

STAFF PAPER

January 2019

IASB® meeting

Project	Deferred tax related to assets and liabilities arising from a single transaction (Proposed amendments to IAS 12)		
Paper topic	Cover paper		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the recognition of deferred tax when a lessee recognises an asset and liability at the commencement date of a lease. A similar question arises when an entity recognises a liability and includes in the cost of an item of property, plant and equipment the costs of decommissioning that asset. The submitter described a fact pattern in which the lease payments and decommissioning costs are deductible for tax purposes when paid. The submitter noted that this question will arise more often when entities apply IFRS 16 *Leases* than when applying IAS 17 *Leases*.
2. The Committee observed that, in the fact pattern submitted and depending on the applicable tax law, offsetting temporary differences might arise on initial recognition of assets and liabilities related to leases or decommissioning obligations. The Committee then discussed whether an entity (a) recognises deferred taxes for these temporary differences, or (b) applies the initial recognition exemption in paragraphs 15 and 24 of IAS 12 *Income Taxes* (the initial recognition exemption). The initial recognition exemption prohibits an entity from recognising deferred tax assets and liabilities on initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit.
3. The Committee decided to recommend that the International Accounting Standards Board (Board) propose a narrow-scope amendment to IAS 12. The proposed

amendments would narrow the scope of the initial recognition exemption so that it would not apply to the extent that, on initial recognition of a transaction, an entity would recognise equal amounts of deferred tax assets and liabilities. At its meeting in October 2018, the Board agreed with the Committee's recommendation and decided to propose amending IAS 12 to address this matter.

4. The objective of this meeting is to:
 - (a) discuss transition and other particular aspects of the proposed amendments;
and
 - (b) confirm the Board is satisfied that it has complied with the applicable due process requirements.

Agenda papers for this meeting

5. In addition to this cover paper, we have included the following two agenda papers for discussion:

- (a) *Agenda Paper 12B— Transition requirements and other considerations*

This paper:

- (i) provides our analysis and recommendations regarding transition for the proposed amendments; and
- (ii) addresses particular questions raised by Board members during the Board's October 2018 meeting.

- (b) *Agenda Paper 12C— Due Process Steps*

This paper:

- (i) sets out the due process steps the Board has taken in developing the proposed amendments; and
- (ii) asks the Board to confirm it is satisfied that it has complied with the applicable due process requirements.