STAFF PAPER

IFRS Interpretations Committee Meeting

November 2013

Project	IAS 12 *Income Taxes*—Recognition and measurement of deferred tax assets when an entity is loss-making		
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Introduction

1. The IFRS Interpretations Committee ('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:

   (a) whether IAS 12 *Income Taxes* requires that a deferred tax asset is recognised regardless of an entity's expectations of future tax losses when there are suitable reversing taxable temporary differences ('Issue 1'); and

   (b) how the guidance in IAS 12 is applied when tax laws limit the extent to which losses can be recovered against future profits ('Issue 2').

2. We performed outreach on this topic with national accounting standard-setters and regulators. The results of this outreach are included as part of the staff's analysis of this issue.

3. The submission is reproduced in full in Appendix B to this paper.

Objective

4. The objective of this paper is to:

   (a) provide background information on the issues raised in the submission;

   (b) provide an analysis of the issues, including a summary of the outreach responses received;

   (c) present an assessment of the issues against the Interpretations Committee's agenda criteria and the annual improvements criteria;

   (d) make a recommendation to the Interpretations Committee; and

   (e) ask the Interpretations Committee whether it agrees with the staff recommendation.

Background information

5. IAS 12 provides the following definitions:

   > *Temporary differences* are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either:
   >
   > (a) *taxable temporary differences*, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or
   >
   > (b) *deductible temporary differences*, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

6. Paragraph 24 of IAS 12 states that:

   > **24 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised…**

7. Similarly, paragraph 34 of IAS 12 states that:

> **34 A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.**

8. Paragraphs 28 and 36 of IAS 12 specify that:

> 28 It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse:
>
> (a) in the same period as the expected reversal of the deductible temporary difference; or
>
> (b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.
>
> In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.
>
> 36 An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:
>
> (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
>
> (b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
>
> (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and
>
> (d) whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.
>
> To the extent that it is not probable that taxable profit will be available against which the unused tax losses or

unused tax credits can be utilised, the deferred tax asset is not recognised.

Staff analysis

Description of Issue 1

9. The fact pattern described by the submitter is the following:

    (a) an entity has tax losses carried forward of CU100[1] and taxable temporary differences of CU100;

    (b) the tax law permits the losses to be offset against the taxable profit that will arise from the reversal of the taxable temporary differences;

    (c) there are no limitations on the use of the tax losses in future periods; and

    (d) the entity expects to incur tax losses in excess of the taxable temporary differences in future periods.

10. The submitter requested the Interpretations Committee to clarify whether paragraphs 28 and 36 of IAS 12 require that a deferred tax asset is recognised, regardless of an entity's expectations of future losses, when there are suitable reversing taxable temporary differences.

11. The submitter thinks that two views exist in practice:

    (a) **View 1: deferred tax asset recognised regardless of expected future losses**. According to IAS 12 paragraph 28, it is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient appropriate taxable temporary differences that are expected to reverse in the appropriate period. Consequently, a deferred tax asset is recognised in these circumstances, even though future tax losses are expected.

    (b) **View 2: deferred tax asset not recognised**. According to IAS 12 paragraph 36 the existence of taxable temporary differences is merely an

[1] In this staff paper, currency amounts are denominated in 'currency units' (CU).

indicator, not actual evidence, that future taxable profits are probable. IAS 12 requires that there are future taxable profits. If the entity expects to incur further tax losses, the reversing taxable temporary differences will not give rise to taxable profit and the tax losses carried forward should not be recognised.

12. We will analyse these views in the following paragraphs.

View 1—deferred tax asset recognised regardless of expected future losses

13. Proponents of this view think that according to the guidance in IAS 12, a deferred tax asset is recognised to the extent of the taxable temporary differences of an appropriate type that reverse in an appropriate period.

14. They think that paragraph 28 is clear in this regard, because it specifies that it is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are appropriate taxable temporary differences that are expected to reverse in the future. It also specifies that a deferred tax asset is recognised in these circumstances.

15. They think that paragraph 35 of IAS 12 is relevant, because it states that (emphasis added):

> The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, **when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences** or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity

16. They think that the reversing taxable temporary differences enable the utilisation of the deductible temporary differences and are sufficient to justify the recognition of deferred tax assets.

17. In their view, IAS 12 implicitly excludes needing to take into account expected future tax losses, because deferred tax liabilities are required to be accounted for even by entities that expect future tax losses. They think that it is not appropriate to take into consideration tax losses that have not yet been incurred as the basis for not recognising deferred tax assets to which a right already exists.

18. They think that View 2 will lead to recognition of a deferred tax liability with no corresponding deferred tax asset. They argue that no tax payment will be required on the basis of temporary differences existing as of the balance sheet date. View 2 will result in the recognition of a liability:

    (a) that will never be paid, because the entity expects future tax losses; and

    (b) that will not be offset by the reversal of the deductible temporary differences, because in View 2 the deferred tax asset is not recognised (on the contrary, in View 1 the liability will be offset by the reversal of the deductible temporary differences, because the deferred tax asset is recognised).

    They also think that the effect upon equity of View 2 is not the best reflection on the entity's financial position.

19. In their view, applying an accounting model that takes into account expected future tax losses is inconsistent with underlying principles in IAS 12 and with US GAAP (ASC 740 *Debt*), which explicitly excludes anticipating future losses.

View 2— deferred tax asset not recognised

20. Proponents of this view think that the guiding principle for the recognition of deferred tax assets is set out in paragraphs 24 of IAS 12, which states that a deferred tax asset shall be recognised to the extent that it is probable that taxable profit will be available. Consequently, in their view it is inconsistent with this principle to recognise deferred tax assets when the reversing taxable temporary differences are not expected to result in future taxable profit (ie when an entity expects future tax losses).

21. In their view, the existence of taxable temporary differences is merely an indicator, not actual evidence, that future taxable profits are probable. Indeed,

paragraph 36 of IAS 12 states that: "an entity considers the following criteria…" and so the indicator in paragraph 36(a) (ie the existence of sufficient taxable temporary differences) is not determinative.

22. They think that paragraph 28 of IAS 12 is written on the assumption that an entity is not expecting future tax losses. In their view, this argument is supported by paragraph 35 of IAS 12, because it states that: "The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences".

Staff view

23. We support View 2, because we think that an entity should recognise a deferred tax asset only to the extent that it expects future taxable profits that it considers probable. In our view, this is the guiding principle set out in paragraphs 24 and 34 of IAS 12. We think that the rationale is explained by paragraph 27 of IAS 12, which states that:

> 27 The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

24. In our view, deferred tax assets arising from the carry forward of unused tax losses should be recognised only to the extent of the expected future taxable profits. Future taxable profits (and future tax losses) include the reversal of taxable temporary differences. To illustrate our view we provide the following examples.

Example 1

An entity has tax losses carried forward of CU100, reversing taxable temporary differences of CU100 and it expects accounting losses of 60CU in future periods.

In this fact pattern, the entity expects future taxable profits of 40CU (ie 100CU-60CU), so in our view, it should recognise deferred tax assets related to tax losses carried forward of 40CU.

Example 2

An entity has tax losses carried forward of CU100, reversing taxable temporary differences of CU100 and it expects accounting losses of 120CU in future periods.

In this fact pattern, the entity expects future tax losses of 20CU (ie 100CU-120CU). Consequently, in our view, deferred tax assets are not recognised, because the entity does not expect to pay taxes, and so there would be no economic benefits (ie the reduction in tax payments) embodied in this deferred tax 'asset'.

25. We also think that View 2 is consistent with the Interpretations Committee's conclusions reached in its May 2013 meeting on the issue *IAS 12 Income Taxes—Recognition of deferred tax assets for unrealised losses.* We reproduce below the relevant parts of the May 2013 *IFRIC Update*[2]:

> At this meeting, the Interpretations Committee decided to recommend to the IASB that it should amend IAS 12 to clarify that deferred tax assets for unrealised losses on debt instruments are recognised, unless recovering the debt instrument by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses…
>
> …The Interpretations Committee concluded that deferred tax assets should not be recognised in such a situation. This is because it is not clear what the economic benefit embodied in the deferred tax asset is, if recovering the debt instrument by holding it until an unrealised loss reverses does not reduce future tax payments and instead only avoids higher tax losses…

26. We understand the argument in favour of View 1 that if the loss-making entity does not recognise the deferred tax asset it will recognise a deferred tax liability with no corresponding deferred tax asset and thus it will recognise a liability that

[2] The full *IFRIC Update* can be found here: http://media.ifrs.org/2013/IFRIC/May/IFRICUpdateMay2013.html#2

will never be paid. However, we think that this asymmetry in accounting for deferred tax assets and liabilities reflects the asymmetry of many tax systems, because:

(a) if an entity makes a gain, tax laws usually require the entity to give the government a share of this profit;

(b) if an entity makes a loss instead, tax law usually does not require the government to reimburse the entity for parts of its loss. Tax law may allow the entity only to offset that loss against future gains.

27. Consequently, we think that according to IAS 12:

(a) deferred tax assets are recognised only to the extent that an entity expects that the reversal of the deductible temporary difference will reduce tax payments;

(b) deferred tax liabilities are recognised even though the reversal of the taxable temporary difference will only reduce the tax loss of the entity (ie the liability will never be paid).

28. We also think that addressing this asymmetry would only be appropriate as part of a larger project to amend the recognition requirements for deferred tax liabilities and that amending these requirements is outside the scope of this paper.

Description of Issue 2

29. The second fact pattern described by the submitter is the following:

(a) assume that View 1 is the correct one (ie deferred tax asset are recognised regardless of expected future losses);

(b) an entity has tax losses carried forward of CU100 and taxable temporary differences of CU100 that will reverse next year and create CU100 of taxable profit;

(c) the entity expects to incur losses before and after the reversal of taxable temporary difference so it is not probable that there will be future taxable profits in excess of reversing taxable temporary differences; and

(d) the tax law restricts the recovery of tax losses to 60 per cent of taxable profit in each year.

30. The submitter asked the Interpretations Committee to clarify how the guidance in IAS 12 should be applied when tax laws restrict the recovery of tax losses to a certain portion of taxable profits in each year.

31. The submitter thinks that there are two views on this issue:

    (a) **View 1A: deferred tax asset restricted to 60 per cent of the taxable temporary differences**. It is not probable that there will be future taxable profits in excess of reversing taxable temporary differences, and consequently the deferred tax asset recognised is restricted to 60 per cent of the taxable temporary difference. The recognition of the additional 40 per cent would result in an asset that will not embody any economic benefits. This would be inconsistent with the principles in IAS 12 and with the definition of an asset in the *Conceptual Framework*.

    (b) **View 1B: deferred tax asset recognised to the full extent of sufficient taxable temporary differences**. The tax law restricts the recovery of tax losses to 60 per cent of the taxable profit. If the entity expects to incur tax losses in the future, the tax law restriction is not relevant, because the actual taxable profit will be zero (or it will be a tax loss). Consequently, the deferred tax asset is recognised to the full extent of the taxable temporary differences.

32. Further details on these views are provided in the submission (please see Appendix A to this paper).

Staff view

33. We disagree with both views, because both views assume that paragraphs 28 and 36 of IAS 12 require that a deferred tax asset is recognised, regardless of an entity's expectations of future losses, when there are suitable reversing taxable temporary differences. As noted in our analysis on Issue 1, we think that expectations of future tax losses should be taken into account when assessing the recognition of a deferred tax asset.

Outreach requests

34. We asked IOSCO, ESMA and national standard-setters to provide us with information on whether the issues raised in the submission:

    (a) are widespread and have practical relevance; and

    (b) indicate that there are significant divergent interpretations (either emerging or existing in practice).

35. We asked the following two questions:

    (a) *How common are these issues? If they are common, could you provide us with information that the Interpretations Committee could use to assess how widespread the issues are?*

    (b) *in your view, is there diversity in practice in the recognition and measurement of deferred tax assets for losses carried forward in these fact patterns? Please describe the predominant approach that you observe in your jurisdiction.*

Responses from national standard-setters and regulators

36. We received responses from the following 18 jurisdictions: Europe (8), Asia (6), Americas (2), Oceania (1) and Africa (1).

37. Issue 1 is common in ten jurisdictions. In four of them diversity in practice has been noted. We understand that in many jurisdictions the predominant approach used in practice is View 1.

38. Issue 2 is common in four jurisdictions. In all of them diversity in practice has been noted.

Agenda criteria assessment

39. Our assessment of the Interpretations Committee's agenda criteria is as follows:

Source of issue
Issues could include: the identification of divergent practices that have emerged for accounting for particular transactions, cases of doubt about the appropriate accounting treatment for a particular circumstance or concerns expressed by investors about poorly specified disclosure requirements (5.14).

Criteria	
We should address issues(5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected; where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	Yes. On the basis of our outreach there is diversity in practice in recognising and measuring deferred tax assets.
In addition:	
Can the Interpretations Committee address this issue in an efficient manner (5.17)?	Yes. We think that the Interpretations Committee can address these issues in an efficient manner, because it already has on its agenda a project related to the recognition of deferred tax assets.
Will it be effective for a reasonable time period (5.21)? Only take on the topic of a forthcoming Standard if short-term improvements are justified.	Yes, we think that the solution developed by the Interpretations Committee will be effective for a reasonable period of time. The IASB research project on income taxes is not expected to commence until after 2015.

40. Our assessment of the additional criteria for annual improvements is as follows:

Additional criteria for annual improvements	
In addition to the implementation and maintenance criteria, an annual improvement should (6.11, 6.12): • Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict.	Yes. We think that the wording in paragraphs 28, 35 and 36 of IAS 12 is not clear, because many think that these paragraphs require that a deferred tax asset is recognised, regardless of an entity's expectations of future losses, when there are suitable reversing taxable temporary

	differences.
Not change an existing principle or propose a new principle	Yes. We think that we are not changing the principle that deferred tax assets shall be recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	No. We think that our proposed amendment to paragraphs 28, 35 and 36 of IAS 12 would change the predominant practice in many jurisdictions and it is related to the narrow-scope amendment to IAS 12 *Recognition of deferred tax assets for unrealised losses.* Consequently, in our view, our proposed amendment should be included in the above-mentioned narrow-scope amendment.

Staff recommendation

41. We think that the Interpretations Committee should recommend to the IASB that it should amend IAS 12 to clarify that the Standard requires that deferred tax assets are recognised only to the extent that an entity expects that the reversal of the deductible temporary differences will reduce tax payments. Consequently, deferred tax assets are not recognised regardless of an entity's expectations of future losses, when there are suitable reversing taxable temporary differences. In other words, the existence of taxable temporary differences is merely an indicator, not actual evidence, that future taxable profits are probable.

42. We also think that the Interpretations Committee should recommend to the IASB that it should include this proposed amendment to IAS 12 in the narrow-scope amendment to IAS 12 *Recognition of deferred tax assets for unrealised losses.*

43. If the Interpretations Committee agrees with our recommendations, we will present a draft of the proposed amendment to IAS 12 in a future meeting.

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree that according to IAS 12 deferred tax assets are not recognised, regardless of an entity's expectations of future losses, when there are suitable reversing taxable temporary differences?

2. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should recommend to the IASB that it should amend IAS 12?

3. Does the Interpretations Committee agree with the staff's recommendation that it should recommend to the IASB that it should include this proposed amendment in the narrow-scope amendment to IAS 12 *Recognition of deferred tax assets for unrealised losses*?

Appendix A—Request

A1 We received the following request. All information has been copied without modification, except for details that would identify the submitter of the request and details that are subject to confidentiality.

Potential interpretation:
IAS 12, Income Tax – Recognition and measurement of deferred tax assets when an entity is loss making

We suggest in this letter an issue that the IFRS Interpretation Committee might consider clarifying through an interpretation.

The issue

There are different views about whether IAS 12 requires that a deferred tax asset is recognised for losses carried forward to the extent of appropriate taxable temporary differences.

Consider a situation in which an entity has tax losses carried forward of CU100 and taxable temporary differences of CU100. The tax law permits the losses to be offset against the taxable profit that will arise from the reversal of the taxable temporary differences. There are no limitations on the use of the tax losses in future periods. However, entity expects to incur tax losses in excess of the taxable temporary differences in future periods.

The relevant guidance

IAS 12 paragraph 28 states that it is probable that a deductible temporary difference is recoverable when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse in the same period as the expected reversal of the deductible temporary difference.

IAS 12 paragraph 36 states that an entity should consider whether it has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which unused tax losses or unused tax credits can be utilised before they expire.

IAS 12 paragraph 36 also states that to the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

The alternative views

- <u>Deferred tax asset recognised regardless of expected future losses</u>

Supporters of this view argue that IAS 12 paragraphs 28 and 36 provide specific guidance that a deferred tax asset is recognised to the extent of taxable temporary differences of an appropriate type that reverse in an appropriate period. Paragraph 28 in particular is specific that it is probable that there will be sufficient taxable profits when it is expected that appropriate taxable temporary differences will reverse in the future. It is also specific that a deferred tax asset is recognised in these circumstances.

Supporters of this view also point out that IAS 12 implicitly excludes consideration of expected future tax losses. They point out that (1) deferred tax liabilities are required to be recorded even by entities that anticipate future tax losses and (2) tax carry back refund claims can only be recognised as assets once the underlying losses have been incurred. Applying an accounting model that takes into account probable future losses is inconsistent with underlying principles in IAS 12 and with US GAAP (ASC 740), which explicitly excludes anticipating future losses.

- Deferred tax asset not recognised

Supporters of this view argue that IAS 12 paragraph 36 states that the existence of taxable temporary differences is an indicator, not evidence, that future taxable profits are probable. The guidance requires that there are future taxable profits. If the entity expects to incur further tax losses, the reversing taxable temporary differences will not give rise to taxable profit and the tax losses carried forward should not be recognised.

Question for the Committee

The Committee is asked to clarify whether IAS 12 paragraphs 28 and 36 require that a deferred tax asset is recognised regardless of an entity's expectations of future losses when there are suitable reversing taxable temporary differences.

Additional issue

Assume that the answer to the question above is that a deferred tax asset is recognised regardless of expected future losses.

The tax law in a number of jurisdictions restricts the recovery of tax losses to a certain portion of taxable profits in each year.

There is diversity in practice in the measurement of deferred tax assets for losses carried forward in those jurisdictions where the recovery of those assets is supported only by taxable temporary differences.

Example

An entity has brought forward tax losses of CU100 and also has CU100 of taxable temporary differences that will reverse next year and create CU100 of taxable profit. It is not probable that the entity will be profitable and the entity expects to incur losses before and after the reversal of taxable temporary difference for the foreseeable future. The tax law restricts the recovery of tax losses to 60% of taxable profits in each year.

Current practice

We understand that there is mixed practice on how to measure the deferred tax asset. Some entities restrict the amount recognised to 60% of the taxable temporary difference but other entities recognise a deferred tax asset to the full extent of the taxable temporary difference.

- Deferred tax asset restricted to 60% of the taxable temporary difference

Supporters of this view argue that the deferred tax asset should be restricted by the impact of the tax loss limitation. A law that limits the recovery of tax losses means that the tax losses brought forward will reduce the obligation to pay tax arising from the reversing taxable temporary difference, but only to the extent allowed by the limitation. A net deferred tax liability is recognised for the tax that will be paid when the temporary differences reverse.

Management has concluded that it is not probable there will be future taxable profits in excess of reversing taxable temporary differences. The deferred tax asset is therefore restricted to 60% of the taxable temporary differences. IAS 12 paragraph 36 provides specific guidance that addresses this situation.

It is also argued that restricting the recognition of the deferred tax asset better reflects the entity's financial position. The effect of recognising a deferred tax asset in excess of the amount that would be recovered after taking into account the loss limitation would result in an asset that will not result in any inflow of economic benefit or reduction in outflows. This is inconsistent with the principles in IAS 12 and with the definition of an asset in the IFRS Framework. The 'asset' would be written off in a subsequent period, although there would be no change in circumstances.

- Deferred tax asset recognised to the full extent of sufficient taxable temporary difference

Supporters of this view argue that the key question is whether the entity expects future taxable profits. This is because the tax legislation limits the utilisation of losses based on actual taxable profits, and the key question is whether there will be a current tax expense in the future due to the loss limitation.

The tax law restricts the recovery of tax losses to a certain percentage of taxable profits. Where the entity expects to incur tax losses in the future, the loss limitation in the relevant legislation does not apply. The reversal of taxable temporary differences results in the recognition of a deferred tax asset under IAS 12 regardless of expected future losses because the loss limitation is only relevant if there are taxable profits according to tax law. The guidance in IAS 12 paragraph 28 that taxable profits are probable when there are appropriate taxable temporary differences is irrelevant in the context of the tax loss limitation, because the legislation refers to actual taxable profits.

The deferred tax asset should be recognised to the extent of the taxable temporary differences (that is, CU100 in the example above). The answer would be different if the entity expected taxable profits according to tax law in the future because a current tax expense would arise when the loss limitation is applied.

This is illustrated in the example below:

	View 1	View 2
	Limitation of the deferred tax asset	Deferred tax asset recognised in full
Recognition of the deferred taxes		
Current tax expense (tax rate @30%)	0	0
Deferred tax expense on taxable temporary difference (100@30%)	+ 30	+ 30
Deferred tax profit on deductible temporary difference (100@30%@60%)	-18	-30
Net profit or loss effect	+12	0
Reversal of the deferred taxes		
Current tax expense (tax rate @30%)	0	0
Deferred tax expense on taxable temporary difference (100@30%)	- 30	- 30
Deferred tax profit on deductible temporary difference (100@30%@60%)	+18	+30
Net profit or loss effect	-12	0

Question for the Committee

The Committee is asked to clarify how the guidance in IAS 12 paragraphs 28 and 36 is applied when tax laws limit the extent to which losses can be recovered against future profits.

Reasons for the IFRIC IC to address the issue

Criteria	Assessment
Is the issue widespread and practical?	Yes. These issues are widespread and affect entities in a number of European and other tax jurisdictions.
Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?	Yes. Divergent interpretations on both issues are arising in Europe and elsewhere following the adoption of the tax laws.
Would financial reporting be improved through elimination of the diversity?	Yes.
Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and the Framework for the Preparation and Presentation of Financial Statements, but not so narrow that it is inefficient to apply the interpretation process?	Yes. The issues relate to a specific and narrow application of specific paragraphs in IAS 12.
If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project?	Not applicable.