

# TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

## AASB 112 “Income Taxes” replaces AAS 3 “Income Taxes”

### Major impacts of changes

- This Treasury analysis compares AASB 112 with the 1989 version of AAS 3, because the NSW public sector has never adopted the 1999 revised version of AAS 3.
- Although conceptually different, the tax assets and liabilities that arose under the previous AAS 3 also arise under AASB 112. But AASB 112 will produce additional deferred tax assets and liabilities, principally from asset revaluations and fair value adjustments to the assets and liabilities of acquired entities. See “main differences” below.

### Key Features of Standard

- AASB 112 is substantially the same as AAS 3 except that additional deferred tax assets and liabilities may arise from the different conceptual approach, as discussed under “Main differences” below.

### Main differences compared to current Australian requirements

- The fundamental principle in AASB 112 is that, with certain exceptions (discussed below), a deferred tax liability (asset) should be recognised whenever recovery or settlement of the carrying amount would make future tax payments larger (smaller) than they would be if recovery or settlement had no tax consequences (para 10).
- Based on the fundamental principle, AASB 112 takes a *balance sheet approach* to recognising tax assets and liabilities. The book values of balance sheet items are compared to the *tax base* of these items. The tax base is the value of assets and liabilities which would be recognised in a notional balance sheet prepared based on tax values (para 7 and 8). This approach creates *temporary differences* (para 5). This replaces the incomes approach of AAS 3 which created timing differences. Timing differences were the differences between the taxable amount and pre-tax accounting profit originating in one period that will reverse in another
- The main differences are:
  - A deferred tax liability is recognised for asset revaluations (para 20). This was not required under AAS 3.
  - Deferred tax assets and liabilities are recognised based on probability (para 34), instead of the prudent ‘beyond reasonable doubt’ and ‘virtual certainty’ criteria in AAS 3.
  - Measurement of the deferred tax asset and deferred tax liability shall reflect the tax consequences of how the entity expects that the carrying amount of its assets and liabilities will be settled or recovered. (para 51). For example, the tax consequences of selling a property asset may be different to continued use. This can affect the tax rate and/or the tax base. AAS 3 required future income tax benefits and provisions for deferred tax to be measured having regard to the amount of tax savings or assessments expected to result from the reversal of timing differences.

- Deferred tax assets and liabilities may arise from fair value adjustments to the assets and liabilities of acquired entities (para 22). These were not timing differences under AAS 3.
- Deferred tax assets and liabilities shall be recognised for all taxable temporary differences (para 15) except for:
  - o goodwill and non-deductible goodwill amortisation (para 21),
  - o items affecting neither accounting profit nor taxable income other than in the case of certain business combinations (para 15).
 Previously, AAS 3 required all timing differences to be recognised without exception.
- Deferred tax assets and liabilities shall not be discounted even though the related assets and liabilities may be discounted due to the operation of other Australian Accounting Standards (para 53). AAS 3 did not address this issue, however, in practice, discounting generally did not occur.

#### **Impact on the public sector**

- Entities subject to a tax under the Income Tax Assessment Act or the National Tax Equivalent Regime must comply with AASB 112 (para 2 and Aus 2.1). For many agencies, additional tax assets and liabilities will result from differences between balance sheet and tax values for non-current assets, principally from asset revaluations.

#### **Policy and Implementation issues**

- Tax assets and liabilities must be adjusted to AASB 112 values at the date of transition (ie 1 July 2004) to comply with the transitional provisions of AASB 1 *First Time Adoption of Australian Equivalents To International Financial Reporting Standards*.

This summary has been written in general terms and is intended for reference only. Agencies are strongly recommended to review the contents of the Standard to determine its application in particular circumstances.

**SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES  
AASB 112 “INCOME TAXES”  
TREASURY & AGENCIES**

	Issue	Treasury Policy		System/ Implementation Issue	GFS Issues	Total State Sector Issues
		Mandate Option	Additional guidance			
1	<ul style="list-style-type: none"> <li>Identify items giving rise to tax assets and liabilities and calculate balances as at 1 July 2004. [Common item: For many agencies, asset revaluations will result in differences between balance sheet and tax values for non-current assets].</li> </ul>			√		√

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