Snapshot

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How does IASB's proposed amendments to IAS 12 affect accounting for deferred taxes by lessees?

Applicable IFRS	IASB Exposure Draft ED 2019/5: Deferred Tax related to Assets and Liabilities arising from Single Transaction (Proposed amendments to IAS 12 Income Taxes)
Issue date	17 July 2019 (by IASB) and 26 July 2019 (by MASB)
Comments due	14 November 2019 (to IASB) and 26 September 2019 (to MASB)

Key impact

- Companies that have currently adopted the policy not to recognise deferred taxes for leases and decommissioning obligations would need to recognise the deferred taxes when the amendments become effective. There will be a corresponding impact to retained earnings and profits of current and future years.

- Companies that currently do not have any accounting policy on similar transactions could consider the proposed amendments when selecting its policy in conjunction with the adoption of MFRS 16.

What issue does the amendment address?

MFRS 112 (which is equivalent to IAS 12) exempts companies from recognising deferred tax when they recognise assets or liabilities for the first time. However there has been some uncertainty about whether this exemption applies to situations where both asset and liability are recognised at the same time in a single transaction. For example, upon the adoption of MFRS 16, it is not clear whether lessees could apply the exemption to rights-of-use assets and lease liabilities.

Due to the uncertainty, there is diversity in practice where some companies have recognised a deferred tax in such situations whilst others have not recognised any deferred tax. To promote consistent application of accounting standards, a narrow scope amendment is proposed by the IASB to clarify how this exemption should be applied in the above situations.

Key provisions

The proposed amendments clarify that the exemption in MFRS 112 from recognising deferred taxes would **not** apply in transactions where an asset and a liability are recognised at the same time resulting in equal amounts of temporary differences.

This essentially means that lessees would not be able to apply the exemption in MFRS 112 for the rights-of-use asset and the lease liability. Similarly, companies recognising decommissioning liabilities would also not be able to apply the exemption in MFRS 112.

The full text of the Exposure Draft may be accessed from the IFRS website via this link.

Transition

- Retrospective application is required, which means that companies would need to restate comparative financial information if the deferred tax impact is material.

- There is an exemption available on transition when assessing whether future taxable profit is available for deferred tax asset recognition. Companies can choose to make this assessment only at the beginning of the earliest comparative period presented, based on facts and circumstances at that date.

- Companies are permitted to early adopt the amendments before it becomes effective.