STAFF PAPER

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IASB Meeting

Project	**Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)**
Paper topic	Effective Date and Due Process

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Introduction and purpose

1. In October 2020, the International Accounting Standards Board (Board) decided to finalise its proposed amendments to IAS 12 *Income Taxes* published in the Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, with some modifications.

2. The purpose of this paper is to:

   (a) ask the Board whether it agrees with our recommendation with respect to the effective date for the amendments to IAS 12;

   (b) set out the steps in the IFRS Foundation Due Process Handbook (*Due Process Handbook*) that the Board has taken in developing the amendments;

   (c) ask the Board to confirm it is satisfied that it has complied with the due process requirements; and

   (d) ask whether any Board member intends to dissent from the amendments.

Structure of the paper

3. This paper is structured as follows:
   (a) summary of the amendments (paragraphs 4–8);
   (b) effective date (paragraphs 9–14);
   (c) due process steps and permission for balloting (paragraphs 15–22):
      (i) re-exposure;
      (ii) intention to dissent;
      (iii) confirmation of due process steps; and
      (iv) proposed timetable for balloting and publication.
2. There are two appendices to this paper:
   (a) Appendix A—Extracts from the *Due Process Handbook*; and
   (b) Appendix B—Actions taken to meet the due process requirements.

Summary of the amendments

4. As a general principle, IAS 12 requires an entity to recognise deferred tax for all temporary differences. However, the Standard prohibits entities from recognising deferred tax assets or liabilities—both on initial recognition and subsequently—for deductible or taxable temporary differences arising on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (recognition exemption).
5. The Board proposed to narrow the scope of the recognition exemption so that it would not apply to transactions that give rise to equal and offsetting temporary differences. In such cases an entity would generally recognise a deferred tax asset and liability of the same amount and, therefore, the Board concluded that the recognition exemption is unnecessary. This approach would result in entities recognising deferred tax assets and liabilities for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations.

6. To ensure entities recognise equal amounts of deferred tax assets and liabilities, the Board proposed requiring that an entity limit the recognition of a deferred tax liability to the extent that it recognises a deferred tax asset (capping proposal). The capping proposal would avoid an entity recognising unequal amounts of deferred tax assets and liabilities when the entity is unable to recognise deferred tax assets in full applying paragraph 24 of IAS 12.[1]

7. In October 2020, the Board tentatively decided to proceed with its proposal to narrow the scope of the recognition exemption. However, in response to comments received, the Board decided to the remove the capping proposal. The Board concluded that removing the capping proposal would significantly reduce the complexity of applying the proposed amendments, while still achieving their objective.

8. The Board also tentatively decided to:

   (a) provide an illustrative example explaining the deferred tax accounting for advance lease payments and initial direct costs; and

   (b) simplify the transition requirements (see paragraph 9 of this paper).

Effective date

9. In October 2020, the Board decided to modify the transition requirements proposed in the Exposure Draft. An entity will apply the amendments for the first time by:

   (a) recognising deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest comparative period presented; and

   (b) applying the amendments prospectively for transactions other than leases and decommissioning obligations.

10. The Board concluded that such transition requirements would significantly reduce the complexity of applying the amendments for the first time. The Board did not propose an effective date but proposed that earlier application be permitted.

[1] Paragraph 24 of IAS 12 requires an entity to recognise deferred tax assets ‘to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised’.

11. Paragraph 6.35 of the *Due Process Handbook* explains that the effective date of any amendment is set so that (a) jurisdictions have sufficient time to incorporate the new requirements into their legal systems; and (b) those applying IFRS Standards have sufficient time to prepare for the new requirements.

12. The Board generally allows at least 12 to 18 months between the issuance of a new Standard or amendment and its effective date. If the Board agrees with our recommendations set out in this paper, we expect the Board to issue the amendments during the second quarter of 2021.

13. Considering the simplifications made to the transition requirements discussed above, in our view entities would have sufficient time to prepare for the new requirements if the Board were to set an effective date of 1 January 2023—ie 18 months after the end of the second quarter of 2021. We also think such an effective date would allow jurisdictions sufficient time to incorporate the new requirements into their legal systems. We therefore recommend that the Board require entities to apply the amendments for annual reporting periods beginning on or after 1 January 2023.

14. The Board received no feedback on its proposal to permit early application. We therefore recommend permitting such earlier application.

Question 1 for the Board
1. Effective date for the amendments to IAS 12—Does the Board agree with our recommendation to require entities to apply the amendments for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted?

Due process steps and permission for balloting

Re-exposure

15. As noted in paragraphs 7–8 of this paper, the Board has decided to proceed with its proposal to narrow the scope of the recognition exemption subject to some modifications discussed in those paragraphs.

16. In the light of these modifications, we considered the requirements in paragraphs 6.25–6.29 of the *Due Process Handbook* (reproduced in Appendix A to this paper) to assess whether the Board should re-expose the amendments to IAS 12. In our view:

(a) removing the capping proposal in the Exposure Draft responds to concerns and questions raised by respondents, while not fundamentally changing the proposed amendments—ie the amendments would still narrow the scope of the recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences.

(b) in explaining why advanced lease payments and initial direct costs would not affect the proposed amendments, the Board had already described the accounting for such transactions in the Basis for Conclusions on the Exposure Draft—the Board will now provide an illustrative example of that same accounting.

(c) the changes to the transition requirements simplify the requirements in response to concerns and questions raised by respondents.

17. Further, we have consulted the IFRS Interpretations Committee (Committee) on the changes proposed to the Exposure Draft. All Committee members agreed with, or did not oppose, such changes. Committee members also did not raise any significant concerns. We therefore conclude that it unlikely that re-exposure would reveal new information or feedback not already considered by the Board.

18. Accordingly, we recommend finalising the amendments to IAS 12 without re-exposure.

Intention to dissent

19. In accordance with paragraph 6.23 of *Due Process Handbook*, we are asking whether any Board member intends to dissent from the amendments to IAS 12.

Confirmation of due process steps

20. In our view the Board has undertaken all the due process activities identified as being required in the *Due Process Handbook* and, thus, is able to finalise the amendments. Appendix B to this paper summarises the due process steps taken in developing the amendments to IAS 12—the applicable due process steps to date for issuing the amendments have been completed.

21. We request permission to start the balloting process if the Board is satisfied that (a) it has been provided with sufficient analysis, and (b) has undertaken appropriate consultation and due process to support issuing the amendments.

Proposed timetable for balloting and publication

22. The balloting process for the amendments to IAS 12 will commence in the near term, with the amendments planned for issue in the second quarter of 2021.

Questions 2–4 for the Board
2. **Re-exposure**—does the Board agree with our recommendation in paragraph 18 of this paper not to re-expose the amendments to IAS 12?
3. **Dissent**—does any Board member intend to dissent from the amendments to IAS 12?
4. **Permission to ballot**—is the Board satisfied it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments to IAS 12?

Appendix A—Extracts from the *Due Process Handbook*

6.25 In considering whether there is a need for re-exposure, the Board:

(a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;

(b) assesses the evidence that it has considered;

(c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

6.26 It is inevitable that the final proposals will include changes from those originally proposed. The fact that there are changes does not compel the Board to re-expose the proposals. The Board needs to consider whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the Basis for Conclusions accompanying the Exposure Draft. The Board also needs to consider whether it will learn anything new by re-exposing the proposals. If the Board is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any new concerns, it should proceed to finalise the proposed requirements.

6.27 The more extensive and fundamental the changes from the Exposure Draft and current practice the more likely the proposals should be re-exposed. However, the Board needs to weigh the cost of delaying improvements to financial reporting against the relative urgency for the need to change and what additional steps it has taken to consult since the Exposure Draft was published. The use of consultative groups or targeted consultation can give the Board information to support a decision to finalise a proposal without the need for re-exposure.

6.28 The Board should give more weight to changes in recognition and measurement than disclosure when considering whether re-exposure is necessary.

6.29 The Board's decision on whether to publish its revised proposals for another round of comment is made in a Board meeting. If the Board decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft. However, because it is not the first exposure of the proposed IFRS Standard, it may be appropriate to have a shortened comment period, particularly if the Board is seeking comments on only specific aspects of the revised exposure draft, while recognising that respondents may not limit their comments to these aspects. The public comment period for such documents will normally be at least 90 days.

Appendix—Actions taken to meet the due process requirements

Step	Required / Optional	Actions
Consideration of information gathered during consultation		
The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required	All comment letters received by the Board (68 comment letters) have been posted on the project website here: https://www.ifrs.org/projects/work-plan/deferred-tax-tax-base-of-assets-and-liabilities/comment-letters-projects/ed-deferred-tax-related-to-assets-and-liabilities-arising-from-a-single-transaction/#comment-letters
Board and IFRS Interpretations Committee (Committee) meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	The Board discussed a summary of the comment letters in April 2020. *(See Agenda Papers 12G–I for that meeting)* The Committee discussed our analysis of the matters identified in the feedback to the Exposure Draft and preliminary recommendations to the Board at its September 2020 meeting. Committee members provided advice to the Board on the preliminary recommendations and project direction. *(see Agenda Papers 3–3C for that meeting)* The Board discussed our analysis and recommendations on the matters identified in the feedback to the Exposure Draft, including our recommendations on the project direction at its October 2020 meeting. *(see Agenda Papers 12A–D for that meeting)* All staff papers above are publicly available. The project webpage has up-to-date information about all technical papers related to the project: https://www.ifrs.org/projects/work-plan/deferred-tax-tax-base-of-assets-and-liabilities/#project-history
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	The Board considered the likely effects of the amendments at each stage of their development. The basis for conclusion on the amendments will include the Board's views on these effects.
Finalisation		
Due process steps are reviewed by the Board.	Required	This step will be met by this Agenda Paper.
Need for re-exposure of a Standard is considered.	Required	Paragraphs 15–18 of this paper discuss re-exposure. We recommend the Board not re-expose the amendments.

The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Paragraphs 9–14 of this paper discuss the effective date. We recommend an effective date of 1 January 2023—ie we recommend that the Board require entities to apply the amendments for annual reporting periods beginning on or after that date.
Drafting		
Drafting quality assurance steps are adequate.	Required	To be completed in due course. The Translations, Taxonomy and Editorial teams will review the pre-ballot draft. We intend to send a draft of the amendments to external parties for review before finalisation. This process allows external parties to review and report back to the staff on the clarity and understandability of the draft.
Publication		
News release to announce the final Standard.	Required	To be completed in due course. A news release will be published with the amendments.
A Feedback Statement is provided which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received.	Required	Not considered necessary because these amendments are narrow in scope. According to paragraph 6.38 of the *Due Process Handbook*, a Feedback Statement is required for all new IFRS Standards and major amendments. The Basis for Conclusions on the amendments will explain how the Board has responded to comments received.
Standard is published.	Required	The amendments will be made available on our website when published.