Exposure Draft

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

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); **and.**

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

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Comments: None in b(i) & (ii), since the changes are grammatical.

(b) (iii) is a new insertion and in line with IAS12.

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**, or gives rise to equal taxable and deductible temporary differences,** 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~~ **but** affects neither accounting profit nor taxable profit **and does not give rise to equal taxable and deductible temporary dif**ferences, 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.

Comments: In para (c) the punctuation ',' is omitted and the word 'but' added.

22A 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 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.

Comments:

SIRC of ICAI notes that paragraph 22A proposes to limit the recognition of a deferred tax liability to the amount of the deferred tax asset on initial recognition – referred to as the recognition 'cap'. In other words, if on initial recognition a deferred tax asset cannot be recognised, or partly recognised, because of recoverability issues or other matters, the related deferred tax liability is also not recognised.

However, SIRC if ICAI disagrees that the recognition of a specific deferred tax asset should be used as a reference to cap a deferred tax liability arising from the same transaction, as required by paragraph 22A. SIRC of ICAI consider that this is contrary to the general principle that all deferred tax liabilities should be recognised, unless the initial recognition exemption in IndAS 12 applies. However, SIRC of ICAI understands that the recognition 'cap' is a pragmatic solution to avoid adjusting the carrying amount of the related asset or recognising a day one loss for this excess amount, and thus, to meet the objective of the recognition exemption, which is explained in paragraph 22(c).

Further, it remains unclear whether an entity should continue to cap the amount of the deferred tax liability to the corresponding amount of the deferred tax asset in subsequent periods. From the proposed wording in paragraph 22A, it could be inferred that the cap relates only to the initial recognition. If so, an entity would recognise a deferred tax liability that exceeds the corresponding deferred tax asset and, consequently, a deferred tax expense in profit or loss in subsequent periods. On the other hand, and according to paragraph 22(c), the initial recognition exemption applies at both the date of initial recognition and in subsequent periods. In this case, an entity would not recognise subsequent changes to the unrecognised deferred tax liability.

Therefore, if the recognition 'cap' were to be retained, we recommend the ED to clarify the application of proposed paragraph 22A in subsequent periods and to provide an illustrative example. We also consider that it would be helpful for the ED to explain how an entity should account for the reassessment of unrecognised deferred tax assets and the implications on the portion of the deferred tax liability that an entity did not recognise when applying the recognition 'cap' under paragraph 22A. Further it is observed that reassessment of unrecognised deferred tax assets is not addressed in the ED.

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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.**

...

Comments: None in b(i) & (ii), since the changes are grammatical.

(b) (iii) is a new insertion and in line with IAS12.

Effective date

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98J Deferred Tax related to Assets and Liabilities arising from a Single Transaction, issued in May 2021, 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.

Comments: SIRC of ICAI supports proposed effective date of 1 April 2023. IRC of ICAI also supports the proposed transition relief to permit an entity to assess the recoverability of deferred tax assets only at the beginning of the earliest comparative period presented, reflecting the facts and circumstances at that date.

For both leases and decommissioning obligations, assessing the recoverability requirement could in some cases be impracticable or result in undue costs with limited benefits for users of the financial statements.

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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Comments: None.

39AG [Refer Appendix 1]

39AH Deferred Tax related to Assets and Liabilities arising from a Single Transaction, issued in May 2021, amended paragraph B1 and added paragraph B14. An entity shall apply these amendments for annual reporting periods beginning on or after 1 April 2023.

Comments: SIRC of ICAI support prospective application of these provisions from 1 April 2023.

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.

Comments: Deferred taxes should only be recognised when it is probable that they are expected to result in future tax payments and/or tax receipts. The partial allocation method will keep elements that are well supported by empirical research such as the recognition of deferred tax assets for carry-forward losses and/or tax credits based on probability. At the same time, a probability assessment would also apply to the deferred tax liabilities to balance the standard and make it consistent. Finally, deferred taxes should be discounted to reflect the time value of money so as to reflect economic reality and to be consistent with other standards. The mix between the balance sheet liability approach and the valuation adjustment approach combined with partial allocation and discounting would make the many exemptions in the existing model redundant. Thus, the proposed model results in deferred taxes that meet the definition of assets and liabilities, and empirical research results show that this approach provides value-relevant information to investors who, according to the Conceptual framework and the Exposure draft, are a key users of the financial statements.

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.

Comments: None.

Name: Sounder Rajan SP

M no 237299

Place: Chennai

Mail: sounderrajansubramanian2709@gmail.com

Mobile: 9940153273

Subject: Comments on Exposure draft on Amendments to Ind AS 12, Income Taxes

1) I welcome the opportunity provided for sending comments on Exposure draft on Amendments to Ind AS 12, Income Taxes

2) My view

Existing	Proposed change	Comments	Rational
Para 15 A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: (iii) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.	Examples for transaction that does not give rise to equal taxable and deductible temporary differences can be given Equal can be defined in detail The Change addresses recognizing asset and liability at gross level and not at net level Para 15 b starts with "the initial recognition of an asset or liability" but (iii) at the time of the transaction, does not give rise to equal amounts of taxable **and** deductible temporary differences	Examples will give better clarity on application of the standard Also impact of lease straight lining adjustments can be elaborated in the amendment Definition will help understanding the amendment in detail The requirement to apply the tax balances to either the asset or liability, and not consider the transaction on a net basis, is not appropriate. The usage of or , and is not clear it creates ambiguity	Examples will give better clarity on application of the standard
Para 98L (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.	Effective tax reco disclosure related example can be given and also different tax rate should be explained The proposed amendments do not address the accounting for the unrecognised deferred tax liability to the extent the	Examples will give better clarity on application of the standard	Examples will give better clarity on application of the standard

	unrecognised deferred tax asset is subsequently recognised. This might lead to diversity in the approach adopted by different entities.		
Para 22A 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 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.	The Para doesn't deal with re assessment of unrecognised deferred tax assets, that it did not recognise deferred tax assets because of the recoverability requirement, it would apply as per IND AS 12 and subsequently reassess unrecognised deferred tax assets.	We also require clarity on effect due to advance lease payments and initial direct costs, due to this amendment	Basis of conclusion for all amendments is required as this would provide more clarity
Cost benefit analysis not available	Costs of applying the proposed amendments is required to be considered as the benefit may be less than cost	Costs of applying the proposed amendments is required to be considered as the benefit may be less than cost	
Para 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.	Para 98J Standard should allow retrospective application only if it can be worked without use of hindsight	If hindsight is used can lead to use of estimates and judgments adjusting the retained earnings with events not existing as of opening retaining earning date	

I concur that views stated above are my individual opinion and not of any organization where I am working or not of any committee or organization I am connected with.

Regards

Sounder Rajan

M No 237299