**Worked example**

**Deferred tax assets**

**What is ‘future taxable profit’ for the recognition test?**
Applying the IAS 12 amendments | January 2016

**Fact pattern:**

- **1 Jul 2015**
  - P buys debt instrument at nominal value: 1,000
  - P’s income tax rate for all periods is 25%

- **31 Dec 2015**
  - Fair value due to market rate change: 900
  - Deductible temporary difference (DTD): 100
  - P also has a taxable temporary difference (TTD) reversing in 2016: 30

- **31 Dec 2016**
  - Instrument matures
  - P expects to collect full 1,000 – i.e. DTD expected to reverse
  - Expected tax loss on bottom line of tax return: (20)

**Can P recognise a deferred tax asset? And if so, at what amount?**

**The short answer is ‘Yes’**

...if certain conditions are met

But how do we get there?

Read on for our detailed analysis based on the IASB’s explanation.
Analysis based on the IASB’s explanation

Step 1  Are there taxable temporary differences that reverse? (Existing requirements)

TTD of 30 will reverse and generate taxable income against which DTD can be utilised.

Therefore in Step 1, **P can recognise 30 of the DTD in calculating the deferred tax asset.**

This amount may increase if there is a future taxable profit (see Step 2).

Step 2  What is the ‘future taxable profit’? (Clarified requirements)

The future taxable profit for the purpose of the recognition test is 50, being the bottom line of the tax return adjusted for the reversing TTD and DTD to avoid double counting.

Step 3  What amount should P recognise as a deferred tax asset?

P adds the amounts from **Step 1** and **Step 2** and applies its tax rate to the total.

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