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

**Issued July 2021**

This Standard was issued on 1 July 2021 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(2) of the Financial Reporting Act 2013 takes effect on 29 July 2021.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date set out in Part D.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 For-profit Accounting Standard is based on amendments to IAS 12 *Income Taxes* issued by the International Accounting Standards Board. The amendments to NZ IAS 12 *Income Taxes* narrow the scope of the recognition exemption in paragraphs 15 and 24 of NZ IAS 12 so that it would not apply to transactions that give rise to equal and offsetting temporary differences.

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## Part A – Introduction

This Standard narrows the scope of the recognition exemption in paragraphs 15 and 24 of NZ IAS 12 so that it would not apply to transactions that give rise to equal and offsetting temporary differences. Tier 2 entities are required to comply with all the requirements in this Standard.

## Part B – Scope

**This Standard applies to Tier 1 and Tier 2 for-profit entities.**

## Part C – Amendments

## Amendments to NZ IAS 12 *Income Taxes*

Paragraphs 15, 22 and 24 are amended. Paragraphs 22A and 98J–98L are added. Deleted text is struck through and new text is underlined.

## 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) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.</u>**

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### 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) in a business combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or bargain purchase gain it recognises (see paragraph 19);

(b) if the transaction affects either accounting profit or taxable profit<u>, or gives rise to equal taxable and deductible temporary differences</u>, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in profit or loss (see paragraph 59);

(c) if the transaction is not a business combination, ~~and~~ affects neither accounting profit nor taxable profit <u>and does not give rise to equal taxable and deductible temporary differences</u>, 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.

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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. For example, at the commencement date of a lease, a lessee typically recognises a lease liability and the corresponding amount as part of the cost of a right-of-use asset. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of the asset and liability in such a transaction. The exemption provided by paragraphs 15 and 24 does not apply to such temporary differences and an entity recognises any resulting deferred tax liability and asset.

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### 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 taxable and deductible temporary differences.**

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## Effective date

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98J *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued in July 2021, amended paragraphs 15, 22 and 24 and added paragraph 22A. An entity shall apply these amendments in accordance with paragraphs 98K–98L for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

98K An entity shall apply *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* to transactions that occur on or after the beginning of the earliest comparative period presented.

98L An entity applying *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* shall also, at the beginning of the earliest comparative period presented:

(a) 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 a deferred tax liability for all deductible and taxable temporary differences associated with:

(i) right-of-use assets and lease liabilities; and

(ii) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset; and

(b) recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

## Amendments to NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

Paragraph 39AH is added. In Appendix B, paragraph B1 is amended and paragraph B14 and its heading are added. Deleted text is struck through and new text is underlined.

## Effective date

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39AH *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued in July 2021, amended paragraph B1 and added paragraph B14. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

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## Exceptions to the retrospective application of other NZ IFRSs

*This appendix is an integral part of the IFRS.*

B1 An entity shall apply the following exceptions:

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(g) government loans (paragraphs B10–B12);~~ and~~

(h) insurance contracts (paragraph B13); and~~.~~

(i) deferred tax related to leases and decommissioning, restoration and similar liabilities (paragraph B14).

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## Deferred tax related to leases and decommissioning, restoration and similar liabilities

B14 Paragraphs 15 and 24 of NZ IAS 12 *Income Taxes* exempt an entity from recognising a deferred tax asset or liability in particular circumstances. Despite this exemption, at the date of transition to NZ IFRS, a first-time adopter 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 a deferred tax liability for all deductible and taxable temporary differences associated with:

(a) right-of-use assets and lease liabilities; and

(b) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

## Part D – Effective Date

This Standard shall be applied for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.