IAS 12 ***Income Taxes*** (November 2016)

Expected manner of recovery of intangible assets with indefinite useful lives

The Interpretations Committee received a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax.

The Interpretations Committee noted that paragraph 51 of IAS 12 *Income Taxes* states that the measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that follow from the manner in which an entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Interpretations Committee also noted the requirements in paragraph 88 of IAS 38 *Intangible Assets* regarding intangible assets with indefinite useful lives.

The Interpretations Committee observed that an intangible asset with an indefinite useful life is not a non-depreciable asset as envisaged by paragraph 51B of IAS 12. This is because a non-depreciable asset has an unlimited (or infinite) life, and IAS 38 explains that indefinite does not mean infinite. Consequently, the requirements in paragraph 51B of IAS 12 do not apply to intangible assets with an indefinite useful life.

The Interpretations Committee noted the Board's observation about intangible assets with indefinite useful lives when the Board amended IAS 38 in 2004. The Board observed that an entity does not amortise an intangible asset with an indefinite useful life because there is no foreseeable limit on the period during which it expects to consume the future economic benefits embodied in the asset. Accordingly, amortisation over an arbitrarily determined maximum period would not be representationally faithful. The reason for non-amortisation of an intangible asset with an indefinite useful life is not because there is no consumption of the future economic benefits embodied in the asset.

The Interpretations Committee observed that an entity recovers the carrying amount of an asset in the form of economic benefits that flow to the entity in future periods, which could be through use or sale of the asset. Accordingly, the recovery of the carrying amount of an asset does not depend on whether the asset is amortised. Consequently, the fact that an entity does not amortise an intangible asset with an indefinite useful life does not necessarily mean that the entity will recover the carrying amount of that asset only through sale and not through use.

The Interpretations Committee noted that an entity applies the principle and requirements in paragraphs 51 and 51A of IAS 12 when measuring deferred tax on an intangible asset with an indefinite useful life. In applying these paragraphs, an entity determines its expected manner of recovery of the carrying amount of the intangible asset with an indefinite useful life, and reflects the tax consequences that follow from that expected manner of recovery.

The Interpretations Committee concluded that the principle and requirements in paragraphs 51 and 51A of IAS 12 provide sufficient requirements to enable an entity to measure deferred tax on intangible assets with indefinite useful lives.

In the light of existing requirements in IFRS Standards, the Interpretations Committee determined that neither an IFRIC Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.