# Amendments to HKAS 12 *Income Taxes* – Deferred Tax: Recovery of Underlying Assets

## HKICPA Standard Setting Department Staff Summary (January 2011)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

### Introduction

1. Amendments to HKAS 12 *Income Taxes* – Deferred Tax: Recovery of Underlying Assets provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in HKAS 40 *Investment Property*.

2. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2012. Earlier application is permitted.

3. As a result of the amendments, HK(SIC)-21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into HKAS 12 the remaining guidance previously contained in HK(SIC)-21, which is accordingly withdrawn.

### Reasons for issuing amendments to HKAS 12

4. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing amendments to HKAS 12 is to maintain international convergence arising from the issuance of amendments to IAS 12 by the International Accounting Standards Board's (IASB).

5. HKAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40.

### Main features of amendments

6. The amendment introduces a rebuttable presumption that if a deferred tax liability or asset arises from investment property that is measured using the fair value model in HKAS 40, the carrying amount of the investment property will be recovered through sale.

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7. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

8. The rebuttable presumption contained in the above also applies when a deferred tax liability or a deferred tax asset arises from measuring investment property in a business combination if the entity will use the fair value model when subsequently measuring that investment property.

**Other references on Amendments to HKAS 12/IAS 12**

1. BDO HKFRSs/IFRSs Update on HKAS 12 amendments

   http://www.bdo.com.hk/file_publication.php/108/BDO_HKAS12_Deferred_Tax_Accounting_for_Investment_Property_at_Fair_Value_Update_22_2010.pdf

2. Deloitte IFRS in Focus on amendments to IAS 12

   http://www.iasplus.com/iasplus/1101amendtoias12.pdf

3. Ernst & Young "Supplement to IFRS outlook" on amendments to IAS 12

   http://www.ey.com/Publication/vwLUAssets/Supplement_93_GL_IFRS/$File/Supplement_93_GL_IFRS.pdf

4. KPMG Financial Reporting Update on amendments to HKAS 12

   http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/Financial-Reporting-Update/Documents/Financial-Reporting-Update-1012-63.html

5. PricewaterhouseCoopers IFRS/HKFRS News on IASB/HKICPA amends deferred tax accounting for investment property at fair value

   http://www.pwchk.com/webmedia/doc/634314592671810908_hkfrs_news_jan2011.pdf

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