Grant Thornton
An instinct for growth™

IFRS Alert

Amendments to IAS 12

Issue 2016-02

Executive Summary

The IASB has issued 'Recognition of Deferred Tax Assets for Unrealised Losses' which makes narrow-scope amendments to IAS 12 'Income Taxes' (the Amendments).

The focus of the Amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

Background

The IFRS Interpretations Committee (IFRIC) was originally asked to clarify a number of issues surrounding the recognition of deferred tax assets related to debt instruments measured at fair value. The IFRIC referred the issue to the IASB, leading to an Exposure Draft being issued in August 2015 and now the final Amendments.

Matters addressed

The Amendments add guidance to the Standard in the following areas where diversity in practice previously existed:

Topic	Issue	Clarification
Existence of a deductible temporary difference	Do decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity always give rise to a deductible temporary difference if the debt instrument is measured at fair value and if its tax base remains at cost	The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference.
Recovering an asset for more than its carrying amount	Should an entity assume that it will recover an asset for more than its carrying amount when estimating probable future taxable profit against which deductible temporary differences are assessed for utilisation if such recovery is probable (relevant when taxable profit from other sources is insufficient for the utilisation of the deductible temporary differences related to debt instruments measured at fair value)	The estimate of probable future taxable profit may include the recovery of some of an entity’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

Topic	Issue	Clarification
Probable future taxable profit against which deductible temporary differences are assessed for utilisation	When an entity assesses whether it can utilise a deductible temporary difference against probable future taxable profit, does that probable future taxable profit include the effects of reversing deductible temporary differences	Deductible temporary differences are utilised by deduction against taxable profit, excluding deductions arising from reversal of those deductible temporary differences. Consequently, taxable profit used for assessing the utilisation of deductible temporary differences is different from taxable profit on which income taxes are payable. If those deductions were not excluded, then they would be counted twice.
Combined versus separate assessment	Should an entity assess whether a deferred tax asset is recognised for each deductible temporary difference separately, or in combination with other deductible temporary differences.	The Amendments clarify that an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

Effective date

The Amendments are effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

Transition

The Amendments are to be applied retrospectively. However they allow the change in opening equity of the earliest comparative period presented, that arises from applying the Amendments for the first time, to be recognised in opening retained earnings without the need to allocate the change between opening retained earnings and other components of equity.

Contact

Stephen Murray
Partner, Corporate Audit
E stephen.murray@ie.gt.com
T +353 (0)1 680 5689

Fergus Condon
Partner, Financial Accounting and Advisory Services
E fergus.condon@ie.gt.com
T +353 (0)1 680 5610

Louise Kelly
Partner, Audit
E louise.kelly@ie.gt.com
T +44 (0)28 9587 1100

Click here to subscribe to future thought leadership publications.