



Accounting Alert

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

Executive Summary

The International Accounting Standards Board (IASB) has issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (Amendments to IAS 12).

The amendments require an entity to recognize deferred tax on certain transactions (e.g., leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

The Amendments

The IASB has issued some narrow scope changes to IAS 12 'Income Taxes' to specify how entities should account for deferred tax on transactions such as leases and decommissioning obligations.

In specific circumstances, entities are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. There had been some diversity in practice as to whether the exemption applied to transactions such as leases and decommissioning obligations. These are transactions where entities recognize both an asset and a liability.

The amendments clarify that the initial recognition exemption set out in IAS 12 does not apply and that entities are required to recognise deferred tax on these transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted.



Our thoughts

We are supportive of the IASB addressing this issue as it has become more prevalent since IFRS 16 'Leases' became effective for periods beginning on or after January 1, 2019. We believe the amendments will reduce the diversity in practice that is currently being seen on accounting for leases and decommissioning obligations.

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