

## **PUBLIC BENEFIT ENTITY INTERNATIONAL ACCOUNTING STANDARD 12 INCOME TAXES (PBE IAS 12)**

**Issued September 2014 and incorporates amendments to 31 December 2015**

This Standard was issued on 11 September 2014 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(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraph 98.1.

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 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IAS 12 *Income Taxes* issued in May 2013.

## **PBE IAS 12 INCOME TAXES**

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# PBE IAS 12 INCOME TAXES

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**The following is available within New Zealand on the XRB website as additional material:**

IASB Basis for Conclusions

Public Benefit Entity International Accounting Standard 12 *Income Taxes* (PBE IAS 12) is set out in paragraphs 1–99. PBE IAS 12 is based on International Accounting Standard 12 *Income Taxes* (revised 2000) issued by the International Accounting Standards Committee and adopted by the International Accounting Standards Board. All the paragraphs have equal authority. PBE IAS 12 should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Objective

The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- (a) The future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's statement of financial position; and
- (b) Transactions and other events of the current period that are recognised in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognise a deferred tax liability (deferred tax asset), with certain limited exceptions.

This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in surplus or deficit, any related tax effects are also recognised in surplus or deficit. For transactions and other events recognised outside surplus or deficit (either in other comprehensive revenue and expense or directly in net assets/equity), any related tax effects are also recognised outside surplus or deficit (either in other comprehensive revenue and expense or directly in net assets/equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

This Standard also deals with the recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in the financial statements and the disclosure of information relating to income taxes.

## Scope

1. **This Standard shall be applied in accounting for income taxes.**
2. For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a controlled entity, associate or joint venture on distributions to the reporting entity.
3. [Not used.]
4. This Standard does not deal with the methods of accounting for government grants or investment tax credits. However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.
- 4.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**
- 4.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (\*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

## Definitions

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

**Accounting profit** is the surplus or deficit for a period before deducting tax expense.

**Taxable profit (tax loss)** is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

**Tax expense (tax income)** is the aggregate amount included in the determination of surplus or deficit for the period in respect of current tax and deferred tax.

**Current tax** is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

**Deferred tax liabilities** are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

**Deferred tax assets** are the amounts of income taxes recoverable in future periods in respect of:

- (a) **Deductible temporary differences;**
- (b) **The carryforward of unused tax losses; and**
- (c) **The carryforward of unused tax credits.**

**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.

- 6. Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

#### **Tax Base**

- 7. The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

<b>Examples</b>	
1	A machine cost 100. For tax purposes, depreciation of 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal. Revenue generated by using the machine is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. <i>The tax base of the machine is 70.</i>
2	Interest receivable has a carrying amount of 100. The related interest revenue will be taxed on a cash basis. <i>The tax base of the interest receivable is nil.</i>
3	Trade receivables have a carrying amount of 100. The related revenue has already been included in taxable profit (tax loss). <i>The tax base of the trade receivables is 100.</i>
4	Dividends receivable from a controlled entity have a carrying amount of 100. The dividends are not taxable. <i>In substance, the entire carrying amount of the asset is deductible against the economic benefits. Consequently, the tax base of the dividends receivable is 100<sup>(a)</sup>.</i>
5	A loan receivable has a carrying amount of 100. The repayment of the loan will have no tax consequences. <i>The tax base of the loan is 100.</i>

- (a) Under this analysis, there is no taxable temporary difference. An alternative analysis is that the accrued dividends receivable have a tax base of nil and that a tax rate of nil is applied to the resulting taxable temporary difference of 100. Under both analyses, there is no deferred tax liability.

- 8. The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

<b>Examples</b>	
1	Current liabilities include accrued expenses with a carrying amount of 100. The related expense will be deducted for tax purposes on a cash basis. <i>The tax base of the accrued expenses is nil.</i>

<b>Examples</b>	
2	Current liabilities include interest revenue received in advance, with a carrying amount of 100. The related interest revenue was taxed on a cash basis. <i>The tax base of the interest received in advance is nil.</i>
3	Current liabilities include accrued expenses with a carrying amount of 100. The related expense has already been deducted for tax purposes. <i>The tax base of the accrued expenses is 100.</i>
4	Current liabilities include accrued fines and penalties with a carrying amount of 100. Fines and penalties are not deductible for tax purposes. <i>The tax base of the accrued fines and penalties is 100<sup>(a)</sup>.</i>
5	A loan payable has a carrying amount of 100. The repayment of the loan will have no tax consequences. <i>The tax base of the loan is 100.</i>

<sup>(a)</sup> Under this analysis, there is no deductible temporary difference. An alternative analysis is that the accrued fines and penalties payable have a tax base of nil and that a tax rate of nil is applied to the resulting deductible temporary difference of 100. Under both analyses, there is no deferred tax asset.

9. Some items have a tax base but are not recognised as assets and liabilities in the statement of financial position. For example, research costs are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period. The difference between the tax base of the research costs, being the amount the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset.
10. Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Example C following Paragraph 51A illustrates circumstances when it may be helpful to consider this fundamental principle, for example, when the tax base of an asset or liability depends on the expected manner of recovery or settlement.
11. In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the group.

## **Recognition of Current Tax Liabilities and Current Tax Assets**

12. **Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.**
13. **The benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognised as an asset.**
14. When a tax loss is used to recover current tax of a previous period, an entity recognises the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the entity and the benefit can be reliably measured.

## **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).**

**However, for taxable temporary differences associated with investments in controlled entities, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised in accordance with paragraph 39.**

16. It is inherent in the recognition of an asset that is used in a taxable activity that its carrying amount will be recovered in the form of economic benefits that flow to the entity in future periods. When the carrying amount of the asset exceeds its tax base, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes. This difference is a taxable temporary difference and the obligation to pay the resulting income taxes in future periods is a deferred tax liability. As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. This makes it probable that economic benefits will flow from the entity in the form of tax payments. Therefore, this Standard requires the recognition of all deferred tax liabilities, except in certain circumstances described in paragraphs 15 and 39.

**Example**

An asset which cost 150 has a carrying amount of 100. Cumulative depreciation for tax purposes is 90 and the tax rate is 25%.

*The tax base of the asset is 60 (cost of 150 less cumulative tax depreciation of 90). To recover the carrying amount of 100, the entity must earn taxable income of 100, but will only be able to deduct tax depreciation of 60. Consequently, the entity will pay income taxes of 10 (40 at 25%) when it recovers the carrying amount of the asset. The difference between the carrying amount of 100 and the tax base of 60 is a taxable temporary difference of 40. Therefore, the entity recognises a deferred tax liability of 10 (40 at 25%) representing the income taxes that it will pay when it recovers the carrying amount of the asset.*

17. Some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences. The following are examples of temporary differences of this kind which are taxable temporary differences and which therefore result in deferred tax liabilities:
- (a) Interest revenue is included in accounting profit on a time proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable recognised in the statement of financial position with respect to such revenues is nil because the revenues do not affect taxable profit until cash is collected;
  - (b) Depreciation used in determining taxable profit (tax loss) may differ from that used in determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities in determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated (if tax depreciation is less rapid than accounting depreciation, a deductible temporary difference arises, and results in a deferred tax asset); and
  - (c) Development costs may be capitalised and amortised over future periods in determining accounting profit but deducted in determining taxable profit in the period in which they are incurred. Such development costs have a tax base of nil as they have already been deducted from taxable profit. The temporary difference is the difference between the carrying amount of the development costs and their tax base of nil.
18. Temporary differences also arise when:
- (a) The identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values in accordance with PBE IFRS 3 *Business Combinations*, but no equivalent adjustment is made for tax purposes (see paragraph 19);



- (b) Assets are revalued and no equivalent adjustment is made for tax purposes (see paragraph 20);
- (c) Goodwill arises in a business combination (see paragraph 21);
- (d) The tax base of an asset or liability on initial recognition differs from its initial carrying amount, for example when an entity benefits from non-taxable government grants related to assets (see paragraphs 22 and 33); or
- (e) The carrying amount of investments in controlled entities, branches and associates or interests in joint ventures becomes different from the tax base of the investment or interest (see paragraphs 38–45).

#### *Business Combinations*

19. With limited exceptions, the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 66).

#### *Assets Carried at Fair Value*

20. PBE Standards permit or require certain assets to be carried at fair value or to be revalued (see, for example, PBE IPSAS 17 *Property, Plant and Equipment*, PBE IPSAS 31 *Intangible Assets*, PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* and PBE IPSAS 16 *Investment Property*). The revaluation or other restatement of an asset used in a taxable activity to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:
- (a) the entity does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or
  - (b) tax on capital gains is deferred if the proceeds of the disposal of the asset are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets.

#### *Goodwill*

21. Goodwill arising in a business combination is measured as the excess of (a) over (b) below:
- (a) The aggregate of:
    - (i) The consideration transferred measured in accordance with PBE IFRS 3, which generally requires acquisition-date fair value;
    - (ii) The amount of any minority interest in the acquiree recognised in accordance with PBE IFRS 3; and
    - (iii) In a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
  - (b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with PBE IFRS 3.

Many taxation authorities do not allow reductions in the carrying amount of goodwill as a deductible expense in determining taxable profit. Moreover, in such jurisdictions, the cost of goodwill is often not deductible when a controlled entity disposes of its underlying business. In such jurisdictions, goodwill has a tax base of nil. Any difference between the carrying amount of goodwill and its tax base of nil is a taxable temporary difference. However, this Standard does not permit the recognition of the resulting

deferred tax liability because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill.

- 21A. Subsequent reductions in a deferred tax liability that is unrecognised because it arises from the initial recognition of goodwill are also regarded as arising from the initial recognition of goodwill and are therefore not recognised under paragraph 15(a). For example, if in a business combination an entity recognises goodwill of CU100 that has a tax base of nil, paragraph 15(a) prohibits the entity from recognising the resulting deferred tax liability. If the entity subsequently recognises an impairment loss of CU20 for that goodwill, the amount of the taxable temporary difference relating to the goodwill is reduced from CU100 to CU80, with a resulting decrease in the value of the unrecognised deferred tax liability. That decrease in the value of the unrecognised deferred tax liability is also regarded as relating to the initial recognition of the goodwill and is therefore prohibited from being recognised under paragraph 15(a).
- 21B. Deferred tax liabilities for taxable temporary differences relating to goodwill are, however, recognised to the extent they do not arise from the initial recognition of goodwill. For example, if in a business combination an entity recognises goodwill of CU100 that is deductible for tax purposes at a rate of 20 per cent per year starting in the year of acquisition, the tax base of the goodwill is CU100 on initial recognition and CU80 at the end of the year of acquisition. If the carrying amount of goodwill at the end of the year of acquisition remains unchanged at CU100, a taxable temporary difference of CU20 arises at the end of that year. Because that taxable temporary difference does not relate to the initial recognition of the goodwill, the resulting deferred tax liability is recognised.

#### *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:
- 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);
  - If the transaction affects either accounting profit or taxable profit, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in surplus or deficit (see paragraph 59);
  - If the transaction is not a business combination, and affects neither accounting profit nor taxable profit, 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. Furthermore, an entity does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

#### **Example illustrating paragraph 22(c)**

An entity intends to use an asset which cost 1,000 throughout its useful life of five years and then dispose of it for a residual value of nil. The tax rate is 40%. Depreciation of the asset is not deductible for tax purposes. On disposal, any capital gain would not be taxable and any capital loss would not be deductible.

*As it recovers the carrying amount of the asset, the entity will earn taxable income of 1,000 and pay tax of 400. The entity does not recognise the resulting deferred tax liability of 400 because it results from the initial recognition of the asset.*

*In the following year, the carrying amount of the asset is 800. In earning taxable income of 800, the entity will pay tax of 320. The entity does not recognise the deferred tax liability of 320 because it results from the initial recognition of the asset.*

23. In accordance with PBE IAS 28 *Financial Instruments: Presentation* the issuer of a compound financial instrument (for example, a convertible bond) classifies the instrument's liability component as a liability

and the equity component as equity. In some jurisdictions, the tax base of the liability component on initial recognition is equal to the initial carrying amount of the sum of the liability and equity components. The resulting taxable temporary difference arises from the initial recognition of the equity component separately from the liability component. Therefore, the exception set out in paragraph 15(b) does not apply. Consequently, an entity recognises the resulting deferred tax liability. In accordance with paragraph 61A, the deferred tax is charged directly to the carrying amount of the equity component. In accordance with paragraph 58, subsequent changes in the deferred tax liability are recognised in surplus or deficit as deferred tax expense (income).

### 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).**

**However, for deductible temporary differences associated with investments in controlled entities, branches and associates, and interests in joint ventures, a deferred tax asset shall be recognised in accordance with paragraph 44.**

25. It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow from the entity of resources embodying economic benefits. When resources flow from the entity, part or all of their amounts may be deductible in determining taxable profit of a period later than the period in which the liability is recognised. In such cases, a temporary difference exists between the carrying amount of the liability and its tax base. Accordingly, a deferred tax asset arises in respect of the income taxes that will be recoverable in the future periods when that part of the liability is allowed as a deduction in determining taxable profit. Similarly, if the carrying amount of an asset is less than its tax base, the difference gives rise to a deferred tax asset in respect of the income taxes that will be recoverable in future periods.

<b>Example</b>
<p>An entity recognises a liability of 100 for accrued product warranty costs. For tax purposes, the product warranty costs will not be deductible until the entity pays the claim. The tax rate is 25%.</p> <p><i>The tax base of the liability is nil (carrying amount of 100, less the amount that will be deductible for tax purposes in respect of that liability in future periods). In settling the liability for its carrying amount, the entity will reduce its future taxable profit by an amount of 100 and, consequently, reduce its future tax payments by 25 (100 at 25%). The difference between the carrying amount of 100 and the tax base of nil is a deductible temporary difference of 100. Therefore, the entity recognises a deferred tax asset of 25 (100 at 25%), provided that it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments.</i></p>

26. The following are examples of deductible temporary differences that result in deferred tax assets:
- (a) Retirement benefit costs may be deducted in determining accounting profit as service is provided by the employee, but deducted in determining taxable profit either when contributions are paid to a fund by the entity or when retirement benefits are paid by the entity. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset as economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid;
  - (b) Research costs are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period. The difference between the tax base of the research costs, being the amount the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset;

- (c) With limited exceptions, an entity recognises the identifiable assets acquired and liabilities assumed in a business combination at their fair values at the acquisition date. When a liability assumed is recognised at the acquisition date but the related costs are not deducted in determining taxable profits until a later period, a deductible temporary difference arises which results in a deferred tax asset. A deferred tax asset also arises when the fair value of an identifiable asset acquired is less than its tax base. In both cases, the resulting deferred tax asset affects goodwill (see paragraph 66); and
  - (d) Certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes (see paragraph 20). A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.
27. The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.
28. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised 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.
- In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.
29. When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:
- (a) It is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised; or
  - (b) Tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.
30. Tax planning opportunities are actions that the entity would take in order to create or increase taxable income in a particular period before the expiry of a tax loss or tax credit carryforward. For example, in some jurisdictions, taxable profit may be created or increased by:
- (a) Electing to have interest revenue taxed on either a received or receivable basis;
  - (b) Deferring the claim for certain deductions from taxable profit;
  - (c) Selling, and perhaps leasing back, assets that have appreciated but for which the tax base has not been adjusted to reflect such appreciation; and
  - (d) Selling an asset that generates non-taxable income (such as, in some jurisdictions, a government bond) in order to purchase another investment that generates taxable income.
- Where tax planning opportunities advance taxable profit from a later period to an earlier period, the utilisation of a tax loss or tax credit carryforward still depends on the existence of future taxable profit from sources other than future originating temporary differences.
31. When an entity has a history of recent losses, the entity considers the guidance in paragraphs 35 and 36.
32. [Deleted by IASB]

*Goodwill*

- 32A. If the carrying amount of goodwill arising in a business combination is less than its tax base, the difference gives rise to a deferred tax asset. The deferred tax asset arising from the initial recognition of goodwill shall be recognised as part of the accounting for a business combination to the extent that it is probable that taxable profit will be available against which the deductible temporary difference could be utilised.

*Initial Recognition of an Asset or Liability*

33. [Not used.]

**Unused Tax Losses and Unused Tax Credits**

34. **A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.**
35. The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.
36. An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:
- (a) Whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
  - (b) Whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
  - (c) Whether the unused tax losses result from identifiable causes which are unlikely to recur; and
  - (d) Whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

**Re-assessment of Unrecognised Deferred Tax Assets**

37. At the end of each reporting period, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria set out in paragraphs 24 or 34. Another example is when an entity reassesses deferred tax assets at the date of a business combination or subsequently (see paragraphs 67 and 68).

**Investments in Controlled Entities, Branches and Associates and Interests in Joint Ventures**

38. Temporary differences arise when the carrying amount of investments in controlled entities, branches and associates or interests in joint ventures (namely the controlling entity or investor's share of the net assets of the controlled entity, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

- (a) The existence of undistributed profits of controlled entities, branches, associates and joint ventures;
- (b) Changes in foreign exchange rates when a controlling entity and its controlled entity are based in different countries; and
- (c) A reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the controlling entity's separate financial statements if the controlling entity carries the investment in its separate financial statements at cost or revalued amount.

39. **An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in controlled entities, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:**

- (a) **The controlling entity, investor or venturer is able to control the timing of the reversal of the temporary difference; and**
- (b) **It is probable that the temporary difference will not reverse in the foreseeable future.**

40. As a controlling entity controls the dividend policy of its controlled entity, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed surpluses but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the controlling entity has determined that those surpluses will not be distributed in the foreseeable future the controlling entity does not recognise a deferred tax liability. The same considerations apply to investments in branches.

41. The non-monetary assets and liabilities of an entity are measured in its functional currency (see PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*). If the entity's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a different currency, changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or (subject to paragraph 24) asset. The resulting deferred tax is charged or credited to surplus or deficit (see paragraph 58).

42. An investor in an associate does not control that entity and is usually not in a position to determine its dividend policy. Therefore, in the absence of an agreement requiring that the surpluses of the associate will not be distributed in the foreseeable future, an investor recognises a deferred tax liability arising from taxable temporary differences associated with its investment in the associate. In some cases, an investor may not be able to determine the amount of tax that would be payable if it recovers the cost of its investment in an associate, but can determine that it will equal or exceed a minimum amount. In such cases, the deferred tax liability is measured at this amount.

43. The arrangement between the parties to a joint venture usually deals with the sharing of the surpluses and identifies whether decisions on such matters require the consent of all the venturers or a specified majority of the venturers. When the venturer can control the sharing of surpluses and it is probable that the surpluses will not be distributed in the foreseeable future, a deferred tax liability is not recognised.

44. **An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in controlled entities, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that:**

- (a) **The temporary difference will reverse in the foreseeable future; and**
- (b) **Taxable profit will be available against which the temporary difference can be utilised.**

45. In deciding whether a deferred tax asset is recognised for deductible temporary differences associated with its investments in controlled entities, branches and associates, and its interests in joint ventures, an entity considers the guidance set out in paragraphs 28 to 31.

### Measurement

46. Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
47. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
48. Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).
49. When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse.
50. [Deleted by IASB]
51. **The measurement of deferred tax liabilities and deferred tax assets shall 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 its assets and liabilities.**
- 51A. In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:
- (a) The tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and
  - (b) The tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

#### Example A

An item of property, plant and equipment has a carrying amount of 100 and a tax base of 60. A tax rate of 20% would apply if the item were sold and a tax rate of 30% would apply to other income.

*The entity recognises a deferred tax liability of 8 (40 at 20%) if it expects to sell the item without further use and a deferred tax liability of 12 (40 at 30%) if it expects to retain the item and recover its carrying amount through use.*

**Example B**

An item of property, plant and equipment with a cost of 100 and a carrying amount of 80 is revalued to 150. No equivalent adjustment is made for tax purposes. Cumulative depreciation for tax purposes is 30 and the tax rate is 30%. If the item is sold for more than cost, the cumulative tax depreciation of 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

*The tax base of the item is 70 and there is a taxable temporary difference of 80. If the entity expects to recover the carrying amount by using the item, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, there is a deferred tax liability of 24 (80 at 30%). If the entity expects to recover the carrying amount by selling the item immediately for proceeds of 150, the deferred tax liability is computed as follows:*

	<i>Taxable Temporary Difference</i>	<i>Tax Rate</i>	<i>Deferred Tax Liability</i>
Cumulative tax depreciation	30	30%	9
Proceeds in excess of cost	<u>50</u>	nil	<u>–</u>
Total	<u>80</u>		<u>9</u>

*(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive revenue and expense)*

**Example C**

The facts are as in example B, except that if the item is sold for more than cost, the cumulative tax depreciation will be included in taxable income (taxed at 30%) and the sale proceeds will be taxed at 40%, after deducting an inflation-adjusted cost of 110.

*If the entity expects to recover the carrying amount by using the item, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, the tax base is 70, there is a taxable temporary difference of 80 and there is a deferred tax liability of 24 (80 at 30%), as in example B.*

*If the entity expects to recover the carrying amount by selling the item immediately for proceeds of 150, the entity will be able to deduct the indexed cost of 110. The net proceeds of 40 will be taxed at 40%. In addition, the cumulative tax depreciation of 30 will be included in taxable income and taxed at 30%. On this basis, the tax base is 80 (110 less 30), there is a taxable temporary difference of 70 and there is a deferred tax liability of 25 (40 at 40% plus 30 at 30%). If the tax base is not immediately apparent in this example, it may be helpful to consider the fundamental principle set out in paragraph 10.*

*(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive revenue and expense)*

- 51B. If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in PBE IPSAS 17, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable 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.
- 51C. If a deferred tax liability or asset arises from investment property that is measured using the fair value model in PBE IPSAS 16, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time,



rather than through sale. If the presumption is rebutted, the requirements of paragraphs 51 and 51A shall be followed.

### Example illustrating paragraph 51C

An investment property has a cost of 100 and fair value of 150. It is measured using the fair value model in PBE IPSAS 16. It comprises land with a cost of 40 and fair value of 60 and a building with a cost of 60 and fair value of 90. The land has an unlimited useful life.

Cumulative depreciation of the building for tax purposes is 30. Unrealised changes in the fair value of the investment property do not affect taxable profit. If the investment property is sold for more than cost, the reversal of the cumulative tax depreciation of 30 will be included in taxable profit and taxed at an ordinary tax rate of 30%. For sales proceeds in excess of cost, tax law specifies tax rates of 25% for assets held for less than two years and 20% for assets held for two years or more.

*Because the investment property is measured using the fair value model in PBE IPSAS 16, there is a rebuttable presumption that the entity will recover the carrying amount of the investment property entirely through sale. If that presumption is not rebutted, the deferred tax reflects the tax consequences of recovering the carrying amount entirely through sale, even if the entity expects to earn rental income from the property before sale.*

*The tax base of the land if it is sold is 40 and there is a taxable temporary difference of 20 (60 – 40). The tax base of the building if it is sold is 30 (60 – 30) and there is a taxable temporary difference of 60 (90 – 30). As a result, the total taxable temporary difference relating to the investment property is 80 (20 + 60).*

*In accordance with paragraph 47, the tax rate is the rate expected to apply to the period when the investment property is realised. Thus, the resulting deferred tax liability is computed as follows, if the entity expects to sell the property after holding it for more than two years:*

	Taxable Temporary Difference	Tax Rate	Deferred Tax Liability
Cumulative tax depreciation	30	30%	9
Proceeds in excess of cost	50	20%	10
Total	<u>80</u>		<u>19</u>

*If the entity expects to sell the property after holding it for less than two years, the above computation would be amended to apply a tax rate of 25%, rather than 20%, to the proceeds in excess of cost.*

*If, instead, the entity holds the building within a business model whose objective is to consume substantially all of the economic benefits embodied in the building over time, rather than through sale, this presumption would be rebutted for the building. However, the land is not depreciable. Therefore the presumption of recovery through sale would not be rebutted for the land. It follows that the deferred tax liability would reflect the tax consequences of recovering the carrying amount of the building through use and the carrying amount of the land through sale.*

*The tax base of the building if it is used is 30 (60 – 30) and there is a taxable temporary difference of 60 (90 – 30), resulting in a deferred tax liability of 18 (60 at 30%).*

*The tax base of the land if it is sold is 40 and there is a taxable temporary difference of 20 (60 – 40), resulting in a deferred tax liability of 4 (20 at 20%).*

*As a result, if the presumption of recovery through sale is rebutted for the building, the deferred tax liability relating to the investment property is 22 (18 + 4).*

- 51D. The rebuttable presumption in paragraph 51C also applies when a deferred tax liability or a deferred tax asset arises from measuring investment property in a business combination if the entity will use the fair value model when subsequently measuring that investment property.
- 51E. Paragraphs 51B–51D do not change the requirements to apply the principles in paragraphs 24–33 (deductible temporary differences) and paragraphs 34–36 (unused tax losses and unused tax credits) of this Standard when recognising and measuring deferred tax assets.
- 52A. In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net surplus or deficit or accumulated comprehensive revenue and expense is paid out as a dividend to shareholders of the entity. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net surplus or deficit or accumulated comprehensive revenue and expense is paid out as a dividend to shareholders of the entity. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed surpluses.
- 52B. In the circumstances described in paragraph 52A, the income tax consequences of dividends are recognised when a liability to pay the dividend is recognised. The income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners. Therefore, the income tax consequences of dividends are recognised in surplus or deficit for the period as required by paragraph 58 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58 (a) and (b).

**Example Illustrating Paragraphs 52A and 52B**

The following example deals with the measurement of current and deferred tax assets and liabilities for an entity in a jurisdiction where income taxes are payable at a higher rate on undistributed surplus (50%) with an amount being refundable when the surplus is distributed. The tax rate on distributed surplus is 35%. At the end of the reporting period, 31 December 20X1, the entity does not recognise a liability for dividends proposed or declared after the reporting period. As a result, no dividends are recognised in the year 20X1. Taxable income for 20X1 is 100,000. The net taxable temporary difference for the year 20X1 is 40,000.

*The entity recognises a current tax liability and a current income tax expense of 50,000. No asset is recognised for the amount potentially recoverable as a result of future dividends. The entity also recognises a deferred tax liability and deferred tax expense of 20,000 (40,000 at 50%) representing the income taxes that the entity will pay when it recovers or settles the carrying amounts of its assets and liabilities based on the tax rate applicable to undistributed surplus.*

Subsequently, on 15 March 20X2 the entity recognises dividends of 10,000 from previous operating profits as a liability.

*On 15 March 20X2, the entity recognises the recovery of income taxes of 1,500 (15% of the dividends recognised as a liability) as a current tax asset and as a reduction of current income tax expense for 20X2.*

53. **Deferred tax assets and liabilities shall not be discounted.**
54. The reliable determination of deferred tax assets and liabilities on a discounted basis requires detailed scheduling of the timing of the reversal of each temporary difference. In many cases such scheduling is impracticable or highly complex. Therefore, it is inappropriate to require discounting of deferred tax assets and liabilities. To permit, but not to require, discounting would result in deferred tax assets and liabilities which would not be comparable between entities. Therefore, this Standard does not require or permit the discounting of deferred tax assets and liabilities.
55. Temporary differences are determined by reference to the carrying amount of an asset or liability. This applies even where that carrying amount is itself determined on a discounted basis, for example in the case of retirement benefit obligations (see PBE IPSAS 25 *Employee Benefits*).
56. **The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.**

## Recognition of Current and Deferred Tax

57. Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or event itself. Paragraphs 58 to 68C implement this principle.

### Items Recognised in Surplus or Deficit

58. **Current and deferred tax shall be recognised as revenue or an expense and included in the surplus or deficit for the period, except to the extent that the tax arises from:**
- (a) **A transaction or event which is recognised, in the same or a different period, outside surplus or deficit, either in other comprehensive revenue and expense or directly in net assets/equity (see paragraphs 61A to 65); or**
  - (b) **A business combination (see paragraphs 66 to 68).**
59. Most deferred tax liabilities and deferred tax assets arise where revenue or expense is included in accounting profit in one period, but is included in taxable profit (tax loss) in a different period. The resulting deferred tax is recognised in surplus or deficit. Examples are when:
- (a) Interest, royalty or dividend revenue is received in arrears and is included in accounting profit on a time apportionment basis in accordance with PBE IPSAS 9 *Revenue from Exchange Transactions* or PBE IPSAS 23 *Revenue from Non-Exchange Transactions*, but is included in taxable profit (tax loss) on a cash basis; and
  - (b) Costs of intangible assets have been capitalised in accordance with PBE IPSAS 31 and are being amortised in surplus or deficit, but were deducted for tax purposes when they were incurred.
60. The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from:
- (a) A change in tax rates or tax laws;
  - (b) A reassessment of the recoverability of deferred tax assets; or
  - (c) A change in the expected manner of recovery of an asset.

The resulting deferred tax is recognised in surplus or deficit, except to the extent that it relates to items previously recognised outside surplus or deficit (see paragraph 63).

### Items Recognised Outside Surplus or Deficit

61. [Deleted by IASB]
- 61A. **Current tax and deferred tax shall be recognised outside surplus or deficit if the tax relates to items that are recognised, in the same or a different period, outside surplus or deficit. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period,**
- (a) **In other comprehensive revenue and expense, shall be recognised in other comprehensive revenue and expense (see paragraph 62).**
  - (b) **Directly in net assets/equity, shall be recognised in net assets/equity (see paragraph 62A).**
62. PBE Standards require or permit particular items to be recognised in other comprehensive revenue and expense. Examples of such items are:
- (a) A change in carrying amount arising from the revaluation of property, plant and equipment (see PBE IPSAS 17); and
  - (b) [Deleted by IASB]
  - (c) Exchange differences arising on the translation of the financial statements of a foreign operation (see PBE IPSAS 4).
  - (d) [Deleted by IASB]

- 62A. PBE Standards require or permit particular items to be credited or charged directly to net assets/equity. Examples of such items are:
- (a) An adjustment to the opening balance of accumulated comprehensive revenue and expense resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*); and
  - (b) Amounts arising on initial recognition of the equity component of a compound financial instrument (see paragraph 23).
63. In exceptional circumstances it may be difficult to determine the amount of current and deferred tax that relates to items recognised outside surplus or deficit (either in other comprehensive revenue and expense or directly in net assets/equity). This may be the case, for example, when:
- (a) There are graduated rates of income tax and it is impossible to determine the rate at which a specific component of taxable profit (tax loss) has been taxed;
  - (b) A change in the tax rate or other tax rules affects a deferred tax asset or liability relating (in whole or in part) to an item that was previously recognised outside surplus or deficit; or
  - (c) An entity determines that a deferred tax asset shall be recognised, or shall no longer be recognised in full, and the deferred tax asset relates (in whole or in part) to an item that was previously recognised outside surplus or deficit.

In such cases, the current and deferred tax related to items that are recognised outside surplus or deficit are based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned, or other method that achieves a more appropriate allocation in the circumstances.

64. PBE IPSAS 17 does not specify whether an entity should transfer each year from revaluation surplus to retained earnings an amount equal to the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset. If an entity makes such a transfer, the amount transferred is net of any related deferred tax. Similar considerations apply to transfers made on disposal of an item of property, plant or equipment.
65. When an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of both the asset revaluation and the adjustment of the tax base are recognised in other comprehensive revenue and expense in the periods in which they occur. However, if the revaluation for tax purposes is not related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of the adjustment of the tax base are recognised in surplus or deficit.
- 65A. When an entity pays dividends or other distributions to its owners, it may be required to pay a portion of the dividends or other distributions to taxation authorities on behalf of owners. In many jurisdictions, this amount is referred to as a withholding tax. Such an amount paid or payable to taxation authorities is charged to net assets/equity as a part of the dividends or distribution.

#### **Deferred Tax Arising from a Business Combination**

66. As explained in paragraphs 19 and 26(c), temporary differences may arise in a business combination. In accordance with PBE IFRS 3, an entity recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria in paragraph 24) or deferred tax liabilities as identifiable assets and liabilities at the acquisition date. Consequently, those deferred tax assets and deferred tax liabilities affect the amount of goodwill or the bargain purchase gain the entity recognises. However, in accordance with paragraph 15(a), an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill.
67. As a result of a business combination, the probability of realising a pre-acquisition deferred tax asset of the acquirer could change. An acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised before the business combination. For example, the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree. Alternatively, as a result of the business combination it might no longer be probable that future taxable profit will allow the deferred tax asset to be recovered. In such cases, the acquirer recognises a change in the deferred tax asset in the period of the business combination, but does not include it as part of the accounting for the

business combination. Therefore, the acquirer does not take it into account in measuring the goodwill or bargain purchase gain it recognises in the business combination.

68. The potential benefit of the acquiree's income tax loss carryforwards or other deferred tax assets might not satisfy the criteria for separate recognition when a business combination is initially accounted for but might be realised subsequently. An entity shall recognise acquired deferred tax benefits that it realises after the business combination as follows:
- (a) Acquired deferred tax benefits recognised within the measurement period that result from new information about facts and circumstances that existed at the acquisition date shall be applied to reduce the carrying amount of any goodwill related to that acquisition. If the carrying amount of that goodwill is zero, any remaining deferred tax benefits shall be recognised in surplus or deficit.
  - (b) All other acquired deferred tax benefits realised shall be recognised in surplus or deficit (or, if this Standard so requires, outside surplus or deficit).

### **Current and Deferred Tax Arising from Share-based Payment Transactions**

- 68A. In some tax jurisdictions, an entity receives a tax deduction (i.e., an amount that is deductible in determining taxable profit) that relates to remuneration paid in shares, share options or other equity instruments of the entity. The amount of that tax deduction may differ from the related cumulative remuneration expense, and may arise in a later accounting period. For example, in some jurisdictions, an entity may recognise an expense for the consumption of employee services received as consideration for share options granted, in accordance with relevant national or international standards, and not receive a tax deduction until the share options are exercised, with the measurement of the tax deduction based on the entity's share price at the date of exercise.
- 68B. As with the research costs discussed in paragraphs 9 and 26(b) of this Standard, the difference between the tax base of the employee services received to date (being the amount the taxation authorities will permit as a deduction in future periods), and the carrying amount of nil, is a deductible temporary difference that results in a deferred tax asset. If the amount the taxation authorities will permit as a deduction in future periods is not known at the end of the period, it shall be estimated, based on information available at the end of the period. For example, if the amount that the taxation authorities will permit as a deduction in future periods is dependent upon the entity's share price at a future date, the measurement of the deductible temporary difference should be based on the entity's share price at the end of the period.
- 68C. As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside surplus or deficit, or (b) a business combination. If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in net assets/equity.

### **Presentation**

69–70. [Deleted by IASB]

### **Offset**

71. **An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:**
- (a) **Has a legally enforceable right to set off the recognised amounts; and**
  - (b) **Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.**
72. Although current tax assets and liabilities are separately recognised and measured they are offset in the statement of financial position subject to criteria similar to those established for financial instruments in PBE IPSAS 28. An entity will normally have a legally enforceable right to set off a current tax asset against

a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the entity to make or receive a single net payment.

73. In consolidated financial statements, a current tax asset of one entity in a group is offset against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.
74. **An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:**
- (a) **The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and**
  - (b) **The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:**
    - (i) **The same taxable entity; or**
    - (ii) **Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.**
75. To avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, this Standard requires an entity to set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.
76. In rare circumstances, an entity may have a legally enforceable right of set-off, and an intention to settle net, for some periods but not for others. In such rare circumstances, detailed scheduling may be required to establish reliably whether the deferred tax liability of one taxable entity will result in increased tax payments in the same period in which a deferred tax asset of another taxable entity will result in decreased payments by that second taxable entity.

## **Tax Expense**

### *Tax Expense (Income) Related to Surplus or Deficit*

77. **The tax expense (income) related to surplus or deficit from ordinary activities shall be presented as part of surplus or deficit in the statement of comprehensive revenue and expense.**
- 77A. [Deleted by IASB]

### *Exchange Differences on Deferred Foreign Tax Liabilities or Assets*

78. PBE IPSAS 4 requires certain exchange differences to be recognised as income or expense but does not specify where such differences shall be presented in the statement of comprehensive revenue and expense. Accordingly, where exchange differences on deferred foreign tax liabilities or assets are recognised in the statement of comprehensive revenue and expense, such differences may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.

## **Disclosure**

79. **The major components of tax expense (income) shall be disclosed separately.**
80. Components of tax expense (income) may include:
- (a) Current tax expense (income);
  - (b) Any adjustments recognised in the period for current tax of prior periods;
  - (c) The amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
  - (d) The amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;

- (e) The amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;
- (f) The amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;
- (g) Deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and
- (h) The amount of tax expense (income) relating to those changes in accounting policies and errors that are included in surplus or deficit in accordance with PBE IPSAS 3, because they cannot be accounted for retrospectively.

**81. The following shall also be disclosed separately:**

- (a) **The aggregate current and deferred tax relating to items charged or credited directly to net assets/equity (see paragraph 62A);**
- \***(ab) The amount of income tax relating to each component of other comprehensive revenue and expense (see paragraph 62 and PBE IPSAS 1);**
- (b) [Deleted by IASB]
- (c) **An explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:**
  - (i) **A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or**
  - (ii) **A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;**
- (d) **An explanation of changes in the applicable tax rate(s) compared to the previous accounting period;**
- (e) **The amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position;**
- \***(f) The aggregate amount of temporary differences associated with investments in controlled entities, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised (see paragraph 39);**
- (g) **In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:**
  - (i) **The amount of the deferred tax assets and liabilities recognised in the statement of financial position for each period presented;**
  - (ii) **The amount of the deferred tax income or expense recognised in surplus or deficit, if this is not apparent from the changes in the amounts recognised in the statement of financial position;**
- (h) **In respect of discontinued operations, the tax expense relating to:**
  - (i) **The gain or loss on discontinuance; and**
  - (ii) **The surplus or deficit from the discontinued operation for the period, together with the corresponding amounts for each prior period presented;**
- \***(i) The amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements;**
- \***(j) If a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset (see paragraph 67), the amount of that change; and**

- \*(k) If the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date (see paragraph 68), a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.**

**RDR 81.1 A Tier 2 entity shall disclose the aggregate amount of current and deferred income tax relating to items recognised in other comprehensive revenue and expense.**

\*81.2 The term ‘imputation credits’ is used in paragraphs 81.3 and 81.5 to also mean ‘franking credits’. The disclosures required by paragraphs 81.3 and 81.5 shall be made separately in respect of any New Zealand imputation credits and any Australian imputation credits.

\*81.3 An entity shall disclose the amount of imputation credits available for use in subsequent reporting periods.

\*81.4 For the purposes of determining the amount required to be disclosed in accordance with paragraph 81.3, entities may have:

- (a) Imputation credits that will arise from the payment of the amount of the provision for income tax;
- (b) Imputation debits that will arise from the payment of dividends or other distributions recognised as a liability at the reporting date; and
- (c) Imputation credits that will arise from the receipt of dividends or other distributions recognised as receivables at the reporting date.

\*81.5 Where there are different classes of investors with different entitlements to imputation credits, disclosures shall be made about the nature of those entitlements for each class where this is relevant to an understanding of them.

**\*82. An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:**

- (a) **The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and**
- (b) **The entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.**

**82A. In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.**

**RDR 82A.1 A Tier 2 entity is not required to disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable as required in paragraph 82A.**

83. [Deleted by IASB]

84. The disclosures required by paragraph 81(c) enable users of financial statements to understand whether the relationship between tax expense (income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future. The relationship between tax expense (income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss), the effect of tax losses and the effect of foreign tax rates.

85. In explaining the relationship between tax expense (income) and accounting profit, an entity uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the entity is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction. The following example illustrates how the selection of the applicable tax rate affects the presentation of the numerical reconciliation.



<b>Example Illustrating Paragraph 85</b>		
<p>In 19X2, an entity has accounting profit in its own jurisdiction (country A) of 1,500 (19X1: 2,000) and in country B of 1,500 (19X1: 500). The tax rate is 30% in country A and 20% in country B. In country A, expenses of 100 (19X1: 200) are not deductible for tax purposes.</p> <p><i>The following is an example of a reconciliation to the domestic tax rate:</i></p>		
	<i>19X1</i>	<i>19X2</i>
<i>Accounting profit</i>	<u>2,500</u>	<u>3,000</u>
<i>Tax at the domestic rate of 30%</i>	750	900
<i>Tax effect of expenses that are not deductible for tax purposes</i>	60	30
<i>Effect of lower tax rates in country B</i>	<u>(50)</u>	<u>(150)</u>
<i>Tax expense</i>	<u>760</u>	<u>780</u>
<p><i>The following is an example of a reconciliation prepared by aggregating separate reconciliations for each national jurisdiction. Under this method, the effect of differences between the reporting entity's own domestic tax rate and the domestic tax rate in other jurisdictions does not appear as a separate item in the reconciliation. An entity may need to discuss the effect of significant changes in either tax rates, or the mix of profits earned in different jurisdictions, in order to explain changes in the applicable tax rate(s), as required by paragraph 81(d).</i></p>		
	<i>19X1</i>	<i>19X2</i>
<i>Accounting profit</i>	<u>2,500</u>	<u>3,000</u>
<i>Tax at the domestic rates applicable to profits in the country concerned</i>	700	750
<i>Tax effect of expenses that are not deductible for tax purposes</i>	<u>60</u>	<u>30</u>
<i>Tax expense</i>	<u>760</u>	<u>780</u>

86. The average effective tax rate is the tax expense (income) divided by the accounting profit.
- \*87. It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in controlled entities, branches and associates and interests in joint ventures (see paragraph 39). Therefore, this Standard requires an entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entities are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.
- \*87A. Paragraph 82A requires an entity to disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends.
- \*87B. It would sometimes not be practicable to compute the total amount of the potential income tax consequences that would result from the payment of dividends to shareholders. This may be the case, for example, where an entity has a large number of foreign controlled entities. However, even in such circumstances, some portions of the total amount may be easily determinable. For example, in a consolidated group, a controlling entity and some of its controlled entities may have paid income taxes at a higher rate on undistributed profits and be aware of the amount that would be refunded on the payment of future dividends or other distributions to owners from consolidated accumulated surpluses. In this case, that refundable amount is disclosed. If applicable, the entity also discloses that there are additional potential income tax consequences not practicably determinable. In the controlling entity's separate financial statements, if any, the disclosure of the potential income tax consequences relates to the controlling entity's accumulated surpluses.
- \*87C. An entity required to provide the disclosures in paragraph 82A may also be required to provide disclosures related to temporary differences associated with investments in controlled entities, branches

and associates or interests in joint ventures. In such cases, an entity considers this in determining the information to be disclosed under paragraph 82A. For example, an entity may be required to disclose the aggregate amount of temporary differences associated with investments in controlled entities for which no deferred tax liabilities have been recognised (see paragraph 81(f)). If it is impracticable to compute the amounts of unrecognised deferred tax liabilities (see paragraph 87) there may be amounts of potential income tax consequences of dividends not practicably determinable related to these controlled entities.

88. An entity discloses any tax-related contingent liabilities and contingent assets in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see PBE IPSAS 14 *Events After the Reporting Period*).

### **Effective Date**

89–98. [Not used.]

- 98.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

### **Withdrawal and Replacement of PBE IAS 12 (May 2013)**

99. This Standard, when applied, supersedes PBE IAS 12 *Income Taxes* issued in May 2013.

**Application Guidance—Changes in the Tax Status of an Entity or its Owners**

*This Application Guidance forms an integral part of PBE IAS 12*

- AG1. A change in the tax status of an entity or of its owners may have consequences for an entity by increasing or decreasing its tax liabilities or assets. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future.
- AG2. A change in the tax status of an entity or its owners may have an immediate effect on the entity's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity's assets and liabilities.
- AG3. The current and deferred tax consequences of a change in tax status shall be included in surplus or deficit for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of net assets/equity or in amounts recognised in other comprehensive revenue and expense. Those tax consequences that relate to changes in the recognised amount of net assets/equity, in the same or a different period (not included in surplus or deficit), shall be charged or credited directly to net assets/equity. Those tax consequences that relate to amounts recognised in other comprehensive revenue and expense shall be recognised in other comprehensive revenue and expense.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, PBE IAS 12.*

- BC1. The New Zealand Accounting Standards Board (NZASB) has modified NZ IAS 12 *Income Taxes* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities.
- BC2. Illustrative examples on the application of IAS 12 *Income Taxes* are available in the additional material for NZ IAS 12 *Income Taxes* on the XRB website at [www.xrb.govt.nz](http://www.xrb.govt.nz).

## Integral Guidance

- BC3. The NZASB agreed to include, in PBE IAS 12, integral application guidance based on NZ SIC-25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*. The NZASB noted that public benefit entities may pay income tax, either directly, or through their controlled entities and that this guidance would continue to be useful for public benefit entities.

## History of Amendments

PBE IAS 12 *Income Taxes* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IAS 12.

<b>Pronouncements</b>	<b>Date issued</b>	<b>Early operative date</b>	<b>Effective date (annual financial statements ... on or after ...)</b>
PBE IAS 12 <i>Income Taxes</i>	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015