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Exposure Draft ED/2010/11

Deferred Tax: Recovery of Underlying Assets

Proposed amendments to IAS 12

Comments to be received by 9 November 2010

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Exposure Draft

Deferred Tax: Recovery of Underlying Assets (proposed amendments to IAS 12)

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ED/2010/11

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CONTENTS

INTRODUCTION

INVITATION TO COMMENT

PROPOSED AMENDMENTS TO IAS 12 *INCOME TAXES*

Definitions

Measurement

Disclosure

Effective date

Withdrawal of SIC-21

APPROVAL BY THE BOARD OF DEFERRED TAX: RECOVERY OF UNDERLYING ASSETS

BASIS FOR CONCLUSIONS

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Introduction

This exposure draft contains a proposal by the International Accounting Standards Board to amend IAS 12 *Income Taxes*. The purpose of the amendments is to provide an exception to the principle that the measurement of deferred tax liabilities and deferred tax 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.

The proposed amendments state that, in specified circumstances, the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale.

The specified circumstances are that the deferred tax liability or deferred tax asset arises from:

(a) investment property, when an entity applies the fair value model in IAS 40 *Investment Property*; or

(b) property, plant and equipment or intangible assets, when an entity applies the revaluation model in IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*.

The presumption is rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

The proposed amendments are intended to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery.

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Invitation to comment

The Board invites comments on all aspects of this exposure draft and in particular on the questions set out below. Respondents need not comment on all of the questions. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) indicate the specific paragraph or paragraphs to which the comments relate;

(c) contain a clear rationale; and

(d) describe, if applicable, any alternatives that the Board should consider.

The Board is not requesting comments on matters in IAS 12 other than those set out in this exposure draft. Comments should be submitted in writing and must arrive no later than **9 November 2010**.

Question 1 – Exception to the measurement principle

The Board proposes an exception to the principle in IAS 12 that the measurement of deferred tax liabilities and deferred tax 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. The proposed exception would apply when specified underlying assets are remeasured or revalued at fair value.

Do you agree that this exception should apply when the specified underlying assets are remeasured or revalued at fair value?

Why or why not?

Question 2 – Scope of the exception

The Board identified that the expected manner of recovery of some underlying assets that are remeasured or revalued at fair value may be difficult and subjective to determine when deferred tax liabilities or deferred tax assets arise from:

(a) investment property that is measured using the fair value model in IAS 40;

(b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38;

(c) investment property, property, plant and equipment or intangible assets initially measured at fair value in a business combination if the entity uses the fair value or revaluation model when subsequently measuring the underlying asset; and

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(d) other underlying assets or liabilities that are measured at fair value or on a revaluation basis.

The Board proposes that the scope of the exception should include the underlying assets described in (a), (b) and (c), but not those assets or liabilities described in (d).

Do you agree with the underlying assets included within the scope of the proposed exception?

Why or why not? If not, what changes to the scope do you propose and why?

Question 3 – Measurement basis used in the exception

The Board proposes that, when the exception applies, deferred tax liabilities and deferred tax assets should be measured by applying a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely through sale. This presumption would be rebutted only when an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

Do you agree with the rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale when the exception applies?

Why or why not? If not, what measurement basis do you propose and why?

Question 4 – Transition

The Board proposes that the amendments should apply retrospectively. This requirement includes retrospective restatement of all deferred tax liabilities or deferred tax assets within the scope of the proposed amendments, including those that were initially recognised in a business combination.

Do you agree with the retrospective application of the proposed amendments to IAS 12 to all deferred tax liabilities or deferred tax assets, including those that were recognised in a business combination?

Why or why not? If not, what transition method do you propose and why?

Question 5 – Other comments

Do you have any other comments on the proposals?

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Proposed amendments to IAS 12 *Income Taxes*

Paragraph 52 is renumbered as paragraph 51A. Paragraph 10 and the examples following paragraph 51A are amended (new text is underlined and deleted text is struck through). Paragraph 51B and the following example, paragraphs 51C, 51D, 81(l) and 97 and a heading and paragraph 98 are added. Paragraph 51 is not proposed for amendment but is included here for ease of reference.

Definitions

Tax base

10 Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Example C following paragraph ~~52~~ 51A illustrates circumstances when it may be helpful to consider this fundamental principle, for example, when the tax base of an asset or liability depends on the expected manner of recovery or settlement.

Measurement

51 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

51A ~~52~~ In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

(a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and

(b) the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

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Example A

An asset has a carrying amount of 100 and a tax base of 60. A tax rate of 20% would apply if the asset were sold and a tax rate of 30% would apply to other income. The asset is not measured using the fair value model in IAS 40 or the revaluation model in IAS 16 or IAS 38.

The entity recognises a deferred tax liability of 8 (40 at 20%) if it expects to sell the asset without further use and a deferred tax liability of 12 (40 at 30%) if it expects to retain the asset and recover its carrying amount through use.

Example B

An ~~asset~~ item of property, plant and equipment with a cost of 100 and a carrying amount of 80 is ~~revalued to~~ acquired as a part of a business combination and initially measured at fair value of 150. The acquirer will not subsequently use the revaluation model in IAS 16. ~~No equivalent adjustment is made for tax purposes.~~ For tax purposes, the tax base of the asset remains at the cost of 100 less ~~C~~cumulative depreciation for tax purposes ~~is~~ of 30. ~~and t~~The tax rate is 30%. If the asset is sold for more than cost, the cumulative tax depreciation of 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

The tax base of the asset is 70 and there is a taxable temporary difference of 80. If the entity expects to recover the carrying amount by using the asset, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, there is a deferred tax liability of 24 (80 at 30%). If the entity expects to recover the carrying amount by selling the asset immediately for proceeds of 150, the deferred tax liability is computed as follows:

	Taxable Temporary Difference	*Tax Rate*	*Deferred Tax Liability*
Cumulative tax depreciation	*30*	*30%*	*9*
Proceeds in excess of cost	*50*	*nil*	*–*
Total	*80*		*9*

~~*(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)*~~

Example C

The facts are as in example B, except that if the asset is sold for more than cost, the cumulative tax depreciation will be included in taxable income (taxed at 30%) and the sale proceeds will be taxed at 40%, after deducting an inflation-adjusted cost of 110.

If the entity expects to recover the carrying amount by using the asset, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, the tax base is 70, there is a taxable temporary difference of 80 and there is a deferred tax liability of 24 (80 at 30%), as in example B.

If the entity expects to recover the carrying amount by selling the asset immediately for proceeds of 150, the entity will be able to deduct the indexed cost of 110. The net proceeds of 40 will be taxed at 40%. In addition, the cumulative tax depreciation of 30 will be included in taxable income and taxed at 30%. On this basis, the tax base is 80 (110 less 30), there is a taxable temporary difference of 70 and there is a deferred tax liability of 25 (40 at 40% plus 30 at 30%). If the tax base is not immediately apparent in this example, it may be helpful to consider the fundamental principle set out in paragraph 10.

~~*(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)*~~

51B Despite paragraphs 51 and 51A, there is a rebuttable presumption that the measurement of a deferred tax liability and a deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the asset entirely by sale if that deferred tax liability or deferred tax asset arises from:

(a) investment property that is measured using the fair value model in IAS 40; or

(b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38.

However, if an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life, this presumption is rebutted and the requirements of paragraphs 51 and 51A shall be followed.

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Example illustrating paragraph 51B

An item of property, plant and equipment with a cost of 100 and a previous carrying amount of 80 is measured using the revaluation model in IAS 16 at fair value of 150. No equivalent adjustment is made for tax purposes. Cumulative depreciation for tax purposes is 30. The tax rate that will apply if the asset is sold is 30%. If the asset is sold for more than cost, the cumulative tax depreciation of 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

Because the asset is measured using the revaluation model in IAS 16, there is a rebuttable presumption, when measuring deferred taxes related to the asset, that the carrying amount of the underlying asset will be recovered entirely by sale. If that presumption is not rebutted, deferred tax arising from that asset is measured on the basis of the tax consequences of recovering the carrying amount entirely by sale.

The tax base of the asset if it is sold is 70 (100 − 30) and there is a taxable temporary difference of 80 (150 − 70). This deferred tax liability is computed as follows:

	Taxable Temporary Difference	*Tax Rate*	*Deferred Tax Liability*
Cumulative tax depreciation	*30*	*30%*	*9*
Proceeds in excess of cost	*50*	*nil*	*–*
Total	*80*		*9*

If, instead, the entity has clear evidence that it will consume the asset's economic benefits throughout its economic life, this presumption would be rebutted and the deferred tax arising from the underlying asset is measured on the basis of the tax consequences of recovering the carrying amount by use.

The tax base of the asset if it is used is 70 (100 − 30) and there is a taxable temporary difference of 80 (150 − 70). The deferred tax liability is computed as 24 (80 at 30%).

(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)

51C The requirements in paragraph 51B shall also apply when a deferred tax liability or a deferred tax asset arises from measuring investment property, property, plant and equipment or intangible assets in a business combination if the entity uses the fair value or revaluation model when subsequently measuring those assets.

51D Paragraphs 51B and 51C do not change the requirements to apply the principles in paragraphs 24–31 (deductible temporary differences) and paragraphs 34–36 (unused tax losses and unused tax credits) of this Standard when recognising and measuring deferred tax assets.

Disclosure

81 The following shall also be disclosed separately:

...

(j) if a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset (see paragraph 67), the amount of that change; ~~and~~

(k) if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date (see paragraph 68), a description of the event or change in circumstances that caused the deferred tax benefits to be recognised~~.~~; and

(l) if the entity has rebutted the presumption of recovery by sale in paragraph 51B, a description of that fact and an explanation of why the presumption was rebutted.

Effective date

97 Paragraph 52 was renumbered as 51A, paragraph 10 and the examples following paragraph 51A were amended, and paragraph 51B and the following example and paragraphs 51C, 51D, 81(l) and 98 were added by [draft] *Deferred Tax: Recovery of Underlying Assets*, issued in [date to be inserted after exposure]. An entity shall apply those amendments for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Withdrawal of SIC-21

98 The amendments made by *Deferred Tax: Recovery of Underlying Assets*, issued in [date to be inserted after exposure], supersede SIC Interpretation 21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets.*

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Approval by the Board of *Deferred Tax: Recovery of Underlying Assets* (proposed amendments to IAS 12) published in September 2010

The exposure draft *Deferred Tax: Recovery of Underlying Assets* (proposed amendments to IAS 12) was approved for publication by the fourteen members of the International Accounting Standards Board.

Sir David Tweedie   Chairman

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to IAS 12.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in developing the exposure draft *Deferred Tax: Recovery of Underlying Asset*s. Individual Board members gave greater weight to some factors than to others.

BC2 The Board developed the proposals to address an issue that arises as a result of the principle in IAS 12 *Income Taxes* that measurement of deferred tax liabilities and deferred tax 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.

BC3 The Board was informed that, in some jurisdictions, applying this principle can be difficult or subjective in some circumstances. For example, a deferred tax liability or a deferred tax asset may arise from investment property that is measured using the fair value model in IAS 40 *Investment Property* and is held by the entity both to earn rental income and for capital appreciation. Attempts to apply this principle to this situation often result in difficulty and subjectivity. This is an issue in jurisdictions where the tax law treats gains and losses from the recovery of an asset through sale differently from income earned from using the same asset by applying different tax rates. As a result, in some jurisdictions, there may be no tax consequences arising from the future sale of the asset, but significant tax consequences if the carrying amount of the asset is considered to be recovered through use.

BC4 In March 2009 the Board published an exposure draft, *Income Tax*, proposing a new IFRS to replace IAS 12. In that exposure draft, the Board addressed this issue as part of a broad proposal relating to the determination of tax basis. However, many respondents commented that the broad proposal was inconsistent with the principles in IAS 12 relating to the entity's expectations and would not provide useful information to users of the financial statements. In October 2009 the Board decided not to proceed with the proposals in the exposure draft and announced that, together with the US Financial Accounting Standards Board, it would conduct a fundamental review of the accounting for income tax in the future. In the meantime, the Board would address specific significant current practice issues.

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BC5 As a result, the Board decided to publish without delay an exposure draft proposing amendments addressing this particular issue. The Board plans to address other practice issues in due course.

The proposed amendments

Recovery of underlying assets

BC6 When an entity uses the fair value model in IAS 40, it creates, increases or decreases temporary differences relating to the investment property, unless tax law also recognises the remeasurement at fair value and adjusts the tax base of the asset at the same time, and by the same amount.

BC7 IAS 12 applies the principle that the measurement of deferred tax liabilities and deferred tax 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. As a result, when an entity expects to recover the carrying amount of an investment property by selling it, the measurement of a deferred tax liability or a deferred tax asset arising from the investment property reflects the tax consequences of selling the investment property. In contrast, when an entity expects to recover the carrying amount of the investment property by using it, the measurement of the deferred tax liability or deferred tax asset reflects the tax consequences of using the investment property.

BC8 In many cases, it is difficult or subjective to determine the expected manner of recovery when a temporary difference arises from investment property that is measured using the fair value model in IAS 40. Without specific plans for disposal of the investment property, it is difficult and subjective to estimate how much of the carrying amount of the investment property will be recovered by cash flows from rental income and how much of it will be recovered by cash flows from selling the asset.

BC9 To address this issue, the Board proposes an exception to the principle in IAS 12 that measurement of deferred tax liabilities and deferred tax 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. The proposed exception would apply when an entity adopts an accounting policy of remeasuring or revaluing specific underlying assets at fair value.

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BC10 The Board proposes to require this exception to be applied when the scope criteria are met, rather than permit entities to apply the exception as an accounting policy choice. This is because it will provide comparable information for users of the financial statements for entities in similar situations.

BC11 In addition, the Board proposes that the exception should apply equally to the measurement of deferred tax liabilities and deferred tax assets. This is because the same level of difficulty and subjectivity exists in measuring deferred tax liabilities and deferred tax assets. In addition, applying the exception equally maintains consistency in the measurement approach for both deferred tax liabilities and deferred tax assets.

BC12 The Board believes that the determination of the expected manner of recovery of assets using the cost model in IAS 40 is less difficult and less subjective than when the fair value model is applied. This is because there is a general presumption that the asset's carrying amount is recovered by use to the extent of the depreciable amount and by sale to the extent of the residual value.

Scope of the proposed exception

BC13 The Board identified that determining the expected manner of recovery may be difficult and subjective when deferred tax liabilities or deferred tax assets arise from:

(a) investment property that is measured using the fair value model in IAS 40 (see paragraph BC14);

(b) property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets* (see paragraph BC15);

(c) investment property, property, plant and equipment or intangible assets initially measured at fair value in a business combination (see paragraphs BC16 and BC17); or

(d) other underlying assets or liabilities that are measured at fair value or on a revaluation basis (see paragraph BC18).

BC14 The Board proposes that the exception should apply to investment property that is measured using the fair value model in IAS 40. The Board understands that the concerns raised in practice have primarily arisen in relation to investment property that is measured using the fair value model in IAS 40.

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BC15 The Board also proposes that the exception should apply to property, plant and equipment or intangible assets measured using the revaluation model in IAS 16 or IAS 38. This is because in assessing the difficulty and subjectivity involved in determining the expected manner of recovering the carrying amount of the underlying asset, there is no underlying difference between regularly fair valuing assets through a revaluation accounting policy and applying a fair value measurement model.

BC16 The Board also proposes that the exception should apply to investment property, property, plant and equipment or intangible assets initially measured at fair value in a business combination if the acquirer subsequently uses the fair value or revaluation model to measure the underlying asset. If the exception did not apply, deferred taxes might reflect the tax consequences of use at the acquisition date, but at a later date reflect the tax consequences of sale.

BC17 In contrast, the Board does not propose that the exception should apply to investment property, property, plant and equipment or intangible assets initially measured in a business combination if the entity subsequently uses the cost model. If the exception applied, deferred taxes might at the acquisition date reflect the tax consequences of sale but at a later date reflect the tax consequences of use, if the entity's expectation is to recover the carrying amount of the underlying asset through use.

BC18 The Board does not think that the exception should be expanded to other underlying assets and liabilities that are measured at fair value or on a revaluation basis. This is because the Board understands that the most significant current practice issues relate to investment property, property, plant and equipment and intangible assets. In addition, the Board is concerned about the possibility of unintended consequences of expanding the scope to other assets and liabilities that are measured on a fair value basis.

BC19 The Board also proposes that the amendments should apply to all temporary differences that arise relating to underlying assets within the scope of the proposed exception, not just those separate temporary differences created by the remeasurement or the revaluation of the underlying asset. This is because the unit of account applied in determining the manner of recovery in the Standard is the underlying asset as a whole, not the individual temporary differences.

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Measurement basis

BC20 The Board proposes that when the exception applies, deferred taxes should be measured to reflect the tax consequences of recovering the carrying amount of the asset entirely by sale unless an entity has clear evidence that it will consume the asset's economic benefits throughout its economic life. This is a practical approach that avoids subjective estimates of an entity's expected manner of recovery of an asset.

BC21 The Board decided that, when an entity uses the fair value model in IAS 40 or the revaluation model in IAS 16 or IAS 38, the tax consequences reflecting presumed recovery of the underlying asset entirely by sale are more relevant than a presumption of recovery by an alternative manner. In making that decision, the Board considered a combination of various views expressed by interested parties, which included, but were not limited to the following:

(a) the tax effect would be double-counted in some situations if deferred taxes are measured on the basis of the tax consequences of use because the underlying asset is measured at fair value which reflects some of these tax consequences; and

(b) presuming sale is consistent with measurement of the underlying asset on a fair value measurement basis that reflects the price that would be received if the asset is sold.

BC22 However, the Board has made the presumption of recovery through sale rebuttable because the Board believes that it is not appropriate to assume the recovery of the underlying asset by sale when the entity has clear evidence that it will consume the asset's economic benefits throughout its economic life.

BC23 The Board also considered alternative approaches to the measurement of deferred tax liabilities and deferred tax assets when the exception applies, specifically whether deferred taxes should be measured on the basis of the lower of the tax consequences of recovery by use or sale. However, the Board rejected a measurement approach based upon the lower tax consequences, noting that it creates:

(a) conceptual and practical concerns of whether deferred tax assets should be measured to reflect the lower of, or higher of, the tax consequences of use or sale;

(b) a measurement basis that some believe arbitrary; and

(c) concerns that entities may be required to measure deferred taxes on a basis that is inconsistent with their expectations of recovery of the carrying amount of the underlying asset.

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BC24 The Board observed that SIC Interpretation 21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets* requires the deferred taxes that arise from the revaluation of a non-depreciable asset in accordance with paragraph 31 of IAS 16 to be measured on the basis of the tax consequences that follow from recovery of the carrying amount of that asset through sale. The scope of SIC-21 also includes investment property that is measured using the fair value model in IAS 40 but would be considered non-depreciable if IAS 16 were to be applied. As a consequence of the proposed amendments to IAS 12 the Board proposes to withdraw SIC-21.

Assessment of deferred tax assets

BC25 Before the proposed amendments, an entity may previously have measured a deferred tax liability or a deferred tax asset on the basis that it expects to recover the carrying amount of an underlying asset by use. After the proposed amendments, the entity may be required to measure a deferred tax liability or a deferred tax asset on the presumption of recovery by sale. This may lead to a reduction in deferred tax liabilities and might call into question the recoverability of the entity's deferred tax assets because:

(a) the reduced carrying amount of the deferred tax liability may no longer be sufficient to support an assessment that the deferred tax asset is recoverable; or

(b) in some jurisdictions, gains and losses on sale cannot be offset against other income or expenses in the computation of taxable profit. Thus, the change in the nature of the transaction(s) assumed to give rise to the deferred tax liability may mean that the deferred tax asset can no longer be recovered against that deferred tax liability.

BC26 Paragraphs 28 and 35 of IAS 12 require an entity to recognise a deferred tax asset to the extent that it has sufficient taxable temporary differences or probable future taxable profits to support recognition. In addition, paragraphs 29(b) and 36(d) of the Standard require an entity to assess whether tax planning opportunities are available to the entity that will create future taxable profit. The existing principles in IAS 12 for assessing the recoverability of deferred tax assets and determining whether tax planning opportunities exist would continue to apply.

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The cost and benefit of the proposed amendments to IAS 12

BC27 The Board acknowledges that computation of the tax consequences of selling assets is complex in some tax jurisdictions and that there is a concern that these amendments to IAS 12 will increase the administrative burden for some entities in those tax jurisdictions.

BC28 However, the Board believes that the benefit of providing the exception outweighs this potential increase in administrative burden for some entities. This is because the purpose of the exception is to provide the least subjective manner of measuring deferred taxes, providing users of the financial statements with consistent and comparable financial information. It is also expected to result in an overall reduction of the administrative burden for entities that have previously had to consider the tax consequence of both use and sale of an underlying asset when measuring deferred taxes.

Transition and effective date

BC29 In the Board's view, it would not be unduly burdensome for entities to apply the proposed changes to IAS 12 retrospectively. The Board acknowledges that it may add some administrative burden if the amendments apply to assets acquired in a business combination that occurred in a previous reporting period. However, the proposed changes apply only to specific circumstances, do not require judgement and do not require disclosure of complex information.

BC30 Consequently, the Board believes that the cost of requiring retrospective application is outweighed by the benefit of consistent application of the amendments by entities to all periods presented in the financial statements. Accordingly, the Board proposes that entities should apply the proposed amendments to IAS 12 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

BC31 The Board will set the effective date for the proposed requirements when it approves the amendments. The Board normally sets an effective date of between six and eighteen months after issuing amendments.

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First-time adoption of IFRSs

BC32 The Board has identified no reason to adjust the proposed exception for application at the date of transition to IFRSs by a first-time adopter that has adopted the fair value model in IAS 40 or the revaluation model in IAS 16 or IAS 38.

Exposure period

BC33 The Board intends to finalise any amendments resulting from this exposure draft as soon as possible to make them available for early adoption by entities. Accordingly, the Board decided on an exposure period of 60 days. The 60 days exposure period is within the range of comment periods permitted by the Board's *Due Process Handbook*. The Board believes that an exposure period shorter than its normal 120 days is justified because the amendments are addressing a problem that exists in practice and needs to be solved as soon as possible. In addition, the proposed amendments are straightforward and the exposure draft is short.

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