AASB 112 *Income Tax* vs. *IFRS for SMEs* Section 29 *Income Tax*

1. Executive Summary

Main differences in recognition, measurement or presentation requirements

There are some recognition and measurement differences, as the *IFRS for SMEs* requirements are based on the IASB's Exposure Draft ED/2009/2 *Income Tax* published in March 2009. Accordingly, unlike AASB 112, the *IFRS for SMEs*:

(a) assumes recovery though sale when calculating the tax basis;

(b) requires a probability weighted average in measuring a tax provision;

(c) uses a valuation allowance such that all deferred tax assets are recognised; and

(d) has different exceptions for deferred tax arising on initial recognition and for investments.

Disclosure proposals

It is proposed to exclude paragraphs 81(ab), 81(f), 81(h) to 81(k), 82, 82A (second sentence), 87, 87A, 87B, 87C and 88 from the Reduced Disclosure Regime (RDR).

2. Analysis of disclosure requirements

Text in AASB 112 *Income Taxes*	**Text in *IFRS for SMEs* Section 29 *Income Tax***	**Comments**
	29.30 An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.	Paragraph 29.30 of the *IFRS for SMEs* should not be added to the RDR, based on the reasoning in paragraph IN4 of this Appendix.
79. The major components of tax expense (income) shall be disclosed separately. 80. Components of tax expense (income) may include: (a) current tax expense (income); (b) any adjustments recognised in the period for current tax of prior periods; (c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences; (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes; (e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense; (f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense; (g) deferred tax expense arising from the write-down,	29.31 An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include: (a) current tax expense (income). (b) any adjustments recognised in the period for current tax of prior periods. (c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences. (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes. (e) the effect on deferred tax expense arising from a change in the effect of the possible outcomes of a review by the tax authorities (see paragraph 29.24). (f) adjustments to deferred tax expense arising from a change in the tax status of the entity or its shareholders. (g) any change in the valuation allowance (see paragraphs 29.21 and 29.22).	Paragraph 79 and the lead into paragraph 29.31 of the *IFRS for SMEs* correspond. Paragraph 79 should be retained in the RDR. Paragraphs 80(a) to 80(d) and paragraphs 29.31(a) to 29.3(d) of the *IFRS for SMEs* correspond. Paragraphs 80(a) to 80(d) should be retained in the RDR. Paragraphs 80(e), 80(f) and 80(g) have no equivalents in the *IFRS for SMEs* due to recognition and measurement differences. The *IFRS for SMEs* requires recognition of all deferred tax assets, however these are offset by a valuation allowance if an entity considers the asset to be non-recoverable. Hence, as all tax assets are recognised, the information is effectively available for users. Under the different recognition and measurement requirements of AASB 112, deferred tax assets may not be recognised but the disclosures around unrecognised assets are useful and hence should be retained in the RDR. Accordingly, based on the reasoning in paragraph IN5 of this Appendix, paragraphs 80(e) to 80(g) should be retained in the RDR.

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or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and (h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with AASB 108, because they cannot be accounted for retrospectively.	(h) the amount of tax expense relating to changes in accounting policies and errors (see Section 10 *Accounting Policies, Estimates and Errors*).	Disclosures required by the *IFRS for SMEs*, paragraphs 29.31(e), (f) and (g), are due to recognition, measurement and presentation differences from AASB 112 and have no equivalent in AASB 112. Paragraphs 29.31 (e), (f) and (g) should not be added to the RDR.
81. The following shall also be disclosed separately: **(a) the aggregate current and deferred tax relating to items that are charged or credited directly to equity (see paragraph 62A);** **(ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and AASB 101 (as revised in 2007));** (b) [Deleted by the IASB]; **(c) an explanation of the relationship between tax expense (income) and accounting profit in the following forms:** **(i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or** **(ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is**	29.32 An entity shall disclose the following separately: (a) the aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income. (b) an explanation of the significant differences in amounts presented in the statement of comprehensive income and amounts reported to tax authorities. (c) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period. (d) the expiry date, if any, of temporary differences, unused tax losses and unused tax credits. (e) for each type of temporary difference and for each type of unused tax losses and tax credits: (i) the amount of deferred tax liabilities, deferred tax assets and valuation allowances at the end of the reporting period, and (ii) an analysis of the change in deferred tax liabilities, deferred tax assets and	Paragraph 81(a) and paragraph 29.32(a) of the *IFRS for SME* correspond. Paragraph 81(a) should be retained in the RDR. Paragraph 81(c) and paragraph 29.32(b) of the *IFRS for SMEs* correspond (AASB 112 reconciles between effective tax rate and tax expense, *IFRS for SMEs* effectively reconciles between tax expense and tax provision for the year), although the paragraph 81(c) requirements are simpler. Paragraph 81(c) should be retained in the RDR. Paragraph 81(d) and paragraph 29.32(c) of the *IFRS for SMEs* correspond. Paragraph 81(d) should be retained in the RDR. Paragraph 81(e) and 29.32(e) correspond, given that the *IFRS for SMEs* would recognise all deferred tax assets with a valuation allowance. Paragraph 81(e) should be retained in the RDR. Paragraph 81(g) has no equivalent in the *IFRS for SMEs*. It relates to a difference in recognition and measurement of tax losses.

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computed; **(d) an explanation of changes in the applicable tax rate(s) compared to the previous reporting period;** **(e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;** **(f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised (see paragraph 39);** **(g) in respect of each type of temporary difference, and in respect of each type of unused tax loss and unused tax credit:** **(i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented; and** **(ii) the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet;** **(h) in respect of discontinued operations, the tax expense relating to:** **(i) the gain or loss on discontinuance; and** **(ii) the profit or loss from the ordinary**	valuation allowances during the period.	Based on paragraph IN5 of this Appendix, paragraph 81(g) should be retained in the RDR. Paragraph 29.32(d) of the *IFRS for SMEs* has no equivalent in AASB 112 and, based on paragraph IN3 of this Appendix, should not be added to the RDR. Paragraphs 81(ab), 81(f) and 81(h) to 81(k) have no equivalents in the *IFRS for SMEs*, and based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR. [Note paragraph 90 of AASB 101 includes the same disclosure requirement as paragraph 81 (ab) of AASB 112. Paragraph 90 of AASB 101 has no equivalent in the *IFRS for SMEs* and it is proposed to be excluded from the RDR. Accordingly, paragraph 81(ab) should be excluded from the RDR.]

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activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented; **(i) the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements;** **(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.**		
82. An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when: **(a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and** **(b) the entity has suffered a loss in either the current or preceding period in the tax**		Paragraph 82 has no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.

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jurisdiction to which the deferred tax asset relates.		
82A. In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.	29.32 An entity shall disclose the following separately: …. (f) in the circumstances described in paragraph 29.25, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.	The first sentence of paragraph 82A and paragraph 29.32(f) of the *IFRS for SMEs* correspond. The first sentence of paragraph 82A should be retained in the RDR. The second sentence of paragraph 82A has no equivalent in the *IFRS for SMEs* and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.
84. The disclosure required by paragraph 81(c) enables users of financial statements to understand whether the relationship between tax expense (income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future. The relationship between tax expense (income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss), the effect of tax losses and the effect of foreign tax rates.		Paragraph 84 is in the nature of contextual material and, based on the reasoning in paragraph IN7 of the Appendix, should be retained in the RDR.
85. In explaining the relationship between tax expense (income) and accounting profit, an entity uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the entity is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate		Paragraph 85 is guidance relating to paragraph 81(c) which is retained in the RDR. Based on paragraph IN7 of this Appendix, paragraph 85 should be retained in the RDR.

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reconciliations prepared using the domestic rate in each individual jurisdiction. The following example illustrates how the selection of the applicable tax rate affects the presentation of the numerical reconciliation.		
86. The average effective tax rate is the tax expense (income) divided by the accounting profit.		Paragraph 86 is guidance relating to paragraph 81(c) which is retained in the RDR. Based on paragraph IN7 of this Appendix, paragraph 86 should be retained in the RDR.
87. It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint ventures (see paragraph 39). Therefore, this Standard requires an entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entities are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful. 87A. Paragraph 82A requires an entity to disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends. 87B. It would sometimes not be practicable to compute the total amount of the potential income tax consequences that would result from the payment of dividends to shareholders. This may be the case, for example, where an entity has a large number of foreign subsidiaries.		Paragraph 87 is guidance relating to paragraph 81(f) which is excluded from the RDR. Based on paragraph IN7 of this Appendix, paragraph 87 should be excluded from the RDR. Paragraph 87A is guidance relating to second sentence of paragraph 82A which is excluded from the RDR. Based on paragraph IN7 of this Appendix, paragraph 87A should be excluded from the RDR. Paragraph 87B is guidance relating to paragraph 82A which is excluded from the RDR. Based on paragraph IN7 of this Appendix, paragraph 87B should be excluded from the RDR.

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However, even in such circumstances, some portions of the total amount may be easily determinable. For example, in a consolidated group, a parent and some of its subsidiaries may have paid income taxes at a higher rate on undistributed profits and be aware of the amount that would be refunded on the payment of future dividends to shareholders from consolidated retained earnings. In this case, that refundable amount is disclosed. If applicable, the entity also discloses that there are additional potential income tax consequences not practicably determinable. In the parent's separate financial statements, if any, the disclosure of the potential income tax consequences relates to the parent's retained earnings. 87C. An entity required to provide the disclosures in paragraph 82A may also be required to provide disclosures related to temporary differences associated with investments in subsidiaries, branches and associates or interests in joint ventures. In such cases, an entity considers this in determining the information to be disclosed under paragraph 82A. For example, an entity may be required to disclose the aggregate amount of temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognised (see paragraph 81(f)). If it is impracticable to compute the amounts of unrecognised deferred tax liabilities (see paragraph 87) there may be amounts of potential income tax consequences of dividends not practicably determinable related to these subsidiaries.		Paragraph 87C is guidance relating to paragraphs 82A and 81(f) which are excluded from the RDR. Based on paragraph IN7 of this Appendix, paragraph 87C should be excluded from the RDR.
88. An entity discloses any tax-related contingent liabilities and contingent assets in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.		Paragraph 88 has no equivalent in the *IFRS for SMEs*, and based on the reasoning in paragraph IN3 of this Appendix, should be excluded from

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Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the reporting date, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see AASB 110 *Events after the Balance Sheet Date*).		the RDR.

3. AASB 112 *Income Taxes*: Text of Proposed Disclosures

The following are the disclosure requirements of AASB 112 *Income Taxes*, showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

Disclosure

79. The major components of tax expense (income) shall be disclosed separately.

80. Components of tax expense (income) may include:

(a) current tax expense (income);

(b) any adjustments recognised in the period for current tax of prior periods;

(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;

(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;

(f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;

(g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and

(h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with AASB 108, because they cannot be accounted for retrospectively.

81. The following shall also be disclosed separately:

(a) the aggregate current and deferred tax relating to items that are charged or credited directly to equity (see paragraph 62A);

(ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and AASB 101 (as revised in 2007));

(b) [Deleted by the IASB];

(c) an explanation of the relationship between tax expense (income) and accounting profit in the following forms:

(i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or

(ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;

(d) an explanation of changes in the applicable tax rate(s) compared to the previous reporting period;

(e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;

(f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised (see paragraph 39);

(g) in respect of each type of temporary difference, and in respect of each type of unused tax loss and unused tax credit:

(i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented; and

(ii) the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet;

(h) in respect of discontinued operations, the tax expense relating to:

(i) the gain or loss on discontinuance; and

(ii) the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented;

(i) the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements;

(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.

82. An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

(a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and

(b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

82A. In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.

84. The disclosure required by paragraph 81(c) enables users of financial statements to understand whether the relationship between tax expense (income) and accounting

profit is unusual and to understand the significant factors that could affect that relationship in the future. The relationship between tax expense (income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss), the effect of tax losses and the effect of foreign tax rates.

85. In explaining the relationship between tax expense (income) and accounting profit, an entity uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the entity is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction. The following example illustrates how the selection of the applicable tax rate affects the presentation of the numerical reconciliation.

86. The average effective tax rate is the tax expense (income) divided by the accounting profit.

87. It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint ventures (see paragraph 39). Therefore, this Standard requires an entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entities are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.

87A. Paragraph 82A requires an entity to disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends.

87B. It would sometimes not be practicable to compute the total amount of the potential income tax consequences that would result from the payment of dividends to shareholders. This may be the case, for example, where an entity has a large number of foreign subsidiaries. However, even in such circumstances, some portions of the total amount may be easily determinable. For example, in a consolidated group, a parent and some of its subsidiaries may have paid income taxes at a higher rate on undistributed profits and be aware of the amount that would be refunded on the payment of future dividends to shareholders from consolidated retained earnings. In this case, that refundable amount is disclosed. If applicable, the entity also discloses that there are additional potential income tax consequences not practicably determinable. In the parent's separate financial statements, if any, the disclosure of the potential income tax consequences relates to the parent's retained earnings.

87C. An entity required to provide the disclosures in paragraph 82A may also be required to provide disclosures related to temporary differences associated with investments in subsidiaries, branches and associates or interests in joint ventures. In such cases, an entity considers this in determining the information to be disclosed under paragraph 82A. For example, an entity may be required to disclose the aggregate amount of temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognised (see paragraph 81(f)). If it is impracticable to compute the amounts of unrecognised deferred tax liabilities (see paragraph 87) there may be amounts of potential income tax consequences of dividends not practicably determinable related to these subsidiaries.

88. An entity discloses any tax-related contingent liabilities and contingent assets in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the reporting date, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see AASB 110 *Events after the Balance Sheet Date*).