NZ IAS 12: INCOME TAXES

Version 1: 2021

Effective Periods Beginning
1 January 2012

Also refer: NZ SIC 25: *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*; NZ IFRIC 23 *Uncertainty over Income Tax Treatments*

DEFINITIONS

Temporary difference: Is the difference between the carrying amount of an asset/liability and its tax base.

Tax base of an asset
- Is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset.
- If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

Tax base of a liability
- Is its carrying amount,
- Less any amount that will be deductible for tax purposes in respect of the liability in future periods.

Tax base of Income received in advance
- Is its carrying amount,
- Less any revenue that will not be taxable in the future.

TEMPORARY DIFFERENCES

Taxable temporary differences will result in taxable amounts in future when the carrying amount of an asset is recovered or a liability settled.

Deductible temporary differences will result in deductible amounts in future when the carrying amount of an assets is recovered or a liability is settled.

CURRENT TAX

- Recognise liability for unsettled portion of tax expense.
- Recognise an asset to the extent amounts paid exceed amounts due.
- Tax loss which can be used against future taxable income can be recognised as an asset (deferred tax asset).

CURRENT TAX MEASUREMENT

Measure the asset/liability using the tax rates that are enacted or substantively enacted at the reporting date.

DEFERRED TAX

Deferred tax liabilities

Recognise liabilities for **all** taxable temporary differences, except to the extent it arises from:
- Initial recognition of goodwill.
- Initial recognition of an asset/liability that does not affect accounting or tax profit, the transaction is not a business combinationand at the time of the transaction, does not give rise to equal taxable and deductible temporary differences (R).
- Liabilities from undistributed profits from investments in subsidiaries, branches and associates, and interests in joint ventures where company can control the timing of the reversal.

Deferred tax assets

Recognise for deductible temporary differences, unused tax losses, unused tax credits to the extent that taxable profit will be available against which the asset can be used, except to the extent it arises from the initial recognition of an asset/liability that:
- Is not a business combination,
- Does not affect accounting/tax profit; and
- Does not give rise to equal taxable and deductible temporary differences (R).

Recognise for deductible temporary differences arising from investments in subsidiaries and associates to the extent it is probable the temporary difference will reverse in the foreseeable future and there will be available tax profit to be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available (i.e. the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profits will be available against which the unused tax losses or unused tax credits can be utilised).

DEFERRED TAX - MEASUREMENT

- Measure the balance at tax rates that are expected to apply in the period in which the asset is realised or liability settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.
- Deferred tax assets and liabilities are not discounted.
- The applicable tax rate depends on how the carrying amount of an asset or liability is recovered or settled.
- Current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity or other comprehensive income, or a business combination.
- Current tax and deferred tax are charged or credited directly to equity or other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, directly to equity or other comprehensive income.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters must comply fully with the recognition and measurement principles of NZ IAS 12. However, there are certain disclosure exemptions available.

(R) AMENDMENTS AND STANDARDS ISUED BUT NOT YET EFFECTIVE

This IFRS Standard includes amendments that were issued as at 30 June 2021, but were not yet mandatorily effective. These are identified with an '(R)' suffix. For a summary of these amendments and standards, please refer to BDO's IFR Bulletin 2021/11.

REBUTTABLE PRESUMPTION - FOR INVESTMENT PROPERTY AT FAIR VALUE UNDER NZ IAS 40

Presumption - for investment properties at fair value, deferred tax is calculated assuming the recovery of the carrying amount of the investment property will ultimately be entirely through sale, regardless of whether this is actually managements' intention or not.

Presumption is rebutted and the carrying amount will ultimately be recovered "through use" over the life of the asset rather than sale:
- If the asset is "depreciable"; and
- The asset is held in order to consume all of the asset's benefits over the life of the asset.

Land - Land is not depreciable and therefore the recovery of Land is always through sale.