Selection of applicable tax rate for the measurement of deferred tax relating to an investment in an associate (IAS 12 Income Taxes)—March 2015

The Interpretations Committee received a request to clarify the selection of the applicable tax rate for the measurement of deferred tax relating to an investment in an associate in a multi-tax rate jurisdiction. The submitter asked how the tax rate should be selected when local tax legislation prescribes different tax rates for different manners of recovery (for example, dividends, sale, liquidation, etc). The submitter described a situation in which the carrying amount of an investment in an associate could be recovered by:
   a. receiving dividends (or other distribution of profit);
   b. sale to a third party; or
   c. receiving residual assets upon liquidation of the associate.

The submitter stated that an investor normally considers all of these variants of recovery. One part of the temporary difference will be received as dividends during the holding period, and another part will be recovered upon sale or liquidation.

The Interpretations Committee noted that paragraph 51A of IAS 12 states that 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. Accordingly, the tax rate should reflect the expected manner of recovery or settlement. If one part of the temporary difference is expected to be received as dividends, and another part is expected to be recovered upon sale or liquidation (for example, an investor has a plan to sell the investment later and expects to receive dividends until the sale of the investment), different tax rates would be applied to the parts of the temporary difference in order to be consistent with the expected manner of recovery.

The Interpretations Committee observed that it had received no evidence of diversity in the application of IAS 12 and that the Standard contains sufficient guidance to address the matters raised. Accordingly, the Interpretations Committee thought that neither an Interpretation of nor an amendment to IAS 12 was necessary.

Consequently, the Interpretations Committee decided not to add this issue to its agenda.