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## International Financial Reporting Standards: Tax and Reporting Implications of the New Canadian GAAP

by Ian Gergovich

PricewaterhouseCoopers LLP

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Effective January 1, 2011, Canadian accounting standards that have been in force for decades will, for some reporting entities, be replaced by international standards that are currently in force in over 100 countries.

The purpose of this changeover is to harmonize Canadian financial statements on an international basis and to give Canadian companies better access to global capital markets. The changeover may have implications for the determination and reporting of current and deferred tax amounts on a reporting enterprise's financial statements, as well as the determination of its taxable income.

Ian Gergovich

[ian.gergovich@ca.pwc.com](mailto:ian.gergovich@ca.pwc.com)

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# International Financial Reporting Standards: Tax and Reporting Implications of the New Canadian GAAP

*Ian Gergovich\**

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PricewaterhouseCoopers LLP, Montreal. BComm (1979)  
Concordia University; CA (1981). Former member of  
consultative committee (sponsored by the Canada Revenue  
Agency) providing industry and practitioner input into revisions  
to the federal scientific research and experimental development  
program (1996).

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## Abstract

Effective January 1, 2011, Canadian accounting standards that have been in force for decades will, for some reporting entities, be replaced by international standards that are currently in force in over 100 countries. The purpose of this changeover is to harmonize Canadian financial statements on an international basis and to give Canadian companies better access to global capital markets. The changeover may have implications for the determination and reporting of current and deferred tax amounts on a reporting enterprise's financial statements, as well as the determination of its taxable income.

**Keywords** Accounting standards; GAAP; IFRS.

## Introduction

Over the next three years, accounting standards in Canada will change. Standards for public companies will move to the international financial reporting standards (IFRS) now used by the European Union and a number of other major countries. The move from Canadian generally accepted accounting principles (Canadian GAAP) to IFRS will fundamentally change the way Canadian companies report

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their financial results and prepare their balance sheets. In this paper, I examine the impact of the changeover from Canadian GAAP to IFRS on

- 1) the measurement and reporting of income taxes for financial statement purposes, and
- 2) the determination of an enterprise's Canadian tax obligations.

## **Why the Change to IFRS?**

As capital markets become increasingly global, standard setters and stakeholders around the world are collaborating to develop practices that will yield equivalent standards for financial reporting and to move toward a model that is more transparent and more relevant to preparers and users of financial statements on an international basis. With the introduction of IFRS in Europe and some Asia Pacific countries, it has been observed that there is significant progress in attaining consistency in financial statements across many capital markets.

The Accounting Standards Board of Canada (AcSB) provided the following explanation for Canada's move toward the convergence of Canadian GAAP with IFRS:

Canada's is a small, open economy. Canadian public companies increasingly borrow, operate and invest globally, but Canada has only a 2% share of the global capital market. The IFRS world will provide better access to global capital markets and help investment in new businesses that create jobs. Adopting international accounting standards will be more cost-effective than maintaining a separate, and isolated, set of accounting standards.

International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB), have gained strong support in recent years. Since the beginning of 2005, approximately 100 countries either require or permit the use of IFRS for public companies, including all countries of the European Union. So does Australia. The IASB is working with Japan. In February 2006, China announced that it will bring its accounting and auditing practices in line with international standards in 2007. The IASB and the Financial Accounting Standards Board (FASB) in the United States have agreed to write new joint standards and converge existing standards in a number of areas by 2008.<sup>1</sup>

## **Reporting Entities Subject to Adoption of IFRS**

The AcSB proposes that all Canadian reporting entities be required to apply IFRS after January 1, 2011, other than the following:

- (a) Private enterprises, that is, profit-oriented entities that
  - (i) have not issued (and are not in the process of issuing) debt or equity instruments in a public market; and

(ii) do not hold assets in a fiduciary capacity for a broad group of outsiders. Entities with fiduciary responsibility, such as banks, credit unions, insurance companies, securities brokers/dealers, mutual funds, and investment banks, stand ready to hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity.

(b) Not-for-profit organizations. . . .

(c) Public sector entities to which the standards contained in the CICA Public Sector Accounting Handbook apply.<sup>2</sup>

Reporting entities that are subject to IFRS are hereinafter referred to as publicly accountable enterprises (PAEs). Although an enterprise that is not a PAE is not required to adopt IFRS, it can elect to do so.

## **Accounting and Reporting Implications**

### **Canadian GAAP**

Canadian GAAP requires that reporting entities determine and disclose in their financial statements their current and deferred tax provisions and balance sheet amounts. In determining deferred tax amounts, Canadian GAAP adopts the liability method for measuring income taxes based on the concept of “temporary differences.” This method has a balance sheet focus, which compares the financial reporting and tax balance sheets of an enterprise to determine such differences. To the extent that there are differences between book values and tax values, it is presumed that these differences will reverse over time and give rise to either taxable income (taxable temporary differences) or a deduction from taxable income (deductible temporary differences). Accordingly, the resulting income tax expense or benefit associated with these reversing differences is tax-effected using substantively enacted tax rates.

The objective of the liability method is to recognize the amount of taxes payable or refundable for the current year and to recognize future income tax liabilities and assets if the other assets and liabilities in the balance sheet were to be realized or settled for their carrying amounts. The fundamental principles are summarized as follows:

- A current income tax liability or current income tax asset is recognized for the estimated income taxes payable or refundable for the current year.
- A future income tax asset is recognized for the estimated future income tax benefits attributable to the carryforward of unused tax losses and other reductions arising from foreign tax credits.
- If realization of recorded assets or settlement of recognized liabilities in the future for their carrying amounts would result in a reduction or increase in income taxes, a future income tax asset or liability is recognized.

- The measurement of current and future income tax liabilities or income tax assets is based on the income tax rates and provisions of the enacted (or, in certain limited circumstances, substantively enacted) income tax law. The effects of anticipated changes in income tax laws or rates should not be considered.
- A future income tax asset is recognized to the extent that, on the basis of available evidence, it is more likely than not that the amount will be realized. Alternatively, an enterprise may recognize its total future income tax asset but provide a valuation allowance for that portion of the asset that more likely than not will be realized. Whichever approach is used, the net amount of any asset recognized should be the same.

## **IFRS**

The liability method for measuring income taxes is also used under IFRS. Like Canadian GAAP, IFRS assumes that an enterprise will recover or settle the carrying amount of each of its assets and liabilities. If it is probable that such recovery or settlement of that carrying amount will result in future tax payments (or savings), then the enterprise is required to recognize a deferred tax liability (or asset), with certain limited exceptions.

## **Comparing the Standards**

The same fundamental principles apply under IFRS as under Canadian GAAP. The principal differences between the two accounting standards relate to the terminology used in defining the liability method of accounting for income taxes and the country-specific issues that are dealt with under Canadian GAAP in respect of which IFRS is silent.

The definitions of taxable temporary differences and deductible temporary differences are substantially the same under both standards. Thus, a depreciable asset having a financial statement carrying amount (generally defined as net book value) of \$1,000 and a tax base of \$400 will, as the asset is recovered over time, give rise to a taxable income of \$600.<sup>3</sup> In this example, both standards require the recognition of a deferred tax liability in respect of the future taxable income that presumably will be realized as the asset is gradually depleted or possibly sold.

Similarly, the recognition of deferred tax assets (such as loss carryovers, tax credits, and deductible temporary differences) is essentially the same under both standards. That is to say, the recognition of a deferred tax asset uses a probability test. Under GAAP this probability is defined as “more likely than not,” whereas under IFRS the test is simply “probable.” My understanding is that IFRS will likely interpret the term “probable” as meaning “more likely than not.”

It should be noted that the AcSB and the International Accounting Standards Board (IASB) are continuing to review these differences through work-in-process initiatives, with a view to resolving them and converging the standards. The AcSB intends to issue converged standards on income tax once the convergence project between the IASB and the US Financial Accounting Standards Board is complete.

The appendix to this paper sets out a detailed comparison of the requirements of Canadian GAAP and the requirements of IFRS in respect of accounting for income taxes.

### **The Impact of IFRS on the Determination of Taxable Income and Taxes Payable**

In this section of the paper, I review the impact of the changeover from Canadian GAAP to IFRS on the determination by a PAE of its Canadian tax obligations.

The changeover to international reporting standards will not, in my view, dramatically change the manner in which an enterprise determines its Canadian tax obligations. This is because the determination of taxable income is not directly linked to income determined for financial statement purposes. The statutory rules for the determination of taxable income, as set out in the Income Tax Act,<sup>4</sup> are largely unaffected by the reporting standards used in a taxpayer's financial statements. In fact, with limited exceptions, the language of the Act makes very few references to financial statements or the reporting standards used to determine a taxpayer's profit or loss.

#### **Section 9 of the Act: The Starting Point in the Determination of Taxable Income**

The Act sets out the rules for the determination of taxable income and taxes payable. Its charging section states that “[a]n income tax shall be paid, as required by this Act, on the *taxable income* for each taxation year of every person resident in Canada at any time in the year.”<sup>5</sup> Taxable income is defined and determined under the specific provisions of the Act.

The starting point in the determination of a taxpayer's taxable income is the taxpayer's “income for the year,” which, for a corporation, is essentially the aggregate of its income from business and property and its net capital gains—a relatively simple algebraic equation. This, unfortunately, is where the simplicity ends and the complexities begin.

Income from business or property is, under section 9 of the Act, loosely defined as “the taxpayer's profit from that business or property for the year.” There is no requirement in the Act to determine profit using Canadian GAAP or any other accounting standards. Rather, the determination of profit is a matter of law. The leading judicial authority on this subject is *Canderel*.<sup>6</sup> In *Canderel*, the

taxpayer incurred significant tenant inducement payments in the course of managing and developing commercial real estate properties and deducted the full amount of those payments in computing its income. The minister disallowed and recomputed the deduction by amortizing the payments over the initial term of the lease. The Supreme Court of Canada stated that the ultimate goal in the determination of income that is subject to taxation is to obtain an accurate picture of the taxpayer's profit for a given year. The court held that the tenant inducement payments were running expenses because they were not referable to any particular items of income. While most tax practitioners are quite familiar with the Supreme Court's analysis in *Canderel*, the following excerpts from the decision are relevant to the subject matter at hand:

The starting proposition, of course, must be that the determination of profit under s. 9(1) is a question of law, not of fact. Its legal determinants are two in number: first, any express provision of the *Income Tax Act* which dictates some specific treatment to be given to particular types of expenditures or receipts . . . and second, established rules of law resulting from judicial interpretation over the years of these various provisions.

Beyond these parameters, any further tools of analysis which may provide assistance in reaching a determination of profit are just that: interpretive aids, and no more. Into this category fall the "well-accepted principles of business (or accounting) practice," . . . also referred to as "ordinary commercial principles" or "well-accepted principles of commercial trading" among other terms. A formal codification of these principles is to be found in the "generally accepted accounting principles" ("G.A.A.P.") developed by the accounting profession for use in the preparation of financial statements. . . .

Moreover, there will, of course, be situations in which G.A.A.P. will offer various acceptable options in the preparation of financial statements, and the taxpayer will be free, for financial accounting purposes, to adopt whichever option best suits his financial objectives at the given time. In such cases, G.A.A.P. will surely not be determinative as to the method by which an accurate picture of profit may be obtained for taxation purposes, though it may still be useful as a guide to the various acceptable methods of computation, one of which may yield the appropriate result for taxation.<sup>7</sup>

This is not to suggest that taxpayers disregard the role of accounting standards in the computation of profit for taxation purposes. The Supreme Court specifically recognized a "cautioned role" of GAAP as the starting point in determining tax profit. As Iacobucci J stated in *Canderel*,

I do not wish to be taken, however, as minimizing the role of G.A.A.P. in the determination of profit for income tax purposes. . . . In fact, the better view is that G.A.A.P. will generally form the very foundation of the "well-accepted business principles" applicable in computing profit. It is important, however, for the courts to avoid delegating the criteria for the legal test of profit to the accounting profession, and therefore a distinction must be maintained.

That is, while G.A.A.P. may more often than not parallel the well-accepted business principles recognized by the law, there may be occasions on which they will differ, and on such occasions the latter must prevail.<sup>8</sup>

The *Canderel* case (and others) established the basic principle that the determination of profit for the purposes of the Act is a legal exercise and not an accounting one. Accounting principles must take a subordinate position relative to the legal rules that govern. However, where no specific legal rule has been developed either in the case law or under the Act, these cases confirmed that the taxpayer is free to calculate its income in accordance with “well-accepted business principles” and to adopt whichever of these is appropriate in the circumstances, provided that it is not inconsistent with the law and yields an “accurate picture” of the taxpayer’s profit for the year. In this sense, a change in accounting standards or the accounting rules for the computation of income, to the extent that they are indicative of “well-accepted business principles,” could have an impact on what is acceptable for determination of income for tax purposes.

I believe that in some cases IFRS attempts to portray a more accurate picture of a taxpayer’s profit. The extent of detail provided in IFRS relative to some of its Canadian GAAP equivalents suggests precisely that. For example, there are specific rules that govern the determination of inventory costs and net realizable value that are more granular in detail than the existing GAAP equivalent. As well, IFRS recognizes that the adoption of general rules of inventory determination should not apply to certain industries, such as producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, and instead provide separate standards for companies operating in these sectors. As stated in the preamble to IAS 2, these sectors should instead be subject to measurement standards that are “in accordance with well-established industry practices.”<sup>9</sup> Rate-regulated industries, oil and gas and mining industries, banks and the insurance industry, and others will also be subject to reporting standards that are more in line with well-established industry practices.

I believe that in many instances, IFRS may very well be reflective of “well-accepted principles of commercial trading” and will provide a more accurate picture of a taxpayer’s profit than its Canadian GAAP equivalents. In fact, in an extensive third-party survey of respondents in other countries who have adopted IFRS reporting standards, most respondents said that under IFRS accounting practices are brought closer to economic substance.

An interesting trend that I noticed as I was researching this paper is that not only is there a convergence of Canadian GAAP with IFRS, but in some instances there is a parallel convergence of accounting standards with tax. Consider, for example, the convergence of the GAAP and IFRS standards governing the measurement of inventories.<sup>10</sup> The accompanying table compares the standards of measuring inventories under Canadian GAAP and IFRS. It also compares these standards with the rules and interpretations governing the determination and measurement of inventory under section 10 of the Act.

	<i>Canadian GAAP</i>	<i>IFRS</i>	<i>Section 10 of the Income Tax Act</i>
Measurement . . .	Lower of cost and net realizable value.	Same as GAAP.	Lower of cost and FMV; FMV is defined generally as net realizable value (IT-473R).
Components . . . .	Costs of purchase, conversion, and other costs required to bring the inventories to their present location and condition.	Same as GAAP.	Same as GAAP and IAS.
Methods . . . . .	FIFO or average cost; retail method permitted for the retail industry in particular circumstances.	Same as GAAP.	Same as GAAP and IAS (IT-473R).

As the table shows, not only has Canadian GAAP converged with IFRS, but the accounting standards have also substantially converged with the analogous principles of inventory measurement under the Act. Whether we will see similar convergences in other areas remains to be seen.

## Statutory Overrides

Having dealt with the determination of profit under section 9, one must consider the express provisions in the Act that require specific treatment of certain types of expenses or receipts. The Act contains numerous statutory overrides that alter the determination of income for accounting purposes. For example, the timing and components of income are governed by section 12 of the Act. Book depreciation, regardless of the accounting standard used, is disregarded for tax purposes and replaced by detailed rules governing the determination and deduction of tax depreciation. This is relevant inasmuch as any incremental depreciation expense that is recognized for accounting purposes as a result of a revaluation of capital assets under IFRS will effectively be disregarded in computing taxable income. The deductibility of interest expense is governed by the provisions of paragraph 20(1)(c) of the Act, regardless of its treatment for accounting purposes. Reserves are afforded different treatment under specific provisions of sections 18 and 20 of the Act. The list is exhaustive, and the statutory overrides can result in net income for tax purposes that differs significantly from net income for financial statement purposes.

In *Crown Forest Industries*,<sup>11</sup> the taxpayer sought to deduct interest expense on the cash basis, notwithstanding that it accounted for the interest expense in its financial statements on the accrual basis. The taxpayer argued that paragraph 20(1)(c) expressly permits a taxpayer to deduct interest on either the cash basis

or the accrual basis, depending on the method regularly followed by the taxpayer in computing its income. The Canada Revenue Agency (CRA) argued that income for tax purposes is determined in accordance with ordinary commercial business practices and that such a determination was properly reflected in the taxpayer's financial statements, which reported interest expense on the accrual basis. Accordingly, the CRA sought to disallow the deduction of interest when paid and instead to allow it when accrued in the financial statements.

The Tax Court of Canada rejected the CRA's arguments and relied instead on the plain meaning of the words in paragraph 20(1)(c). In the court's view, the only requirement to be taken from the plain meaning of the provision is that interest be accounted for on a consistent basis: either cash or accrual. This is a requirement for consistency in the manner of dealing with interest expense for the purposes of the Act. Further, interest deductions allowed under GAAP in determining income are disallowed under the Act by paragraph 18(1)(b). The Act only allows for an interest deduction under section 20, which effectively serves to divorce the computation of interest for tax purposes from GAAP.

Given the extent of the statutory overrides governing the determination of taxable income, it is my view that the determination of taxable income will not likely be significantly different under GAAP and IFRS, and that in some instances IFRS will provide a more accurate picture of a taxpayer's profit—subject, of course, to the express provisions of the Act and case law.

## **Other Considerations**

While the primary focus is on the determination of profit for tax purposes, there are provisions in the Act where balance-sheet components will continue to have an impact on the determination of an enterprise's taxes. Tax practitioners should anticipate the potential changes to balance-sheet components that directly affect the determination of amounts that are relevant to the computation of taxable income and other tax amounts. Examples of such balance-sheet components include the following.

### **Equity for Thin Capital Purposes**

The amount of interest expense that is deductible in respect of non-arm's-length borrowings from specified non-residents is limited by the amount of the Canadian borrower's equity, which includes, among other things, the retained earnings of the borrower at the beginning of the year.<sup>12</sup> Because the term "retained earnings" is not defined in the Act, the CRA will generally rely on the ordinary meaning of that term as used in commercial practice, which is generally the meaning adopted under GAAP.<sup>13</sup> To the extent that the implementation of certain IFRS will result in an increase or decrease to retained earnings, this will have a direct impact on the determination of interest expense that is deductible in respect of

non-arm's-length borrowings from non-residents—for example, where a company elects to value its capital assets at fair value, which could produce changes to retained earnings that are used to determine thin capital borrowing limitations.

### **Federal Tax Benefits Afforded Canadian-Controlled Private Corporations**

Canadian-controlled private corporations (CCPCs) that elect to use IFRS should consider the impact of such a changeover on their entitlement to certain federal (and in some cases provincial) tax benefits. For example, CCPCs must use balance-sheet amounts when determining their entitlement to the higher refundable tax credit for scientific research and experimental development (SR & ED) expenditures, as well as the clawback of the small business deduction.<sup>14</sup>

### **Provincial Tax Credits**

In some provinces, a taxpayer's entitlement to certain benefits is a function of its consolidated asset levels. In Quebec, for example, enhanced refundable tax credits for SR & ED are reduced as the taxpayer's consolidated asset levels increase. Since these benefits are available to private and public companies, uplift in assets resulting from the adoption of IFRS may affect the amount of tax credits to which Quebec PAEs or CCPCs that use IFRS are entitled.

### **Provincial Capital Tax**

Provincial tax on capital is levied on a company's taxable capital, which is derived entirely from its balance sheet. Accordingly, increases or decreases in debt and equity amounts (including reserves) will affect the determination of taxable capital on which capital taxes are based. The provinces that levy a tax on capital have confirmed that balance sheets based on GAAP are appropriate for tax on capital determinations.

This being said, with the exception of financial institutions, provincial capital taxes are expected to be phased out by the time IFRS is scheduled to take effect.<sup>15</sup> Accordingly, absent a change in provincial fiscal policies, uplifts in taxable capital arising from IFRS adjustments should not be of concern to most taxpayers adopting IFRS.

## **The Tax Authorities' Views**

The CRA is acutely aware of the changeover to IFRS and has established a task force to consider its impact on the determination of income for tax purposes. Although the CRA has not yet issued any specific pronouncements, it is evident from previous literature on the subject that both the Department of Finance and

the CRA support a “cautioned role” that accounting standards play in the determination of income for tax purposes. Numerous technical interpretations confirm the CRA’s views that the amount and timing of the recognition of revenue and expense for tax purposes should generally be determined in accordance with GAAP unless a specific provision of the Act requires otherwise. However, the CRA has also confirmed its adoption of the principles established in *Canderel* regarding the method of computing income for the purposes of the Act, and has stated that the method that presents the truer picture of a taxpayer’s revenue, that more fairly and accurately portrays income, and that matches revenue and expenditure (if one method does) is the one that must be followed.

More recently, the CRA was asked how the new accounting standards released by the AcSB for financial instruments<sup>16</sup> affect reporting for tax purposes. The CRA concluded that the new accounting standards constitute part of GAAP, which is one element to consider in obtaining an accurate picture of profit:

As the Supreme Court of Canada stated in *Canderel* . . . the determination of profit is a question of law. Accounting standards are not law. . . . Accordingly, we confirm that our interpretation of the Act is not altered by the new accounting standards except that we will take into consideration how the taxpayer reports under the new accounting standards, as part of our review of the taxpayer’s determination of profit under GAAP. Again, as the Supreme Court stated, ultimately, it is the law that determines how the CRA interprets and applies the Act.<sup>17</sup>

It is clear from these statements that the CRA will continue to view accounting standards as the primary determinant of income under section 9 of the Act.

Furthermore, to the extent that accounting standards produce results that, in the view of the tax legislators, are inconsistent with fiscal policy, the law can be changed. The Department of Finance, in a Backgrounder released in December 2006, made the following comment concerning the new accounting standards that govern financial instruments:

Policy reserves of insurance corporations will generally increase as a result of the new accounting standards, as the policy reserves of insurance corporations are generally linked to the yield on assets that support them. This could result in a significant increase in the policy reserves that are deductible under . . . the Act. The increases or decreases in policy reserves of insurance corporations attributable to the changes in accounting standards will not be permitted in the year in which the accounting changes first take effect. Instead, those increases or decreases will be spread evenly over a five-year period starting in the first year in which the accounting changes take effect.<sup>18</sup>

It is apparent from this statement that accounting standards that yield an unintended taxpayer windfall that is contrary to fiscal policy will not be supported

by the legislators, and that statutory amendments may be introduced to eliminate fiscal advantages created purely by accounting standards. I expect that the Department of Finance will review the impact of IFRS as applied to specific industries and consider whether amendments to the Act may be required in instances where the new accounting standards yield results that are not consistent with fiscal policy.

### **Conclusion**

From a financial reporting standpoint, Canadian GAAP and IFRS are substantially similar; however, there are differences between GAAP and IFRS that will have an impact on the determination and reporting of income tax expense and deferred tax assets and liabilities. In most instances, the AcSB and the International Standards Board are working toward resolving convergence differences. Even though the “new Canadian GAAP” will look and feel like the old, those who have reporting oversight over income taxes must become familiar with IFRS governing income taxes now, in preparation for the 2011 changeover. The AcSB has a wealth of information on its Web site (<http://www.acsbcanada.org/>), including an implementation plan for incorporating Canadian GAAP into IFRS.

With respect to the determination of taxable income, although profit as determined for financial statement purposes is a valid starting point, IFRS will be subject to the same principles of legal interpretation as the Canadian GAAP equivalents. Furthermore, the extent of statutory overrides in the Act will likely result in insignificant differences between taxable income determined under Canadian GAAP and taxable income determined under IFRS. And while IFRS may well be more indicative of a taxpayer’s true profit, the judicial standard developed by the Supreme Court in *Canderel* provides taxpayers with the option of departing from accounting standards when it can be shown that an alternative treatment yields a more accurate view of the taxpayer’s profit for the year, provided that the method used is not inconsistent with the provisions of the Act, established case law, and well-established business principles.

### Appendix: Comparison of Canadian GAAP and IFRS in Respect of Accounting for Income Taxes

Canadian GAAP requirements	IFRS requirements	Comparison/comments	Implementation considerations	Type of difference (measurement versus disclosure/ presentation)
<p>“Income taxes” include</p> <p>(1) all domestic and foreign taxes that are based on taxable income;</p> <p>(2) taxes, such as mining taxes, that are based on a measure of revenue less certain specified expenses;</p> <p>(3) alternative minimum income taxes, including taxes based on measures other than income and that may be used to reduce income taxes of another period; and</p> <p>(4) taxes, such as withholding taxes, that are based on amounts paid to the enterprise (CICA 3465.09(a)).</p>	<p>“Income taxes” include all domestic and foreign taxes which are based on taxable profits. Income taxes also includes taxes, such as withholding taxes, which are payable by a subsidiary, associate, or joint venture on distributions to the reporting entity (IAS 20.05).</p>	<p>The definition of income taxes is similar between the two accounting frameworks. However, Canadian GAAP includes reference to other forms of tax (alternative minimum tax and mining tax).</p>	<p>Entities that are subject to Canadian specific taxes, such as alternative minimum taxes, will have to determine the accounting treatment of such taxes under IFRS using general principles.</p>	<p>Recognition, measurement, presentation, and/or disclosure.</p>

Sources: Canadian Institute of Chartered Accountants, *CICA Handbook* (Toronto: CICA) (looseleaf) and International Accounting Standards Board, *International Financial Reporting Standards* (London: IASB, 2007).

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>“Temporary differences” are differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. Temporary differences may be either</p> <p>(1) deductible temporary differences, which are temporary differences that will result in deductible amounts in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled; or</p> <p>(2) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled (CICA 3465.09(c)).</p>	<p>“Temporary differences” have the same definition under IFRS (IAS 12.05).</p>	<p>The definition of temporary differences between the two accounting frameworks is substantially the same.</p>	<p>None.</p>	<p>None.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>“Future income tax assets” are the amounts of income tax benefits arising in respect of</p> <p>(1) deductible temporary differences;</p> <p>(2) the carryforward of unused tax losses; and</p> <p>(3) the carryforward of unused income tax reductions, except for investment tax credits (CICA 3465.09(d)).</p>	<p>“Deferred tax assets” are the amounts of income taxes recoverable in future periods in respect of</p> <p>(1) deductible temporary differences;</p> <p>(2) the carryforward of unused tax losses; and</p> <p>(3) the carryforward of unused tax credits (IAS 12.05).</p>	<p>Despite the minor difference in terminology, the definitions are substantially similar.</p>	<p>There should be none.</p>	<p>Presentation and/or disclosure.</p>
<p>“Future income tax liabilities” are the amounts of income taxes arising from taxable temporary differences (CICA 3465.09(e)).</p>	<p>“Deferred tax liabilities” are the amounts of income taxes payable in future periods in respect of taxable temporary differences (IAS 12.05),</p>	<p>Despite the minor difference in terminology, the definitions are substantially similar.</p>	<p>There should be none.</p>	<p>Presentation and/or disclosure.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>“More likely than not” denotes probability of greater than 50% (CICA 3465.09(i)).</p>	<p>IFRS does not contain the concept of “more likely than not” within its accounting framework.</p>	<p>IFRS does not use the concept of “more likely than not” in respect of the recognition of deferred tax assets. The standard used to recognize deferred tax assets is “probable,” but that term is not defined. Refer to “Recognition” below.</p>	<p>Enterprises will have to carefully consider how they interpret the term “probable” under IFRS to determine what standard will be applied to the recognition of deferred tax assets. This will have to be consistent with the interpretation of that term under other accounting standards, which may lead to a GAAP difference. In its convergence with US GAAP, the IASB agreed that “probable” should be defined as meaning “more likely than not.” Though not directly relevant to the Canadian GAAP/IFRS convergence, it may provide guidance to companies seeking to interpret the term “probable.”</p>	<p>Recognition.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Canadian GAAP does not use the concept of “tax base.”</p>	<p>“Tax base” of an asset or liability is the amount attributed to that asset or liability for tax purposes (IAS 12.05). Management intent as to the manner in which an entity will recover (settle) the carrying amount of an asset (liability) can affect the tax base of an asset or liability (IAS 12.52(b)).</p>	<p>“Tax base” is a measurement attribute that is explicitly defined in IFRS, but is implied in Canadian GAAP. The principal difference relates to the consideration of management intent affecting the definition of the tax base.</p>	<p>In most instances, the definition of tax base should not result in a GAAP difference. However, the consideration of management intent may cause confusion for entities adopting IAS 12 for the first time.</p>	<p>Measurement.</p>
<p>CICA 3465 establishes standards for the recognition, measurement, presentation, and disclosure of income and refundable taxes in an enterprise’s financial statements, except</p> <p>(1) certain rate-regulated enterprises that may limit the application of this section, and</p> <p>(2) investment tax credits, which are dealt with in a separate accounting standard (CICA 3465.01 to 08).</p>	<p>IAS 12 applies to the accounting for income taxes, which includes domestic and foreign taxes which are based on taxable profit. Income taxes also includes taxes, such as withholding taxes, which are payable by a subsidiary, associate, or joint venture on distributions to the reporting entity. The standard does not deal with</p> <p>(1) the accounting for government grants, or</p> <p>(2) investment tax credits (IAS 12.01 to 04).</p>	<p>Both standards include within their scope taxes which are based on taxable profit. Canadian GAAP extends this scope to refundable taxes and alternative minimum taxes, as well as the treatment of regulated enterprises. IFRS is silent on these matters.</p>	<p>Regulated enterprises that elect not to comply with CICA 3465 (except for certain disclosure requirements) may be required to comply with IAS 12 on the adoption of IFRS. Regulated enterprises are required to make disclosures in compliance with CICA 3465, so it may not require significant additional work to comply with IAS 12.</p>	<p>Disclosure and/or presentation.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
CICA 3465 prohibits the recognition of a temporary difference in respect of the portion of goodwill that is not deductible for tax purposes (CICA 3465.22).	IAS 12 provides for the same exception (IAS 12.15(a)).	No difference.	None.	Recognition.
Future income tax assets are recognized to the extent that it is <i>more likely than not</i> that the benefits will be realized (CICA 3465.24).	Deferred tax assets are recognized to the extent that it is <i>probable</i> that the benefits will be realized (IAS 12.23, 34).	Canadian GAAP defines the concept of “more likely than not” as being a probability of greater than 50%. In comparison, IFRS does not define the concept of “probable.”	See comments above comparing the Canadian “more likely than not” standard versus the IFRS “probable” standard.	Recognition.

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Current and future income taxes are measured using the tax rate expected to apply when the liability is settled or the asset is realized. This is usually the enacted rate, but may be the substantively enacted rate (CICA 3465.56).</p>	<p>IAS 12 is consistent with Canadian GAAP (IAS 12.46 to 47).</p>	<p>IFRS comments that for some jurisdictions, the announcement of tax rates (and tax laws) by the government has the substantive effect of actual enactment. In these circumstances, tax assets and liabilities are measured using the announced tax rates (and tax laws). Canadian GAAP defines the concept of substantive enactment in EIC 111 as follows:</p> <p>(1) For a majority government, legislation that has been tabled for its first reading in the House of Commons.</p> <p>(2) For a minority or non-partisan government, legislation must pass third reading speech before being considered substantively enacted in the House of Commons.</p>	<p>It is possible under IFRS that a tax asset or liability (current or deferred) could be recognized earlier than under Canadian GAAP under the more liberal interpretation of “substantive enactment” under IFRS.</p> <p>At its board meeting in February 2005, the IASB noted that substantive enactment occurs when any additional steps in the enactment process will not change the outcome. For Canada, the IASB specifically cited the guidance in EIC 111. Therefore, this should not represent a GAAP difference on convergence to IFRS.</p>	<p>Measurement.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>The cost (benefit) of current and future income taxes is recognized as income tax expense included in the determination of net income or loss for the period before discontinued operations and extraordinary items. However, specific exceptions include taxes related to discontinued operations, extraordinary items, capital transactions, and items charged or credited directly to shareholder's equity (CICA 3465.63).</p>	<p>IAS 12 requires that the tax effects of items credited or charged to equity during the current year also be allocated directly to equity. Subsequent changes in those amounts should also be allocated to equity where practical (IAS.61).</p>	<p>Under CICA 3465, subsequent changes to the amounts allocated directly to equity are generally allocated to the profit and loss account. In contrast, under IAS 12, such changes are allocated to equity.</p>	<p>The backwards tracing concept used under IAS 12 may result in transitional adjustments to items that have been charged to the profit and loss account under Canadian GAAP. Note that under the short-term convergence project to US GAAP, the IASB proposed to amend its intraperiod allocation rules to those of US GAAP, which are similar to those of Canadian GAAP.</p>	<p>Disclosure and/or presentation.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Under Canadian GAAP, when an asset is acquired other than in a business combination and the tax basis of that asset is less than its cost, the cost of future income taxes recognized at the time of acquisition is added to the cost of the asset. When an asset is acquired other than in a business combination and the tax basis of that asset is greater than its cost, the benefit related to future income taxes recognized at the time of acquisition is deducted from the cost of the asset (CICA 3465.43). Canadian GAAP also provides guidance on accounting for tax benefits acquired as a part of such asset purchase (EIC 110).</p>	<p>IAS 12 does not permit the recognition of a temporary difference that may arise on initial recognition of an asset or liability (except if the transaction is a business combination or if it affects accounting profits (loss) or taxable profit (loss)).</p>	<p>The initial recognition exception under IFRS is a significant difference from Canadian GAAP.</p>	<p>For entities complying with Canadian GAAP that have acquired significant assets other than in a business combination, they will have to trace what future taxes related to the acquisition of such assets and determine whether, on transition to IFRS, such future taxes need to be reversed. Note that as a part of the short-term convergence project, the IASB decided to eliminate this recognition exception, deleting the difference between IFRS and US GAAP. In addition, the IASB extended the approach to the initial recognition of all assets and liabilities (including those acquired in a business combination) and assets and liabilities re-measured at fair value.</p>	<p>Recognition.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>CICA 3465 requires the recognition of future income tax assets of both the acquiror and acquiree as part of the purchase price allocation when they are more likely than not to be realized as a result of a business combination (CICA 3465.46). Canadian GAAP also provides guidance on the interaction of tax and the goodwill impairment test (EIC 136).</p>	<p>IAS 12 requires the recognition of the acquiree’s deferred tax assets, not previously recognized, as part of the purchase price allocation, if it is probable that it will be realized as a result of the business combination. However, for the acquiror, IAS 12 requires the deferred tax assets of the acquiror recognized as a result of the business combination to be recorded as a separate transaction from the purchase price allocation (IAS 12.67).</p>	<p>The treatment is essentially the same under Canadian GAAP and IFRS except that IFRS uses the “probable” standard whereas Canadian GAAP uses “more likely than not.” Also, the recognition of the deferred tax asset of the acquiror separately from the purchase equation under IFRS is a potential GAAP difference; Canadian GAAP requires such recognition to form a part of the purchase equation if the recognition was as a result of the business combination.</p>	<p>The difference in recognition threshold may not be a significant GAAP difference in practice. However, the recognition of an acquiror’s deferred tax asset as a part of the purchase equation will be a GAAP difference that will have a profit and loss account impact. Entities will have to carefully evaluate the impact of this difference on their effective tax rate, both at the time of the combination and in subsequent years.</p>	<p>Recognition.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>In accordance with CICA 3465, a future income tax asset of the acquiree not recognized as an identifiable asset at the date of acquisition should, when subsequently recognized, be applied in order of (1) unamortized goodwill related to the acquisition, (2) any unamortized intangible assets related to the acquisition, and (3) to reduce income tax expense (CICA 3465.48).</p>	<p>When a deferred tax asset of the acquiree is not recognized at the date of a business combination but is subsequently recognized, the resulting deferred income tax recovery is recognized in the income statement. In addition, goodwill (and related amortization, if any) is adjusted to the amounts that they would have been recorded at if the deferred tax asset had been recognized as an identifiable asset at the date of the business combination; the reduction in the net carrying amount of the goodwill is recognized as an expense. This procedure does not, however, create or increase negative goodwill (IAS 12.68).</p>	<p>Under Canadian GAAP, the subsequent recognition of the future tax asset has no impact on the profit and loss account. In contrast, IFRS records both the recognition of the deferred tax asset and the goodwill adjustment through the profit and loss account. It is expected that the profit and loss account adjustments under IFRS may wholly or partially offset, such that there may be no practical difference between the two methods. However, Canadian GAAP also requires an adjustment to intangibles before an adjustment to tax expense is taken, which could result in a significant GAAP difference.</p>	<p>If an acquiree's deferred tax asset requires recognition post-convergence for a pre-convergence business combination, the acquiror will have to determine which method it will use to recognize the asset. Though this may not have a material impact on the effective tax rate of the acquiror in the year of recognition, it will affect how the deferred tax asset is disclosed in the acquiror's financial statements. Transitional rules will likely be required to provide certainty as to what GAAP should be applied in such circumstances.</p>	<p>Recognition and disclosure and/or presentation.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Section 3465 indicates that the classification of future income tax assets and liabilities is based on the classification of the underlying asset or liability. When there is no related asset or liability, the classification is based on the date that the temporary difference is expected to reverse (CICA 3465.87).</p>	<p>IAS 12 does not permit deferred tax assets and liabilities to be classified as current assets or current liabilities (IAS 12.70).</p>	<p>In most instances, an entity complying with Canadian GAAP will not disclose deferred taxes as a current tax liability (though examples do exist). Therefore, it is expected that there will be few instances where an actual GAAP difference arises.</p>	<p>On convergence, the small difference in disclosure may require a reconfiguration of the financial statements of the entity, including its income tax note.</p>	<p>Presentation and/or disclosure.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Offsetting of current and future tax assets and liabilities is generally permitted when they relate to the same taxable entity and the same taxation authority. However, the current portion of future income tax balances should not offset any future income tax balances classified as non-current. When enterprises in a group are taxed separately by the same taxation authority, a future income tax asset recognized by one enterprise in the group should not be offset against a future income tax liability of another enterprise in the group unless tax-planning strategies could be implemented only if such strategy is practical, and management has the ability and intent to implement the strategy (CICA 3465.88 to 90).</p>	<p>An entity can offset current and future tax assets and liabilities if the entity (1) has a legally enforceable right to set off the recognized amounts, and (2) intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. For future income taxes, a setoff is only allowed if they relate to income taxes levied by the same taxation authority within the same legal entity (IAS 12.71 to 76).</p>	<p>Canadian GAAP permits offsetting in a broader range of circumstances than IFRS, allowing the offset of future income tax assets and liabilities of different taxable entities within a consolidated group if tax-planning strategies could be implemented to effect the offset. IFRS does not permit such an offset.</p>	<p>In circumstances where Canadian GAAP permits an offset not permitted under IFRS, the entity may need to reconfigure its financial statement disclosures to disaggregate its deferred taxes to comply with IFRS.</p>	<p>Disclosure and/or presentation.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>CICA 3465 requires that taxes related to distributions or future distributions be given the same accounting treatment as the distributions. Further, refundable taxes should be accrued with respect to all related elements of income recognized in the period, whether the taxes with respect to such amounts are payable currently or in the future. These are treated as advance distributions to shareholders and charged to retained earnings (CICA 3465.71 to 78 and 83 to 84; EIC 104). However, Canadian GAAP is silent regarding the tax rate applied to such distributions.</p>	<p>In some jurisdictions, income taxes are payable at a higher (or lower) rate if part or all of the net accumulated profit is paid out as a dividend to shareholders. Alternatively, income taxes may be refundable (or payable) if a dividend is paid. In these circumstances, deferred taxes are measured using the tax rate applicable to undistributed profits. The income tax consequence of the dividend is recognized when the liability to pay the dividend arises (IAS 12.52A and 52B).</p>	<p>IFRS is very specific regarding the tax rate applied to undistributed profits, whereas Canadian GAAP does not address the issue, but simply provides guidance on how the associated tax expense should be allocated.</p>	<p>On convergence, entities will have to evaluate whether they are applying the appropriate tax rate to undistributed profits in order to determine whether they comply with IFRS. Any change in future taxes arising from a change in tax rate applied to the temporary difference should be accounted for as a transitional adjustment.</p>	<p>Measurement.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>At each balance sheet date, a future income tax liability or future income tax asset should be recognized for all temporary differences arising from investments in subsidiaries and interests in joint ventures, except with respect to the difference between the carrying amount of the investment and the tax basis of the investment when it is apparent that this difference will not reverse in the foreseeable future. Any future income tax asset should be recognized only to the extent that it is more likely than not that the benefit will be realized (CICA 3465.37).</p>	<p>An entity recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except if (1) the parent, investor, or venturer is able to control the timing of the reversal of temporary differences; and (2) it is probable that the temporary differences will not reverse in the foreseeable future (IAS 12.39).</p>	<p>Examples of differences include the existence of undistributed earnings of subsidiaries, changes in foreign exchange rates when a parent and subsidiary are resident in different countries, and a reduction in the accounting carrying amount of an investment in a joint venture to its recoverable amount.</p>	<p>There should be no practical difference between Canadian GAAP and IFRS.</p>	<p>Recognition.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
See above.	An entity recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures to the extent that it is probable that (1) the temporary differences will reverse in the foreseeable future, and (2) taxable profit will be available against which the temporary differences can be utilized (IAS 12.44).	See above.	See above.	Recognition.
No equivalent under Canadian GAAP.	For investments subject to significant influence, IFRS provides an exemption where the investor is able to control the timing of the reversal of temporary differences and it is probable that such differences will not reverse in the foreseeable future (IAS 12.42).	Given that investors usually cannot control the distributions from investments over which they only have significant influence (but not control), there may be few situations where this exemption under IFRS could apply.	On a practical basis, there should be no GAAP difference because there will be few situations where the exception under IFRS can be applied.	Recognition.

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Under Canadian GAAP, for investments accounted for using the equity method, the following guidance is provided: (1) A reporter cannot conclude that no future income taxes need be provided on the outside basis temporary difference based on the argument that the investor does not intend to dispose of the investment in the foreseeable future. (2) Future taxes should be measured using statutory tax rates applicable to capital gains or dividends and/or some other rate appropriate in the circumstances. (3) Unless there is persuasive evidence that the investee will pay dividends in the future in excess of future accounting income, the investor normally assumes that the outside basis temporary difference will reverse through disposition of the investment. (4) An investor may put in place a tax structure permitting the reversal of the outside basis temporary difference in a manner that results in less future tax, provided that the investor has the ability and intent to carry out its plan (EIC 106).</p>	<p>IFRS provides guidance on investments where the investee has “significant influence” and on whether a temporary difference needs to be recognized.</p>	<p>IFRS allows an investor not to recognize a temporary difference in respect of equity investments where the temporary difference will not reverse in the foreseeable future. Canadian GAAP does not permit such an argument based on the underlying assumption that an investor cannot control the distributions from the investee. Canadian GAAP provides more specific guidance on how to measure future taxes in respect of the equity investment.</p>	<p>As noted above, there will be few instances where the IFRS exemption will apply. As a result, there will likely not be any GAAP difference in respect of recognizing a temporary difference in respect of equity investments.</p>	<p>Recognition, measurement.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>No future income tax asset or liability is recognized in respect of the difference between the historical exchange rate and the current exchange rate translation of non-monetary assets or liabilities of integrated foreign operations (CICA 3465.33).</p>	<p>IFRS contains no such exemption. Deferred taxes are recognized in respect of these foreign exchange differences.</p>	<p>CICA 1651 requires the use of historical exchange rates to measure the cost of non-monetary assets. Assuming that the Canadian dollar is the currency of measurement, when exchange rates change, the amount of foreign currency revenues needed to recover the Canadian-dollar cost of those assets also changes, but the foreign currency tax basis of those assets does not change. In order to resolve that conflict and to reduce complexity by eliminating cross-currency computations of future income taxes, recognition of future income tax assets and future income tax liabilities for those differences is prohibited.</p>	<p>This is a potentially significant GAAP difference on convergence. During the transition year, entities will have to re-measure future taxes calculated under Canadian GAAP to embed the foreign exchange movement into the temporary difference. Under the short-term convergence to US GAAP, the FASB has decided to delete its exception in respect of foreign exchange, which is similar to the Canadian GAAP exemption, and fully converge with IFRS. The AcSB may choose to do the same.</p>	<p>Measurement.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>When an asset is transferred between entities within a consolidated group, a future income tax liability or asset should not be recognized in the consolidated financial statements for a temporary difference arising between the tax basis of the asset in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements. Any taxes paid or recovered by the transferor as a result of the transfer should be recorded as an asset or liability in the consolidated financial statements until the gain or loss is recognized by the consolidated entity (CICA 3465.35).</p>	<p>IFRS contains no such exemption.</p>	<p>This is a potentially significant GAAP difference where entities have a material amount of intercompany transfers of assets within the consolidated group.</p>	<p>Under the short-term convergence project, the FASB decided to eliminate the exception that is similar to the Canadian GAAP exception. The AcSB may choose to do the same.</p>	<p>Recognition, measurement, disclosure, and/or presentation.</p>
<p>If a temporary difference exists at the date of acquisition, the resultant future income tax liability or asset is recognized on the acquisition of the asset. The related future tax expense (or benefit) is added to (deducted from) the cost of the asset acquired. The iterative method is used to measure the future taxes (CICA 3465.43).</p>	<p>Recognition of the deferred tax asset or liability is not permitted in a transaction that is not a business combination and at the time of the transaction, it affects neither accounting nor taxable profit (loss) (IAS 12.15 and 24).</p>	<p>This is a potentially significant GAAP difference.</p>		<p>Recognition, measurement, presentation, and/or disclosure.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Section 3465 does not address the treatment of deductible stock-based compensation.</p>	<p>In accordance with IFRS 2, “Share-based Payment,” the deferred tax asset is capped at the intrinsic value of the award at the date of measurement.</p>	<p>IFRS recognizes the deferred tax consequences of stock-based compensation in respect of which Canadian GAAP is currently silent. For entities that deal wholly in Canada, there should be no significant GAAP difference because stock-based compensation should not create a temporary difference. However, a GAAP difference will arise for entities that operate in jurisdictions that permit a deduction for stock-based compensation, such as the United States.</p>	<p>For entities that have operations in jurisdictions that permit a deduction for stock-based compensation, on transition to IFRS, such entities will have to recognize and measure the future tax consequences of such compensation and record a future tax asset or liability as a part of the transition.</p>	<p>Recognition, measurement.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>This issue is not covered in Canadian GAAP because Canadian GAAP does not permit revaluations of non-depreciable assets.</p>	<p>For investment properties that are carried at a revalued amount but are considered non-depreciable, a deferred tax liability or asset that arises from such revaluation should be measured on the basis of the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of that asset (SIC-21).</p>	<p>Given that Canadian GAAP does not permit revaluations, this will be a GAAP difference on transition to IFRS only if an entity chooses to revalue its non-depreciable assets under IFRS.</p>	<p>If on transition to IFRS an entity chooses to revalue its non-depreciable assets, the entity will be required to measure the deferred taxes associated with the re-measurement and book such deferred taxes as a part of the transitional adjustment.</p>	<p>Recognition, measurement.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Future income tax liabilities and assets may change because of changes in shareholder status or share capital transactions that affect the enterprise's tax status. The changes in future income tax assets and liabilities are directly related to the shareholders' action or to the injection of new equity and are recorded as capital transactions. The effects of changes in tax status related to the enterprise's actions or decisions, such as a change in the enterprise's residence, would be included in income tax expense included in the determination of net income before discontinued operations and extraordinary items (CICA 3465.68).</p>	<p>The current and deferred tax consequences of a change in the tax status of an entity or its shareholders is included in the profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit or charge to the recognized amount of equity (SIC-25).</p>	<p>IFRS provides more specific guidance regarding the tax impact of a change in an entity's tax status.</p>	<p>Though IFRS guidance is more specific, there should be no practical GAAP difference on transition.</p>	<p>Recognition.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>CICA 3465 requires that an enterprise that is not subject to income taxes because its income is taxed directly to its owners should disclose that fact. A public enterprise that is not subject to income taxes because its income is taxed directly to its owners should disclose the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities (CICA 3465.98 and 99).</p>	<p>IAS 12 does not address this issue.</p>	<p>The Canadian GAAP guidance will have relevance only where an enterprise uses a flowthrough entity as a part of its structure. This is similar to the exception for regulated enterprises.</p>	<p>For the banks, this should not present a significant GAAP difference on transition unless the bank in question uses flowthrough vehicles, such as trusts, in its structure. Given that this is only a disclosure requirement, the modification required.</p>	<p>Presentation and/or disclosure.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>The following should be disclosed separately:</p> <p>(1) current and future income tax expense or benefit included in the determination of income or loss before discontinued operations and extraordinary items;</p> <p>(2) income tax expense or benefit related to discontinued operations and extraordinary items;</p> <p>(3) the portion of the cost of current and future income taxes related to capital transactions or other items that are charged or credited to equity; and</p> <p>(4) the amount and expiry date of unused tax losses and income tax reductions, and the amount of deductible temporary differences, for which no future income tax asset has been recognized (CICA 3465.91 and 92).</p>	<p>The disclosures are similar under IFRS. Additional disclosure is required in respect of the aggregate of temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognized (IAS 12.81).</p>	<p>In respect of the additional prescriptive disclosure under IFRS regarding investments in subsidiaries, such disclosure is only desirable under Canadian GAAP.</p>	<p>On transition, entities will have to consider the additional disclosures required for investments in subsidiaries.</p>	<p>Presentation and/or disclosure.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>For public enterprises, additional disclosure is required of the nature and tax effect of temporary differences, unused tax losses, the major components of tax expense, and statutory rate reconciliation. The statutory tax rate is normally the combined federal and provincial tax rate, before deductions (CICA 3465.95).</p>	<p>The disclosures are the same for IFRS, with additional disclosure of the amount of a deferred tax asset and the nature of the evidence supporting its recognition when the enterprise has suffered a loss in either the current or preceding period (IAS 12.82). For the statutory rate reconciliation, entities are required to use the applicable tax rate that provides the most meaningful information to users of financial statements. This is usually the domestic rate of tax in the country in which the entity is domiciled. However, for multi-jurisdiction entities, a separate reconciliation could be prepared for each jurisdiction (IAS 12.85).</p>	<p>In respect of the additional prescriptive disclosure under IFRS regarding deferred tax assets, such disclosure is only desirable under Canadian GAAP.</p>	<p>On transition, entities will have to consider whether they will require additional disclosure regarding their deferred tax assets under IFRS.</p>	<p>Presentation and/or disclosure.</p>

**Appendix Continued**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Certain jurisdictions levy a minimum tax with reference to income for financial statement purposes, or to certain elements of capital. Such amounts are creditable against future income taxes payable in certain circumstances. When it is more likely than not that the future income tax liabilities will be sufficient to recover the minimum tax, the minimum tax recoverable is recorded as an asset (CICA 3465.81 and 82).</p>	<p>IFRS contains no guidance on minimum taxes.</p>	<p>The lack of guidance under IFRS will only be relevant for companies that operate in a jurisdiction that imposes alternative minimum taxes, such as Ontario and the United States.</p>	<p>On transition, it may be possible for entities to continue with Canadian GAAP disclosures in respect of AMT under IFRS on the basis that IFRS has no specific guidance on the matter. Under the short-term convergence project, the IASB decided to mirror the guidance provided under US GAAP. It is expected that the IASB will do the same in its convergence with Canadian GAAP.</p>	<p>Recognition.</p>

**Appendix Concluded**

<b>Canadian GAAP requirements</b>	<b>IFRS requirements</b>	<b>Comparison/comments</b>	<b>Implementation considerations</b>	<b>Type of difference (measurement versus disclosure/presentation)</b>
<p>Under Canadian GAAP, investment tax credits are accounted for using the cost reduction approach. The cost reduction approach requires that investment tax credits be recognized in income on the same basis as the related expenditures are charged to income. They are either deducted from the related expenditures or set up as deferred credits and amortized to income on the same basis as the related expenditures. Investment tax credits should be accrued when the enterprise has made the qualifying expenditures, provided that there is reasonable assurance that the credits will be realized (CICA 3805).</p>	<p>IFRS contains no guidance on investment tax credits.</p>		<p>On transition, it may be possible for entities to continue with Canadian GAAP disclosures in respect of investment tax credits under IFRS on the basis that IFRS has no specific guidance on the matter. However, for entities that want to change their current accounting treatment of investment tax credits, the transition to IFRS may provide an opportunity to change such treatment (e.g., recognize the benefit of investment tax credits through the profit and loss account).</p>	<p>Recognition, presentation, and/or disclosure.</p>

## Notes

- 1 Accounting Standards Board of Canada, *Canadian Accounting Standards Bulletin* no. 1, “Global Positioning: The New Direction,” April 24, 2006.
- 2 Accounting Standards Board of Canada, *Adopting IFRSs in Canada*, exposure draft (Toronto: AcSB, April 2008). The introduction to the Canadian Institute of Chartered Accountants, *CICA Public Sector Accounting Handbook* (Toronto: CICA) (looseleaf), states that for the purposes of their financial reporting, government business enterprises and government business-type organizations are deemed to be publicly accountable enterprises and should adhere to the standards applicable to publicly accountable enterprises in the *CICA Handbook—Accounting* (Toronto: CICA) (looseleaf), unless otherwise directed to specific public sector standards. Accordingly, the changeover to IFRS applies to these two categories of public sector entity.
- 3 Because accounting depreciation is not a permitted expense for tax purposes, it is added back in reconciling “book” income to “tax” income. The excess of book value over tax value will, over time, be included in taxable income under this addback procedure, resulting in incremental taxable income that will be subject to an income tax—hence the requirement to recognize the future tax liability immediately as a charge against income.
- 4 RSC 1985, c. 1 (5th Supp.), as amended (herein referred to as “the Act”). Unless otherwise stated, statutory references in this paper are to the Act.
- 5 Subsection 2(1) (emphasis added).
- 6 *Canderel Limited v. The Queen*, 98 DTC 6100 (SCC).
- 7 *Ibid.*, at 6106 and 6107.
- 8 *Ibid.*, at 6107.
- 9 International Accounting Standards Board, *International Financial Reporting Standards* (London: IASB, 2007), IAS 2.
- 10 *CICA Handbook*, supra note 2, at section 3031, and IAS 2, supra note 9.
- 11 *Crown Forest Industries Limited et al. v. The Queen*, 2006 DTC 2321 (TCC).
- 12 Subsection 18(4).
- 13 In CRA document no. 2005-0121941E5, November 29, 2005, the Income Tax Rulings Directorate confirmed that for the purposes of subsection 18(4), the use of retained earnings determined under GAAP is appropriate.
- 14 A CCPC’s entitlement to the higher refundable SR & ED tax credit, as well as the full small business deduction, is a function of its business limit, which is directly linked to the determination of the CCPC’s taxable capital as determined under section 181.2 of the Act. Taxable capital is a balance-sheet-driven determination.
- 15 For all corporations except financial institutions, provincial capital taxes are scheduled to be eliminated by January 1, 2011, except for Nova Scotia’s, which will be phased out by July 1, 2012. Capital taxes on financial institutions will continue to be imposed by the federal government and all provinces (except Alberta). This tax will be eliminated during 2010 in British Columbia (where it will be replaced by a minimum tax on paid-up capital) and in Ontario, and by January 1, 2011, in Quebec. “Capital” for financial institutions capital tax purposes generally includes long-term debt, capital stock, and retained earnings.
- 16 Issued under sections 1530, 3251, 3855, and 3865, *CICA Handbook*, supra note 2.
- 17 CRA document no. 2006-0178661E5, March 9, 2007.
- 18 Canada, Department of Finance, Backgrounder accompanying *News Release* 2006-091, December 28, 2006.