RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES (PROPOSED AMENDMENTS TO IAS 12)

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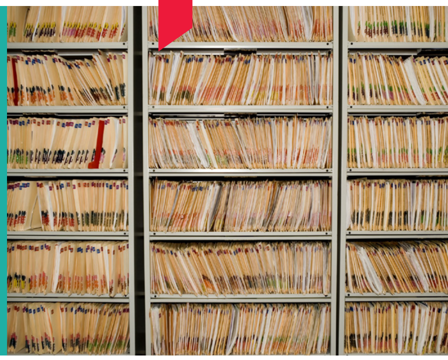

Summary

The International Accounting Standards Board (IASB) published *Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)* on 20 August 2014.

The proposed amendments to IAS 12 *Income Taxes* are intended to clarify the accounting for deferred tax assets related to debt instruments measured at fair value.

The IASB clarifies the accounting through additional examples that illustrate:

- Unrealised losses on debt instruments measured at fair value give rise to a deductible temporary difference irrespective of whether the debt instrument is recovered through sale or use.
- The carrying amount of an asset does not limit the estimate of probable future taxable profits. The estimate of future probable profits includes the probable inflow of taxable economic benefits that results from recovering the asset.
- Deductible temporary differences are utilised by deduction against the amount of taxable profits, excluding tax deductions for which those deductible temporary differences exist.
- The assessment of a deferred tax asset is made in combination with other deferred tax assets. Where the utilisation is restricted by the local tax law, an entity would assess a deferred tax asset in combination with other deferred tax assets of that type.

The effective date is yet to be confirmed. The IASB proposes a limited retrospective application that requires no restatement of the opening balance of the retained earnings of the earliest comparative period presented.

The deadline for comments is 18 December 2014.

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

Clarification that unrealised fair value losses on debt instruments give rise to a deductible temporary difference.

Background

The proposed amendments to IAS 12 are intended to clarify the accounting for deferred tax assets related to debt instruments measured at fair value but are not deemed to be impaired.

The IFRS Interpretations Committee (IFRS IC), was asked to consider the application of IAS 12 in the following circumstances:

- **Fair value below cost**: Changes in the market interest rate decrease the fair value of the debt instrument below cost.
- **All cash flows collectable**: It is probable that the debt instrument holder will receive all the contractual cash flows if it holds the debt instrument until maturity.
- **Reversal of losses**: The debt instrument's holder has the ability and intention to hold the debt instrument until the decrease in fair value reverses (which may be at its maturity).
- **Tax base at cost**: The tax base of the debt instrument remains at cost until the debt instrument is sold or until maturity. The tax base of the debt instrument is not reduced by an impairment loss, because the criteria for recognising an impairment loss for tax purposes are not met.
- **Insufficient future taxable profits**: The probable future taxable profits of the debt instrument holder are insufficient for the utilisation of all of its deductible temporary differences.

In the assessment of the above, the IFRS IC discovered a diversity in practice.

Proposed amendments to IAS 12

The proposed amendments clarify that deductible temporary differences arise from unrealised losses on debt instruments measured at fair value. This is regardless of whether the instrument is recovered:

- through sale; or
- by holding it to maturity.

Entities are required to recognise deferred taxes for temporary differences from unrealised losses of debt instruments measured at fair value if all other recognition criteria for deferred taxes are met.

The carrying amount of the asset is not a limiting factor in assessing the future taxable profits. In other words, the probable inflow of taxable economic benefits that results from recovering the asset will be included in the estimate, and might exceed the carrying amount of the debt instrument.

The assessment of a deferred tax asset is made in combination with other deferred tax assets. Where the utilisation is restricted by the local tax law, an entity would assess a deferred tax asset in combination with other deferred tax assets of that type.

The IASB addresses the different treatments through additional examples.

Effective Date and Transition

The effective date is yet to be confirmed.

To avoid undue cost and effort the IASB proposes a limited retrospective application of the amendments to IAS 12. This is, that a restatement of the opening balance of the retained earnings of the earliest comparative period presented is not required. However, if an entity wishes to present the adjusted retained earnings as of the beginning of the earliest comparative period it can voluntary choose to do so.

Due to the fact that IFRS 1 *First-time Adoption of International Financial Reporting Standards* does not include an exception from the retrospective application of IAS 12, no changes are proposed to IFRS 1.

The deadline for comments on ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses* is 18 December 2014.

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