STAFF PAPER

June 2014

IASB Meeting

IFRS IC meetings: May–Nov 2010, Nov 2012, May 2013, Jan and Mar 2014
IASB meetings: Sep 2011, Dec 2012 and May 2014

Project	**Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)**		
Paper topic	Cover note		
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Introduction

1. At its meeting in December 2012, the IASB tentatively decided that the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value should be clarified by a separate narrow-scope amendment to IAS 12 *Income Taxes*.[1] The IASB asked the IFRS Interpretations Committee (the 'Interpretations Committee') to develop a recommendation for this amendment.

2. At its meeting in May 2014, the IASB discussed the Interpretations Committee's recommendation.[2] The IASB tentatively agreed with the recommendation of the Interpretations Committee that the proposed amendments to IAS 12 should include an illustrative example that addresses the following aspects in the application of the existing principles in IAS 12:

   (a) an unrealised loss on a debt instrument measured at fair value gives rise to a deductible temporary difference even if:

[1] http://media.ifrs.org/2012/Updates/IASB-Update-December-2012.pdf

[2] http://media.ifrs.org/2014/IASB/May/IASB-Update-May-2014.pdf

(i) the debt instrument holder expects to recover the carrying amount of the debt instrument by holding it to maturity and collecting all of the contractual cash flows; and

(ii) the loss is not tax-deductible until realised.

(b) an entity assesses the utilisation of deductible temporary differences related to unrealised losses on debt instruments measured at fair value in combination with other deductible temporary differences. If tax law, however, restricts the utilisation of deductible temporary differences so that they are deductible only against the taxable profits of a specific type, the entity still assesses utilisation of such deductible temporary differences in combination with other deductible temporary differences, but only of the appropriate type. An example of such a restriction could be, for example, that capital losses are deductible only against capital gains.

(c) an entity's estimate of future taxable profit, made for the purposes of recognising deferred tax assets, assumes that it will recover an asset for more than its carrying amount, if the recovery of an asset for more than its carrying amount is probable.

(d) an entity excludes the tax deductions represented by existing deductible temporary differences from the probable future taxable profit against which those differences are assessed for utilisation. The IASB also tentatively agreed with the recommendation of the Interpretations Committee that it should propose an amendment to paragraphs 24–31 of IAS 12 to clarify this point.

(e) the example should illustrate the assessment of the utilisation of deductible temporary differences when all three sources of taxable profits (ie future reversal of existing taxable temporary differences, future taxable profit and tax planning opportunities) are available but are insufficient in total to support the recognition of deferred tax assets for all of the deductible temporary differences.

(f) as a consequence of (e), the example should explain how an entity should determine the amount of deferred tax to recognise in other comprehensive income, compared to the amount that it should recognise in profit or loss, when the entity cannot recognise all deferred tax assets because it has insufficient future taxable profits. The Interpretations Committee noted that this determination should be on a reasonable pro-rata allocation, unless tax law requires a different allocation.

3. However, the IASB disagreed with the recommendation of the Interpretations Committee that items (a)–(c) in paragraph 2 of this paper should only be addressed in an illustrative example and the Basis for Conclusions on IAS 12. The IASB tentatively decided that these items should also be addressed by amending the mandatory guidance in IAS 12 and asked the staff to consider how this could be done.

Structure of Staff Papers for the June 2014 IASB meeting

4. We have prepared Staff Paper 12D(i) to present our additional analysis in order to meet the IASB's request.

5. In order to be able to start the balloting process, we also analyse the need for specific transition requirements and analyse other drafting issues, explain the steps in the due process that the IASB has taken before the publication of the Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses* (Proposed amendments to IAS 12) and ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date.

6. This leads to the following structure of the Staff Papers for the June 2014 IASB meeting:

   (a) Staff Paper 12D(i): *Recognition of Deferred Tax Assets for Unrealised Losses* (Proposed amendments to IAS 12)—amending the mandatory guidance in IAS 12, transition requirements and other drafting issues; and

   (b) Staff Paper 12D(ii): *Recognition of Deferred Tax Assets for Unrealised Losses* (Proposed amendments to IAS 12)—due process consideration.