Exposure Draft

Deferred Tax: Recovery of Underlying Assets

Amendments to Indian Accounting Standard (Ind AS) 12 , *Income Taxes*

(Last date for Comments: November 5, 2011)

Issued by
Accounting Standards Board

The Institute of Chartered Accountants of India

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Following is the Exposure Draft of the Amendments to Indian Accounting Standard (Ind AS) 12, Income Taxes, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board. The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than November 5, 2011. Comments can also be sent by e-mail at edcommentsasb@icai.org or asb@icai.org.

(This Exposure Draft of the Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards[1])

Paragraph 52 is renumbered as paragraph 51A. Paragraph 10 and the examples following paragraph 51A , Paragraph 5 of Appendix 1 are amended (new text is underlined and deleted text is struck through). Paragraphs 51B and 51C and the following example, and paragraphs 51D, 51E, 88-99 and paragraph 8 of Appendix 1 are added. Appendix A, *Income Taxes-Recovery of Revalued Non-Depreciable Assets* is deleted.

Definitions

Tax base

10 Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity

[1] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Example C following paragraph ~~52~~ 51A illustrates circumstances when it may be helpful to consider this fundamental principle, for example, when the tax base of an asset or liability depends on the expected manner of recovery or settlement.

Measurement

51A~~52~~ In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

(a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and

(b) the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

Example A

An ~~asset~~ item of property, plant and equipment has a carrying amount of 100 and a tax base of 60. A tax rate of 20% would apply if the ~~asset~~ item were sold and a tax rate of 30% would apply to other income.

The entity recognises a deferred tax liability of 8 (40 at 20%) if it expects to sell the ~~asset~~ item without further use and a deferred tax liability of 12 (40 at 30%) if it expects to retain the ~~asset~~ item and recover its carrying amount through use.

Example B

An ~~asset~~ item of property, plant and equipment with a cost of 100 and a carrying amount of 80 is revalued to 150. No equivalent adjustment is made for tax purposes. Cumulative depreciation for tax purposes is 30 and the tax rate is 30%. If the ~~asset~~ item is sold for more than cost, the cumulative tax depreciation of 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

The tax base of the ~~asset~~ item is 70 and there is a taxable temporary difference of 80. If the entity expects to recover the carrying amount by using the ~~asset~~ item, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, there is a deferred tax liability of 24 (80 at 30%). If the entity expects to recover the carrying amount by selling the ~~asset~~ item immediately for proceeds of 150, the deferred tax liability is computed as follows:

	Taxable	*Deferred*

	Temporary Difference	*Tax Rate*	*Tax Liability*
Cumulative tax depreciation	*30*	*30%*	*9*
Proceeds in excess of cost	*50*	*nil*	*–*
Total	*80*		*9*

(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)

Example C

The facts are as in example B, except that if the ~~asset~~ item is sold for more than cost, the cumulative tax depreciation will be included in taxable income (taxed at 30%) and the sale proceeds will be taxed at 40%, after deducting an inflation-adjusted cost of 110.

If the entity expects to recover the carrying amount by using the ~~asset~~ item, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, the tax base is 70, there is a taxable temporary difference of 80 and there is a deferred tax liability of 24 (80 at 30%), as in example B.

If the entity expects to recover the carrying amount by selling the ~~asset~~ item immediately for proceeds of 150, the entity will be able to deduct the indexed cost of 110. The net proceeds of 40 will be taxed at 40%. In addition, the cumulative tax depreciation of 30 will be included in taxable income and taxed at 30%. On this basis, the tax base is 80 (110 less 30), there is a taxable temporary difference of 70 and there is a deferred tax liability of 25 (40 at 40% plus 30 at 30%). If the tax base is not immediately apparent in this example, it may be helpful to consider the fundamental principle set out in paragraph 10.

(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)

51B If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in Ind AS 16, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.

51C -51D (Refer to Appendix 1)

51E Paragraphs 51B does not change the requirements to apply the principles in paragraphs 24–33 (deductible temporary differences) and paragraphs 34–36 (unused tax losses and unused tax credits) of this Standard when recognising and measuring deferred tax assets.

Effective date

88-98 (Refer to Appendix 1)

Withdrawal of Appendix A to Ind AS 12

99 As a consequence of the amendments made , ~~December 2010~~ in Ind AS 12, *Income Taxes*, Appendix A to Ind AS 12 *Income Taxes—Recovery of Revalued Non-Depreciable Assets, stands withdrawn .*

Appendix 1 (Comparison with IAS 12, *Income Taxes*)

5. As a consequence of not allowing fair value model in Ind AS 40, paragraph A4 of Appendix A has been deleted and the following paragraphs have been modified in Ind AS 12:

(i) paragraph 20

(ii) paragraph 51C- 51D

(~~ii~~ iii) paragraph A 10 of Appendix C

(~~iii~~ ~~iv~~) paragraph B 8 of Appendix C

8 Paragraphs 88- 98 are not relevant as the date of application will be notified under the Companies Act. However, in order to maintain consistency with paragraph numbers of IAS 12, the paragraph numbers are retained in Ind AS 12:

Appendix A

Amendments to Other Indian Accounting Standards

This appendix sets out the amendments to other Ind ASs that are made a consequence of amending Ind AS 12, Income Taxes. Amended paragraphs are shown with new text underlined and deleted text struck through.

Ind AS 16 *Property, Plant and Equipment*

1. Appendix B is amended as follows:

Appendix B

References to matters contained in other Indian Accounting Standards

1. ~~Appendix A, *Income Taxes—Recovery of Revalued Non-Depreciable Assets* contained in Ind AS 12.~~

Ind AS 40 *Investment Property*

2. Appendix **A** is amended as follows:

Appendix A

References to matters contained in other Indian Accounting Standards

~~**1.**~~ ~~Appendix A *Income Taxes-Recovery of Revalued Non-Depreciable Assets* contained in Ind AS 12, *Income Taxes* makes reference to this Standard also~~

(Appendix reserved for future possible references)