

**SUMMARY OF MEETING OF THE TAXATION ADVISORY PANEL**  
**IASB Exposure Draft ED/2019/5 Deferred tax related to assets and liabilities**  
**arising from a single transaction**  
**(Proposed amendments to IAS 12)**

Date: 22 August 2019

Time: 9:30 – 10:15

Venue: HKICPA Board Room, 37/F Wu Chung House, Wanchai

**Present:**

Gordon Lee, Deloitte

Cynthia Leung, FRC

Serene Tan, KPMG

Orville Shiu, KPMG

Michelle Fisher, Standard Setting, HKICPA

Anthony Wong, Standard Setting, HKICPA

**Apologies:**

Anthea Law, Deloitte

Andy Ng, EY

Paul Hebditch, EY

Candy Fong, Foremost Advisors

1. In general, the Panel welcomed the proposed amendments that clarify use of the initial recognition exemption in paragraphs 15 and 24 of IAS 12 *Income Taxes* and respond to diversity in practice, which has arisen because views differ on whether a company is required to apply the recognition exemption when it accounts for leases.
2. Panel members suggested that the IASB should supplement the proposed amendments to IAS 12 with examples to illustrate application of the requirements, for example similar to those in the Appendix of the IASB's educational material [\*brief: Deferred Tax related to Assets and Liabilities arising from a Single Transaction\*](#).
3. One Panel member also suggested that the IASB should provide illustrative examples on the accounting for deferred tax if a lease modification takes place (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

4. The proposed transitional relief in paragraph 98K of the ED requires that "... The entity shall recognise a deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, and recognise a deferred tax liability for the taxable temporary difference that arose from the same transaction to the extent that it recognises a deferred tax asset. ...". One Panel member would like the IASB to clarify whether this requirement also applies under the retrospective approach (paragraph 98J) when unequal amounts of taxable and deductible temporary differences arise from the initial recognition of the asset and liability.
5. One Panel member also considered the existing wordings in paragraph BC18 of the ED (advance lease payments and initial direct costs) are too general and the IASB should add further elaboration for better understanding. For example, specify whether the initial recognition exemption would apply in this case.

*[Subsequent comments received from a Panel member]*

6. One Panel member observed that the amounts of asset and liability recognised by a lessee might be different at initial recognition of the right-of-use asset and lease liability on initial application of IFRS 16. The Panel member would like the IASB to clarify the accounting treatment of deferred tax in such situation.