Grant Thornton

Technical Accounting Alert

Deferred Tax: Recovery of Underlying Assets

Introduction

The purpose of this alert it to make aware recent amendments to IAS 12 *Income Taxes*.

Relevant Standards

References are made to standards issued by the International Accounting Standards Board. The Australian equivalent to each standard included in this alert is shown below:

International Standard reference	Australian equivalent standard
IAS 12 Income Taxes	AASB 112 Income Taxes
IAS 16 Property, Plant and Equipment	AASB 116 Property, Plant and Equipment
IAS 40 Investment Property	AASB 140 Investment Property
SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets	AASB Interpretation 121 - Income Taxes - Recovery of Revalued Non-Depreciable Assets

Overview

IASB publishes Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12).

The IASB has published some limited scope amendments to IAS 12 *Income Taxes*, which are relevant only when an entity elects to use the fair value model for measurement in IAS 40 *Investment Property*. The amendments introduce a rebuttable presumption that in such circumstances, an investment property is recovered entirely through sale.

SIC-21 *Income Taxes - Recovery of Revalued Non-Depreciable Assets* addresses similar issues involving non-depreciable assets measured suing the revaluation model in IAS 16 *Property, Plant and Equipment*. This guidance has now been incorporated in IAS 12.

Recovery through use presumption

Under IAS 12, the measurement of deferred tax liabilities and deferred tax assets in some tax jurisdictions depends on whether an entity expects to recover an asset by using it or by selling it. However, an entity may expect to rent out investment property to earn rental income and then sell it to gain from capital appreciation at some point in the future. Without specific plans for disposal of the investment property, it is difficult and subjective to estimate how much of the carrying amount of the investment property will be recovered through cash flows from rental income and how much of it will be recovered through cash flows from selling the asset. This is particularly so when the carrying amount is measured using the fair value model in IAS 40.

To provide a practical approach in such cases, the amendment introduces a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Consequential withdrawal of SIC-21 Income Taxes - Recovery of Revalued Non-depreciable assets

SIC-21 addresses issues involving non-depreciable assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment*, as well as investment property measured at fair value that is considered non-depreciable. The consensus requires that, where tax law specifies a different tax rate applicable to the taxable amount derived from the sale of an asset compared to the rate derived from its use, then the former rate applies. This requirement is now incorporated in IAS 12, after excluding investment property from its scope, and so SIC-21 is withdrawn.

Effective date

This amendment to IAS 12 is effective for annual periods beginning on or after 1 January 2012. Earlier application is permitted.

Grant Thornton comment

Although we do not generally encourage exceptions from the principles of IFRSs, we accept that this very narrowly-scoped exception will provide a less costly and more practical approach for measuring deferred tax assets and liabilities for fair-valued investment properties in jurisdictions in which rental income and capital gains or losses are taxed differently.

Further information

For further information on any of the information included in this TA Alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au