

IAS 12 *Income Taxes* (July 2007)

Deferred tax arising from unremitted foreign earnings

The IFRIC was asked to provide guidance on whether entities should recognise a deferred tax liability in respect of temporary differences arising because foreign income is not taxable unless remitted to the entity's home jurisdiction. The foreign income in question did not arise in a foreign subsidiary, associate or joint venture. The submission referred to paragraph 39 of IAS 12 and noted that, if the foreign income arose in a foreign subsidiary, branch, associate or interest in a joint venture and met the conditions in IAS 12 paragraph 39(a) and (b), no deferred tax liability would be recognised. The submission noted that IAS 12 does not include a definition of a branch. It therefore asked for guidance as to what constituted a branch. Even if the income did not arise in a branch, the submission asked for clarity as to whether the exception in paragraph 39 could be applied to other similar foreign income by analogy.

The IFRIC noted that the Board was considering the recognition of deferred tax liabilities for temporary differences relating to investments in subsidiaries, branches, associates and joint ventures as part of its Income Taxes project. As part of this project, the Board has tentatively decided to eliminate the notion of 'branches' from IAS 12 and to amend the wording for the exception for subsidiaries to restrict its application. The project team has been informed of the issue raised with the IFRIC. Since the issue is being addressed by a Board project that is expected to be completed in the near future, the IFRIC decided not to add the issue to its agenda.