Straight away

An overview of financial reporting developments

IASB issues amendments to deferred tax accounting for investment property measured at fair value

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What's new?

On December 20, 2010, the IASB amended IAS 12, Income Taxes, to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

The current IFRS guidance on accounting for income taxes requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way that management expects to recover or settle the carrying amount of the entity's assets or liabilities. For example, management may expect to recover an asset by using it, by selling it, or by a combination of use and sale. Management's expectations can affect the measurement of deferred taxes when different tax rates or tax bases apply to the profits generated from using and selling the asset.

Under IFRS, investment property may be carried at fair value. The IASB believes that entities holding investment property measured at fair value sometimes find it difficult or subjective to estimate how much of the carrying amount will be recovered through rental income (that is, through use) and how much will be recovered through sale, particularly when there is no specific plan for disposal.

Key Provisions

The IASB has added an additional exception to the principles in the income tax guidance. The amendments introduce a rebuttable presumption that investment property measured at fair value will be recovered entirely by sale. The rebuttable presumption also applies to deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure those properties. Accordingly, any associated deferred tax assets or liabilities would be measured based on the assumption that the investment property will be recovered through sale.

The presumption of recovery entirely by sale is rebutted if the investment property is depreciable (for example, buildings and land held under a lease) and is held with an objective to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale before the end of its economic life. The presumption cannot be rebutted for land that is an investment property, because land can only be recovered through sale.

Am I affected?

All IFRS reporting entities that carry investment properties measured at fair value in territories where there is no capital gains tax or where the capital gains rate is different from the income tax rate are affected by the new guidance. In particular, entities doing business in Singapore, New Zealand, Hong Kong, and South Africa are expected to be affected. As a result of the amendments, these entities may generally see a reduction in their deferred tax liabilities. It will also mean that, in many cases where there is no capital gains tax, there is no tax impact of changes in the fair value of investment properties. The recoverability of the entity's deferred tax assets may also need to be reassessed due to the changes in the nature and amount of deferred tax liabilities on investment properties.

What do I need to do?

The amendments are effective for annual periods beginning on or after January 1, 2012 with early adoption permitted. Management can elect to early adopt the amendments for the annual period ending December 31, 2010. Entities should apply the amendments retrospectively in accordance with the guidance on changes in accounting policies.

If you have questions about this issue, please contact the PwC IFRS team or your engagement partner.

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