AcSB Accounting Standards Board

COVID-19 Resource

Income Taxes

What you need to know (April 2020)

What's the issue?

1. For many entities, COVID-19 has adversely affected profitability in the current period and projections for future periods. This may impact the measurement of deferred tax assets in accordance with International Accounting Standard (IAS) 12 *Income Taxes*.
2. In addition, governments have provided tax relief and made tax credits available to businesses in response to the economic challenges from COVID-19. Entities will need to consider how to account for this assistance in accordance with IFRS® Standards.

How will COVID-19 impact the measurement of deferred tax assets?

3. Entities should consider whether revisions to projections of profits and taxable income are necessary. IAS 12 requires an entity to reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of a deferred tax asset to be used (IAS 12.56). Therefore, revised projections of taxable income may result in adjustments to a deferred tax balance.
4. The measurement of a deferred tax asset may also be affected by government relief programs, such as reduced income tax rates. IAS 12 requires a deferred tax asset to be measured at the tax rates that are expected to apply in the period in which the asset is realized, based on the tax rates substantively enacted at the end of the reporting period (IAS 12.46). A tax measure should only be reflected in the measurement of deferred taxes if substantively enacted as of the reporting period. For measures enacted after the period end date, entities should follow the guidance in IAS 10 *Events*

after the Reporting Period. For more information on this, see our Events after the Reporting Period resource.

5. Similarly, entities will need to consider the timing of COVID-19-related events in relation to their reporting period. These events may have occurred after an entity's reporting period. In this case, the guidance in IAS 10 should be followed to assess whether it is an adjusting or non-adjusting event; and whether an adjustment to deferred taxes is required in the current period.

How should government relief measures and incentives be accounted for?

6. Governments have introduced relief measures and incentives to help businesses deal with the COVID-19 challenges they are facing. Depending on the nature of the measure or incentive, IAS 12 or IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* may apply. Entities will need to use judgment to evaluate the nature of the measure and to determine which standard to look to for guidance.

7. Some incentives may require an entity meet criteria to be eligible. This may give rise to uncertainty when assessing its income tax position. Any uncertainty that a tax authority will accept a tax treatment needs to be reflected in the entity's accounting for income taxes, in accordance with IFRIC 23 *Uncertainty over Income Tax Treatments.*

How will financial statement disclosures be affected?

8. Management should consider whether the following disclosures are applicable when preparing their financial statements:

   - Explanation of changes in tax rate compared to prior periods (IAS 12.81(d)).
   - The amount and expiry of any unused tax losses (IAS 12.81(e)).
   - Nature of evidence supporting recognition of deferred tax assets when the entity has suffered a loss in the current period (IAS 12.82(b)).
   - Non-adjusting events after the reporting period such as changes in tax rates or tax laws announced after the reporting period that have a significant impact on current and deferred tax assets and liabilities (IAS 10.22(h)).
   - When there is uncertainty over income tax treatments, judgments made and information about assumptions, and when it is probable that a tax authority will accept an uncertain tax treatment, the effect of the uncertainty as a tax-related contingency (IFRIC 23.A4-A5).
   - The nature of any government grants received, the related accounting policy and method of presentation, and any unfulfilled conditions and contingencies attached to a grant that has been recognized (IAS 20.39).

Has the IFRS® Discussion Group talked about this topic?

9. The Group has had several conversations about income taxes. The discussions listed below may be helpful as you think about how COVID-19 affects income taxes:

Meeting Date	Topic	Meeting Report
October 5, 2017	Interest and Penalties Related to Income Taxes	View Document
May 31, 2016	Subsequent Events Relating to Uncertain Tax Positions	View Document
September 10, 2015	Income Tax Expense for Interim Periods	View Document

What other resources are available?

10. Do you need more information? The following publications may provide more insights:

Grant Thornton, "Understanding the impact of COVID-19 on your 2020 deferred tax provision," April 13, 2020.

Brian O'Donovan, "COVID-19 | How should companies account for different forms of government assistance?," KPMG, March 26, 2020.

Extracts from Relevant IFRS Standards

Standard		IFRS Guidance
IAS 10		3 The following terms are used in this Standard with the meanings specified: *Events after the reporting period* are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and (b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*). 8 An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. 10 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period. 19 If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information. 21 If non-adjusting events after the reporting period are material, non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made. 22 The following are examples of non-adjusting events after the reporting period that would generally result in disclosure: (a) a major business combination after the reporting period (IFRS 3 *Business Combinations* requires specific

Standard		IFRS Guidance
		disclosures in such cases) or disposing of a major subsidiary; (b) announcing a plan to discontinue an operation; (c) major purchases of assets, classification of assets as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government; (d) the destruction of a major production plant by a fire after the reporting period; (e) announcing, or commencing the implementation of, a major restructuring (see IAS 37); (f) major ordinary share transactions and potential ordinary share transactions after the reporting period (IAS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under IAS 33); (g) abnormally large changes after the reporting period in asset prices or foreign exchange rates; (h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see IAS 12 *Income Taxes*); (i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and (j) commencing major litigation arising solely out of events that occurred after the reporting period.
IAS 12		24 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that: (a) is not a business combination; and (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Standard		IFRS Guidance
		However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44. 25 It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow from the entity of resources embodying economic benefits. When resources flow from the entity, part or all of their amounts may be deductible in determining taxable profit of a period later than the period in which the liability is recognised. In such cases, a temporary difference exists between the carrying amount of the liability and its tax base. Accordingly, a deferred tax asset arises in respect of the income taxes that will be recoverable in the future periods when that part of the liability is allowed as a deduction in determining taxable profit. Similarly, if the carrying amount of an asset is less than its tax base, the difference gives rise to a deferred tax asset in respect of the income taxes that will be recoverable in future periods. 27 The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. 29 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that: (a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity:

Standard		IFRS Guidance
		(i) compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences; and (ii) ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilized; or (b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods. 31 When an entity has a history of recent losses, the entity considers the guidance in paragraphs 35 and 36. 34 A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. 35 The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

Standard		IFRS Guidance	
		36	An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised: (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire; (b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire; (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and (d) whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised. To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.
		37	At the end of each reporting period, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria set out in paragraph 24 or 34. Another example is when an entity reassesses deferred tax assets at the date of a business combination or subsequently (see paragraphs 67 and 68).
		46	Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
		47	Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or

Standard		IFRS Guidance
		the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. 48 Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws). 49 When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse. 51 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. 56 The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available. 60 The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from: (a) a change in tax rates or tax laws; (b) a reassessment of the recoverability of deferred tax assets; or (c) a change in the expected manner of recovery of an asset. The resulting deferred tax is recognised in profit or loss, except to the extent that it relates to items previously recognised outside profit or loss (see paragraph 63).

Standard		IFRS Guidance
		79 The major components of tax expense (income) shall be disclosed separately. 80 Components of tax expense (income) may include: (a) current tax expense (income); (b) any adjustments recognised in the period for current tax of prior periods; (c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences; (d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes; (e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense; (f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense; (g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and (h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with IAS 8, because they cannot be accounted for retrospectively. 81 The following shall also be disclosed separately: (a) the aggregate current and deferred tax relating to items that are charged or credited directly to equity (see paragraph 62A); (ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and IAS 1 (as revised in 2007)); (b) (deleted) (c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms: (i) a numerical reconciliation between tax expense (income) and the

Standard		IFRS Guidance
		product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed; (d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period; (e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position; (f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised (see paragraph 39); (g) in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits: (i) the amount of the deferred tax assets and liabilities recognised in the statement of financial position for each period presented; (ii) the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the statement of financial position; (h) in respect of discontinued operations, the tax expense relating to: (i) the gain or loss on discontinuance; and (ii) the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented; (i) the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the

Standard		IFRS Guidance
		financial statements were authorised for issue, but are not recognised as a liability in the financial statements; (j) if a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset (see paragraph 67), the amount of that change; and (k) if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date (see paragraph 68), a description of the event or change in circumstances that caused the deferred tax benefits to be recognised. 82 An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when: (a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and (b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.
IAS 20		7 Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that: (a) the entity will comply with the conditions attaching to them; and (b) the grants will be received. 8 A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. 12 Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. 13 There are two broad approaches to the accounting for government grants: the capital approach, under which a grant is recognised

Standard		IFRS Guidance
		outside profit or loss, and the income approach, under which a grant is recognised in profit or loss over one or more periods. 14 Those in support of the capital approach argue as follows: (a) government grants are a financing device and should be dealt with as such in the statement of financial position rather than be recognised in profit or loss to offset the items of expense that they finance. Because no repayment is expected, such grants should be recognised outside profit or loss. (b) it is inappropriate to recognise government grants in profit or loss, because they are not earned but represent an incentive provided by government without related costs. 15 Arguments in support of the income approach are as follows: (a) because government grants are receipts from a source other than shareholders, they should not be recognised directly in equity but should be recognised in profit or loss in appropriate periods. (b) government grants are rarely gratuitous. The entity earns them through compliance with their conditions and meeting the envisaged obligations. They should therefore be recognised in profit or loss over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. (c) because income and other taxes are expenses, it is logical to deal also with government grants, which are an extension of fiscal policies, in profit or loss. 20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable. 39 The following matters shall be disclosed: (a) the accounting policy adopted for government grants, including the methods

Standard		IFRS Guidance
		of presentation adopted in the financial statements; (b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and (c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.
IFRIC 23		A4 When there is uncertainty over income tax treatments, an entity shall determine whether to disclose: (a) judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 122 of IAS 1 *Presentation of Financial Statements*; and (b) information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 125-129 of IAS 1. A5 If an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, the entity shall determine whether to disclose the potential effect of the uncertainty as a tax-related contingency applying paragraph 88 of IAS 12.