

Amendments to IAS 12

Income Taxes

What you need to know

- ▶ The amendments apply to all entities with investment property measured using the fair value model in IAS 40 and entities with non-depreciable property, plant and equipment measured using the revaluation model in IAS 16
- ▶ Deferred tax on investment property measured at fair value is required to be determined using the rebuttable presumption that the carrying amount of the underlying asset will be recovered through sale
- ▶ The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale
- ▶ Deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 will always be determined on a sale basis

On 20 December 2010, the IASB issued *Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)* concerning the determination of deferred tax on investment property measured at fair value. The amendments incorporate *SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets* into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment*. The amendments take into account comments received on the IASB's Exposure Draft *ED/2010/11 Deferred Tax: Recovery of Underlying Assets (proposed amendments to IAS 12)*, issued in September 2010. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40 *Investment Property*.

In summary

IAS 12 has been updated to include:

- ▶ A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale

And

- ▶ A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should *always* be measured on a sale basis

The scope of the amendments is limited to these items only, but include the determination of deferred tax arising from measuring investment property in a business combination if the entity uses the fair value model when subsequently measuring that investment property.

Rebuttable presumption for investment property measured using the fair value model

One of the basic principles in IAS 12 is that the measurement of deferred tax should reflect the expected manner of recovery or settlement of the carrying amount of the underlying asset or liability. For assets that are depreciable, the IASB believes that the estimates required for depreciation establish an expected manner of recovery such that an asset's carrying value is recovered through use, to the extent of the amount subject to depreciation, and through sale, to the extent of the residual value. The IASB recognised, however, that for investment property measured using the fair value model in IAS 40, it is more difficult to establish a clear link between the accounting estimates applied to the measurement of the underlying asset and the manner of recovery for determining the associated deferred tax.

To address this issue, IAS 12, as amended, includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale.

The exposure draft required 'clear evidence' of consumption of benefits throughout the asset's economic life to rebut the presumption of recovery through sale. This was removed after respondents expressed concern that the ambiguity of the term 'clear evidence' could result in some entities interpreting the requirement as onerous and others abusing the opportunity to choose whether to gather clear evidence to achieve a favourable result. The term 'business model' was introduced because it already exists in IFRS 9 *Financial Instruments* and would not depend on management's intentions for an individual asset.

The IASB do not provide an example of a business model meeting these criteria, but acknowledge that in setting the benchmark for rebuttal at a 'substantially all' level, the amendment may give rise to

cases where the carrying amount of an investment property measured at fair value is assumed to be recovered entirely through sale, even though an entity expects it to be recovered partly through sale and partly through use.

Assets measured using the revaluation model in IAS 16 (incorporation of SIC-21 into IAS 12)

As a result of the amendments, SIC-21 has been withdrawn and, after excluding investment property measured at fair value from its scope, incorporated into IAS 12. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should *always* reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. This requirement also applies to land and is demonstrated in the new *Example illustrating paragraph 51C* in IAS 12.

How we see it

Entities that previously found it difficult to determine the manner of recovery of investment property measured at fair value should welcome this amendment. Many entities that have already been able to determine how to measure deferred tax on investment property should be unaffected. However, entities that have previously determined deferred tax on the basis that some, but not 'substantially all', of the carrying amount of an investment property measured at fair value is expected to be recovered through use could be affected by these amendments.

The existing principles of IAS 12 should continue to apply when it comes to the recognition of deferred tax assets. In particular, an entity would take into account tax planning opportunities to create taxable profit in appropriate periods.

Effective date

The amendments are mandatory for annual periods beginning on or after 1 January 2012, but earlier application is permitted. Entities applying the amendments for an earlier period are required to disclose that fact.

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