

## **IAS 12 *Income Taxes*** (January 2016)

### **Income Taxes—Recognition of deferred taxes for the effect of exchange rate changes**

The Interpretations Committee received a submission regarding the recognition of deferred taxes when the tax bases of an entity's non-monetary assets and liabilities are determined in a currency that is different from its functional currency. The question is whether deferred taxes that result from exchange rate changes on the tax bases of non-current assets are recognised through profit or loss.

The Interpretations Committee noted that paragraph 41 of IAS 12 *Income Taxes* states that when the tax base of a non-monetary asset or liability is determined in a currency that is different from the functional currency, temporary differences arise resulting in a deferred tax asset or liability. Such deferred tax does not arise from a transaction or event that is recognised outside profit or loss and is therefore charged or credited to profit or loss in accordance with paragraph 58 of IAS 12. Such deferred tax charges or credits would be presented with other deferred taxes, instead of with foreign exchange gains or losses, in the statement of profit or loss

The Interpretations Committee also noted that paragraph 79 of IAS 12 requires the disclosure of the major components of tax expense (income). The Interpretations Committee observed that when changes in the exchange rate are the cause of a major component of the deferred tax charge or credit, an explanation of this in accordance with paragraph 79 of IAS 12 would help users of financial statements to understand the tax expense (income) for the period.

In the light of existing IFRS requirements, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.