AASB Standard **AASB 2010-8**
December 2010

Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets

[AASB 112]

Australian Government
Australian Accounting Standards Board

Obtaining a Copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Standard are available for purchase by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Postal address:
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aasb.gov.au
Website: www.aasb.gov.au

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aasb.gov.au

COPYRIGHT

© Commonwealth of Australia 2010

This AASB Standard contains IFRS Foundation copyright material. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to The Director of Finance and Administration, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Australia should be addressed to the IFRS Foundation at www.ifrs.org.

ISSN 1036-4803

CONTENTS

Australian Accounting Standard AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* is set out in paragraphs 1 – 8. All the paragraphs have equal authority.

PREFACE

Standard Amended by AASB 2010-8

This Standard makes amendments to Australian Accounting Standard AASB 112 *Income Taxes.*

These amendments arise from the issuance of *Deferred Tax: Recovery of Underlying Assets* (Amendments to IAS 12) by the International Accounting Standards Board in December 2010.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2012. Early adoption is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2012.

Main Requirements

The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in AASB 140 *Investment Property*. Under AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. However, it is often difficult and subjective to determine the expected manner of recovery when the investment property is measured using the fair value model in AASB 140.

To provide a practical approach in such cases, the amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Interpretation 121 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* addresses similar issues involving non-depreciable assets measured using the revaluation model in AASB 116 *Property, Plant and Equipment*. The amendments incorporate Interpretation 121 into AASB 112 after excluding investment property measured at fair value from the scope of the guidance previously contained in Interpretation 121.

ACCOUNTING STANDARD AASB 2010-8

The Australian Accounting Standards Board makes Accounting Standard AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* under section 334 of the *Corporations Act 2001*.

Kevin M. Stevenson
Dated 31 December 2010 Chair – AASB

ACCOUNTING STANDARD AASB 2010-8

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – DEFERRED TAX: RECOVERY OF UNDERLYING ASSETS

Objective

1 The objective of this Standard is to make amendments to AASB 112 *Income Taxes* as a consequence of the issuance of *Deferred Tax: Recovery of Underlying Assets* (Amendments to IAS 12) by the International Accounting Standards Board in December 2010.

Application

2 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

3 This Standard applies to annual reporting periods beginning on or after 1 January 2012.

4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2012.

When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

5 **This Standard uses underlining, striking out and other typographical material to identify some of the amendments to AASB 112, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.**

Amendments to AASB 112

6 Paragraph Aus1.5 is amended as follows:

Aus1.5 When applicable, this Standard supersedes:

…

(c) AASB 1020 *Income Taxes* as notified in the *Commonwealth of Australia Gazette* No S 595, 9 December 1999, and as amended by AASB 1020B *Amendments to Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3*, which was notified in the *Commonwealth of Australia Gazette* No S 436, 19 November 2002;~~ and~~

(d) AAS 3 *Income Taxes* as issued in December 1999 and as amended by AASB 1020B *Amendments to Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3*, which was notified in the *Commonwealth of Australia Gazette* No S 436, 19 November 2002~~.~~; and

(e) Interpretation 121 *Income Taxes – Recovery of Revalued Non-Depreciable Assets.*

7 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). Paragraphs 51B and 51C and the following example, and paragraphs 51D, 51E and 98 are added.

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

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.

Example A

An ~~asset~~ item of property plant and equipment has a carrying amount of 100 and a tax base of 60. A tax rate of 20% would apply if the ~~asset~~ item were sold and a tax rate of 30% would apply to other income.

The entity recognises a deferred tax liability of 8 (40 at 20%) if it expects to sell the ~~asset~~ item without further use and a deferred tax liability of 12 (40 at 30%) if it expects to retain the ~~asset~~ item 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 150. No equivalent adjustment is made for tax purposes. Cumulative depreciation for tax purposes is 30 and the tax rate is 30%. If the ~~asset~~ item 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~~ item is 70 and there is a taxable temporary difference of 80. If the entity expects to recover the carrying amount by using the ~~asset~~ item, 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~~ item 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~~ item 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~~ item, 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~~ item 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 If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in AASB 116, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.

51C If a deferred tax liability or asset arises from investment property that is measured using the fair value model in AASB 140, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, the requirements of paragraphs 51 and 51A shall be followed.

Example illustrating paragraph 51C

An investment property has a cost of 100 and fair value of 150. It is measured using the fair value model in AASB 140. It comprises land with a cost of 40 and fair value of 60 and a building with a cost of 60 and fair value of 90. The land has an unlimited useful life.

Cumulative depreciation of the building for tax purposes is 30. Unrealised changes in the fair value of the investment property do not affect taxable profit. If the investment property is sold for more than cost, the reversal of the cumulative tax depreciation of 30 will be included in taxable profit and taxed at an ordinary tax rate of 30%. For sales proceeds in excess of cost, tax law specifies tax rates of 25% for assets held for less than two years and 20% for assets held for two years or more.

Because the investment property is measured using the fair value model in AASB 140, there is a rebuttable presumption that the entity will recover the carrying amount of the investment property entirely through sale. If that presumption is not rebutted, the deferred tax reflects the tax consequences of recovering the carrying amount entirely through sale, even if the entity expects to earn rental income from the property before sale.

The tax base of the land if it is sold is 40 and there is a taxable temporary difference of 20 (60 – 40). The tax base of the building if it is sold is 30 (60 – 30) and there is a taxable temporary difference of 60 (90 – 30). As a result, the total taxable temporary difference relating to the investment property is 80 (20 + 60).

In accordance with paragraph 47, the tax rate is the rate expected to apply to the period when the investment property is realised. Thus, the resulting deferred tax liability is computed as follows, if the entity expects to sell the property after holding it for more than two years:

	Taxable Temporary Difference	*Tax Rate*	*Deferred Tax Liability*
Cumulative tax depreciation	30	30%	9
Proceeds in excess of cost	50	20%	10
Total	80		19

If the entity expects to sell the property after holding it for less than two years, the above computation would be amended to apply a tax rate of 25%, rather than 20%, to the proceeds in excess of cost.

If, instead, the entity holds the building within a business model whose objective is to consume substantially all of the economic benefits embodied in the building over time, rather than through sale, this presumption would be rebutted for the building. However, *the land is not depreciable. Therefore the presumption of recovery through sale would not be rebutted for the land. It follows that the deferred tax liability would reflect the tax consequences of recovering the carrying amount of the building through use and the carrying amount of the land through sale.*

The tax base of the building if it is used is 30 (60 – 30) and there is a taxable temporary difference of 60 (90 – 30), resulting in a deferred tax liability of 18 (60 at 30%).

The tax base of the land if it is sold is 40 and there is a taxable temporary difference of 20 (60 – 40), resulting in a deferred tax liability of 4 (20 at 20%).

As a result, if the presumption of recovery through sale is rebutted for the building, the deferred tax liability relating to the investment property is 22 (18 + 4).

51D The rebuttable presumption in paragraph 51C also applies when a deferred tax liability or a deferred tax asset arises from measuring investment property in a business combination if the entity will use the fair value model when subsequently measuring that investment property.

51E Paragraphs 51B-51D do not change the requirements to apply the principles in paragraphs 24-33 (deductible temporary differences) and paragraphs 34-36 (unused tax losses and unused tax credits) of this Standard when recognising and measuring deferred tax assets.

Effective Date

98 Paragraph 52 was renumbered as 51A, paragraph 10 and the examples following paragraph 51A were amended, and paragraphs 51B and 51C and the following example and paragraphs 51D and 51E were added by AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*, issued in December 2010. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

8 A heading and a note concerning paragraph 99 are added as follows:

Withdrawal of SIC-21

99 [Deleted by the AASB]