



Amendments to IAS 12:

Deferred tax related to assets and liabilities arising from a single transaction

Assurance Updates (06/2021)

Overview

Effective date

On 07 May 2021, IASB issued Amendments to IAS 12 to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. These amendments should be applied for annual periods beginning on or after 01 January 2023. Earlier application is permitted.

Impact

These amendments might have a significant impact on the preparation of financial statements by companies that have substantial balances of right-of-use assets, lease liabilities, decommissioning, restoration and similar liabilities. The impact for those affected would be the recognition of additional deferred tax assets and liabilities.

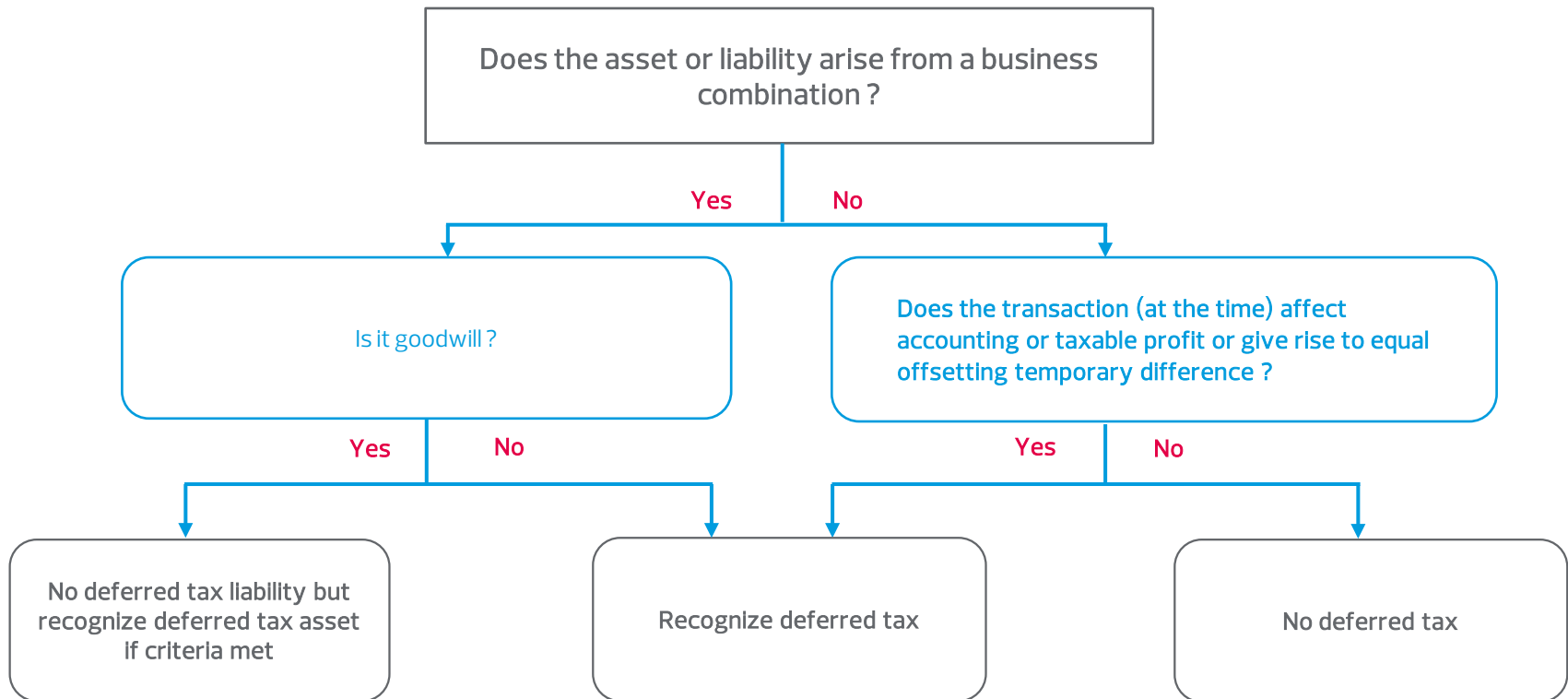


Amendments

Content	Before	After
Exemption from initial recognition of deferred income tax (Paragraphs 15(b) and 24)	<p>A deferred tax liability shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:</p> <ul style="list-style-type: none"> a) the initial recognition of goodwill; or b) the initial recognition of an asset or liability in a transaction which: <ul style="list-style-type: none"> <i>(i) is not a business combination; and</i> <i>(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)</i> 	<p>A deferred tax liability shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:</p> <ul style="list-style-type: none"> a) the initial recognition of goodwill; or b) the initial recognition of an asset or liability in a transaction which: <ul style="list-style-type: none"> <i>(i) is not a business combination; and</i> <i>(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and</i> <i>(iii) at the time of the transaction, does not give rise to equal amounts of taxable and deductible temporary differences (except as described in paragraph 22A)</i>
Paragraph 22A Equal amounts of taxable and deductible temporary differences may arise from the initial recognition of that asset and liability	N/a	<p>In that situation, on initial recognition of the transaction, an entity recognizes:</p> <ul style="list-style-type: none"> (a) 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 utilized (b) 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 recognized in accordance with paragraph 22A(a)

Illustration amendments

All companies will now need to reflect the future tax impacts of these transactions and recognize deferred tax, as illustrated below.



What are the transition requirements?

The amendment requires companies, at the beginning of the earliest comparative period presented:

- (a) to recognize a deferred tax asset – to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized – and a deferred tax liability for all deductible and taxable temporary differences associated with:
 - right-of-use assets and lease liabilities; and
 - decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related asset; and
- (b) to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

CONCLUSION

This will reflect the opening position, without the need for full retrospective application. The Board concluded that this transition approach would make the amendments easier and less costly to apply than a full retrospective approach, while still achieving their objective.



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