

MODIFICATION PROPOSAL OF IAS 12 – INCOME TAX



Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin American
Accounting Standard Setters

Introduction

- **GLASS intends to suggest to the IASB the possibility of modifying IAS 12 Income Tax in order to contemplate the inclusion of an additional exception to the recognition of deferred tax contemplated by IAS 12 and to include some additional topics in a future review of said standard.**
- **The aspect that we propose to review refers to the standard requirement that leads to the inclusion as deferred tax liabilities, figures arising from temporary differences that arise whose probability of reversal is remote or at least highly unlikely in the foreseeable future.**

Introduction

- IAS 12 already provides for certain exceptions that justify the non-recognition of deferred tax assets or liabilities in situations that, in GLASS opinion are similar, and therefore a consistent application of the concept would lead to a similar definition.
- Is the case of interests in subsidiaries, branches and associates, or interests in joint agreements, the exception of which is provided for in paragraph 39 of IAS 12
- The proposal is to recognize in IAS 12 a similar additional exception for certain non-depreciable fixed assets and whose realization is not foreseen in the foreseeable future.

Non depreciable assets

- When an entity accounts for certain fixed assets using the revaluation model in IAS 16 or are measured at their fair value, if the assets are not depreciable and their expected use is for an indefinite period of time (for example, fields in agricultural activity or land intended for the future construction of an office building) and if it is also highly probable that its sale will not take place in the foreseeable future, the recognition of a liability for that concept does not meet some of the criteria for the recognition of liabilities in the 2018 Conceptual Framework.

Non depreciable assets

- In the case of entities in which non-depreciable fixed assets are very significant (agricultural companies), the amounts resulting from deferred tax liabilities constitute, in many cases, the entity's most important liability.
- The experience in our region of the recognition of liabilities whose probability of occurrence is remote, magnified by the fact that they are recognized at their nominal value, constitutes information that is not useful for users of financial information, and also distorts the indicators that are calculated using figures that include them.

GLASS Proposal

- Based on the reasoning presented above, GLASS proposal is to amend paragraph 15 of IAS 12 by adding at the end the following text :
- “... Additionally, for taxable temporary differences related with non-depreciable items of property, plant and equipment, intangible assets and investment properties, a deferred tax liability will be recognized in accordance with paragraph 39A ”.

GLASS Proposal

- Therefore, we further propose the inclusion of paragraph 39A as follows:
 - 39A "An entity shall recognize a deferred tax liability for all taxable temporary differences associated with non-depreciable items of property, plant and equipment, intangible assets and investment property, except to the extent that it is highly probable that the temporary difference will not be reversed for the foreseeable future."

GLASS Proposal

- **GLASS understands that a modification such as the proposed one will result in financial information that reflects the situation that it must represent in a much more appropriate way than that arising from the information that is prepared in accordance with the current text of IAS 12, and much more in line with the conceptual framework for financial reporting.**

Additional issues

- During the work done by the Technical Working Group created by GLASS to analyse the impact in the region of the application of IAS 12, other issues emerged as matters recommended to be studied by during the next integral review of IAS 12.
- The identified issues are:
 - ❖ Undiscounted amounts for future reversals of temporary differences.
 - ❖ Significant fluctuations in the effective tax rate presented by entities that pay its taxes in local currency but their functional currency is a different one, with different treatment in US GAAP.



¡Thank you very much!