Impact of an internal reorganisation on deferred tax amounts related to goodwill (IAS 12 *Income Taxes*)—May 2014

The Interpretations Committee received a request for guidance on the calculation of deferred tax following an internal reorganisation of an entity. The submitter describes a situation in which an entity (Entity H) recognised goodwill that had resulted from the acquisition of a group of assets (Business C) that meets the definition of a business in IFRS 3 *Business Combinations*. Entity H subsequently recorded a deferred tax liability relating to goodwill deducted for tax purposes. Against this background, Entity H effects an internal reorganisation in which:

a. Entity H set up a new wholly-owned subsidiary (Subsidiary A);
b. Entity H transfers Business C, including the related (accounting) goodwill to Subsidiary A; however,
c. for tax purposes, the (tax) goodwill is retained by Entity H and not transferred to Subsidiary A.

The submitter asked how Entity H should calculate deferred tax following this internal reorganisation transaction in its consolidated financial statements in accordance with IAS 12.

The Interpretations Committee noted that when entities in the same consolidated group file separate tax returns, separate temporary differences will arise in those entities in accordance with paragraph 11 of IAS 12. Consequently, the Interpretations Committee noted that when an entity prepares its consolidated financial statements, deferred tax balances would be determined separately for those temporary differences, using the applicable tax rates for each entity's tax jurisdiction.

The Interpretations Committee also noted that when calculating the deferred tax amount for the consolidated financial statements:

a. the amount used as the carrying amount by the 'receiving' entity (in this case, Subsidiary A that receives the (accounting) goodwill) for an asset or a liability is the amount recognised in the consolidated financial statements; and
b. the assessment of whether an asset or a liability is being recognised for the first time for the purpose of applying the initial recognition exception described in paragraphs 15 and 24 of IAS 12 is made from the perspective of the consolidated financial statements.

The Interpretations Committee noted that transferring the goodwill to Subsidiary A would not meet the initial recognition exception described in paragraphs 15 and 24 of IAS 12 in the consolidated financial statements. Consequently, it noted that deferred tax would be recognised in the consolidated financial statements for any temporary differences arising in each separate entity by using the applicable tax rates for each entity's tax jurisdiction (subject to meeting the recoverability criteria for recognising deferred tax assets described in IAS 12).

The Interpretations Committee also noted that if there is a so-called 'outside basis difference' (ie a temporary difference between the carrying amount of the investment in Subsidiary A and the tax base of the investment) in the consolidated financial statements, deferred tax for such a temporary difference would also be recognised subject to the limitations and exceptions applying to the recognition of a deferred tax asset (in accordance with paragraph 44 of IAS 12) and a deferred tax liability (in accordance with paragraph 39 of IAS 12).

The Interpretations Committee also noted that transferring assets between the entities in the consolidated group would affect the consolidated financial statements in terms of recognition, measurement and presentation of deferred tax, if the transfer affects the tax base of assets or liabilities, or the tax rate applicable to the recovery or settlement of those assets or liabilities. The Interpretations Committee also noted that such a transfer could also affect:

a. the recoverability of any related deductible temporary differences and thereby affect the recognition of deferred tax assets; and
b. the extent to which deferred tax assets and liabilities of different entities in the group are offset in the consolidated financial statements.

The Interpretations Committee considered that, in the light of its analysis, the existing IFRS requirements and guidance were sufficient and, therefore, an Interpretation was not necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.