SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL)

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

(Amendments to SFRS(I) 1-12)

The amendments apply for annual reporting periods beginning on or after 1 January 2023.
Earlier application is permitted.

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Amendments to SFRS(I) 1-12 *Income Taxes*

Paragraphs 15, 22 and 24 are amended. Paragraphs 22A and 98J–98L are added. Deleted text is struck through and new text is underlined.

Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

15 **A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:**

(a) the initial recognition of goodwill; or

(b) the initial recognition of an asset or liability in a transaction which:

(i) is not a business combination;~~ and~~

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)<u>; and</u>~~.~~

<u>(iii) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.</u>

...

Initial recognition of an asset or liability

22 A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction that led to the initial recognition of the asset or liability:

(a) in a business combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or bargain purchase gain it recognises (see paragraph 19);

(b) if the transaction affects either accounting profit or taxable profit<u>, or gives rise to equal taxable and deductible temporary differences</u>, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in profit or loss (see paragraph 59);

(c) if the transaction is not a business combination, ~~and~~ affects neither accounting profit nor taxable profit<u> and does not give rise to equal taxable and deductible temporary differences</u>, an entity would, in the absence of the exemption provided by paragraphs 15 and 24, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent. Therefore, this Standard does not permit an entity to recognise the resulting deferred tax liability or asset, either on initial recognition or subsequently (see example below). Furthermore, an entity does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

...

22A A transaction that is not a business combination may lead to the initial recognition of an asset and a liability and, at the time of the transaction, affect neither accounting profit nor taxable profit. For example, at the commencement date of a lease, a lessee typically recognises a lease liability and the corresponding amount as part of the cost of a right-of-use asset. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of the asset and liability in such a transaction. The exemption provided by paragraphs 15 and 24 does not apply to such temporary differences and an entity recognises any resulting deferred tax liability and asset.

...

Deductible temporary differences

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); and~~.~~

(c) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

...

Effective date

...

98J *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued in September 2021, amended paragraphs 15, 22 and 24 and added paragraph 22A. An entity shall apply these amendments in accordance with paragraphs 98K–98L for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

98K An entity shall apply *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* to transactions that occur on or after the beginning of the earliest comparative period presented.

98L An entity applying *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* shall also, at the beginning of the earliest comparative period presented:

(a) 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 a deferred tax liability for all deductible and taxable temporary differences associated with:

(i) right-of-use assets and lease liabilities; and

(ii) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset; and

(b) recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Amendments to SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*

Paragraph 39AH is added. In Appendix B, paragraph B1 is amended and paragraph B14 and its heading are added. Deleted text is struck through and new text is underlined.

Effective date

...

39AH *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, issued in September 2021, amended paragraph B1 and added paragraph B14. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

...

Appendix B
Exceptions to the retrospective application of other SFRS(I)s

This appendix is an integral part of the SFRS(I).

B1 An entity shall apply the following exceptions:

...

(g) government loans (paragraphs B10–B12);~~ and~~

(h) insurance contracts (paragraph B13); and~~.~~

(i) deferred tax related to leases and decommissioning, restoration and similar liabilities (paragraph B14).

...

Deferred tax related to leases and decommissioning, restoration and similar liabilities

B14 Paragraphs 15 and 24 of SFRS(I) 1-12 *Income Taxes* exempt an entity from recognising a deferred tax asset or liability in particular circumstances. Despite this exemption, at the date of transition to SFRS(I)s, a first-time adopter 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 a deferred tax liability for all deductible and taxable temporary differences associated with:

(a) right-of-use assets and lease liabilities; and

(b) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

Amendments to Illustrative Examples accompanying SFRS(I) 1-12 *Income Taxes*

These illustrative examples accompany, but are not part of, SFRS(I) 1-12.

Example 8 is added. For ease of reading, new text has not been underlined.

Illustrative computations and presentation

...

Example 8—Leases

Lease

An entity (Lessee) enters into a five-year lease of a building. The annual lease payments are CU100 payable at the end of each year. Before the commencement date of the lease, Lessee makes a lease payment of CU15 (advance lease payment) and pays initial direct costs of CU5. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate is 5% per year.

At the commencement date, applying SFRS(I) 16 *Leases*, Lessee recognises a lease liability of CU435 (measured at the present value of the five lease payments of CU100, discounted at the interest rate of 5% per year). Lessee measures the right-of-use asset (lease asset) at CU455, comprising the initial measurement of the lease liability (CU435), the advance lease payment (CU15) and the initial direct costs (CU5).

Tax law

The tax law allows tax deductions for lease payments (including those made before the commencement date) and initial direct costs when an entity makes those payments. Economic benefits that will flow to Lessee when it recovers the carrying amount of the lease asset will be taxable.

A tax rate of 20% is expected to apply to the period(s) when Lessee will recover the carrying amount of the lease asset and will settle the lease liability.

After considering the applicable tax law, Lessee concludes that the tax deductions it will receive for lease payments relate to the repayment of the lease liability.[1]

Deferred tax on the advance lease payment and initial direct costs

Lessee recognises the advance lease payment (CU15) and initial direct costs (CU5) as components of the lease asset's cost. The tax base of these components is nil because Lessee already received tax deductions for the advance lease payment and initial direct costs when it made those payments. The difference between the tax base (nil) and the carrying amount of each component results in taxable temporary differences of CU15 (related to the advance lease payment) and CU5 (related to the initial direct costs).

1 Depending on the applicable tax law, an entity might alternatively conclude that the tax deductions it will receive for lease payments relate to the lease asset, in which case temporary differences would not arise on initial recognition of the lease liability and the related component of the lease asset's cost. Accordingly, the entity would not recognise deferred tax on initial recognition but would do so if and when temporary differences arise after initial recognition.

The exemption from recognising a deferred tax liability in paragraph 15 does not apply because the temporary differences arise from transactions that, at the time of the transactions, affect Lessee's taxable profit (that is, the tax deductions Lessee received when it made the advance lease payment and paid initial direct costs reduced its taxable profit). Accordingly, Lessee recognises a deferred tax liability of CU3 (CU15 × 20%) and CU1 (CU5 × 20%) for the taxable temporary differences related to the advance lease payment and initial direct costs, respectively.

Deferred tax on the lease liability and related component of the lease asset's cost

At the commencement date, the tax base of the lease liability is nil because Lessee will receive tax deductions equal to the carrying amount of the lease liability (CU435). The tax base of the related component of the lease asset's cost is also nil because Lessee will receive no tax deductions from recovering the carrying amount of that component of the lease asset's cost (CU435).

The differences between the carrying amounts of the lease liability and the related component of the lease asset's cost (CU435) and their tax bases of nil result in the following temporary differences at the commencement date:

(a) a taxable temporary difference of CU435 associated with the lease asset; and

(b) a deductible temporary difference of CU435 associated with the lease liability.

The exemption from recognising a deferred tax asset and liability in paragraphs 15 and 24 does not apply because the transaction gives rise to equal taxable and deductible temporary differences. Lessee concludes that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Accordingly, Lessee recognises a deferred tax asset and a deferred tax liability, each of CU87 (CU435 × 20%), for the deductible and taxable temporary differences.

Summary of recognised deferred tax

The table below summarises the deferred tax that Lessee recognises on initial recognition of the lease (including the advance lease payment and initial direct costs):

	Carrying amount	**Tax base**	**Deductible / (taxable) temporary difference**	**Deferred tax asset / (liability)**
Lease asset				
– advance lease payment	15	—	(15)	(3)
– initial direct costs	5	—	(5)	(1)
– the amount of the initial measurement of the lease liability	435	—	(435)	(87)
Lease liability	435	—	435	87

Applying paragraph 22(b) of SFRS(I) 1-12, Lessee recognises deferred tax assets and liabilities as illustrated in this example and recognises the resulting deferred tax income or expense in profit or loss.