

# **Income Taxes – Changes in the Tax Status of an Entity or its Shareholders**

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This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. Early application is permitted. It incorporates relevant amendments made up to and including 25 June 2009.

Prepared on 12 November 2009 by the staff of the Australian Accounting Standards Board.



**Australian Government**

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## COMPILATION DETAILS

### **UIG Interpretation 125 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders as amended***

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. It takes into account amendments up to and including 25 June 2009 and was prepared on 12 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 125 (July 2004) as amended by other pronouncements, which are listed in the Table below.

**Table of Pronouncements**

<b>Pronouncement</b>	<b>Month issued</b>	<b>Application date (annual reporting periods ... on or after ...)</b>	<b>Application, saving or transitional provisions</b>
Interpretation 125	Jul 2004	(beginning) 1 Jan 2005	
AASB 2007-8	Sep 2007	(beginning) 1 Jan 2009	see (a) below
AASB 2009-6	Jun 2009	(beginning) 1 Jan 2009 and (ending) 30 Jun 2009	see (b) below

- (a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.
- (b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods, and to annual reporting periods beginning on or after 1 January 2009 that end before 30 June 2009.

**Table of Amendments**

<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [paragraph]</b>
4	amended	AASB 2007-8 [159]
Aus4.4	amended	AASB 2007-8 [8]
5	amended	AASB 2009-6 [122]
5A	added	AASB 2009-6 [122]
6-8	amended	AASB 2009-6 [122]

## COMPARISON WITH SIC-25

UIG Interpretation 125 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders* as amended incorporates Standing Interpretations Committee Interpretation SIC-25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of SIC-25) are identified with the prefix “Aus”, followed by the number of the preceding SIC paragraph and decimal numbering.

Entities that comply with Interpretation 125 as amended will simultaneously be in compliance with SIC-25 as amended.

## **INTERPRETATION 125**

UIG Interpretation 125 was issued in July 2004.

This compiled version of Interpretation 125 applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. It incorporates relevant amendments contained in other AASB pronouncements up to and including 25 June 2009 (see Compilation Details).

## **URGENT ISSUES GROUP**

### **INTERPRETATION 125**

#### ***INCOME TAXES – CHANGES IN THE TAX STATUS OF AN ENTITY OR ITS SHAREHOLDERS***

#### **Issue**

- 1 A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an entity's equity instruments or upon the restructuring of an entity's equity. It may also occur upon a controlling shareholder's move to a foreign country. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future.
- 2 A change in the tax status of an entity or its shareholders may have an immediate effect on the entity's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity's assets and liabilities.
- 3 The issue is how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.

#### **Consensus**

- 4 **A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised outside**

profit or loss. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income. Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity. Those tax consequences that relate to amounts recognised in other comprehensive income shall be recognised in other comprehensive income.

## Application

- Aus4.1** This Interpretation applies when Accounting Standard AASB 112 *Income Taxes* applies.
- Aus4.2** This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.  
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]
- Aus4.3** This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.
- Aus4.4** The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

## Discussion

- 5 AASB 112.58 requires current and deferred tax to be included in profit or loss for the period, except to the extent the tax arises from a transaction or event that is recognised outside profit or loss either in other comprehensive income or directly in equity, in the same or a different period (or arises from a business combination). AASB 112.61A requires current and deferred tax to be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss.
- 5A AASB 112.62 identifies examples of circumstances in which a transaction or event is recognised in other comprehensive income as permitted or required by another Australian Accounting Standard. All

of these circumstances result in changes in the recognised amount of equity through recognition in other comprehensive income.

- 6 AASB 112.62A identifies examples of circumstances in which a transaction or event is recognised directly in equity as permitted or required by another Australian Accounting Standard. All of these circumstances result in changes in the recognised amount of equity through recognition of a credit or charge directly to equity.
- 7 AASB 112.65 explains that where the tax base of a revalued asset changes, any tax consequence is recognised in other comprehensive income only to the extent that a related accounting revaluation was or is expected to be recognised in other comprehensive income (revaluation surplus).
- 8 Because tax consequences recognised outside profit or loss, whether in other comprehensive income or directly in equity, must relate to a transaction or event recognised outside profit or loss in the same or a different period, the cumulative amount of tax recognised outside profit or loss can be expected to be the same amount that would have been recognised outside profit or loss if the new tax status had applied previously. AASB 112.63(b) acknowledges that determining the tax consequences of a change in the tax rate or other tax rules that affects a deferred tax asset or liability and relates to an item previously recognised outside profit or loss may prove to be difficult. Because of this, AASB 112.63 suggests that an allocation may be necessary.

Date of SIC's Consensus: [Deleted by the UIG]

Effective Date of SIC-25: [Deleted by the UIG]

## REFERENCES

### *Australia*

The Urgent Issues Group discussed Issues Paper UIG/SIC 04/1 “Adoption of Various SIC Interpretations in Australia” in relation to this Interpretation at its meeting on 4 May 2004.

Accounting Standard AASB 112 *Income Taxes*

### *International Accounting Standards Board*

International Accounting Standard IAS 12 *Income Taxes*

Standing Interpretations Committee Interpretation SIC-25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*