

Australian Accounting Standards Board

Rejected Issue – Not Taken onto the AASB’s Agenda

AASB 112 *Income Taxes* – Scope

(December 2006)

The Issue

The International Financial Reporting Interpretations Committee (IFRIC) considered whether to give guidance on which taxes are within the scope of IAS 12 *Income Taxes*, to which AASB 112 *Income Taxes* corresponds. The IFRIC noted that IAS 12 applies to income taxes, which are defined as taxes that are based on taxable profit. That implies that (i) not all taxes are within the scope of IAS 12 but (ii) because taxable profit is not the same as accounting profit, taxes do not need to be based on a figure that is exactly accounting profit to be within the scope. The latter point is also implied by the requirement in IAS 12 to disclose an explanation of the relationship between tax expense and accounting profit. The IFRIC further noted that the term ‘taxable profit’ implies a notion of a net rather than gross amount. Finally, the IFRIC observed that any taxes that are not in the scope of IAS 12 are in the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Reasons for Not Adding the Issue to the AASB’s Agenda

The IFRIC also noted the variety of taxes that exist world-wide and the need for judgement in determining whether some taxes are income taxes. The IFRIC therefore believed that guidance beyond the observations noted above could not be developed in a reasonable period of time and decided not to take a project on this issue onto its agenda.

At its October 2006 meeting, the AASB concurred with the IFRIC view.

At its December 2006 meeting, the AASB agreed to appoint an advisory panel to recommend to the AASB whether Australian petroleum resource rent tax (PRRT) should or should not be accounted for as an income tax under AASB 112 *Income Taxes*.
