*

Contents

Background

The proposed amendments

Transitional provisions, effective date and comment period

This *IFRS in Focus* 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.

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).

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

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 or get in touch with a contact identified in this *IFRS in Focus*.

IFRS in Focus

Key contacts

Global IFRS Leader

Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

IFRS Centres of Excellence

Americas

Argentina	Fernando Lattuca	arifrscoe@deloitte.com
Canada	Karen Higgins	ifrsca@deloitte.ca
Mexico	Miguel Millan	mx_ifrs_coe@deloittemx.com
United States	Robert Uhl	iasplus-us@deloitte.com

Asia-Pacific

Australia	Anna Crawford	ifrs@deloitte.com.au
China	Gordon Lee	ifrs@deloitte.com.cn
Japan	Shinya Iwasaki	ifrs@tohatsu.co.jp
Singapore	James Xu	ifrs-sg@deloitte.com

Europe-Africa

Belgium	Thomas Carlier	ifrs-belgium@deloitte.com
Denmark	Jan Peter Larsen	ifrs@deloitte.dk
France	Laurence Rivat	ifrs@deloitte.fr
Germany	Jens Berger	ifrs@deloitte.de
Italy	Massimiliano Semprini	ifrs-it@deloitte.it
Luxembourg	Eddy Termaten	ifrs@deloitte.lu
Netherlands	Ralph Ter Hoeven	ifrs@deloitte.nl
Russia	Maria Proshina	ifrs@deloitte.ru
South Africa	Nita Ranchod	ifrs@deloitte.co.za
Spain	Cleber Custodio	ifrs@deloitte.es
Switzerland	Nadine Kusche	ifrsdesk@deloitte.ch
United Kingdom	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.