Compiled Interpretation **Interpretation 121**

Income Taxes – Recovery of Revalued Non-Depreciable Assets

This compiled UIG Interpretation applies to annual reporting periods beginning on or after 1 January 2009. Early application is permitted. It incorporates relevant amendments made up to and including 24 September 2007.

Prepared on 10 November 2009 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

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COMPILATION DETAILS

UIG Interpretation 121 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* as amended

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2009. It takes into account amendments up to and including 24 September 2007 and was prepared on 10 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 121 (July 2004) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	**Month issued**	**Application date** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
Interpretation 121	Jul 2004	*(beginning)* 1 Jan 2005	
AASB 2007-8	Sep 2007	*(beginning)* 1 Jan 2009	see (a) 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.

Table of Amendments

Paragraph affected	**How affected**	**By … [paragraph]**
1	amended	AASB 2007-8 [6]
Aus5.4	amended	AASB 2007-8 [8]

COMPARISON WITH SIC-21

UIG Interpretation 121 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* as amended incorporates Standing Interpretations Committee Interpretation SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of SIC-21) are identified with the prefix "Aus", followed by the number of the preceding SIC paragraph and decimal numbering.

Entities that comply with Interpretation 121 as amended will simultaneously be in compliance with SIC-21 as amended.

INTERPRETATION 121

UIG Interpretation 121 was issued in July 2004.

This compiled version of Interpretation 121 applies to annual reporting periods beginning on or after 1 January 2009. It incorporates relevant amendments contained in other AASB pronouncements up to and including 24 September 2007 (see Compilation Details).

URGENT ISSUES GROUP

INTERPRETATION 121

INCOME TAXES – RECOVERY OF REVALUED NON-DEPRECIABLE ASSETS

Issue

1 Under Accounting Standard AASB 112 *Income Taxes*, paragraph 51, the measurement of deferred tax liabilities and assets should reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of those assets and liabilities that give rise to temporary differences.

2 AASB 112.20 notes that the revaluation of an asset does not always affect taxable profit (tax loss) in the period of the revaluation and that the tax base of the asset may not be adjusted as a result of the revaluation. If the future recovery of the carrying amount will be taxable, any difference between the carrying amount of the revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset.

3 The issue is how to interpret the term ‘recovery’ in relation to an asset that is not depreciated (non-depreciable asset) and is revalued in accordance with paragraph 31 of AASB 116 *Property, Plant and Equipment*.

4 This Interpretation also applies to investment properties that are carried at revalued amounts under AASB 140 *Investment Property*, paragraph 33, but would be considered non-depreciable if AASB 116 were to be applied.

Consensus

5 **The deferred tax liability or asset that arises from the revaluation of a non-depreciable asset in accordance with AASB 116.31 shall be measured on the basis of the tax consequences that would follow from recovery of the carrying amount of that 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.**

Application

Aus5.1 **This Interpretation applies when AASB 112 applies.**

Aus5.2 **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.]

Aus5.3 **This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.**

Aus5.4 **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

6 The *Framework for the Preparation and Presentation of Financial Statements* indicates that an entity recognises an asset if it is probable that the future economic benefits associated with the asset will flow to the entity. Generally, those future economic benefits will be derived (and therefore the carrying amount of an asset will be recovered) through sale, through use, or through use and subsequent sale. Recognition of depreciation implies that the carrying amount of a depreciable asset is expected to be recovered through use to the extent of its depreciable amount, and through sale at its residual value. Consistent with this, the carrying amount of a non-depreciable asset, such as land having an unlimited life, will be recovered only through sale. That is, because the asset is not depreciated, no part of its carrying amount is expected to be recovered (that is, consumed)

through use. Deferred taxes associated with the non-depreciable asset reflect the tax consequences of selling the asset.

7 The expected manner of recovery is not predicated on the basis of measuring the carrying amount of the asset. For example, if the carrying amount of a non-depreciable asset is measured at its value in use, the basis of measurement does not imply that the carrying amount of the asset is expected to be recovered through use, but through its residual value upon ultimate disposal.

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

Effective Date of SIC-21: [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*

Accounting Standard AASB 116 *Property, Plant and Equipment*

Accounting Standard AASB 140 *Investment Property*

Framework for the Preparation and Presentation of Financial Statements

International Accounting Standards Board

International Accounting Standard IAS 12 *Income Taxes*

Standing Interpretations Committee Interpretation SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*