IAS 12 INCOME TAXES

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 12 was adopted by the IASB in April 2001. IAS 11 had originally been issued by the IASC in October 1996. IAS 12 is applicable for annual reporting periods commencing on or after 1 January 1998.

OBJECTIVE

IAS 12 prescribes the accounting treatment for income taxes being the accounting for the current and future tax consequences of:

- the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's statement of financial position, and
- transactions and other events of the current period that are recognised in an entity's financial report.

RECOGNITION AND MEASUREMENT

Current tax – Recognition and measurement

IAS 12 requires the recognition of current tax in an entity's financial statements. Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount paid exceeds the amount due for those periods, the excess shall be recognised as an asset.

Both current tax liabilities and current tax assets arise based on the tax rates enacted or substantively enacted by the end of the reporting period. A corresponding amount is recognised as an expense or income in the profit or loss for the period.

Deferred tax – Recognition and measurement

Deferred tax assets

Deferred tax assets shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the 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 or taxable profit (tax loss).

A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits, but only to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax liabilities

Deferred tax liabilities shall be recognised for all taxable temporary differences, subject to some stipulated exceptions.

A deferred tax liability shall be recognised when there is a taxable temporary difference between the tax base of an asset or liability and its corresponding carrying amount in the statement of financial position. This arises when the carrying amount of an asset exceeds its tax base. Consequently, the future recovery of the carrying amount will generate taxable profit; e.g:

- accumulated depreciation of an asset in the financial statements is less than the cumulative depreciation allowed up to the reporting date for tax purposes, e.g. depreciation of an asset is accelerated for tax purposes;
- development costs have been capitalised and will be amortised over future periods in determining accounting profit but deducted in determining taxable profit in the period in which they were incurred.

A taxable temporary difference also arises when the carrying amount of a liability is less than its tax base, because the future settlement of its tax base will generate taxable profit (e.g. a loan initially recognised at fair value net of borrowing costs incurred in the loan establishment but the tax deductions for the costs are amortised over the life of the loan).

A deferred tax liability will not be recognised if arising from:

- the initial recognition of goodwill;
- the 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 (tax loss).

Measurement of deferred tax assets and liabilities

A deferred tax asset or liability shall be measured based on the enacted, or substantively enacted, tax rates (tax laws) expected to apply when the asset is realised or the liability is settled.

The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted.

Recognition of current and deferred tax assets

Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity; or
- a business combination (other than the acquisition by an investment entity, as defined in IFRS 10 Consolidated Financial Statements, of a subsidiary that is required to be measured at fair value through profit or loss).

Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

- in other comprehensive income, shall be recognised in other comprehensive income; and
- directly in equity, shall be recognised directly in equity.

International Financial Reporting Standards require or permit particular items to be recognised in other comprehensive income. Examples of such items are:

- a change in carrying amount arising from the revaluation of property, plant and equipment; and
- exchange differences arising on the translation of the financial statements of a foreign operation.

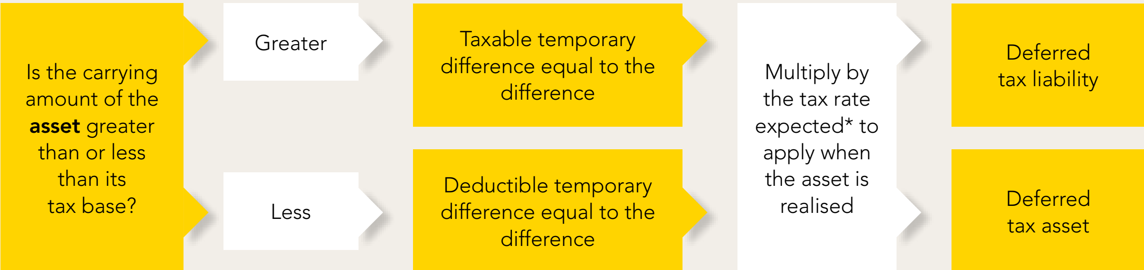
International Financial Reporting Standards require or permit particular items to be credited or charged directly to equity. Examples of such items are:

- an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*); and
- amounts arising on initial recognition of the equity component of a compound financial instrument.

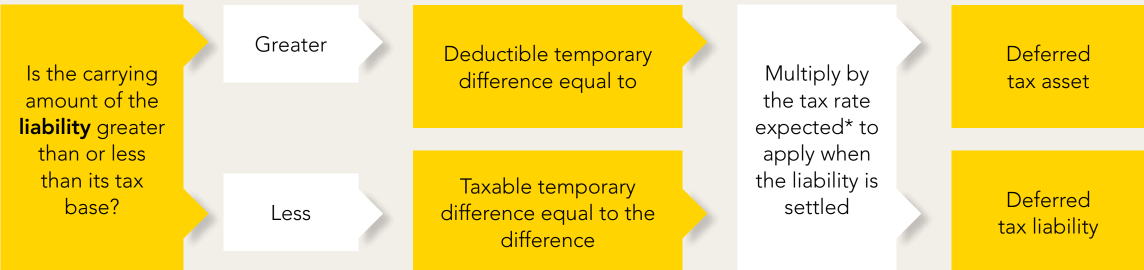
Summary

A summary of the IAS 12 deferred tax requirements is shown below:

Accounting for Assets



Accounting for Liabilities



Note: *refers to the present tax rate or tax laws (tax rates) that have been enacted or substantively enacted by the end of the reporting period.

PRESENTATION

Current tax assets and liabilities are offset if, and only if, the entity:

a. has a legally enforceable right to set-off the recognised amounts; and

b. intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset if, and only if, the entity:

a. has a legally enforceable right to set-off current tax assets against current tax liabilities; and

b. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authorities on either:

   - the same taxable entity; or
   - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IAS 12 disclosure requirements.

DEFINITIONS

Accounting profit	Profit or loss for a period before deducting tax expense.
Current tax	The amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.
Deferred tax assets	The amounts of income taxes recoverable in future periods in respect of: • deductible temporary differences; • the carry-forward of unused tax losses; and • the carry-forward of unused tax credits.
Deferred tax liabilities	The amounts of income taxes payable in future periods in respect of taxable temporary differences.
Taxable profit (tax loss)	The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).
Tax base	The amount attributed to that asset or liability for tax purposes.
Tax expense (tax income)	The aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.
Temporary differences	Differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either: • taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or • deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

RELATED INTERPRETATION

- SIC 25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 112 *Income Taxes* and is applicable for annual reporting periods commencing on or after 1 January 2005. The Australian equivalent related interpretation is Interpretation 125 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*.

For public sector entities and for the purpose of AASB 112, income taxes also include forms of income tax that may be payable by a public sector entity under their own enabling legislation or other authority. These forms of income tax are often referred to as "income tax equivalents".

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. Additional disclosure requirements that are applicable to RDR entities only are included in a separate table in Appendix 1.

RELATED INTERPRETATIONS

- AASB Interpretation 1003 *Australian Petroleum Resource Rent Tax*
- AASB Interpretation 1052 *Tax Consolidation Accounting*

AASB Interpretation 1052 is relatively more significant than AASB Interpretation 1003. It outlines the accounting requirements for tax consolidated groups. The tax consolidation regime was implemented with effect from 1 July 2002.

Within Australia, the tax consolidation system permits the following entities to be treated as a single entity for tax purposes:

- a parent entity and its wholly owned subsidiaries (all being Australian residents for tax purposes);
- Australian-resident wholly owned subsidiaries of a non-resident company (known as a multiple-entry consolidated (MEC) group). A MEC group will nominate one of the subsidiaries as the head entity of the tax consolidated group.

The key advantages of entering into a tax consolidated group are:

- the preparation of one tax return; and
- the sharing of tax losses.

Where entities within the tax consolidated group prepare separate financial statements, the head entity and each subsidiary is required to apply AASB 112 to account for the current and future tax consequences of its assets and liabilities and transactions, as well as other events of the current period.

The current and deferred taxes must be allocated on a systematic, rational and consistent basis. The method chosen must be consistent with the broad principles of AASB 112 (Interpretation 1052 paras 7–8). Paragraph 9 of Interpretation 1052 outlines examples of such methods, which would be acceptable under Interpretation 1052 and in line with AASB 112:

> *The following methods are examples of acceptable allocation methods:*
>
> a. *a "stand-alone taxpayer" approach for each entity,*
> *as if it continued to be a taxable entity in its own right;*
>
> b. *a "separate taxpayer within group" approach for each entity, on the basis that the entity is subject to tax as part of the tax-consolidated group. This method requires adjustments for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the level of the group; and*
>
> c. *subject to paragraph 10, a "group allocation" approach, under which the current and deferred tax amounts for the tax-consolidated group are allocated among each entity in the group.*

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 12.79 / IAS 12.80	Are the following major components of tax expense (income) disclosed separately: a. current tax expense (income); b. any adjustments recognised in the period for current tax of prior periods; c. the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences; d. the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes; e. the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense; f. the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense; g. deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset where it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised (see IAS 12.56); and h. the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with IAS 8, because they cannot be accounted for retrospectively? Note: These are examples only and there may be other components requiring disclosure		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 12.81	Has the following information been disclosed separately: a. the aggregate current and deferred tax relating to items that are charged or credited directly to equity (see paragraph 62A); b. the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and IAS 1); c. an explanation of the relationship between tax expense (income) and accounting profit or loss in the following forms: – a numerical reconciliation between tax expense (income) and the result of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or – a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed; d. an explanation of changes in the applicable tax rate(s) compared to the previous reporting period; e. the amount (and expiry date if any) relating to deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the Statement of Financial Position; f. the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised (see IAS 12.39 for additional guidance); g. for each type of temporary difference, and for each type of unused tax losses and unused tax credits: – the amount of the deferred tax assets and liabilities recognised in the Statement of Financial Position for each period presented; and – the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the Statement of Financial Position h. for discontinued operations, the tax expense relating to: – the gain or loss on discontinuance; and – the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented.		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 12.81	i. the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements; j. if a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset (see paragraph 67), the amount of that change; and k. if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date (see paragraph 68), a description of the event or change in circumstances that caused the deferred tax benefits to be recognised?		
IAS 12.82	Has the entity disclosed the amount of a deferred tax asset and the nature of the evidence supporting its recognition when: a. the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and b. the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates?		
IAS 12.82A	In the circumstances described in IAS 12.52A apply (see below), has the entity disclosed the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, has the entity disclosed the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable? IAS 12.52A: *"In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits."*		
IAS 12.87	Has the entity disclosed the aggregate amount of underlying temporary differences? Where practicable, entities are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.		
IAS 12.88	Has the entity disclosed any tax-related contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*?		

ADDITIONAL DISCLOSURE REQUIREMENTS APPLICABLE TO RDR ENTITIES ONLY

CODE		YES / NO / N/A	EXPLANATION (*If required*)
AASB 12 RDR81.1	If the entity is applying RDR, has it disclosed the aggregate amount of current and deferred income tax relating to items recognised in other comprehensive income?		

OTHER MATTERS

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