IAS 12: Flow-through Shares and the Initial Recognition Exemption

Excerpt, IFRS Discussion Group Report on Meeting – September 16, 2010

The accounting for flow-through shares was discussed at the November 25, 2009 meeting. As outlined in the notes for that meeting, when the entity issuing the securities incurs eligible expenditures and includes them in the carrying amount of the related assets, the carrying amount of the asset may exceed the tax basis as a result of the entity renouncing those deductions to investors. A deferred tax consequence may result. However, IAS 12 *Income Taxes* does not permit the recognition of a deferred tax liability for taxable temporary differences that arise on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss nor taxable profit or loss. Consequently, the issue for consideration is whether a deferred tax consequence arises or if the initial recognition exemption in paragraph 15 of IAS 12 applies, and whether a request should be made to the IFRS Interpretations Committee for clarification.

The members discussed two views of how to account for the consequences that may arise from flow-through shares. However, the members recommended that this issue not be brought to the attention of the IFRSs Interpretations Committee because it considers it a Canadian-specific tax program and, accordingly, would not meet the Committee's criteria for an agenda item.

Source: www.frascanada.ca/ifrs-discussion-group