Nexia SAB&T

Training and Technical

Amendments becoming effective 1 January 2017

December 2016

Amendments to IAS 7 Cash flow statement

Requirement

As part of the disclosure initiative a standalone amendment to IAS 7 was issued in January 2016. This amendment requires entities to provide disclosures on changes in liabilities arising from financing activities, including non-cash changes and changes arsing from cash flows.

How to meet the requirement?

An entity shall disclose the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair values; and
- other changes.

One way to meet this disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

Effective date:
The amendments are effective for periods beginning on or after 1 January 2017. It is not required to provide comparative information for preceding periods.

Amendments to IAS 12 Income taxes

Requirement

This amendment clarifies the requirement on the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value.

What are the amendments?

It was clarified that the following circumstances give rise to a deductible tax difference regardless of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity or by selling the debt instrument:

- an entity holds a debt instrument classified as available-for-sale and, therefore, measured at fair value but whose tax base is cost;
- the entity estimates that it is probable that the issuer of the debt instrument will make all the contractual payments but changes in market interest rates have caused the fair value of the debt instrument to be below its cost;
- the entity has the ability and intention to hold the debt instrument until the unrealised losses reverses (which may be at its maturity);
- tax law prescribes that capital losses can only be offset against capital gains, whilst ordinary losses can be offset against both capital gains and ordinary income; and
- the entity has insufficient taxable temporary differences and no other probable taxable profits against which the entity can utilise deductible temporary differences.

How to estimate future taxable profits?

- The amendments clarify that when estimating taxable profit of future periods, an entity can assume that an asset will be recovered for more than its carrying amount if that recovery is probable and the asset is not impaired. All relevant facts and circumstances should be assessed when making this assessment.
- The amendments make clear that, in evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with the future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.
- If the tax law only allows deductible temporary differences to be deducted from profits of a particular type, that should be taken into account when considering the availability of future profits. *For example: If capital losses can only be offset against capital gains, you cannot take these into account when assessing availability of operating profits.*
- Future taxable profit used to support the recovery of deferred tax assets should exclude the effect of the deduction representing the reversal of the deductible temporary difference. This is to avoid double counting. *For example: If you had a deductible Temporary Difference of 100 this year, and were looking at the profits 5 years ahead to determine if you could raise the deferred tax asset, you would exclude the 100 from that assessment.*

Effective date:
The amendments are effective for periods beginning on or after 1 January 2017. Amendments must be applied retrospectively in accordance with IAS 8. However, in applying the amendments in the first opening statement of financial position, an entity is not required to make transfers between retained earnings and other components of equity to restate cumulative amounts previously recognised in profit or loss, other comprehensive income or directly in equity. If an entity does not make such transfers, it should disclose that fact.