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**International  
Accounting Standards  
Board**

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## **Short-term convergence: income taxes**

***Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed as the project develops.***

### **Introduction**

**This project report is structured as follows:**

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### **Objective**

1. The objective of the project is to reduce the differences between IAS 12 *Income Taxes* and the US standard, SFAS 109 *Accounting for Income Taxes*, and related US GAAP.

### **Next Steps**

2. The IASB and the FASB have discussed and made converged decisions on most issues in the project.
3. An Exposure Draft of an IFRS to replace IAS 12 is expected to be published by the IASB in early 2009. The FASB has suspended indefinitely deliberations on the Income Tax project. The FASB has no plans to issue an amendment to Statement 109 at this time. The FASB may revisit this project after the IASB further develops its replacement to IAS 12, *Income Taxes*.

### **Background**

4. Income taxes are frequently identified as a source of significant reconciling items for US listed foreign registrants applying IFRS and constituents have indicated that the prospects of convergence are welcome. Both IAS 12 and SFAS 109 *Accounting for Income Taxes* are based on the balance sheet liability approach whereby an entity recognises deferred tax assets and liabilities for temporary differences (differences between the carrying amount of an asset or liability in the balance sheet and its tax base) and for operating loss and tax credit carryforwards. However, differences arise because both Standards have numerous exceptions to the basic principle. The

Board's approach to convergence is not to reconsider the underlying approach, but rather to eliminate exceptions to the basic principle.

## Tentative Decisions to Date

5. The Board's decisions are grouped into the following topics:
  - Definition of tax base
  - Other definitions
  - Exceptions from the temporary difference approach
  - Measurement of deferred tax assets and liabilities
  - Recognition of deferred tax assets
  - Allocation of tax to components of profit or loss or equity ('backwards tracing')
  - Balance sheet classification
  - Additional guidance from SFAS 109
  - Uncertain tax positions
  - Disclosures
  - Transitional arrangements

IAS 12 requirement	US GAAP requirement	Boards' decision
<b>Definition of tax base</b>		
<p>Tax base definitions based on future tax deductions. Dependent on expected manner of recovery or settlement of asset or liability. Tax base of asset or liability the recovery of settlement of which has no tax consequences defined to be equal to carrying amount.</p>	<p>No definition of tax base.</p>	<p>The Boards decided on the following definition of a tax base:</p> <p>Tax base is a measurement attribute. It is the measurement under existing tax law applicable to a present asset, liability, or equity instrument recognised for tax purposes as a result of one or more past events. That asset, liability, or equity instrument may or may not be recognised for financial reporting.</p> <p>The IASB decided to modify the definition of a temporary difference in IAS 12. The Board agreed to clarify that a temporary difference is a difference between the tax base of an asset or liability and its reported amount in the financial statements <i>that will result in taxable or deductible amounts when the reported amount of the asset or liability is recovered or settled.</i></p> <p>The Board also decided to eliminate the guidance in paragraph 52(b) of IAS 12 that management intent as to the manner in which an entity will recover (settle) the carrying amount of an asset (liability) can affect the tax base of an asset or liability.</p> <p>The Board decided to establish that the tax base of an asset is determined by the amount deductible by the entity if it sold or otherwise disposed on the asset for its carrying amount at the balance sheet date.</p>

<b>Other definitions</b>		
<i>Definitions of tax credit and investment tax credit</i>		
IAS 12 does not define tax credits or investment tax credits.	SFAS 109 does not define tax credits or investment tax credits, but APB Opinions 2 and 4 discuss specific types of investment tax credit.	The IASB decided to define tax credits as benefits granted by tax authorities that take the form of an amount that reduces tax payable. Investment tax credits are defined as tax credits that are directly related to the acquisition of depreciable assets.
<b>Exceptions to the temporary difference approach</b>		
<i>'Initial recognition exception'</i>		
<p>IAS 12 prohibits recognition of a deferred tax liability or deferred tax asset for temporary differences that arise from the initial recognition of an asset or liability in a transaction that:</p> <p>(a) is not a business combination, and</p> <p>(b) at the time of the transaction affects neither accounting nor taxable profit.</p> <p>Furthermore, IAS 12 states explicitly that an entity does not subsequently recognise changes in this unrecognised deferred tax asset or liability.</p>	SFAS 109 does not provide this exception.	<p>The IASB decided to eliminate the initial recognition exception.</p> <p>The IASB and the FASB concluded that the fair value of such assets and liabilities should be measured on initial recognition using the same assumptions about the tax base that would be made by other market participants. The corresponding deferred tax asset or liability should be recognised as the difference between the fair value of the asset and its tax base multiplied by the tax rate. Any difference between the consideration paid and the sum of the fair value of the asset and the recognised deferred tax amount is recognised as a purchase discount allowance on the deferred tax.</p> <p>The IASB decided to extend the assumption about</p>

		the tax base being the same as would be made by other market participants to the initial recognition of assets and liabilities in a business combination, and to assets and liabilities remeasured at fair value.
<i>Goodwill</i>		
IAS 12 provides an exception to the temporary difference approach whereby an entity is prohibited from recognising a deferred tax liability related to goodwill (or the portion thereof) for which amortisation is not deductible for tax purposes.	SFAS 109 provides an exception to the temporary difference approach whereby an entity is prohibited from recognising a deferred tax liability related to goodwill (or the portion thereof) for which amortisation is not deductible for tax purposes.	The Boards decided not to amend IAS 12 or SFAS 109.
<i>Investments in subsidiaries, branches and associates, and interests in joint ventures</i>		
Currently, IAS 12 provides an exception from the recognition of a deferred tax liability for taxable temporary differences relating to investments in subsidiaries, branches, and associates, and interests in joint ventures if the parent can control the timing of the reversal and it is probable the temporary difference will not reverse in the foreseeable future.	Statement 109 prohibits a deferred tax liability from being recognised for the excess for financial reporting over the tax base of an investment in a foreign subsidiary or a foreign corporate joint venture that is essentially permanent in duration.	The IASB decided that an entity should recognise the income tax consequences of all temporary differences arising in the consolidated financial statements. An implication of this decision is that an entity should take into account any taxes payable by a subsidiary on the distribution of earnings to the parent in determining the tax rate to be used to measure its consolidated deferred tax liability. The practical difficulties of doing this for foreign subsidiaries are addressed below. In addition, the Board decided to eliminate from IAS 12 the notion of 'branches'.  At the joint meeting in October 2004, the boards decided to retain the exceptions in and IAS 12 and

		SFAS 109 for the recognition of deferred tax liabilities for certain investments in foreign subsidiaries (or foreign corporate joint ventures) because of the practical difficulties in measuring the liabilities. The IASB agreed to move to the SFAS 131 wording for the exception.
<i>Special transitional procedures for temporary differences related to deposits in statutory reserve funds by U.S. steamship enterprises</i>		
IAS 12 contains no such procedures.	Statement 109 provides some transitional procedures for statutory reserved funds by US steamship enterprises that arose in fiscal years beginning on or before December 15, 1992.	The IASB decided not to amend IAS 12 to converge with Statement 109
<i>Leveraged leases</i>		
IAS 12 contains no exception.	US GAAP provides a specific exception to the basic principle of accounting for income taxes for leveraged leases.	The IASB noted that this difference results from fundamental differences in accounting for leveraged leases. Until the larger issue of lease accounting is addressed (specifically for leveraged leases), this difference cannot be resolved. The IASB decided that this is beyond the scope of the short-term convergence project and concluded that no action should be taken with respect to this difference.
<i>Intercompany transfers of assets remaining within the group</i>		
IAS 12 contains no exception.	An intercompany transfer of assets (such as the sale of inventory or depreciable assets) between tax jurisdictions is a taxable event that establishes a new tax base for those assets in the buyer's tax jurisdiction. The new tax base of those assets is deductible on the buyer's tax return as those assets are consumed or sold to an unrelated party. US GAAP requires taxes paid by the seller on intercompany profits to be deferred and prohibits the recognition of a deferred tax asset for the	The IASB decided not to amend IAS 12 to provide for this exception.  The FASB tentatively decided to amend SFAS 109 to eliminate this exception

	difference resulting from tax base differences between the jurisdictions.	
<i>Foreign Nonmonetary Assets and Liabilities</i>		
IAS 12 contains no exception.	US GAAP prohibits recognition of a deferred tax asset or liability for differences related to assets and liabilities that, under FAS 52 <i>Foreign Currency Translation</i> , are remeasured from the local currency into the functional currency using historical exchange rates and that result from (i) changes in exchange rates or (ii) indexing for tax purposes.	<p>The IASB decided not to amend IAS 12 to provide for this exception.</p> <p>The FASB tentatively decided to amend SFAS 109 to eliminate this exception</p>
<b>Measurement of deferred tax assets and liabilities</b>		
<i>Enacted or substantively enacted rate</i>		
IAS 12 requires an entity to measure its deferred taxes using the 'substantively enacted' tax rate as of the balance sheet date.	US GAAP requires an entity to use the enacted tax rate	<p>The IASB decided that the use of the 'substantively enacted' rate is appropriate and that IAS 12 should not be amended. The IASB also decided that IAS 12 should be amended to clarify that 'substantively enacted' occurs when any future steps in the enactment process will not change the outcome. The IASB decided to note that for US tax jurisdictions the point of substantive enactment is when tax laws are enacted.</p> <p>The FASB tentatively decided that:</p> <ol style="list-style-type: none"> <li>1. For operations within US taxing jurisdictions: to retain the current approach in SFAS 109, which requires the effect of a change in tax laws or tax rates to be recognised in the period of enactment. Changes in tax law are substantively enacted in the US only after the</li> </ol>

		<p>President signs the bill into law.</p> <p>2. For operations beyond US taxing jurisdictions: to require an approach that is consistent with IFRSs.</p> <p>As a result, any entity reporting under either IFRSs or US GAAP would recognise changes in tax laws and rates:</p> <ul style="list-style-type: none"> <li>• In the period of enactment for operations within US taxing jurisdictions</li> <li>• In the period of enactment or substantive enactment for operations outside US taxing jurisdictions</li> </ul>
<i>Distributed or undistributed rate</i>		
<p>In measuring deferred tax assets and liabilities, IAS 12 requires use of the tax rate applicable to undistributed profits.</p>	<p>US GAAP requires the use of the tax rate applicable to distributed profits if the tax rate applicable to distributed profits is higher than the tax rate applicable to undistributed profits.</p>	<p>The Boards decided that:</p> <ul style="list-style-type: none"> <li>• In jurisdictions that have a different tax rate depending on whether taxable earnings are distributed to owners, an entity should use the rate(s) that it expects will apply to the item being measured, incorporating the entity's past practices and future expectations of distributions.</li> <li>• In jurisdictions that provide the entity with a deductions from taxable earnings for amounts that are distributed to owners, when measuring current or deferred tax assets or liabilities an entity should include assumptions about future deductions incorporating the entity's past practices</li> </ul>

		<p>and future expectations of distributions.</p> <p>In both cases, when determining future expectations of distributions, the entity must have the intention and ability to make distributions for the foreseeable future. If the entity does not expect to distribute earnings or cannot demonstrate the ability to distribute earnings for the foreseeable future, then the entity shall not anticipate deductions for distributions to owners when measuring current or deferred tax assets or liabilities.</p>
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<b>Recognition of deferred tax assets</b>		
Under IAS 12, a deferred tax asset is not recognised unless it is 'probable' that it will be realised.	Under SFAS 109, all deferred tax assets are recognised and a valuation allowance is recognised to the extent that it is 'more likely than not' that the deferred tax assets will not be realised.	The IASB agreed probable should be defined as meaning 'more likely than not'.  The IASB also agreed to move to the SFAS 109 valuation allowance approach.
<b>Allocation of tax to components of profit or loss or equity</b>		
IAS 12 requires the tax effects of items credited or charged directly to equity during the current year also be allocated directly to equity. IAS 12 also requires subsequent changes in those amounts to be allocated to equity. Such items may arise from either changes in assessments of recovery of deferred tax assets or changes in tax rates, laws, or other measurement attributes	SFAS 109 requires the tax effects of items credited or charged directly to equity during the current year also be allocated directly to equity. However SFAS 109 requires subsequent changes in those amounts to be allocated to profit or loss.	The IASB decided to amend IAS 12 to adopt the intraperiod allocation requirements of SFAS 109.
<b>Balance sheet classification of deferred tax assets and liabilities</b>		
In a statement of financial position that distinguishes between current and non-current assets and liabilities, IAS 12 requires classification of all deferred tax assets and liabilities as non-current	SFAS 109 requires classification of deferred tax assets and liabilities as either current or non-current based on the classification of the related non-tax asset or liability for financial reporting.	The IASB decided to amend IAS 12 to converge with SFAS 109

<b>Additional guidance from SFAS 109</b>		
<i>Special deductions</i>		
IAS 12 includes no guidance.	SFAS 109 paragraphs 231 and 232 include guidance on the recognition of tax benefits from special deductions. The paragraphs require that 'the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return'. SFAS 109 does not define a special deduction, but gives examples of special deductions available in the United States.	The IASB concluded that IAS 12 could not converge with the wording in SFAS 109 because it would be inappropriate for IAS 12 to include a list of jurisdiction-specific special deductions. The IASB decided that IAS 12 should remain silent on the issue of special deductions.
<i>Alternative minimum taxation requirements</i>		
IAS 12 includes no guidance.	SFAS 109 paragraph 19 includes guidance on the tax rate to be used when alternative tax systems exist. SFAS 109 states that 'if alternative tax systems exist in jurisdictions other than the US federal jurisdictions, the applicable tax rate is determined in a manner consistent with the tax law after giving consideration to any interaction (that is, a mechanism similar to the US alternative minimum tax credit) between the two systems'.	The IASB decided to include similar wording in IAS 12.
<i>Effect of a change in an entity's tax status on current and deferred taxes</i>		
SIC-25 <i>Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders</i> interprets IAS 12 in addressing a change in the tax status of an entity or its shareholders. SIC-25 covers any change in tax status of an entity or its shareholders that may have consequences for an	SFAS 109 paragraph 28 includes guidance on how to treat the deferred tax effects of a change in an entity's tax status from taxable to non-taxable and vice versa. The guidance requires that 'the effect of recognizing or eliminating the deferred tax liability or asset shall be included in income from	The IASB decided the following with respect to the effect of a change in an entity's tax status on current and deferred taxes:  The scope of the guidance in SIC-25 would not be narrowed to address only a

<p>entity by increasing or decreasing its tax liabilities or assets. SIC-25 requires current and deferred tax consequences of a change in tax status to be included in profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit or charge to the recognised amount of equity.</p>	<p>continuing operations.’</p>	<p>change in an entity’s tax status from taxable to non-taxable and vice versa.</p> <p>The tax consequences addressed by SIC-25 would not be narrowed to address only deferred tax consequences, but would continue to cover both current and deferred tax consequences.</p> <p>The staff would ask the FASB to consider extending the scope of SFAS 109 to address both current and deferred tax consequences of any change in tax status of an entity or its shareholders that affects the tax assets and liabilities of an entity, and thus converge with SIC-25 in that respect.</p> <p>The IASB decided to include the following guidance from SFAS 109:</p> <p>The effect of (a) an election for a voluntary change in tax status is recognised on the approval date or on the filing date if approval is not necessary and (b) a change in tax status that results from a change in tax law is recognised on the date that the tax law is exacted or substantively enacted.</p> <p>The IASB decided to incorporate the guidance in SIC-25 in IAS 12.</p>
<p><i>Measuring the realisability of deferred tax assets</i></p>		
<p>SFAS 109 and IAS 12 both give guidance on measuring the realisability of deferred tax assets. The guidance in the two Standards is consistent.</p>	<p>The IASB decided to integrate the guidance from both standards into a section titled ‘Measuring the realisability of deferred tax assets’.</p>	

<i>Allocation of current and deferred taxes to entities within a consolidated tax group</i>		
IAS 12 contains no guidance.	SFAS 109 paragraph 40 includes guidance on allocating taxes to entities within a consolidated tax group, stating that '[t]he consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements.' SFAS 109 does not require a single allocation method, but requires that the allocation method be systematic, rational, and consistent with the broad principles established by the Standard. The guidance also lists some allocation methods that would be inconsistent with the principles in the Standard.	The IASB decided to include similar guidance in IAS 12
<b>Uncertain tax positions</b>		
The issue of uncertain tax positions addresses uncertainty in the amounts underlying current and deferred tax. IAS 12 is silent on this matter.	<p>The FASB issued FIN 48 requiring that:</p> <ul style="list-style-type: none"> <li>• deductions claimed should not be recognised unless they are more likely than not to be sustained. Recognised deductions should be derecognised if they become not more likely than not to be sustained.</li> <li>• deductions that meet the recognition threshold should be measured at the largest amount that is greater than 50% likely to be realised.</li> <li>• Disclosure of a tabular reconciliation of unrecognised tax benefits.</li> </ul>	<p>The IASB decided that the entity has a stand-ready liability to pay tax but the amount is uncertain. Consistent with the approach in the proposed amendments to IAS 37 on recognition, no probability threshold should be applied to the recognition of the stand-ready liability. Rather than adopting an IAS 37 settlement value measurement objective within the constraints of the objectives of IAS 12, the IASB decided on an expected outcome measure (ie the probability weighted average of the possible outcomes).</p> <p>The proposed amendments to IAS 37 included consequential amendments to the disclosure of uncertainties relating to income taxes. Those disclosures should be retained.</p>

<b>Disclosures</b>		
Adjustments recognised in the period for current tax of prior periods are given as an example of a significant component of income expense that should be disclosed.	SFAS 109 does not include this example.	The FASB tentatively decided to add the example to SFAS 109. The IASB decided to keep the example in IAS 12.
IAS 12 does not include these examples.	<p>Examples of significant components of income expense given in SFAS 109 are:</p> <ul style="list-style-type: none"> <li>• adjustment for change in tax status of an entity</li> <li>• tax benefits allocated directly to contributed capital or to goodwill</li> </ul>	The FASB decided to keep the examples in SFAS 109. The IASB decided to add the examples to IAS 12.
The effect of changes in tax rates or laws substantively enacted after the balance sheet date is required to be disclosed under IAS 12.	Not required by SFAS 109.	<p>The IASB noted that the disclosure was required by IAS 10 <i>Events after the Balance Sheet Date</i> and concluded it should be deleted from IAS 12.</p> <p>The FASB decided not to add this disclosure requirement to SFAS 109.</p>

<p>IAS 12 has no specific disclosures relating to intercompany transfers of inventory.</p>	<p>SFAS 109 has no specific disclosures relating to intercompany transfers of inventory.</p>	<p>The FASB tentatively decided to add to SFAS 109 requirements for disclosure of:</p> <ol style="list-style-type: none"> <li>1. the component of deferred tax assets and liabilities that represents the effect of an intercompany transfer of an asset between taxing jurisdictions with different effective tax rates.</li> <li>2. any such effect recognised as part of income tax expense (benefit) in the income statement for interim or annual periods. This could apply to all transfers or be limited to transfers whose timing or terms are not customary for the consolidated entity.</li> <li>3. tax effects of any modifications, including unwinding (reversal), of terms of such transfers.</li> </ol> <p>The IASB decided to add the same disclosures.</p>
<p>IAS 12 requires disclosure of the amount of a deferred tax asset and the nature of the evidence supporting its recognition when:</p> <ol style="list-style-type: none"> <li>1. the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and</li> <li>2. the entity has suffered a loss in either the current or the preceding period in the tax jurisdiction to which the deferred tax asset relates.</li> </ol>	<p>Not required by SFAS 109.</p>	<p>The FASB decided not to add this disclosure to SFAS 109.</p> <p>The IASB decided to delete the requirement from IAS 12</p>

Not required by IAS 12.	SFAS 109 requires public entities not subject to income taxes because their income is taxed directly to their owners to disclose that fact and the net difference between tax bases and carrying amounts.	The FASB decided to keep this disclosure requirement in SFAS 109. The IASB decided to add the requirement to IAS 12, and to make it applicable to all entities.
IAS 12 and SFAS 109 both require a reconciliation between tax expense and pre-tax accounting profit. However, IAS 12 permits an entity to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction, whereas SFAS 109 requires the use of the domestic federal statutory tax rates.		The FASB decided to retain the requirement in SFAS 109 to use the domestic federal statutory rate. The IASB decided to amend IAS 12 to require the use of the statutory rate applicable to the parent company.
IAS 12 requires an entity to disclose the expiry date (if any) of deductible temporary differences	Not required by SFAS 109.	The FASB decided not to add the requirement relating to deductible temporary differences. The IASB noted a possible example of a deductible temporary difference that expires. The IASB instructed the staff to develop an analysis of the tax base in the example to discover whether such an analysis would resolve the matter. Pending consideration of that analysis, the IASB decided to keep the requirement relating to deductible temporary differences.
Not required by IAS 12.	SFAS 109 requires an entity that is a member of a group that files a consolidated tax return to disclose in its separately issued financial statements:  1. the aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented and	The FASB decided to keep the disclosures. The IASB had previously decided to converge with the FASB requirements relating to the allocation of tax to members of a group that files a consolidated tax return. Therefore, the IASB decided to add the disclosure requirements to IAS 12.

	<p>2. the principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented.</p>	
<p>IAS 12 contains disclosure requirements regarding the potential income tax consequences of the payment of dividends. In summary, an entity is required to disclose, if practicable, the nature and the amount of income tax consequences that would result from the payment of dividends to shareholders when income is taxed at different rates depending on whether that income is distributed to shareholders.</p>	<p>Not required by SFAS 109.</p>	<p>The FASB decided to add these disclosures to SFAS 109. The IASB decided to keep the disclosures in IAS 12.</p>
<p>IAS 12 requires disclosure of the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements.</p>	<p>There is no requirement under US GAAP to disclose dividends that were proposed or declared after the balance sheet date.</p>	<p>The FASB tentatively decided to require disclosure of the income tax consequences if such dividends are disclosed.</p> <p>The IASB decided to keep the disclosure requirement in IAS 12.</p>
<p>IAS 12 and SFAS 109 have similar requirements relating to foreign unremitted earnings; both require disclosure of the aggregate amount of temporary differences associated with the foreign unremitted earnings that qualify for the recognition exception. However:</p> <p>1. SFAS 109, but not IAS 12, requires disclosure of the types of events that would cause temporary</p>		<p>The FASB decided to keep these disclosures.</p> <p>The IASB noted that, the definition of impracticable in IFRSs creates a higher hurdle than the US GAAP definition of practicable. It is therefore more</p>

<p>differences that have not been recognised to become taxable.</p> <p>2. IAS 12 encourages (if practicable) disclosure of the unrecognized deferred tax liability, whereas SFAS 109 <i>requires</i> disclosure of that liability (if practicable).</p> <p>3. If disclosure of the unrecognized deferred tax liability is not practicable, SFAS 109, but not IAS 12, requires a statement that determination is not practicable.</p>	<p>likely that these disclosures would be required under the IFRS definition. The IASB did not wish to impose a greater disclosure burden on IFRS preparers than on US GAAP preparers and decided not to add these disclosures.</p>
<p>The Boards also considered possible disclosures relating to unremitted foreign earnings beyond those in either IAS 12 or SFAS 109.</p>	<p>The FASB had decided not to require additional disclosures. The IASB also decided not to require additional disclosures but to ask a question in the Exposure Draft requesting specific suggestions for useful incremental disclosures.</p>

**Transitional arrangements**

The IASB decided that:

- (1) existing users should be required to apply the amendments to the assets and liabilities in the opening balance sheet for the first period starting after the effective date of the Standard and to all events and transactions thereafter. In applying the amendments to the assets and liabilities in that first opening balance sheet:
  - (a) a re-analysis of the cumulative amounts recognised through profit or loss or directly in equity should not be allowed and
  - (b) assets and liabilities to which the initial recognition exemption currently applies should be treated as if they had been acquired for their carrying amount at the balance sheet date. In other words, they would be grossed up to create (i) a new carrying amount and (ii) a deferred tax balance calculated in accordance with proposed IAS 12 with the sum of (i) and (ii) equalling the previous carrying amount.
- (2) first-time adopters whose date of transition to IFRSs is *before* a specified date shortly after the publication of the final standard should be allowed to apply the existing IAS 12 requirements for any periods presented that start before the specified date. In that case, the amendments would be applied to the assets and liabilities in the opening balance sheet for the first period starting after the specified date and to all events and transactions thereafter. In applying the amendments to the assets and liabilities in that first opening balance sheet entities should apply the same approach as existing users.

Any adjustments arising on the first application of the amendments should be treated as a change in accounting policy.
- (3) first-time adopters whose date of transition to IFRSs is *later* than a specified date shortly after the publication of the final standard should apply the amendments retrospectively except that:
  - (a) the requirements for the allocation of tax among components of profit or loss and equity should be applied to the amounts recognised directly

in equity on the initial recognition of assets and liabilities on the date of transition to IFRSs.

- (b) the carrying amount of assets and liabilities to which the initial recognition exception currently applies should be determined as if they had been acquired for their carrying amount at date of transition to IFRSs. In other words they would be grossed up to create (i) a new carrying amount and (ii) a deferred tax balance calculated in accordance with proposed IAS 12 with the sum of (i) and (ii) equalling the previous carrying amount.

## Contact information

6. Staff contacts

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