Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	7 October 2014
From:	**Nikole Gyles & Evelyn Ling**	**Agenda Item:**	7.1 (M141)
Subject:	**Recognition of Deferred Tax Assets for Unrealised Losses (Proposed Amendments to IAS 12)**	**File:**	

Action

Form tentative views on IASB proposals in IASB Exposure Draft ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses*, decide key comments to be raised in the AASB comment letter to the IASB (subject to feedback received from constituents), and decide on the process for finalising the AASB's comment letter.

Attachments

Agenda Paper 7.2 Issues Paper: Recognition of Deferred Tax Assets for Unrealised Losses

Agenda Paper 7.3 ED 253 *Recognition of Deferred Tax Assets for Unrealised Losses* (incorporating IASB ED/2014/3 of the same name)

Background and Overview

In August 2014, the IASB issued IASB ED/2014/3 for comment by 18 December 2014. The ED is the result of a narrow scope amendments to IFRSs project proposed by the IFRS Interpretations Committee ('the Committee'). The issue was originally proposed (and exposed) for amendment as part of an Annual Improvement; however, was considered to be a larger project, and duly scoped out.

AASB ED 253 *Recognition of Deferred Tax Assets for Unrealised Losses* was issued on 21 August 2014 and incorporates IASB ED/2014/3. The AASB ED is open for comment until 20 November 2014.

The proposed amendments to IAS 12 *Income Taxes* (incorporated into AASB 112 of the same name) seek to clarify the accounting, where an entity reports tax losses, for deferred tax assets related to debt instruments measured at fair value, by clarifying the application of some of the principles in IAS 12. The proposed amendments to IAS 12 clarify:

(a) that decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if the debt instrument is measured at fair value and if its tax base remains at cost, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the asset by holding it to maturity, or whether it is probable that the issuer will pay all the contractual cash flows;

(b) the extent to which an entity's estimate of future taxable profit includes amounts from recovering assets for more than their carrying amounts;

(c) that an entity's estimates of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences; and

(d) that an entity assesses whether to recognise the tax effect of a deductible tax difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilisation of tax losses so that an entity can only deduct tax losses against income of a specified type or specified types, the entity must still assess a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

The proposed amendments do not amend any disclosure requirements. Accordingly, the ED does not give rise to any particular implications for Tier 2 disclosures.

Analysis of the proposals, AASB staff recommendations and questions for the Board are outlined in Agenda Paper 7.2.

Proposed plan for finalisation

Staff propose that staff draft a submission following the Board's decisions at this meeting, subject to comments received from constituents. Staff will bring back any further issues at the 17-18 December 2014 Board meeting, including any feedback received from constituents. Staff recommend that the AASB comment letter be finalised out-of-session with the Chair.

Question to Board Members

Q1 Do Board members agree with staff's proposed plan for finalisation?