IFRS 1, IFRS 3 and IAS 12: Tax Benefit from a Business Combination on Transition

Excerpt, IFRS Discussion Group Report on Meeting – November 30, 2010

Pre-changeover Canadian GAAP addresses the subsequent recognition of a deferred tax asset that was acquired in a business combination but did not meet the criteria for recognition at that time. When no goodwill is recognized from the business combination, the subsequent recognition of such a deferred tax asset after the measurement period ends would first reduce any intangible assets acquired in that business combination. In accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations. The issue for consideration was whether a request should be made to the IFRS Interpretations Committee for clarification on the following question: Is an entity that uses the IFRS 1 election not to apply IFRS 3 retrospectively on transition to IFRSs and had previously recorded a deferred tax asset and a resulting reduction in intangible assets required to restate the intangible assets to their original cost at the acquisition date?

Members recommended that this issue not be brought to the attention of the IFRS Interpretations Committee as the treatment under IFRS 1 is clear that the intangible assets be restated to their original cost at the acquisition date.

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