



# IFRS Alert

## Deferred Tax related to Assets and Liabilities arising from a Single Transaction

May 2021 - IFRS Alert 2021 - 05

### Executive Summary

The International Accounting Standards Board (IASB) has issued ‘Deferred Tax related to Assets and Liabilities arising from a Single Transaction’ (Amendments to IAS 12).

The amendments require an entity to recognise deferred tax on certain transactions (eg leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

### The Amendments

The IASB has issued some narrow scope changes to IAS 12 ‘Income Taxes’ to specify how entities should account for deferred tax on transactions such as leases and decommissioning obligations.

In specific circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. There had been some diversity in practice as to whether the exemption applied to transactions such as leases and decommissioning obligations. These are transactions where entities recognise both an asset and a liability.

The amendments clarify that the initial recognition exemption set out in IAS 12 does not apply and that entities are required to recognise deferred tax on these transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

Issue	Topic
Issue 2021 - 05	<p><a href="#">Deferred Tax related to Assets and Liabilities arising from a Single Transaction [ 183 kb ]</a> The International Accounting Standards Board (IASB) has issued ‘Deferred Tax related to Assets and Liabilities arising from a Single Transaction’ (Amendments to IAS 12).</p> <p>The amendments require an entity to recognise deferred tax on certain transactions (eg leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.</p>
Issue 2021 - 04	<p><a href="#">IASB extends COVID-19 rent-related concessions [ 168 kb ]</a> The International Accounting Standards Board (IASB) has issued ‘Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)’, an extension to the practical expedient period in the amendments to IFRS 16 ‘Leases’ made last year. This extension is for one year, so the application period now extends until 30 June 2022.</p>

Issue	Topic
Issue 2021 - 03	<p><a href="#">IFRS Foundation announces next steps on sustainability [ 180 kb ]</a> The IFRS Foundation has confirmed there is an urgent need for global sustainability reporting standards. Given this, its Trustees are continuing their work on the establishment of an international sustainability reporting standards board within the existing governance structure of the Foundation. The intention is for the Trustees to produce a definitive proposal (including a road map with timeline) by the end of September 2021, possibly leading to an announcement on the establishment of a sustainability standards board at the meeting of the United Nations Climate Change Conference COP26 in November 2021.</p> <p><a href="#">This alert [ 180 kb ]</a> outlines the Foundation's views about the strategic direction of its new board and their intended next steps.</p>
Issue 2021 - 02	<p><a href="#">Brexit – Accounting for the impact on current and deferred tax [ 242 kb ]</a> For entities with operations in the United Kingdom (UK) and the EU, the determination of the income tax impact on Brexit will require some significant judgements to be made. These judgements should be based on the facts and circumstances of the reporting entity after considering the tax laws and regulations substantively enacted at 31 December 2020 because any future changes to tax laws requiring legislative activity cannot be taken into account. The change in the UK's tax status (because it is no longer a member of the EU) could also trigger the application of a different set of existing tax laws, which means changes to existing current and deferred tax balances may result.</p>
Issue 2021 - 01	<p><a href="#">Exposure Draft – Regulatory Assets and Regulatory Liabilities [ 259 kb ]</a> The International Accounting Standards Board (IASB) has now published an Exposure Draft 'Regulatory Assets and Regulatory Liabilities' (the ED). The ED proposes to replace IFRS 14 'Regulatory Deferral Accounts' and require entities subject to rate regulation to give investors better information about their financial performance.</p> <p>The proposed Standard would introduce a requirement for entities to give investors such information by reporting regulatory assets and regulatory liabilities in their statement of financial position, and related regulatory income and regulatory expense in their statement of profit or loss.</p>
Issue 2020 - 11	<p><a href="#">Discussion paper 'Business Combinations under Common Control' [ 212 kb ]</a> The International Accounting Standards Board (IASB) has issued a discussion paper DP/2020/2 'Business Combinations under Common Control' for public consultation on possible accounting requirements of acquisitions involving the same group. These acquisitions are commonly known as business combinations under common control (BCUCC).</p>
Issue 2020 - 10	<p><a href="#">IAS 29 'Financial Reporting in Hyperinflationary Economies' [ 222 kb ]</a> IAS 29 'Financial Reporting in Hyperinflationary Economies' requires the financial statements of any entity whose functional currency is the currency of a hyperinflationary economy to be restated for changes in the general purchasing power of that currency so that the financial information provided is more meaningful.</p> <p>Below is a reminder of the accounting implications of applying IAS 29 'Financial Reporting in Hyperinflationary Economies'. Our view is that until further notice, IAS 29 should be applied by entities whose functional currency is the currency of the following countries:</p> <ul style="list-style-type: none"> <li>• Argentina</li> <li>• Iran</li> <li>• Lebanon</li> <li>• Sudan (and South Sudan)</li> <li>• Venezuela</li> <li>• Zimbabwe</li> </ul> <p>Iran and Lebanon should be applying IAS 29 for the first time in 2020.</p>
Comment letter	<p><a href="#">ED/2019/7 General Presentation and Disclosures [ 358 kb ]</a> Our submitted comment letter on the International Accounting Standards Board's (IASB) Exposure Draft (ED) supports the reasons for the Board developing this ED, in order to improve the way information is communicated in the financial statements, particularly in the statement of profit or loss.</p> <p>We believe the proposals will add further consistency and clarity to the financial statements which will enhance comparability for users of financial statements.</p>
Issue 2020 - 09	<p><a href="#">IASB issues Interest Rate Benchmark Reform Phase 2 [ 180 kb ]</a> The International Accounting Standards Board (IASB) has published Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), finalising its response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to assist reporting entities to provide investors with useful information about the effects of the reform on their financial statements.</p>
Issue 2020 - 08	<p><a href="#">IASB defers the effective date of the IAS 1 Amendments [ 165 kb ]</a> The International Accounting Standards Board (IASB) has issued an amendment to defer the effective date of the 'Classification of Liabilities as Current or Non-current' which amends IAS 1 'Presentation of Financial Statements' by one year.</p>
Issue 2020 - 07	<p><a href="#">Amendments to IFRS 17 and IFRS 4 [ 491 kb ]</a> The International Accounting Standards Board (IASB) has issued 'Amendments to IFRS 17 'Insurance Contracts'' (the Amendments). The aim of the amendments is to address the concerns raised by stakeholders and help entities to more easily transition and implement the Standard.</p> <p>The IASB also issued an amendment to the previous insurance Standard IFRS 4, 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' so that entities can still apply IFRS 9 'Financial Instruments' alongside IFRS 17.</p>
Issue 2020 - 06	<p><a href="#">Relief for lessees accounting for rent concessions during the COVID-19 pandemic [ 214 kb ]</a> The International Accounting Standards Board (IASB) has published an amendment 'COVID-19-Related Rent Concessions (amendment to IFRS 16)' (the amendment). The amendment adds a practical expedient to the Standard which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications. There are no changes for lessors.</p>

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Issue 2020 - 04	<a href="#">IASB proposes relief for rent concessions during the COVID-19 pandemic [ 223 kb ]</a> The International Accounting Standards Board (IASB) published an Exposure Draft 'COVID-19-Related Rent Concessions - Proposed amendment to IFRS 16' (the ED). The ED proposes to add a practical expedient to the Standard which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications. There are no proposed changes for lessors.
Issue 2020 - 03	<a href="#">Accounting implications of the Coronavirus (COVID-19) outbreak [ 173 kb ]</a> The spread of the Coronavirus is impacting businesses around the world. Entities need to carefully consider the accounting implications of this situation.  This IFRS Alert considers the impact of the Coronavirus on 31 December 2019 year ends.
Issue 2020 - 02	<a href="#">IASB Issues Classification of Liabilities as Current or Non-Current [ 189 kb ]</a> On 23 January 2020 the IASB published 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' which clarify the Standard's guidance on whether a liability should be classified as either current or non-current.
Issue 2020 - 01	<a href="#">IASB proposes major changes to the primary statements and notes [ 291 kb ]</a> In December 2019 the International Accounting Standards Board (IASB) published an Exposure Draft 'General Presentation and Disclosures' (General Presentation ED). The General Presentation ED proposes to replace IAS 1 'Presentation of Financial Statements' with a new IFRS and amend several other IFRS Standards.
Issue 2019 - 01	<a href="#">IASB issues Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) [ 254 kb ]</a> In response to the ongoing reform of interest rate benchmarks around the world the IASB have released these latest amendments. The amendments aim to provide relief for hedging relationships.
Issue 2018 - 05	<a href="#">Argentina confirmed as hyperinflationary [ 216 kb ]</a> This alert confirms that IAS 29 'Financial Reporting in Hyperinflationary Economies' will need to be applied from 1 July 2018. The Alert sets out some of the implications of applying IAS 29.
Issue 2018 - 04	<a href="#">IASB issues Definition of Material (Amendments to IAS 1 and 8) [ 217 kb ]</a> This alert looks at the IASB's publication 'Definition of Material (Amendments to IAS 1 and IAS 8)'. The amendments made by this publication are designed to make it easier for companies to define materiality judgements.
Issue 2018 - 03	<a href="#">Argentina expected to be declared hyper-inflationary in 2018 [ 225 kb ]</a> This alert looks at the potential implications of Argentina being declared hyperinflationary in the second half of 2018. IAS 29 'Financial Reporting in Hyperinflationary Economies' requires the financial statements of any entity whose functional currency is hyperinflationary to be restated for changes in its general purchasing power.
Issue 2018 - 02	<a href="#">Conceptual Framework for Financial Reporting (Conceptual Framework) [ 189 kb ]</a> The Conceptual Framework describes the objective of, and the concepts for, general purpose financial reporting. Although it is not a Standard and will not immediately change or override any existing Standards, it might affect entities that develop or select accounting policies in accordance with the previous version of the Conceptual Framework that was issued in 2010.
Issue 2018 - 01	<a href="#">Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) [ 264 kb ]</a> The amendments require companies to use updated actuarial assumptions to determine pension expenses following changes to a defined benefit pension plan, as described in this alert.
Issue 2017 - 07	<a href="#">Improvements to IFRS Standards 2015-2017 Cycle [ 264 kb ]</a>
Issue 2017 - 06	<a href="#">Long-term Interests in Associates and Joint Ventures [ 264 kb ] (Amendments to IAS 28)</a>
Issue 2017 - 05	<a href="#">Prepayment Features with Negative Compensation (Amendments to IFRS 9) [ 269 kb ]</a>
Issue 2017 - 04	<a href="#">IFRS Practice Statement 2: Making Materiality Judgements [ 268 kb ]</a>
Issue 2017 - 03	<a href="#">IFRIC 23 'Uncertainty over Income Tax Treatments' [ 270 kb ]</a>
Issue 2017 - 02	<a href="#">IFRS 17 Insurance Contracts [ 298 kb ]</a>
Issue 2017 - 01	<a href="#">Uncertainty over tax issues [ 309 kb ]</a> resulting from the UK's decision to leave the European Union



# Our thoughts

We are supportive of the IASB addressing this issue as it has become more prevalent since IFRS 16 'Leases' became effective for periods beginning on or after 1 January 2019. We believe the amendments will reduce the diversity in practice that is currently being seen on accounting for leases and decommissioning obligations.

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### Head office

Riyadh  
Al Mousa Commercial Complex,  
7th Floor, Tower 4,  
Al Olaya Street,

T +966 (11) 463 0680  
E [infor@sa.gt.com](mailto:infor@sa.gt.com)

### Khobar

Ababtain Tower,  
7th Floor,  
Dhahran Street

T +966 92 000 6582  
E [infok@sa.gt.com](mailto:infok@sa.gt.com)

### Jeddah

Saad H. Abu Khadra Building,  
3rd Floor, King Fahad Street,  
P.O. Box 20142,

T +966 (12) 691 6883  
E [infoj@sa.gt.com](mailto:infoj@sa.gt.com)

Aldar Audit Bureau  
Abdullah Al-Basri & Co.  
Member firm of Grant Thornton International Ltd.



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