Exposure Draft

Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Amendments to Ind AS 12, *Income Taxes*

(Last Date for comments: October 25, 2021)

Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft of Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to Ind AS 12, *Income Taxes*)

Following is the Exposure Draft of proposed Amendments to Ind AS 12, *Income Taxes* issued by the Accounting Standards Board (the Board) of the Institute of Chartered Accountants of India for comments.

The draft amendments on Deferred Tax related to Assets and Liabilities arising from a Single Transaction aim at narrowing the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The aim of the draft amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

Comments can be submitted using one of the following methods, so as to be received not later than **October 25, 2021:**

1	Electronically:	Click on http://www.icai.org/comments/asb/ to submit comment online **(Preferred method)**
2	Email:	Comments can be sent to: commentsasb@icai.in
3	Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002

Further clarifications on the Exposure Draft may be sought by e-mail to asb@icai.in.

Amendments to Ind AS 12, *Income Taxes*

Paragraphs 15, 22 and 24 are amended. Paragraphs 22A and 98J–98L are added. Deleted text is struck through and new text is underlined.

Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

15 **A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:**

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or liability in a transaction which:

(i) is not a business combination;~~ and~~

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)<u>; and</u>~~.~~

<u>(iii) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.</u>

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Initial recognition of an asset or liability

22 A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction that led to the initial recognition of the asset or liability:

(a) in a business combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or bargain purchase gain it recognises (see paragraph 19);

(b) if the transaction affects either accounting profit or taxable profit<u>, or gives rise to equal taxable and deductible temporary differences</u>, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in profit or loss (see paragraph 59);

(c) if the transaction is not a business combination, ~~and~~ affects neither accounting profit nor taxable profit<u> and does not give rise to equal taxable and deductible temporary differences</u>, an entity would, in the absence of the exemption provided by paragraphs 15 and 24, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent. Therefore, this Standard does not permit an entity to recognise the resulting deferred tax liability or asset, either on initial recognition or subsequently (see example below). Furthermore, an entity does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

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<u>22A</u> <u>A transaction that is not a business combination may lead to the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit. For example, at the commencement date of a lease, a lessee typically recognises a lease liability and the corresponding amount as part of the cost of a right-of-use asset. Depending on the applicable tax law, equal taxable and deductible temporary</u>

differences may arise on initial recognition of the asset and liability in such a transaction. The exemption provided by paragraphs 15 and 24 does not apply to such temporary differences and an entity recognises any resulting deferred tax liability and asset.

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Deductible temporary differences

24 **A deferred tax asset 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:**

(a) is not a business combination;~~ and~~

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and~~.~~

(c) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

...

Effective date

...

98J *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, amended paragraphs 15, 22 and 24 and added paragraph 22A. An entity shall apply these amendments in accordance with paragraphs 98K–98L for annual reporting periods beginning on or after 1 April 2023.

98K An entity shall apply *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* to transactions that occur on or after the beginning of the earliest comparative period presented.

98L An entity applying *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* shall also, at the beginning of the earliest comparative period presented:

(a) recognise a deferred tax asset—to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised—and a deferred tax liability for all deductible and taxable temporary differences associated with:

(i) right-of-use assets and lease liabilities; and

(ii) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset; and

(b) recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Amendments to Ind AS 101 *First-time Adoption of Indian Accounting Standards*

Paragraphs 39AG and 39AH are added. In Appendix B, paragraph B1 is amended and paragraphs B13B14 are added. Deleted text is struck through and new text is underlined.

Effective date

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39AG [Refer Appendix 1]

39AH *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, amended paragraph B1 and added paragraph B14. An entity shall apply these amendments for annual reporting periods beginning on or after 1 April 2023.

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Appendix B
Exceptions to the retrospective application of other Ind ASs

This appendix is an integral part of this Ind AS.

B1 An entity shall apply the following exceptions:

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(f) embedded derivatives (paragraph B9); ~~and~~

(g) government loans (paragraphs B10–B12)~~.~~;

(h) [Refer Appendix 1]; and

(i) deferred tax related to leases and decommissioning, restoration and similar liabilities (paragraph B14).

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B13 [Refer Appendix 1]

Deferred tax related to leases and decommissioning, restoration and similar liabilities

B14 Paragraphs 15 and 24 of Ind AS 12, *Income Taxes* exempt an entity from recognising a deferred tax asset or liability in particular circumstances. Despite this exemption, at the date of transition to Ind ASs, a first-time adopter shall recognise a deferred tax asset—to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised—and a deferred tax liability for all deductible and taxable temporary differences associated with:

(a) right-of-use assets and lease liabilities; and

(b) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

Appendix 1

Comparison with IFRS 1, *First-time Adoption of International Financial Reporting Standards*

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14. Paragraphs 34 to 39W and 39Y to 39AB and 39AD of IFRS 1 have not been included in Ind AS 101 as these paragraphs relate to effective date and are not relevant in Indian context. Paragraph 39AE has not been included since it refers to amendments due to issuance of IFRS 17, *Insurance Contracts*, for which corresponding Ind AS is under formulation. Paragraph 39AG related to effective date of Annual Improvements to IFRS Standards 2018-2020 has not been included for which corresponding amendments to Ind AS are under formulation. However, in order to maintain consistency with paragraph numbers of IFRS 1, these paragraph numbers have been retained in Ind AS 101.

15. Paragraphs B1(h) and B13 of IFRS 1 related to exceptions to insurance contracts have not been included since these refer to amendments due to issuance of IFRS 17, *Insurance Contracts,* for which corresponding Ind AS has not been issued/notified. However, in order to maintain consistency with paragraph numbers of IFRS 1, the paragraph numbers are retained in Ind AS 101.