

New Zealand Equivalent to SIC Interpretation 21

Income Taxes—Recovery of Revalued Non-Depreciable Assets (NZ SIC-21)

Issued November 2004 and incorporates amendments up to and including 30 June 2011

This Interpretation was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993. This Interpretation is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

NZ SIC-21

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New Zealand Equivalent to SIC Interpretation 21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets* (NZ SIC-21) is set out in paragraph 5.

NZ SIC-21 should be read in context of the Basis for Conclusions on SIC-21. The scope and authority of Interpretations are set out in paragraphs 2 and 7–16 of the *Preface to International Financial Reporting Standards*.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ SIC-21.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ SIC-21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets*

This table lists the pronouncements establishing and substantially amending NZ SIC-21. The table is based on amendments approved as at 30 June 2011.

Pronouncements	Date approved (ASRB approval)	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ SIC-21 <i>Incomes Taxes—Recovery of Revalued Non-Depreciable Assets</i>	Nov 2004 (Approval 42)	1 Jan 2005	1 Jan 2007
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007 (Approval 94)	Early application permitted	1 Jan 2009

Table of Amended Paragraphs in NZ SIC-21		
Paragraph affected	How affected	By ... [date]
Paragraph 1	Terminology changed	NZ IAS 1 [Nov 2007]

New Zealand Equivalent to SIC Interpretation 21

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References:

- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 12 *Income Taxes*
- NZ IAS 16 *Property, Plant and Equipment*
- NZ IAS 40 *Investment Property*

Issue

- 1 Under NZ IAS 12.51, 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 NZ IAS 12.20 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 NZ IAS 16.
- 4 This Interpretation also applies to investment properties that are carried at revalued amounts under NZ IAS 40.33 but would be considered non-depreciable if NZ IAS 16 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 NZ IAS 16.31 shall be measured on the basis of the tax consequences that would follow from recovery of the carrying

NZ SIC-21

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.

Basis for Conclusions on SIC-21

6–7 [Paragraphs 6–7 do not form part of NZ SIC-21.]

Effective Date

This Interpretation becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Interpretation is permitted only when the entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005. Changes in accounting policies shall be accounted for in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

SIC-21