

IAS 12 *Income Taxes* (May 2014)

Impact of an internal reorganisation on deferred tax amounts related to goodwill

The Interpretations Committee received a request for guidance on the calculation of deferred tax following an internal reorganisation of an entity. The submitter describes a situation in which an entity (Entity H) recognised goodwill that had resulted from the acquisition of a group of assets (Business C) that meets the definition of a business in IFRS 3 *Business Combinations*. Entity H subsequently recorded a deferred tax liability relating to goodwill deducted for tax purposes. Against this background, Entity H effects an internal reorganisation in which:

- (a) Entity H set up a new wholly-owned subsidiary (Subsidiary A);
- (b) Entity H transfers Business C, including the related (accounting) goodwill to Subsidiary A; however,
- (c) for tax purposes, the (tax) goodwill is retained by Entity H and not transferred to Subsidiary A.

The submitter asked how Entity H should calculate deferred tax following this internal reorganisation transaction in its consolidated financial statements in accordance with IAS 12.

The Interpretations Committee also noted that transferring assets between the entities in the consolidated group would affect the consolidated financial statements in terms of recognition, measurement and presentation of deferred tax, if the transfer affects the tax base of assets or liabilities, or the tax rate applicable to the recovery or settlement of those assets or liabilities. The Interpretations Committee also noted that such a transfer could also affect:

- (a) the recoverability of any related deductible temporary differences and thereby affect the recognition of deferred tax assets; and
- (b) the extent to which deferred tax assets and liabilities of different entities in the group are offset in the consolidated financial statements..

The Interpretations Committee considered that, in the light of its analysis, the existing IFRS requirements and guidance were sufficient and, therefore, an Interpretation was not necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.