SIC 25
Income taxes – changes in the tax status of an entity or its shareholders

REFERENCES

IAS 1	Presentation of Financial Statements
IAS 8	Accounting methods, changes in accounting estimates and errors
IAS 12	Income taxes

ISSUE

The tax situation of a company or its shareholders can change (for example, restructuring of the equity, or change of tax status). The issue is how an entity should account for the consequences of changes in its corporate income tax situation.

POSITION ADOPTED

The impacts of a change in the tax status of the entity or its shareholders in terms of changes in current and deferred tax, must be recognized in profit or loss for the period. An exception to this is the tax consequences, arising from transactions and events whose impact was recognized in equity, these tax consequences must logically also be charged or credited to equity.

Example 1: A company located in a particular region receives government subsidies, and benefits from a reduction of one-third of its taxable base for the calculation of its income tax. It therefore recognized a deferred tax liability, calculated by using a deferred tax base reduced by one-third. The deferred tax liability base is the result of a revaluation of the fair value of an asset previously recognized in equity when the IASs/IFRSs were first adopted.

Subsequently, the government's tax policy for the region concerned is then changed by a Finance Act which eliminates this tax reduction.

The company should recognize the effects of the removal of the tax break in its equity, by adjusting the amount of tax at an amount equal to the gain recognized in the equity, at the time the accounting system was changed and IASs/IFRSs were adopted.