STAFF PAPER

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IASB Meeting

Project	Comprehensive review of the *IFRS for SMEs*		
Paper topic	Section 29 *Income Tax*		
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Purpose of this paper

1. The purpose of this meeting is for the IASB to give the staff feedback on their first draft of a revised Section 29 *Income Tax*. The IASB are not being asked to approve the final drafting of the section at this meeting.

Structure of this paper

2. This agenda paper is set out as follows:

    (a) Introduction

    (b) Process followed by the staff when redrafting Section 29

        (i) Requirements that have not been changed

        (ii) Requirements that have been modified/added

        (iii) Disclosure requirements

    (c) Remaining differences between Section 29 (revised) and IAS 12 *Income Taxes*

    (d) Appendix A provides a table showing how the individual paragraphs of IAS 12 have been incorporated in Section 29 (revised)

    (e) Appendix B contains the first draft of Section 29 (revised)

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Introduction

3. Section 29 was based on the IASB's March 2009 Exposure Draft *Income Tax* (the '2009 ED') rather than IAS 12. The reason for this is when the *IFRS for SMEs* was issued, the 2009 ED was expected to amend IAS 12 by eliminating some exemptions from recognising deferred taxes and simplify the accounting in other areas. At its April 2013 meeting, the IASB tentatively decided that because the 2009 ED was not finalised, the requirements in Section 29 should be aligned with IAS 12, taking into account appropriate modifications in the light of users' needs and cost-benefit considerations for SMEs.

4. The IASB also tentatively decided that the December 2010 amendment to IAS 12 to add a rebuttable presumption that the carrying amount of investment property measured at fair value will be recovered through sale should be incorporated in Section 29.

Process followed by the staff when redrafting Section 29

5. The paragraph references in this agenda paper refer to the revised version of Section 29 (Section 29 (revised) in Appendix B) and IAS 12 (2013 red book).

Requirements that have not been changed

6. The staff have only redrafted those requirements in Section 29 that were not consistent with IAS 12 due to being based on requirements in the 2009 ED that differed from IAS 12. Therefore staff has not made changes to the following requirements during redrafting Section 29 (ie they have been 'grandfathered' in Section 29 (revised)):

   (a) **Existing requirements were already consistent with IAS 12.** In most cases this is because the 2009 ED was also consistent with IAS 12 for those requirements. The staff propose to keep these requirements unchanged in order to minimise changes for SMEs. This means the wording in these paragraphs will remain based on the 2009 ED. However, there will be no difference in the accounting treatment

compared to IAS 12 (except as noted in (b) in the table in paragraph 11 below). This affects the following requirements in Section 29 (revised):

(i) Recognition and measurement of current tax (paragraphs 29.3-29.5)

(ii) General recognition principle for deferred tax (29.6)

(iii) Some measurement requirements for deferred tax (29.25-29.27)

(iv) Measurement requirements applying to both current and deferred tax (29.30-29.31)

(v) Withholding tax on dividends (29.32)

(vi) Presentation (29.33-29.34)

(vii) Definitions of 'current tax', 'deferred tax', 'taxable profit (tax loss)' and 'tax expense' (glossary)

(b) **Existing requirements were deliberately simplified at the time from IAS 12 (and/or the 2009 ED) on the basis of user needs and cost-benefits.** The staff therefore proposes to retain those simplifications. This affects the following requirements in Section 29 (revised):

(i) Scope of Section 29 (paragraphs 29.1-29.2)

(ii) Offsetting (29.35)—see also Issue 1 in Agenda Paper 8B

Requirements that have been modified/added

7. The following requirements in Section 29 (revised) have replaced the existing requirements in Section 29 (covering the same topics) to align them with IAS 12:

(a) Recognition of deferred tax (paragraphs 29.7-29.24)

(b) Some measurement requirements for deferred tax:

(i) December 2010 amendment to add a presumption for investment property at fair value (29.28)

(ii) Subsequent review of deferred tax assets (29.29)

8. Staff have also added the IAS 12 definition of 'accounting profit' and replaced the following definitions with the wording in IAS 12:

(a) Deferred tax assets

(b) Deferred tax liabilities

(c) Tax base

(d) Temporary differences

(i) Taxable temporary differences

(ii) Deductible temporary differences

9. When adding the requirements in paragraph 7(a) and (b), the staff used the following approach:

(a) The staff incorporated in full all bold letter paragraphs from IAS 12 relating to the requirements added.

(b) Some of the other paragraphs in IAS 12 relating to the requirements added were condensed/omitted to maintain a similar level of guidance as in the existing Section 29 when it was based on the 2009 ED. The guidance condensed/omitted is generally clarifying guidance and the staff would expect SMEs to arrive at a similar treatment under the principles in Section 29 (excepted as noted in paragraphs 11-12). Appendix A shows how the individual paragraphs in IAS 12 have been incorporated.

(c) Modified the wording in IAS 12 to conform it with terminology used in the *IFRS for SMEs*, eg to reverse changes made by IFRS 11 *Joint Arrangements*.

Disclosure requirements

10. Staff have kept the same level of disclosures in Section 29 (revised) as in the existing Section 29. The existing disclosures were reduced and simplified from 2009 ED on the basis of user needs and cost-benefits. However, because of the changes made to the recognition and measurement of deferred tax described in paragraph 7, the staff have had to make a number of consequential changes to the disclosures. However, in order to provide stability for SMEs, the staff do not propose to further align the disclosures with IAS 12.

Remaining differences between Section 29 (revised) and IAS 12

11. The staff propose to retain a few differences between Section 29 and IAS 12. These are set out in the table below with reasoning:

IAS 12 requirement	Section 29 (revised) requirement	Staff reasoning for not aligning Section 29 (revised) with IAS 12
a) Investment tax credits IAS 12.4 scopes out government grants and investment tax credits. Full IFRSs does not specifically cover investment tax credits. Therefore the staff think that either IAS 12 or IAS 20 could be applied to investment tax credits by analogy. (IAS 12.4)	Section 29 does not scope out government grants and investment tax credits. Section 24 deals with government grants but refers back to Section 29 for investment tax credits. Therefore investment tax credits must be accounted for under Section 29. (29.1-29.2)	Like IAS 12, the 2009 ED also scoped out government grant and investment tax credits. This was an intentional difference when the *IFRS for SMEs* was drafted to provide clarity on treatment of investment tax credits. The staff do not propose any change to Section 29.
b) Meaning of substantively enacted IAS 12 does not have specific guidance on the term 'substantively enacted'. However IAS 12.48 states "…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)." (IAS 12.48)	Section 29 has specific guidance on the term 'substantively enacted'. It states that 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. (29.5, 29.25)	This specific guidance is currently in existing Section 29 based on the 2009 ED. As SMEs have already been given this additional clarification, the staff do not propose to remove it from Section 29 (revised).
c) Offset requirements for deferred tax assets and liabilities Under IAS 12 there are separate requirements for offset of deferred tax assets and liabilities to avoid the need for detailed scheduling (IAS 12.74)	Under Section 29 the requirements for offset of deferred tax assets and liabilities is the same as for current tax assets and liabilities. The staff think the intention is that detailed scheduling would not be required because of the addition of the word 'only' in paragraph 29.35, meaning offset would be permitted	This difference was intended to simplify the wording. The staff have raised an issue relating to this in Agenda Paper 8B (see Issue 1).

	but not required. (29.35)	
d) Tax reconciliation (disclosure) IAS 12 requires a numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate and/ or between the average effective tax rate and the applicable tax rate (IAS 12.81(c))	Section 29 requires an explanation (could be a narrative) of the significant differences in amounts presented in the statement of comprehensive income and amounts reported to tax authorities (29.38(b))	This was a simplification made for cost-benefit reasons and the staff proposes to keep the disclosure unchanged.
e) Other disclosures IAS 12 has additional disclosure requirements for discontinued operations (IAS 12.81(h)), business combinations (IAS (12.81(j),(k)) and deferred tax assets (IAS 12.82). IAS 12 also requires more information about deductible temporary differences and unused tax credits/losses (IAS 12.81(e)) and tax consequences of dividend payments (IAS 12.82A)	The *IFRS for SMEs* simplifies or omits several disclosures in IAS 12 as stated on the left. (29.38)	These simplifications were made for cost-benefit reasons and the staff proposes to keep the level of disclosures unchanged (apart from any necessary consequential amendments as a result of other changes)

12. The differences in the table above are the only explicit differences between Section 29 (revised) and IAS 12. However, consistent with other sections of the *IFRS for SMEs*, the staff have excluded much of the clarifying guidance in IAS 12. Whilst the staff would expect SMEs to arrive at a similar treatment under the principles in Section 29 (revised), the omission of this guidance could mean that other differences arise in practice.

Questions to the IASB

1) **Does the IASB have any comments or questions on the process followed by the staff in redrafting Section 29 as explained in this agenda paper?**
2) **Is the IASB happy for the staff to include Section 29 as drafted in the Omnibus Exposure Draft which will be submitted for Board review in due course?**

Appendix A: How the individual paragraphs of IAS 12 have been incorporated in Section 29 (revised)

A1. This appendix explains how the individual paragraphs of IAS 12 have been incorporated in Section 29 (revised).

(a) The non-shaded requirements are those where Section 29 was aligned with IAS 12 during this redraft as explained in paragraphs 7-9.

(b) The shaded items are those that did not need to be aligned with IAS 12 (apart from any consequential amendments) as explained in paragraphs 6 and 10.

Paragraphs in IAS 12	How incorporated in Section 29 (revised)
IAS 12.1-4 Scope	No changes made. See paragraph 6(b). (29.1-29.2)
IAS 12.5-6 Definitions	Aligned to match other changes made. See paragraph 8. (glossary)
IAS 12.7-11 Tax basis	Included IAS 12.7-9 and 12.11. Staff do not think the additional detail in IAS 12.10 is required for Section 29. (29.7-29.10)
IAS 12.12-14 Current tax	No changes made. See paragraph 6(a). (29.3-29.5)
IAS 12.15-18 Taxable temporary differences	Included IAS 12.15 and 12.17-18, except for IAS 12.17(c) which is not relevant to SMEs. Staff do not think the additional detail in IAS 12.16 is required for Section 29. (29.11-29.13)
IAS 12.19-21B and 12.32A Clarifying guidance for business combinations, assets at fair value and goodwill	Included some points by adding examples to paragraph 29.13. Most of the additional guidance has been omitted but the staff would expect SMEs to arrive at a similar accounting treatment under paragraph 29.13 and the principles in Section 29. (29.13)
IAS 12.22-23 and 12.33 Clarifying guidance for initial recognition of an asset or liability	Not included. The staff would expect SMEs to arrive at a similar accounting treatment under paragraph 29.13 and the principles in Section 29. Note, the option to deduct a government grant from the carrying amount of the related asset is not permitted under the *IFRS for SMEs*. (n/a)
IAS 12.24-31	Included IAS 12.24, 12.26(a),(d), 12.27(condensed slightly),12.28-

Deductible temporary differences	29 and 12.31. Staff do not think the level of detail in IAS 12.25 and 30 is required for Section 29. Plus, staff do not think the examples in IAS 12.26(b),(c) are necessary as extra examples because they are covered to an extent by paragraphs 29.9 and 29.13(a). (29.14-29.18)
IAS 12.34-36 Unused tax losses and tax credits	Included IAS 12.34 and 12.35 (condensed slightly). Staff do not think the level of detail in IAS 12.36 is required for Section 29. (29.19-29.20)
IAS 12.37 Reassessment of unrecognised deferred tax assets	Included IAS 12.37 (condensed slightly). (29.21)
IAS 12.38-45 Investment in subsidiaries, branches and associates and interests in joint ventures	Included IAS 12.38 (condensed slightly), 12.39 and 12.44. Staff do not think the level of detail in IAS 12.40-43 and 12.45 is required for Section 29. (29.22-29.24)
IAS 12.46-51 Measurement (general)	No changes made. See paragraph 6(a). (29.5, 29.25-27)
IAS 12.51A-51E Amendments to IAS 12 (2010)	Incorporated IAS 12.51A, 12.51C and 12.51D (all condensed slightly). IAS 12.51B is not relevant to SMEs. Staff do not think the level of detail in IAS 12.51E is required for Section 29. (29.28, plus addition of one sentence to 29.27)
IAS 12.52A-55 Measurement	No changes made. See paragraph 6(a). (29.30-31)
IAS 12.56 Deferred tax asset	Incorporated. (29.29)
IAS 12.57-65A Allocation in comprehensive income and equity	No changes made. See paragraph 6(a). (29.32-33)
IAS 12.66-68 Clarifying guidance for allocation for deferred tax in business combinations	No changes made. See paragraph 6(a) Note, this clarifying guidance is not included. However, the staff would expect SMEs to arrive at a similar treatment under paragraph 29.33 and Section 19 *Business Combinations and Goodwill*. (n/a)
IAS 12.66-68C Clarifying guidance for allocation of deferred tax for share-based	No changes made. See paragraph 6(a) Note, this clarifying guidance is not included. However, the staff think similar treatment would be permitted under paragraph 29.33. (n/a)

payments	
IAS 12.71-76 Offsetting	No changes made. See paragraph 6(b) (29.35)
IAS 12.77	Requirement covered by Section 5 *Statement of Comprehensive Income and Income Statement* (5.5)
IAS 12.78 Exchange differences on deferred tax assets and liabilities	No similar guidance in Section 29 so the same option would be permitted (n/a)
IAS 12.79-88 Disclosures	The same level of disclosures have been retained. See paragraph 10. However. several consequential changes have been made to paragraphs 29.37(e),(g) and 29.38 (a)(ii),(d),(e). (29.36-38)

Appendix B: First draft of Section 29 *Income Tax* (revised)

B1. This appendix contains the first draft of Section 29 (revised). Terms defined in the Glossary are in bold type the first time they appear in the text of Section 29 (revised).

Section 29 (revised) *Income Tax*

Scope of this section

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

29.2 This section covers accounting for income tax. It 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 payable (refundable) in respect of the taxable profit (tax loss) for the current period or 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, and the tax effect of the carryforward of currently unused tax losses and tax credits.

Recognition and measurement of current tax

29.3 An entity shall recognise a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognise the excess as a current tax asset.

29.4 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.

29.5 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. Paragraphs 29.30–29.31 provide additional measurement guidance.

Recognition of deferred tax

General recognition principle

29.6 An entity shall recognise a **deferred tax asset** or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the difference between the amounts recognised for the entity's assets and liabilities in the statement of financial position and the recognition of those assets and liabilities by the tax authorities, and the carryforward of currently unused tax losses and tax credits.

Tax base

29.7 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.

29.8 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.

29.9 Some items have a tax base but are not recognised as assets and liabilities in the statement of financial position. For example, research and development 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 and development 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.

29.10 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.

Taxable temporary differences

29.11 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 subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised in accordance with paragraph 29.23.

29.12 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 with respect to such revenues is nil because the revenues do not affect taxable profit until cash is collected; and

(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).

29.13 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 Section 19 *Business Combinations and Goodwill*, but no equivalent adjustment is made for tax purposes (for example the tax base of an asset may remain at cost to the previous owner). The resulting deferred tax asset affects goodwill;

(b) assets are restated to fair value and no equivalent adjustment is made for tax purposes, eg investment property under Section 16 *Investment Property*;

(c) goodwill arises in a business combination, for example the tax base of goodwill will be nil if taxation authorities do not allow amortisation or impairment of goodwill as a deductible expense in determining taxable profit and do not permit the cost of goodwill to be treated as a deductible expense on disposal of the subsidiary;

(d) the tax base of an asset or liability on initial recognition differs from its initial carrying amount; or

(e) the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures becomes different from the tax base of the investment or interest.

Not all temporary differences will give rise to deferred tax assets and liabilities (see paragraphs 29.11 and 29.14).

Deductible temporary differences

29.14 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 subsidiaries, branches and associates, and interests in joint ventures, a deferred tax asset shall be recognised in accordance with paragraph 29.24**.**

29.15 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; or

(b) certain assets may be carried at fair value, without an equivalent adjustment being made for tax purposes. A deductible temporary difference arises if the tax base of the asset exceeds its recoverable amount.

29.16 The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. 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.

29.17 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.

29.18 When an entity has a history of recent losses, the entity considers the guidance in paragraphs 29.20.

Unused tax losses and unused tax credits

29.19 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.

29.20 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.

Reassessment of unrecognised deferred tax assets

29.21 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.

Investments in subsidiaries, branches and associates and interests in joint ventures

29.22 Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures (eg the parent's share of the net assets of a subsidiary, 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 subsidiaries, branches, associates and joint ventures;

(b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and

(c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

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

(a) the parent, 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.

29.24 An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, 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.

Measurement of deferred tax

Tax rates

29.25 An entity shall measure a deferred tax liability (asset) 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.

29.26 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 deferred tax asset to be realised or the deferred tax liability to be settled.

29.27 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. Therefore, 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. 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 and the tax basis consistent with recovering the carrying amount through sale.

29.28 If a deferred tax liability or asset arises from investment property that is measured at fair value, 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. If the presumption is rebutted, the requirements of paragraph 29.27 shall be followed.

Review of deferred tax assets

29.29 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.

Measurement of both current and deferred tax

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

29.31 In some jurisdictions, income tax is 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 tax 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 both of 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

29.32 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

29.33 An entity shall recognise tax expense in the same component of total comprehensive income (ie continuing operations, **discontinued operations**, or **other comprehensive income**) or equity as the transaction or other event that resulted in the tax expense.

Current/non-current distinction

29.34 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 any deferred tax assets (liabilities) as current assets (liabilities).

Offsetting

29.35 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.

Disclosures

29.36 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.

29.37 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 tax expense.

(f) adjustments to deferred tax expense arising from a change in the tax status of the entity or its shareholders.

(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 29.29.

(h) the amount of tax expense relating to changes in accounting policies and errors (see Section 10 *Accounting Policies, Estimates and Errors*).

29.38 An entity shall disclose the following separately:

(a) the aggregate current and deferred tax relating to items that

(i) are recognised as items of other comprehensive income.

(ii) are charged or credited directly to equity

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

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

(d) for each type of temporary difference and for each type of unused tax losses and tax credits:

(i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period, and

(ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the period.

(e) the expiry date, if any, of deductible temporary differences, unused tax losses and unused tax credits.

(f) in the circumstances described in paragraph 29.31, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.

Revised definitions in glossary relevant to Section 29 (revised)

Accounting profit: Profit or loss for a period before deducting tax expense.

Current tax: The amount of income tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past reporting periods.

Deductible temporary differences: 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.

Deferred tax: Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future reporting periods as a result of past transactions or events.

Deferred tax liabilities: The amounts of income tax payable in future periods in respect of taxable temporary differences.

Deferred tax assets: Income tax 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.

Tax expense: The aggregate amount included in total comprehensive income or equity for the reporting period in respect of current tax and deferred tax.

Taxable profit (tax loss): The profit (loss) for a reporting period upon which income tax is payable or recoverable, determined in accordance with the rules established by the taxation authorities. Taxable profit equals taxable income less amounts deductible from taxable income.

Taxable temporary differences: 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.

Temporary differences: Differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Tax base: The amount attributed to that asset or liability for tax purposes.