AASB Exposure Draft

ED 294
July 2019

Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Proposed amendments to AASB 112

Comments to the AASB by 18 October 2019

Australian Government

Australian Accounting Standards Board

How to Comment on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 18 October 2019. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 14 November 2019.

Formal Submissions

Submissions should be lodged online via the "Work in Progress – Open for Comment" page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

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

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

ISSN 1030-5882

AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards (IFRS Standards) into Australian Accounting Standards. Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

    (a) not-for-profit entities; and

    (b) public sector entities, including GAAP/GFS implications;

2. whether, overall, the proposals would result in financial statements that would be useful to users;

3. whether the proposals are in the best interests of the Australian economy; and

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

July 2019

IFRS® Standards
Exposure Draft ED/2019/5

Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Proposed amendments to IAS 12

Comments to be received by 14 November 2019

IASB®

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Exposure Draft

Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Proposed amendments to IAS 12

Comments to be received by 14 November 2019

Exposure Draft ED/2019/5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* is published by the International Accounting Standards Board (Board) for comment only. The proposals may be modified in the light of comments received before being issued in final form. Comments need to be received by 14 November 2019 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment documents' page at: https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this and how we use your personal data.

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Introduction

In this Exposure Draft, the International Accounting Standards Board (Board) proposes to amend IAS 12 *Income Taxes*. The proposed amendments would require an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction gives rise to equal amounts of deferred tax assets and liabilities. The proposed amendments would apply to particular transactions for which an entity recognises both an asset and a liability, such as leases and decommissioning obligations.

Background

An entity accounts for some transactions by recognising both an asset and a liability. For example, a lessee recognises a right-of-use asset and a lease liability at the commencement date of a lease. Such transactions may give rise to equal and offsetting temporary differences, which, applying the general principle in IAS 12, would result in the recognition of deferred tax assets and liabilities. However, IAS 12 prohibits an entity from recognising deferred tax arising from the initial recognition of an asset or a liability in particular situations (recognition exemption).

The IFRS Interpretations Committee (Committee) received a request asking whether the recognition exemption in IAS 12 applies to a transaction that results in the recognition of both an asset and a liability—in other words, the request asked whether an entity is required to recognise deferred tax for items such as leases and decommissioning obligations.

The Committee observed that views differ on whether the recognition exemption applies to temporary differences that might arise from such a transaction. Such different views could reduce comparability between the financial statements of entities with leases or decommissioning obligations. Furthermore, the application of IFRS 16 *Leases* would increase the potential for differences to arise because an entity would recognise an asset and a liability for many more leases applying that Standard than when applying IAS 17 *Leases*. Consequently, the Committee recommended that the Board amend IAS 12 to narrow the application of the recognition exemption so that it would not apply to such transactions. The Board agreed with the Committee's recommendation.

The Board expects that applying the proposed amendments would not only increase comparability between entities' financial statements, but would also result in useful information for users of financial statements. The proposed amendments would align the accounting for the tax effects of particular transactions with the general principle in IAS 12 of recognising deferred tax for all temporary differences.

Invitation to comment

The Board invites comments on Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which proposes to amend IAS 12. Comments are most helpful if they:

(a) address the question as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Question for respondents

Do you agree with the Board's proposal to amend IAS 12 in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

Deadline

The Board will consider all comments received in writing by 14 November 2019.

How to comment

We prefer to receive your comments electronically. However, you may submit comments using any of the following methods:

Electronically	Visit the 'Open for comment documents' page at: http://go.ifrs.org/open-for-comment
By email	Send to: commentletters@ifrs.org
By post	IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

[Draft] Amendments to IAS 12 *Income Taxes*

Paragraphs 15, 22 and 24 are amended and paragraphs 22A and 98J–98K are added. New text is underlined and deleted text is struck through. Paragraph 5 has not been amended but is included for ease of reference.

Definitions

5 **The following terms are used in this Standard with the meanings specified:**

...

Temporary differences **are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either:**

(a) *taxable temporary differences*, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

(b) *deductible temporary differences*, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

The *tax base* of an asset or liability is the amount attributed to that asset or liability for tax purposes.

...

Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

15 **A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:**

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or liability in a transaction which:

(i) is not a business combination;~~ and~~

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)<u>; and</u>

<u>(iii)</u> <u>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)</u>.

...

Initial recognition of an asset or liability

22 A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction that led to the initial recognition of the asset or liability:

(a) …

(c) if the transaction is not a business combination, ~~and~~ affects neither accounting profit nor taxable profit, and does not result in the recognition of equal amounts of deferred tax assets and liabilities, an entity would, in the absence of the exemption provided by paragraphs 15 and 24, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent. Therefore, this Standard does not permit an entity to recognise the resulting deferred tax liability or asset, either on initial recognition or subsequently (see example below). Furthermore, an entity does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

...

22A A transaction that is not a business combination may lead to the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit (tax loss). Equal amounts of taxable and deductible temporary differences may arise from the initial recognition of that asset and liability. In that situation, on initial recognition of the transaction, an entity recognises:

(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 utilised.

(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 recognised in accordance with paragraph 22A(a).

...

Deductible temporary differences

24 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; ~~and~~

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and

(c) **at the time of the transaction, does not give rise to equal amounts of taxable and deductible temporary differences (see paragraph 22A).**

...

Effective date

...

98J [Draft] *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued in [Month, Year], amended paragraphs 15, 22 and 24 and added paragraph 22A. An entity shall apply those amendments for annual periods beginning on or after [date to be decided after exposure]. An entity shall apply those amendments retrospectively in accordance with IAS 8, unless the entity applies the transition approach specified in paragraph 98K. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

98K An entity may choose to apply the amendments in paragraph 98J retrospectively in accordance with IAS 8, except with respect to the assessment of future taxable profit required by paragraph 24. If an entity applies this transition approach, the entity shall assess the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised only at the beginning of the earliest comparative period presented, based on the facts and circumstances at that date. The entity shall recognise 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 utilised, and recognise a deferred tax liability for the taxable temporary difference that arose from the same transaction to the extent that it recognises a deferred tax asset. The entity shall recognise the cumulative effect of applying this approach as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest comparative period presented.

...

[Draft] Amendments to other Standards

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39AG is added. In Appendix D, paragraph D1 is amended and paragraph D37 and its heading are added. New text is underlined and deleted text is struck through.

Effective date

...

39AG [Draft] *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued in [Month, Year], amended paragraph D1 and added paragraph D37. An entity shall apply those amendments for annual periods beginning on or after [date to be decided after exposure]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

...

Appendix D
Exemptions from other IFRSs

This appendix is an integral part of the IFRS.

D1 An entity may elect to use one or more of the following exemptions:

(a) ...

(u) revenue (paragraphs D34 and D35);~~ and~~

(v) foreign currency transactions and advance consideration (paragraph D36); and

(w) deferred tax related to assets and liabilities arising from a single transaction (paragraph D37).

...

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

D37 For transactions to which paragraph 22A of IAS 12 *Income Taxes* applies, a first-time adopter may choose to assess the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised only at the date of transition to IFRSs, based on the facts and circumstances at that date. The entity shall recognise:

(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 utilised.

(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 recognised in accordance with paragraph D37(a).

Approval by the Board of Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* published in July 2019

The Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* was approved for publication by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Martin Edelmann	
Françoise Flores	
Amaro Luiz de Oliveira Gomes	
Gary Kabureck	
Jianqiao Lu	
Takatsugu Ochi	
Darrel Scott	
Thomas Scott	
Chungwoo Suh	
Ann Tarca	
Mary Tokar	

Basis for Conclusions on Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments. It summarises the considerations of the International Accounting Standards Board (Board) when developing the proposed amendments. Individual Board members gave greater weight to some factors than to others.

Background

BC1 Applying IFRS 16 *Leases*, an entity recognises an asset and a liability at the commencement date of a lease. Similarly, applying IAS 16 *Property, Plant and Equipment* (or IFRS 16) and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an entity recognises an asset and a liability when it initially recognises a decommissioning obligation. In some cases, such transactions may give rise to temporary differences.

BC2 As a general principle, IAS 12 *Incomes Taxes* requires an entity to recognise deferred tax for all temporary differences. However, the Standard prohibits entities from recognising deferred tax assets or liabilities—both on initial recognition and subsequently—for deductible or taxable temporary differences arising from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (recognition exemption).

BC3 The IFRS Interpretations Committee (Committee) received a request asking whether the recognition exemption in IAS 12 applies to a transaction that results in the recognition of an asset and a liability in a situation in which an entity receives tax deductions only for payments made, when those payments are made. The Committee observed that views differ on whether the recognition exemption applies to temporary differences that might arise from such a transaction. Such different views could reduce comparability between the financial statements of entities with leases or decommissioning obligations. Furthermore, the application of IFRS 16 would increase the potential for such differences to arise because entities would recognise an asset and a liability for many more leases applying that Standard than when applying IAS 17 *Leases*.

BC4 Temporary differences may—but not necessarily will—arise on initial recognition of an asset and a liability relating to a lease or decommissioning obligation. If they do arise then the recognition exemption applies. However, the Committee observed that the recognition exemption is not needed to the extent that an entity would recognise equal amounts of deferred tax assets and liabilities. Narrowing the scope of the recognition exemption so that it would not apply in these situations would increase comparability between entities' financial statements. Doing so would also result in useful information for users of financial statements by aligning the accounting for the tax effects of the transaction with the general principle in IAS 12 of recognising deferred tax for all temporary differences. Accordingly, the Committee recommended that the Board amend IAS 12 to narrow the scope of the recognition exemption so that it would not apply in these situations. The Board agreed and decided to propose amendments to IAS 12.

Proposed amendments to IAS 12

Temporary differences and the application of the recognition exemption

BC5 On initial recognition of a lease, an entity assesses whether temporary differences arise in determining whether to recognise deferred tax applying IAS 12.[1] In making this assessment, an entity determines the tax base of the right-of-use asset (lease asset) and the tax base of the lease liability by identifying the amounts attributable to them for tax purposes. When an entity receives tax deductions on making lease payments, the entity determines whether those tax deductions are attributable to:

(a) the lease asset (and interest expense)—because the deductions relate to the expenses arising from the lease (that is, depreciation and interest expense); or

(b) the lease liability (and interest expense)—because the deductions relate to the repayment of the lease liability and interest expense.

BC6 An entity applies judgement in determining whether tax deductions relate to the lease asset or lease liability, having considered the applicable tax law.

BC7 Applying IAS 12, temporary differences arise only when the entity determines that tax deductions relate to the lease liability. This is because:

(a) when tax deductions relate to the lease asset, the tax bases of the lease asset and lease liability equal their carrying amounts, reflecting that the entity will receive tax deductions equal to the carrying amount of the lease asset and receive no tax deductions in respect of the lease liability. Consequently, no temporary differences arise on initial recognition of the lease and the recognition exemption does not apply. Accordingly, the entity does not recognise deferred tax on initial recognition but does so if and when temporary differences arise after initial recognition.

(b) when tax deductions relate to the lease liability, the tax bases of the lease asset and lease liability are zero, reflecting that the entity will receive tax deductions in respect of the lease liability equal to its carrying amount and receive no tax deductions on recovering the carrying amount of the lease asset. Consequently, temporary differences arise on initial recognition of the lease and the recognition exemption applies. Accordingly, the entity does not recognise deferred tax in respect of the lease (either on initial recognition or subsequently throughout the lease term).

1 For simplicity, paragraphs BC5–BC15 explain the basis for the proposed amendments using leases as an example, but the explanation applies equally to other transactions such as decommissioning obligations.

BC8 In the situation described in paragraph BC7(b), because the entity would not recognise deferred tax, its financial statements would reflect the tax effects of the lease in profit or loss as the tax deductions become available for tax purposes, rather than as the entity recovers the lease asset and settles the lease liability (as would be the case if the entity were to recognise deferred tax assets and liabilities in respect of the lease). This would be inconsistent with the general principle in IAS 12 (see paragraph BC2) and result in a difference between the effective tax rate and the applicable tax rate for the transaction.

Purpose of the recognition exemption and its applicability

BC9 Paragraph 22(c) of IAS 12 explains the purpose of the recognition exemption. If temporary differences arise on initial recognition of an asset or a liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit, an entity would, in the absence of the exemption, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent and, for this reason, IAS 12 prohibits the recognition of deferred tax in these circumstances.

BC10 On initial recognition of a lease asset and a lease liability, temporary differences would either:

(a) not arise—because the tax deductions relate to the lease asset (see paragraph BC7(a)); or

(b) be equal and offsetting (that is, the resulting taxable and deductible temporary differences would be of the same amount)—because the tax deductions relate to the lease liability (see paragraph BC7(b)).

BC11 Accordingly, when temporary differences arise, they are equal and offsetting. If the recognition exemption were not applied, an entity would generally recognise a deferred tax asset and liability of the same amount (see paragraphs BC19–BC24 regarding the recognition of deferred tax assets). The recognition of a deferred tax asset and liability of the same amount would not require any adjustment to the carrying amount of the related lease asset or lease liability nor would it have any effect on profit or loss. Thus, the outcome the recognition exemption was designed to prevent (see paragraph BC9) does not apply to a lease.

BC12 Therefore, the exemption is not needed on initial recognition of a lease when an entity would otherwise recognise a deferred tax asset and liability of the same amount.

Proposing a narrow-scope amendment

BC13 Based on its analysis (see paragraphs BC5–BC12), the Committee considered whether to:

(a) recommend that the Board propose an amendment to IAS 12 that would narrow the scope of the recognition exemption so that it would not apply to a transaction that gives rise to both an asset and a liability on initial recognition. This approach would result in entities recognising deferred tax assets and liabilities for temporary differences arising from the initial recognition of a lease.

(b) develop an Interpretation that would explain how an entity applies the requirements in IAS 12 without changing the scope of the recognition exemption. This approach could result in an entity not recognising deferred tax assets or liabilities on initial recognition of a lease when tax deductions relate to the lease liability.

BC14 Both approaches would be narrow in scope, thereby reducing the risks of unintended consequences that could arise from making substantive changes to IAS 12, while also reducing the potential for different accounting outcomes for similar transactions.

BC15 The Committee decided to recommend, and the Board agreed to propose, a narrow-scope amendment to IAS 12 as described in paragraph BC13(a). They did so because:

(a) the narrow-scope amendment would result in an entity recognising the tax effects of a lease as it recovers the lease asset and settles the lease liability, thereby aligning the accounting for deferred tax related to leases with the general principle in IAS 12 (see paragraph BC2). Regardless of whether tax deductions are attributable to the lease asset or lease liability, the narrow-scope amendment would result in entities recognising deferred tax assets and liabilities for temporary differences that arise (on initial recognition and subsequently) in relation to a lease. An entity would typically offset these deferred tax assets and liabilities in the statement of financial position (applying paragraphs 74–75 of IAS 12).

(b) developing an Interpretation could reduce differences in the accounting for similar transactions. However, this approach would retain an accounting outcome that is not aligned with the general principle in IAS 12. This is because the recognition exemption would continue to apply in situations in which it is not needed (that is, when tax deductions are attributable to the lease liability—see paragraphs BC9–BC12).

(c) the narrow-scope amendment would not require entities to incur undue costs (see paragraphs BC29–BC31).

Other considerations

Advance lease payments and initial direct costs

BC16 Applying IFRS 16, an entity initially measures a lease asset and a lease liability at the present value of the lease payments that are not paid at the commencement date of the lease. An entity also recognises advance lease payments and initial direct costs incurred as part of the cost of a lease asset.

BC17 The recognition of the lease liability and the related component of the lease asset may give rise to equal and offsetting temporary differences as explained in paragraph BC10(b). In addition, making advance lease payments or paying initial direct costs could result in additional taxable temporary differences associated with the lease asset. Accordingly, the Board considered whether advance lease payments and initial direct costs would affect the proposed amendments, and concluded that they would not.

BC18 Making advance lease payments or paying initial direct costs do not give rise to equal and offsetting temporary differences. Therefore, an entity would apply the existing requirements in IAS 12 to any taxable temporary difference arising from such payments. The proposed amendments would still apply to equal and offsetting temporary differences arising from the recognition of the lease liability and the related component of the lease asset.

Ability to recognise deferred tax assets

BC19 Paragraph 24 of IAS 12 requires an entity to recognise deferred tax assets only 'to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised' (recoverability requirement). Because of the recoverability requirement, in some situations, equal taxable and deductible temporary differences might result in an entity recognising unequal amounts of deferred tax assets and liabilities. The Board considered whether this situation would arise in the context of leases and decommissioning obligations and its effect, if any, on the proposed amendments.

BC20 Applying paragraph 28 of IAS 12, an entity might meet the recoverability requirement through the future reversal of taxable temporary differences, independently of other sources of profit. This would be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse:

(a) in the same period as the expected reversal of the deductible temporary difference; or

(b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

BC21 When the initial recognition of a lease or decommissioning obligation gives rise to equal amounts of taxable and deductible temporary differences, those differences would generally relate to the same taxation authority and taxable entity. It is possible, therefore, that an entity would meet the recoverability requirement for recognition of a deferred tax asset solely through the future reversal of the taxable temporary difference arising from the same transaction. However, an entity would not meet the recoverability requirement to the extent that these temporary differences reverse in different periods and the tax law disallows the carry forward or carry back of tax losses.

BC22 When an entity assesses the recoverability requirement independently of other sources of profit (that is, only with reference to the taxable temporary difference arising from the same transaction), the entity is more likely not to recognise some portion of a deferred tax asset related to decommissioning obligations than a deferred tax asset related to leases. The patterns of reversal of taxable and deductible temporary differences might often be similar for leases—lease payments are often made throughout the lease term as the lease asset is being depreciated. However, for decommissioning obligations, which are typically settled only towards the end of—or after—the useful life of the related asset, the patterns of reversal of taxable and deductible temporary differences might often be different.

BC23 Accordingly, the Board decided that the recognition exemption should continue to apply to the extent that an entity would otherwise recognise unequal amounts of deferred tax assets and liabilities. Applying the proposed amendments, an entity would recognise deferred tax assets and liabilities of the same amount, and only to the extent that the entity would recognise a deferred tax asset applying the recoverability requirement.

BC24 The recognition exemption, therefore, would continue to apply to any portion of the deferred tax liability for which an entity does not recognise a corresponding deferred tax asset. If an entity were to recognise any such excess deferred tax liability, the entity would recognise an adjustment to the carrying amount of the related asset as the other side of the entry. Recognising this portion of the deferred tax liability would result in the outcome the recognition exemption was designed to prevent (see paragraph BC9).

Reassessment of unrecognised deferred tax assets

BC25 The proposed amendments do not address the reassessment of unrecognised deferred tax assets because paragraph 37 of IAS 12 already does so.

BC26 Applying IAS 12, an entity might not recognise a deferred tax asset in some situations not only because of the recoverability requirement, but also because the recognition exemption would apply. If an entity considers that it did not recognise deferred tax assets because of the recognition exemption, then paragraph 22(c) would preclude their subsequent recognition. In such a case, the entity would not reassess unrecognised deferred tax assets. However, if an entity considers that it did not recognise deferred tax assets because of the recoverability requirement, it would apply paragraph 37 and subsequently reassess unrecognised deferred tax assets.

BC27 The Board is aware that entities might reach different conclusions about whether to reassess unrecognised deferred tax assets related to leases or decommissioning obligations in such situations. Therefore, the Board considered whether to address reassessment as part of the proposed amendments.

BC28 The Board decided against doing so because:

(a) it would be difficult to address the matter narrowly as part of the proposed amendments. Attempting to do so would be likely to raise questions for transactions beyond those covered by the proposed amendments—for example, whether entities could or should apply any proposed requirement in this respect to transactions not considered by the proposed amendments.

(b) addressing this matter would add significant complexity to the proposed amendments without evidence that this matter is prevalent. In particular, taxable temporary differences arising from the same transaction make it likely that the recoverability requirement will be met for many of the transactions within the scope of the proposed amendments (see paragraphs BC20–BC22).

Costs of applying the proposed amendments

BC29 The Board considered the expected costs and benefits of the proposed amendments. Although the Board expects entities to incur costs in applying the proposed amendments, it concluded that the expected benefits would outweigh such costs. In particular, the Board concluded that the proposed amendments would reduce existing differences in accounting treatment and also improve the accounting for the tax effects of leases and decommissioning obligations (see paragraph BC15).

BC30 The Board expects that any concerns about implementation costs would relate primarily to leases. Some entities have a significant volume of leases recognised in their statement of financial position applying IFRS 16, potentially across a number of different tax jurisdictions. Such entities would incur costs in tracking any associated temporary differences.

BC31 The Board nonetheless expects that entities would not incur undue costs in applying the proposed amendments because:

(a) for the reasons explained in paragraph BC7, temporary differences would arise—and thus the proposed amendments are applicable—only for transactions for which tax deductions are attributable to the liability. Accordingly, the proposed amendments would not affect transactions for which tax deductions are attributable to the asset.

(b) when the proposed amendments apply, the tax bases of the asset and the liability will normally be zero not only on initial recognition, but also subsequently. The entity will not receive tax deductions from recovering the carrying amount of the asset; similarly, the carrying amount of the liability will reflect future payments for which the entity will receive tax deductions. Accordingly, temporary differences will generally remain equal to the carrying amounts of related assets and liabilities. Information regarding those carrying amounts should be readily available. Therefore, the Board expects that tracking temporary differences associated with such assets and liabilities would not result in undue costs.

Transition and effective date

BC32 The Board proposes to require entities to apply the amendments retrospectively, but to provide transition relief in relation to the assessment of the recoverability requirement for deferred tax assets (see paragraphs BC34–BC37).

BC33 Apart from assessing the recoverability requirement, retrospective application would require entities to consider only the amount of temporary differences that exist at the beginning of the earliest comparative period presented, and apply applicable tax rates at that date to those temporary differences. At that date, any temporary differences affected by the proposed amendments would generally equal the carrying amounts of the related asset or liability (see paragraph BC31(b)). Accordingly, the Board expects that entities would not incur undue costs in applying the amendments retrospectively.

Transition relief

BC34 The proposed amendments would require the recognition of deferred tax assets and liabilities for particular transactions to the extent that an entity recognises a deferred tax asset and liability of the same amount. To the extent that an entity does not recognise a deferred tax asset because of the recoverability requirement, it would also not recognise a deferred tax liability.

BC35 As a consequence, retrospective application of the proposed amendments would require an entity to assess the recoverability requirement on initial recognition of the transaction that gave rise to the temporary differences. For both leases and decommissioning obligations, an entity might have initially recognised the related transaction some considerable time ago. In such situations, assessing the recoverability requirement could be impracticable or result in undue costs.

BC36 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* does not require an entity to apply a change retrospectively to the extent that retrospective application is impracticable. However, to address situations in which applying the recoverability requirement retrospectively is not impracticable but may result in undue costs, the Board decided to provide transition relief that would permit an entity to assess the recoverability requirement only at the beginning of the earliest comparative period presented.

BC37 The Board decided to make the proposed transition relief optional. The different views on the existing requirements in IAS 12 mean that some entities may already have applied accounting that is aligned with the proposed amendments. Therefore, making the transition relief mandatory could result in some entities being required to change their accounting solely because of the transition relief. The Board concluded that this outcome would be undesirable.

First-time adopters

BC38 The Board also proposes to provide the transition relief for first-time adopters. As explained in paragraph BC34, assessing the recoverability requirement in respect of the proposed amendments affects not only whether an entity recognises a deferred tax asset, but also whether it recognises a deferred tax liability. Accordingly, in the absence of the transition relief, a first-time adopter would be required to assess the recoverability requirement at the date of the transaction, which could result in undue costs for the same reasons as those outlined in paragraph BC35.

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