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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** 24 January 2007, London

**Project:** IFRS for Small and Medium-sized Entities

**Subject:** Ballot Draft Sweep Issue: Recognition of Deferred Taxes on Goodwill

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#### **Background**

1. In their comments on Pre-ballot Draft #2, two Board members expressed disagreement with the requirement to recognise deferred income tax on initial recognition of goodwill. Both said that their disagreement would not change their assent to issuance of the Exposure Draft if the requirement is included. A third Board member expressed some concern as well. While acknowledging that elimination of exceptions to a principle simplifies the application of the principle, those Board members pointed out that the Board is now deliberating this issue in connection with amendments to IAS 12. In their view, the Board should not prejudge, in the SME ED, the outcome of those deliberations on this major issue.
2. Because the Board had, by majority decision, previously decided to recognise such deferred tax, staff did not modify the Ballot Draft on the basis of the views expressed on Pre-ballot Draft #2. However, in transmitting the Ballot Draft to the Board, staff asked Board members whether they would like to redeliberate the matter as a Ballot Draft 'sweep issue' at the January 2007 Board meeting.
3. A majority of Board members have asked that the matter be reconsidered. Therefore it has been placed on the Board's January agenda.

## Issues for the Board

4. In IAS 12, paragraph 12.15(a) provides a special exception for the initial recognition of goodwill from the principle that a deferred tax should be recognised for all taxable temporary differences. Paragraph 12.18(c) acknowledges that this is a temporary difference. However, IAS 12.21 states:  
“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.”
5. The ED of the IFRS for SMEs does not include a similar special exception. Paragraph 28.15 states:  
28.15 An entity shall recognise a deferred tax liability for all taxable temporary differences, except as specified in paragraph 28.18(b) in relation to taxable temporary differences associated with investments in subsidiaries and interests in joint ventures.
6. Paragraph 28.18 states:  
28.18 The following are exceptions to the general principles for recognition of deferred taxes in paragraph 28.15–28.17:
  - (a) An entity shall recognise a deferred tax asset only to the extent that it is **PROBABLE** that there will be sufficient future taxable profit to enable recovery of the deferred tax asset.
  - (b) An entity shall not recognise deferred tax expense (income) or a related deferred tax liability (asset) for temporary differences associated with unremitted earnings from foreign subsidiaries, branches and associates and joint ventures, unless it is probable that the temporary difference will reverse in the foreseeable future.
7. The Board’s reason for not including the special goodwill exception in the IFRS for SMEs is set out in paragraph BC85 of the Basis for Conclusions as follows:  
“Section 28 does not include an exception to recognition of deferred taxes on initial recognition of goodwill because that exception is inconsistent with the simplified general principles in paragraphs 28.15 and 28.16. For a similar reason, Section 28 does not include an exception to recognition of deferred taxes on undistributed earnings of domestic subsidiaries, branches, associates and joint ventures.”
8. If the Board decides to add the goodwill exception from IAS 12.15(a) into Section 28, staff proposes to:
  - (a) Change 28.15 so that it reads:  
28.15 An entity shall recognise a deferred tax liability for all taxable temporary differences, except as specified in paragraph 28.18.
  - (b) Add new subparagraph (c) to 28.18 as follows:

- (c) An entity shall not recognise a deferred tax liability for temporary differences associated with the initial recognition of goodwill.
- (c) Restate paragraph BC85 as follows:

Section 28 does not include an exception to recognition of deferred taxes on undistributed earnings of domestic subsidiaries, branches, associates and joint ventures because that exception is inconsistent with the simplified general principles in paragraphs 28.15 and 28.16.

***Issue 1: Does the Board wish to modify 28.15 and 28.18 as above – thereby not recognising a deferred tax liability on the initial recognition of goodwill – and to make the consequential change to BC85?***

- 9. If the Board agrees to the foregoing modification, is any additional disclosure required? Staff does not propose additional disclosure. However, staff points out that paragraph 28.29(e) requires the following disclosure regarding the special exception for unremitted foreign earnings:
  - (e) the aggregate amount of temporary differences associated with investments in foreign subsidiaries, branches and associates and joint ventures, for which deferred tax liabilities have not been recognised (see paragraph 28.18(b)).

***Issue 2: Does the Board wish to add a new subparagraph (f) to 28.29 to require disclosure of:***

- (f) the aggregate amount of temporary differences associated with the initial recognition of goodwill for which deferred tax liabilities have not been recognised (see paragraph 28.18(c)).

***If this disclosure is added, it would also be added to the Disclosure Checklist in the Implementation Guidance. No change would be needed in the Illustrative Financial Statements.***