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International
Accounting Standards
Board

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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:	**November 2008, London**
Project:	**IFRS for Private Entities (formerly IFRS for SMEs)**
Subject:	**Redeliberation of Approach for Income Taxes (Attachment 1 to Agenda Paper 14A)**
	Draft of Section 28 – Simplified Temporary Difference Approach

Section 28

Income Taxes

28.1 For the purpose of this standard, **income taxes** include all domestic and foreign taxes that are based on **taxable profits**. Income taxes also include taxes, such as withholding taxes, that are payable by a **subsidiary**, **associate** or **joint venture** on distributions to the reporting entity.

28.2 This section requires an entity to recognise the current and future tax consequences of transactions and other events that have been recognised in the financial statements. These recognised tax amounts comprise **current tax** and **deferred tax**. Current tax is tax due on taxable profit for the current and past periods. Deferred tax is tax payable or recoverable in future periods, generally as a result of the entity recovering or settling its **assets** and **liabilities** for their current carrying amount.

Steps in accounting for income taxes

28.3 An entity shall account for income taxes by following the steps (a)-(h) below:

(a) recognise current tax, measured at an amount that includes the effect of uncertainty over the amounts that the tax authorities will accept.

(b) identify which assets and liabilities are expected to affect taxable profit on the recovery or settlement of their carrying amount.

(c) determine the **tax basis** at the **reporting date** of all those assets and liabilities, and of other items.

(d) recognise **deferred tax assets** and **deferred tax liabilities** arising from the temporary differences, measured at an amount that includes the effect of uncertainty over the amounts that the tax authorities will accept.

(e) recognise any valuation allowance necessary to reduce the carrying amount of deferred tax assets less the valuation allowance to the estimated recoverable amount based on **probable** future taxable profit.

(f) allocate current and deferred tax to the components of **comprehensive income** and **equity** to which they relate.

(g) make the required disclosures.

Current tax

28.4 An entity shall recognise a current tax liability for current tax for the current period and past periods not settled by the reporting date. If the amount paid for the current period and past periods exceeds the amount due for those periods, the entity shall recognise the excess as a current tax asset. An entity shall recognise changes in a current tax liability or current tax asset as **tax expense** in profit or loss, except that a change attributable to an item of **income** or **expense** recognised under this Standard in other comprehensive income or in equity shall also be recognised directly in other comprehensive income or in equity.

28.5 An entity shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.

28.6 An entity shall include in the amounts recognised in accordance with paragraphs 28.4 and 28.5 the effect of uncertainty over the amounts reported to the tax authorities, measured in accordance with paragraph 28.22.

Deferred tax

Assets and liabilities whose recovery or settlement will not affect taxable profit

28.7 If the entity expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability. Paragraphs 28.8 to 28.13 therefore apply only to assets and liabilities for which the entity expects the recovery or settlement of the carrying amount to affect taxable profit and to other items that have a tax basis.

Tax basis

28.8 The tax basis of an asset, liability or other item is determined by the tax law applicable to the entity. If the entity files a consolidated tax return, the tax basis is determined by reference to the tax law governing the consolidated tax return. If the entity files separate tax returns for different operations, the tax basis is determined by reference to the tax laws governing each tax return.

28.9 The tax basis of an asset is determined by the deductions against taxable profit that the tax law would allow if the asset had been recovered for its carrying amount through sale at the reporting date. The tax basis of a liability is determined by the deduction against taxable profit that the tax law would allow if it had been settled for its carrying amount at the reporting date.

28.10 Some items have a tax basis but are not recognised as assets and liabilities. For example, research costs are recognised as an expens**e** when they are incurred but may not be permitted as a deduction in determining taxable profit until a future period. Thus, the carrying amount of the research costs is nil and the amount that will be tax-deductible in future periods is the tax basis. An equity instrument issued by the entity may also give rise to deductions in a future period. There is no asset or liability in the statement of financial position, but the tax basis is the amount of the future deductions.

Temporary differences

28.11 Temporary differences arise:

(a) when there is a difference between the carrying amount and tax basis on the initial recognition of assets and liabilities.

(b) when a difference between the carrying amount and tax basis arises after initial recognition because income or expense is recognised in comprehensive income or equity in one reporting period but is recognised in taxable profit in a different period.

(c) because of changes in the tax basis of an asset or liability that will not be recognised in its carrying amount in any period

Deferred tax liabilities and assets

28.12 Except as required by paragraph 28.13, an entity shall recognise:

(a) a deferred tax liability for all temporary differences that will result in taxable amounts in future years when the related asset or liability is recovered or settled (or, in the case of items other than assets and liabilities, will affect taxable profit in the future), and

(b) a deferred tax asset for all temporary differences that will result in a reduction in taxable amounts when the related asset or liability is recovered or settled (or, in the case of items other than assets and liabilities, will affect taxable profit in the future).

28.13 The following are exceptions to the requirements of paragraph 28.12:

(a) An entity shall not recognise a deferred tax asset or liability for temporary differences associated with unremitted earnings from foreign subsidiaries, branches, associates and joint ventures to the extent that the investment is essentially permanent in duration, unless it is apparent that the temporary difference will reverse in the foreseeable future.

(b) An entity shall not recognise a deferred tax liability for a temporary difference associated with the initial recognition of goodwill.

28.14 An entity shall recognise changes in a deferred tax liability or deferred tax asset as tax expense in profit or loss except a change attributable to an item of income or expense recognised under this Standard in other comprehensive income or in equity shall also be recognised directly in other comprehensive income or in equity.

Measurement

Measurement of current tax

28.15 An entity shall measure a current tax liability (asset) at the amounts it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.

Measurement of deferred tax

28.16 An entity shall measure a deferred tax liability (asset) at the amounts it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates as substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so.

28.17 When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax expense (income) and related deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the temporary differences to reverse.

28.18 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 reporting date, to recover or settle the carrying amount of the related assets and liabilities. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital gain in a future period, the deferred tax expense is measured using the capital gain tax rate.

28.19 An entity shall recognise a valuation allowance to reduce the carrying amount of deferred tax assets less the valuation allowance to the estimated recoverable amount based on probable future taxable profit.

28.20 An entity shall review the carrying amount of a deferred tax asset at each reporting date and shall adjust the valuation allowance to reflect the current assessment of future taxable profits. Such adjustment shall be recognised in profit or loss.

Measurement of both current and deferred tax

28.21 An entity shall not discount current or deferred tax assets and liabilities.

28.22 Uncertainty whether the tax authorities will accept the amounts reported to them by the entity affects the amount of current tax and deferred tax. An entity shall measure current and deferred tax assets and liabilities using the probability-weighted average amount of all the possible outcomes, assuming that the tax authorities will review the amounts reported and have full knowledge of all relevant information. Changes in the probability-weighted average amount of all possible outcomes shall be based on new information, not a new interpretation by the entity of previously available information.

28.23 In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In other jurisdictions, income taxes may be refundable or payable if part or all of the profit or retained earnings is paid out as a dividend to shareholders of the entity. In those circumstances, an entity shall measure current and deferred taxes at the tax rate applicable to undistributed profits until the entity recognises a liability to pay a dividend. When the entity recognises a liability to pay a dividend, it shall recognise the resulting current or deferred tax liability (asset), and the related tax expense (income).

Withholding tax on dividends

28.24 When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

Presentation

Allocation in comprehensive income and equity

28.25 An entity shall recognise tax expense arising at the time of transactions and other events in the same component of comprehensive income (i.e. continuing operations, **discontinued operations**, or other comprehensive income) or equity as the transaction or other event.

Current and non-current

28.26 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

Offsetting

28.27 An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities, only when it has a legally enforceable right to set off the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Disclosure

28.28 An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

28.29 An entity shall disclose separately the major components of tax expense (income). Such 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; and

(g) deferred tax expense (or income) arising from the recognition of a valuation allowance, or adjustment of a previously recognised valuation allowance, relating to a deferred tax asset (see paragraphs 28.19-20).

28.30 An entity shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that are recognised directly in equity;

(b) an explanation of the significant differences in amounts reported in the income statement and amounts reported to tax authorities;

(c) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period;

(d) the nature and amount (and expiry date, if any) of temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised; and

(e) In the circumstances described in paragraph 28.23, an entity shall explain the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.