IAS 12 ***Income Taxes*** (May 2014)

Recognition and measurement of deferred tax assets when an entity is loss making

The Interpretations Committee received a request for guidance on the recognition and measurement of deferred tax assets when an entity is loss making. The Interpretations Committee was asked to clarify two issues:

(a) ether IAS 12 requires that a deferred tax asset is recognised for the carryforward of unused tax losses when there are suitable reversing taxable temporary differences, regardless of an entity's expectations of future tax losses; and

(b) ow the guidance in IAS 12 is applied when tax laws limit the extent to which tax losses brought forward can be recovered against future taxable profits. In the tax systems considered for the second issue, the amount of tax losses brought forward that can be recovered in each tax year is limited to a specified percentage of the taxable profits of that year.

The Interpretations Committee noted that according to paragraphs 28 and 35 of IAS 12:

(a) a deferred tax asset is recognised for the carry forward of unused tax losses to the extent of the existing taxable temporary differences, of an appropriate type, that reverse in an appropriate period. The reversal of those taxable temporary differences enables the utilisation of the unused tax losses and justifies the recognition of deferred tax assets. Consequently, future tax losses are not considered.

(b) when tax laws limit the extent to which unused tax losses can be recovered against future taxable profits in each year, the amount of deferred tax assets recognised from unused tax losses as a result of suitable existing taxable temporary differences is restricted as specified by the tax law. This is because when the suitable taxable temporary differences reverse, the amount of tax losses that can be utilised by that reversal is reduced as specified by the tax law. Also, in this case future tax losses are not considered.

(a) in both cases, if the unused tax losses exceed the amount of suitable existing taxable temporary differences (after taking into account any restrictions), an additional deferred tax asset is recognised only if the requirements in paragraphs 29 and 36 of IAS 12 are met (ie to the extent that it is probable that the entity will have appropriate future taxable profit, or to the extent that tax planning opportunities are available to the entity that will create appropriate taxable profit).

On the basis of this analysis, the Interpretations Committee concluded that neither an Interpretation nor an amendment to the Standard was needed and consequently decided not to add these issues to its agenda.