

May 2021

IFRS® Standards

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

Amendments to IAS 12

IASB®

 IFRS®

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

Amendments to IAS 12

Deferred Tax related to Assets and Liabilities arising from a Single Transaction is issued by the International Accounting Standards Board (Board).

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ISBN: 978-1-914113-20-8

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DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION

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Amendments to IAS 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.

...

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~~-affects neither accounting profit nor taxable profit and does not give rise to equal taxable and deductible temporary differences, 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.

...

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.

...

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, 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 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

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:

AMENDMENTS TO IAS 12—MAY 2021

- (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 IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39AH is added. In Appendix B, paragraph B1 is amended and paragraph B14 and its heading are added. Deleted text is struck through and new text is underlined.

Effective date

...

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 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.*

...

Appendix B Exceptions to the retrospective application of other IFRSs

This appendix is an integral part of the IFRS.

B1 An entity shall apply the following exceptions:

...

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

(h) insurance contracts (paragraph B13); ~~and~~

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

...

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

B14 Paragraphs 15 and 24 of IAS 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 IFRSs, 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.

Approval by the Board of *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* issued in May 2021

Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amended IAS 12, was approved for issue by all 13 members of the International Accounting Standards Board.

Hans Hoogervorst Chairman

Suzanne Lloyd Vice-Chair

Nick Anderson

Tadeu Cendon

Martin Edelmann

Françoise Flores

Zach Gast

Jianqiao Lu

Bruce Mackenzie

Thomas Scott

Rika Suzuki

Ann Tarca

Mary Tokar

Amendments to Illustrative Examples accompanying IAS 12 *Income Taxes*

These illustrative examples accompany, but are not part of, IAS 12.

Example 8 is added. For ease of reading, new text has not been underlined.

Illustrative computations and presentation

...

Example 8—Leases

Lease

An entity (Lessee) enters into a five-year lease of a building. The annual lease payments are CU100 payable at the end of each year. Before the commencement date of the lease, Lessee makes a lease payment of CU15 (advance lease payment) and pays initial direct costs of CU5. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate is 5% per year.

At the commencement date, applying IFRS 16 *Leases*, Lessee recognises a lease liability of CU435 (measured at the present value of the five lease payments of CU100, discounted at the interest rate of 5% per year). Lessee measures the right-of-use asset (lease asset) at CU455, comprising the initial measurement of the lease liability (CU435), the advance lease payment (CU15) and the initial direct costs (CU5).

Tax law

The tax law allows tax deductions for lease payments (including those made before the commencement date) and initial direct costs when an entity makes those payments. Economic benefits that will flow to Lessee when it recovers the carrying amount of the lease asset will be taxable.

A tax rate of 20% is expected to apply to the period(s) when Lessee will recover the carrying amount of the lease asset and will settle the lease liability.

After considering the applicable tax law, Lessee concludes that the tax deductions it will receive for lease payments relate to the repayment of the lease liability.¹

Deferred tax on the advance lease payment and initial direct costs

Lessee recognises the advance lease payment (CU15) and initial direct costs (CU5) as components of the lease asset's cost. The tax base of these components is nil because Lessee already received tax deductions for the advance lease payment and initial direct costs when it made those payments. The difference between the tax base (nil) and the carrying amount of each component results in taxable temporary differences of CU15 (related to the advance lease payment) and CU5 (related to the initial direct costs).

¹ Depending on the applicable tax law, an entity might alternatively conclude that the tax deductions it will receive for lease payments relate to the lease asset, in which case temporary differences would not arise on initial recognition of the lease liability and the related component of the lease asset's cost. Accordingly, the entity would not recognise deferred tax on initial recognition but would do so if and when temporary differences arise after initial recognition.

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The exemption from recognising a deferred tax liability in paragraph 15 does not apply because the temporary differences arise from transactions that, at the time of the transactions, affect Lessee's taxable profit (that is, the tax deductions Lessee received when it made the advance lease payment and paid initial direct costs reduced its taxable profit). Accordingly, Lessee recognises a deferred tax liability of CU3 (CU15 × 20%) and CU1 (CU5 × 20%) for the taxable temporary differences related to the advance lease payment and initial direct costs, respectively.

Deferred tax on the lease liability and related component of the lease asset's cost

At the commencement date, the tax base of the lease liability is nil because Lessee will receive tax deductions equal to the carrying amount of the lease liability (CU435). The tax base of the related component of the lease asset's cost is also nil because Lessee will receive no tax deductions from recovering the carrying amount of that component of the lease asset's cost (CU435).

The differences between the carrying amounts of the lease liability and the related component of the lease asset's cost (CU435) and their tax bases of nil result in the following temporary differences at the commencement date:

- (a) a taxable temporary difference of CU435 associated with the lease asset; and
- (b) a deductible temporary difference of CU435 associated with the lease liability.

The exemption from recognising a deferred tax asset and liability in paragraphs 15 and 24 does not apply because the transaction gives rise to equal taxable and deductible temporary differences. Lessee concludes that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Accordingly, Lessee recognises a deferred tax asset and a deferred tax liability, each of CU87 (CU435 × 20%), for the deductible and taxable temporary differences.

Summary of recognised deferred tax

The table below summarises the deferred tax that Lessee recognises on initial recognition of the lease (including the advance lease payment and initial direct costs):

	Carrying amount	Tax base	Deductible / (taxable) temporary difference	Deferred tax asset / (liability)
Lease asset				
– advance lease payment	15	—	(15)	(3)
– initial direct costs	5	—	(5)	(1)
– the amount of the initial measurement of the lease liability	435	—	(435)	(87)
Lease liability	435	—	435	87

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Applying paragraph 22(b) of IAS 12, Lessee recognises deferred tax assets and liabilities as illustrated in this example and recognises the resulting deferred tax income or expense in profit or loss.

Amendments to the Basis for Conclusions on IAS 12 *Income Taxes*

This Basis for Conclusions accompanies, but is not part of, IAS 12.

Paragraph BC1 is amended with deleted text struck through and new text underlined. Paragraphs BC71–BC95 and related headings are added. For ease of reading, paragraphs BC71–BC95 and the related headings have not been underlined.

Introduction

BC1 When IAS 12 *Income Taxes* was issued by the International Accounting Standards Committee in 1996 to replace the previous IAS 12 *Accounting for Taxes on Income* (issued in July 1979), the Standard was not accompanied by a Basis for Conclusions. This Basis for Conclusions is not comprehensive. It summarises only the considerations of the International Accounting Standards Board's (Board) considerations in developing making the amendments to IAS 12 since contained in *Deferred Tax: Recovery of Underlying Assets* issued in December 2010. Individual Board members gave greater weight to some factors than to others.

...

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (2021 amendments)

- BC71 In May 2021 the Board issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*. The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.
- BC72 The amendments were issued in response to a recommendation from the Interpretations Committee. Research conducted by the Interpretations Committee indicated that views differed on whether the recognition exemption applied to transactions, such as leases, that lead to the recognition of an asset and liability. These differing views resulted in entities accounting for deferred tax on such transactions in different ways, reducing comparability between their financial statements.
- BC73 For simplicity, paragraphs BC74–BC91 explain the basis for the amendments using leases as an example. The explanation applies equally to other transactions affected by the amendments, such as decommissioning, restoration and similar liabilities (decommissioning obligations) and the corresponding amounts recognised as part of the cost of the related asset.

Background

Temporary differences and the application of the recognition exemption

- BC74 Applying IFRS 16 *Leases*, an entity recognises a right-of-use asset (lease asset) and a lease liability at the commencement date of a lease. On initial recognition of the lease asset and lease liability, an entity assesses whether temporary differences arise in determining whether to recognise deferred tax. In making this assessment, an entity determines the tax bases of the lease asset and lease liability by identifying the amounts attributable to them for tax purposes. In some jurisdictions, an entity may receive tax deductions for lease payments when it makes such payments. In such situations, the entity determines whether those tax deductions are attributable to:
- (a) the lease asset (and interest expense)—because the deductions relate to the expenses arising from the lease (that is, depreciation and interest expense); or
 - (b) the lease liability (and interest expense)—because the deductions relate to the repayment of the lease liability and interest expense.
- BC75 An entity applies judgement in determining whether tax deductions are attributable to the lease asset or lease liability, having considered the applicable tax law.
- BC76 Applying IAS 12, temporary differences arise on initial recognition only when the entity determines that tax deductions are attributable to the lease liability because:
- (a) when tax deductions are attributable to the lease asset, the tax bases of the lease asset and lease liability equal their carrying amounts, reflecting that the entity will receive tax deductions equal to the carrying amount of the lease asset and will receive no tax deductions in respect of the lease liability. Consequently, no temporary differences arise on initial recognition of the lease and the recognition exemption does not apply. Accordingly, the entity does not recognise deferred tax on initial recognition but does so if and when temporary differences arise after initial recognition.
 - (b) when tax deductions are attributable to the lease liability, the tax bases of the lease asset and lease liability are nil, reflecting that the entity will receive tax deductions in respect of the lease liability equal to its carrying amount and will receive no tax deductions on recovering the carrying amount of the lease asset. Consequently, temporary differences associated with the lease asset and lease liability arise on initial recognition of the lease.
- BC77 Before the amendments were issued, views differed on whether the recognition exemption applied to temporary differences that arise in the situation described in paragraph BC76(b). If an entity concluded that the recognition exemption applied, it recognised no deferred tax in respect of the lease (either on initial recognition or subsequently throughout the lease term).

Purpose of the recognition exemption

- BC78 Paragraph 22(c) of IAS 12 explains the purpose of the recognition exemption. If temporary differences arise on initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit, an entity would, in the absence of the exemption, 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 and IAS 12, therefore, prohibits the recognition of deferred tax in these circumstances.
- BC79 The Board observed that, when temporary differences arise on initial recognition of a lease asset and lease liability, these temporary differences are often equal and offsetting (that is, the taxable and deductible temporary differences are of the same amount). If the recognition exemption were not applied, an entity would generally recognise a deferred tax asset and liability of the same amount for these temporary differences. The recognition of a deferred tax asset and liability of the same amount would not require an adjustment to the carrying amount of the related lease asset or lease liability; nor would it have any effect on profit or loss. Thus, the outcome the recognition exemption was designed to prevent would not occur in such situations. The Board, therefore, concluded that the recognition exemption is not generally needed if on initial recognition a transaction gives rise to equal taxable and deductible temporary differences.

Narrowing the scope of the recognition exemption

- BC80 In the light of the observations summarised in paragraph BC79, the Board decided to narrow the scope of the recognition exemption so that it does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.
- BC81 The Board considered how this narrower scope of the recognition exemption would apply when an entity does not recognise a deferred tax asset and liability of the same amount for equal taxable and deductible temporary differences. Specifically, an entity could recognise a deferred tax asset and liability of different amounts if it is unable to recognise the deferred tax asset in full (see paragraphs BC82–BC87), or if different tax rates apply to the measurement of each temporary difference (see paragraph BC88).

Inability to recognise deferred tax assets

- BC82 Paragraph 24 of IAS 12 requires an entity to recognise deferred tax assets only 'to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised' (the recoverability requirement). Because of the recoverability requirement, sometimes equal taxable and deductible temporary differences might result in an entity recognising unequal amounts of deferred tax assets and liabilities.

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- BC83 To address this situation, when it exposed draft amendments for comment, the Board proposed that the recognition exemption continue to apply to the extent that an entity would otherwise recognise unequal amounts of deferred tax assets and liabilities (the capping proposal). Applying the capping proposal, an entity would recognise deferred tax assets and liabilities of the same amount and only to the extent that, applying the recoverability requirement, the entity would recognise a deferred tax asset.
- BC84 Feedback on the draft amendments indicated that the capping proposal would be:
- (a) inconsistent with the principles in IAS 12 because the Standard generally requires an entity to recognise a deferred tax liability for all taxable temporary differences; and
 - (b) complex and burdensome to apply.
- BC85 In response to this feedback, the Board removed the capping proposal. The Board concluded that:
- (a) applying the recognition exemption to a deferred tax liability only because an entity is unable to recognise a corresponding deferred tax asset applying the recoverability requirement would be inconsistent with how the recognition exemption is applied in other situations.
 - (b) removing the capping proposal would significantly reduce the complexity of applying the amendments while still achieving their objective (see BC92(a)). In particular, by removing the capping proposal, the Board would:
 - (i) not require an entity to assess the recoverability requirement on initial recognition of each applicable transaction to determine the extent to which a deferred tax liability can be recognised.
 - (ii) simplify the accounting when, on initial recognition, deferred tax assets are not recognised in full. In such cases, had the capping proposal been retained in the amendments, entities would have been required to track separately the portions of temporary differences to which the recognition exemption was applied.
- BC86 Removing the capping proposal might result in an entity recognising unequal amounts of deferred tax assets and liabilities on initial recognition of a transaction. In such cases, an entity would recognise any difference in profit or loss (see paragraph 22(b) of IAS 12). For example, an entity would recognise an income tax loss if, on initial recognition, it recognises a deferred tax liability but is unable to recognise an equal and offsetting deferred tax asset. The Board concluded that this accounting appropriately reflects the entity's expectation that it will be unable to benefit fully from the tax deductions available when it settles the liability, but that it is nonetheless required to make future tax payments as it recovers the asset. As explained in paragraph BC85(a), applying the recognition exemption to the deferred tax

liability only because an entity is unable to recognise a corresponding deferred tax asset would be inconsistent with how the recognition exemption is applied in other situations.

- BC87 Further, the Board expects that unequal amounts of deferred tax assets and liabilities would arise on initial recognition only infrequently, because an entity might often meet the recoverability requirement through the future reversal of taxable temporary differences arising from the same transaction.

Different tax rates apply

- BC88 An entity might recognise a deferred tax asset and liability of different amounts for equal taxable and deductible temporary differences if different tax rates apply to the measurement of the deferred tax asset and liability. As noted in paragraph BC86, an entity would recognise any difference in profit or loss. The Board concluded that the expected benefits of applying the recognition exemption in these situations would not outweigh the costs because:

- (a) applying the recognition exemption in these situations would be complex because the recognition exemption would apply to only a small portion of the resulting deferred tax; and
- (b) these situations are expected to arise only in a limited number of jurisdictions and the net effect of applying different tax rates will often be immaterial.

Other considerations

Attribution of tax deductions to the lease asset or lease liability

- BC89 Some respondents to the draft amendments suggested that the Board provide application guidance to help entities assess whether tax deductions are attributable to the lease asset or lease liability (see paragraph BC74). The Board decided not to provide such application guidance because the expected benefits of doing so would not outweigh the costs. The Board concluded that providing such guidance:

- (a) was unnecessary to achieve the objective of the amendments—the amendments will result in entities recognising deferred tax for temporary differences that arise on leases (either on initial recognition or subsequently) regardless of whether tax deductions are attributable to the lease asset or lease liability; and
- (b) could cause unintended consequences—any such guidance could affect how entities, in other situations, consider the applicable tax laws in determining the tax base of assets and liabilities.

Advance lease payments and initial direct costs

- BC90 Applying IFRS 16, an entity initially measures a lease liability at the present value of the lease payments not paid at the commencement date. An entity's initial measurement of a lease asset includes the initial measurement of the lease liability as well as advance lease payments and initial direct costs.

BC91 The recognition of the lease liability and the related component of the lease asset's cost may give rise to equal taxable and deductible temporary differences as explained in paragraph BC79. The amendments apply to any such equal taxable and deductible temporary differences that arise. In addition, making advance lease payments or paying initial direct costs could result in additional taxable temporary differences associated with the lease asset, to which an entity would apply the applicable requirements in IAS 12. In response to requests to do so, the Board included an example illustrating the accounting for deferred tax on advance lease payments and initial direct costs.

Effect analysis

BC92 The Board concluded that the expected benefits of the amendments outweigh the costs because:

- (a) the amendments will reduce diversity in the reporting of transactions such as leases and decommissioning obligations and align the accounting for deferred tax on such transactions with the general principle in IAS 12 of recognising deferred tax for temporary differences; and
- (b) concerns about the costs of applying the draft amendments related mainly to the application of the capping proposal (see paragraph BC84(b)). The Board's decision to remove the capping proposal addressed most of those concerns.

Transition

BC93 The Board decided not to require retrospective application of the amendments in accordance with IAS 8. Instead, it decided to require entities to apply the amendments for the first time by recognising deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest comparative period presented. It concluded that these requirements appropriately balance expected benefits and costs. Retrospective application would require entities to retrospectively assess whether each lease and decommissioning obligation gave rise to equal taxable and deductible temporary differences on initial recognition, which could have occurred a long time ago. The Board concluded that its transition approach would, therefore, make the amendments easier and less costly to apply than a full retrospective approach, while still achieving their objective. Such an approach also prevents any uncertainty about how the amendments interact with the transition requirements in IFRS 16.

BC94 The Board also required entities to apply the amendments prospectively to transactions other than leases and decommissioning obligations (that is, to such transactions that occur on or after the beginning of the earliest comparative period presented). Were the amendments to be applied retrospectively, determining whether such transactions are in the scope of the amendments and then reconsidering the accounting for those transactions could be costly and complex. The Board concluded that the costs of requiring

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entities to apply the amendments retrospectively for those other transactions would outweigh the benefits of doing so.

- BC95 For reasons similar to those explained in paragraph BC93, the Board required first-time adopters to recognise deferred tax for all temporary differences associated with leases and decommissioning obligations existing at the date of transition to IFRSs.



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