

# Income Tax Accounting under IFRS: A look ahead\*

Article series addressing the key provisions of the  
IASB's Exposure Draft on Income Taxes





**Dear Clients and Friends:**

On March 31, 2009, the IASB issued an Exposure Draft to amend IAS 12, the current international standard on accounting for income taxes. This Exposure Draft includes significant changes to the current guidance in IAS 12, as well as includes some significant differences in comparison to the current guidance in FAS 109. These changes and differences could impact the tax accounting and reporting, including the effective tax rate, of many organizations worldwide.

Many US companies have asked why they should pay attention to the IASB's Exposure Draft on Income Taxes, since it proposes changes to an international accounting standard versus an accounting standard under US GAAP. We believe that there are two compelling reasons: conversion and convergence. It is possible that the guidance within this Exposure Draft, once finalized, will govern the accounting for income taxes upon the conversion to IFRS in the United States. It is also possible that the FASB may adopt the guidance within this Exposure Draft, once finalized, (i.e., converge the FAS 109 and IAS 12 standards) prior to the conversion to IFRS in the United States. This is supported by the expectation that the FASB will issue an invitation to comment on the IASB's Exposure Draft in the weeks ahead. Based on these, and other potential considerations, it is critical that US companies understand how this Exposure Draft may impact their financial reporting and planning.

To help our clients understand the IASB's Exposure Draft on Income Taxes, PwC has developed a series of articles entitled "Income Tax Accounting under IFRS: A Look Ahead," which:

- Compares the proposed guidance within the IASB's Exposure Draft to the current guidance in IAS 12 and FAS 109;
- Provides examples to illustrate the proposed guidance; and
- Raises questions that companies may want to consider when thinking about how the proposed guidance could impact them.

We hope that you will find in these articles the information and insights needed to understand this Exposure Draft and how it may impact the current authoritative literature surrounding the accounting for income taxes.

A handwritten signature in black ink, appearing to read 'Ken Kuykendall'.

Ken Kuykendall  
US IFRS Tax Leader

## Table of contents

Exploring the IASB's proposal	1
Tax basis	9
Initial recognition	17
Intercompany transactions	25
Uncertain tax positions	31
Allocating income taxes	39
Investments in subsidiaries	45
Financial statement disclosures	51
This and that	57

# Income Tax Accounting under IFRS: A look ahead\*

Exploring the IASB's proposal



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the first article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## Background

In an effort to develop a common set of high-quality global standards, the IASB and FASB have worked to eliminate differences between the IFRS and US GAAP income tax standards. One result of that effort is the IASB's proposal to make certain changes to IAS 12.<sup>1</sup>

Although the FASB deliberated amending FAS 109, it suspended those deliberations in late 2008, stating that the board will revisit its convergence strategy (i.e., its strategy for eliminating differences between US GAAP and IFRS), in light of the possibility that some or all US public companies will be permitted or required to adopt IFRS in the future.

As part of reviewing its convergence strategy, the FASB plans to solicit input from US constituents through an "Invitation to Comment." Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12.

Given the focus by both boards on resolving differences in their income tax accounting standards, we believe it is important for US companies to understand the IASB's proposed changes, regardless of whether they report under IFRS or US GAAP. Toward that end, we have prepared this series of articles. In the articles, we raise questions that companies may want to consider when thinking about how the proposed guidance could impact them.

## Snapshot of the proposed guidance

The following table compares the IASB's proposal with the current guidance in IAS 12 and FAS 109. Companies should refer to the full proposal for further details.

Area	Current IAS 12	US GAAP	IASB's proposal
Tax basis	Tax basis is based on the expected manner of recovery. Assets and liabilities may have a dual manner of recovery (e.g., through use and through sale). In that case, the carrying amount of the asset or liability is bifurcated, resulting in more than a single temporary difference related to that item.	Tax basis is a question of fact under the tax law. It is determined by the amount that is depreciable for tax purposes as well as the amount that would be deductible upon sale or liquidation of the asset. <sup>2</sup>	Tax basis is determined under the tax law. For an asset, it is the amount deductible against taxable income assuming the asset's carrying value is recovered through sale. For a liability, it is its carrying amount less (plus) any amounts deductible against (included in) taxable income.  The intent is to adopt the US GAAP approach that is applied in practice.
Intercompany transfers of assets	Any associated current and deferred taxes are recognized at the time of the transaction.	The buyer is prohibited from recognizing the related deferred taxes. Any income tax effects to the seller (including taxes paid and tax effects of any reversal of temporary differences) that result from an intercompany sale are deferred and recognized upon sale to a third party or as the transferred property is amortized or depreciated.	Retains the IAS 12 approach.

<sup>1</sup> The International Accounting Standards Board (IASB) establishes International Financial Reporting Standards (IFRS). The IFRS standard on accounting for income taxes is IAS 12, *Income Taxes*. The Financial Accounting Standards Board (FASB) establishes US generally accepted accounting principles (US GAAP). The US GAAP standard on accounting for income taxes is FAS 109, *Accounting for Income Taxes* which is supplemented by interpretive guidance from both the FASB and the FASB's Emerging Issues Task Force (EITF).

<sup>2</sup> The guidance comes from EITF No. 98-11 *Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations*

Area	Current IAS 12	US GAAP	IASB's proposal
Foreign nonmonetary assets	<p>Deferred taxes are recognized on the difference between the carrying amount (which is determined using the historical rate of exchange) and the tax basis, which is determined using the exchange rate on the balance sheet date.</p>	<p>Deferred taxes are not recognized for foreign currency movements or for the effects of indexation related to nonmonetary assets and liabilities that are remeasured at historical exchange rates for financial reporting purposes.</p>	Retains the IAS 12 approach.
Share-based compensation	<p>Measurement of the deferred tax asset is based on the expected tax deduction. Unless the deduction is fixed, the deduction is estimated based on the current share price as of the reporting date.</p> <p>The tax effect of any actual or estimated deduction exceeding the compensation charge is recorded in equity.</p> <p>If the actual or estimated tax deduction is less than or equal to cumulative share-based compensation expense, the tax effect is recorded in the income statement.</p>	<p>Measurement of the deferred tax asset is based on the compensation cost recognized for financial reporting purposes. The deferred tax asset is not adjusted for changes in stock price.</p> <p>The tax effect of any tax benefit exceeding the deferred tax asset is recorded in equity. This is determined when the deduction is taken.</p> <p>If the tax benefit is less than the deferred tax asset, the shortfall is recorded as a direct charge to shareholders' equity (to the extent of the available windfall pool) and as a charge to income tax expense thereafter.</p>	Retains the IAS 12 approach.
Investments in entities: deferred tax liability on outside basis difference	<p>A company may avoid recording a deferred tax liability on an outside basis difference if certain criteria are met.</p> <p>The exception applies to domestic and foreign subsidiaries, branches, and associates, and to interests in joint ventures.</p> <p>In general, the exception is conditioned on (1) the company's ability to control the reversal of the temporary difference and (2) the probability that the temporary difference will not reverse in the foreseeable future.</p>	<p>A company may avoid recording a deferred tax liability on an outside basis difference if certain criteria are met.</p> <p>The exception applies only to foreign subsidiaries and foreign joint ventures (that are essentially permanent in duration).</p> <p>To qualify for the exception, companies must overcome the presumption that earnings will be remitted to the parent and reverse the outside basis difference. Companies must have specific plans and evidence of their intent and ability to indefinitely reinvest the earnings and avoid reversal of the temporary difference.</p>	The proposal adopts the US GAAP approach but does not carryover the specific wording from FAS 109.

Area	Current IAS 12	US GAAP	IASB's proposal
<p>Initial recognition exception: A temporary difference may arise upon initial recognition of an asset or liability. If the transaction is (1) not a business combination and (2) affects neither accounting profit nor taxable profit at the time of the transaction, special consideration is necessary.</p>	<p>No deferred tax is recognized in a transaction that (1) is not a business combination, and (2) affects neither accounting profit nor taxable profit at the time of the transaction.</p>	<p>In asset purchases that are not business combinations, a deferred tax asset or liability is recorded, with the offset generally recorded against the assigned value of the asset. The “simultaneous equations” method is used to determine the amount of the deferred tax asset or liability.</p>	<p>Adjusted fair value approach. The asset or liability is adjusted to remove entity-specific tax effects. For example, if the asset purchased has a carryover tax basis but the asset could have been purchased in a transaction that would have provided a higher tax basis, the asset’s carrying value is adjusted to remove the impact on the asset’s value of having a lower tax basis. In this case, the asset’s carrying amount would be increased, because the asset would be worth more with a higher tax basis.</p> <p>Deferred taxes are then recorded (as normal).</p> <p>Any difference between purchase price and the recorded amounts (e.g., asset and deferred tax) is recorded as a discount or premium that is amortized to income tax expense as the deferred tax reverses.</p>
<p>Allocation of income tax expense (benefit) to financial statement components</p>	<p>A full “backwards tracing” approach: Income tax expense is recognized in the income statement unless the tax arises from a transaction or event that is recognized outside the income statement (e.g., in equity), regardless of the period in which the tax expense is recognized.</p>	<p>In general, a company allocates income tax to the financial statement category where the pre-tax item was recorded, except for changes in the recognition of income tax expense (benefit) that occur in a period after the pre-tax item is recognized (e.g., release of a valuation allowance or tax rate changes). “Backwards tracing” is generally prohibited.</p>	<p>The IASB intended to adopt the US GAAP approach.</p> <p>However, the IASB did not carry over the exact wording of FAS 109, but rather tried to make the guidance more clear. Consequently, the proposed guidance might not retain the same meaning as in FAS 109.</p> <p>The IASB is also seeking comments on a second approach to allocating income tax expense, which retains the current IAS 12 approach with some revisions to provide guidance in areas where IAS 12 had been silent.</p>

Area	Current IAS 12	US GAAP	IASB's proposal
Enacted vs substantively enacted tax laws	Changes in tax laws/rates are reflected when enacted or substantively enacted.	Changes in tax laws/rates are reflected when enacted.	Changes in tax laws/rates are reflected when substantively enacted, which in some jurisdictions is only achieved on enactment (e.g., the US).
Distributions to shareholders—distributed rate vs undistributed rate	A company would use the undistributed rate until it recognizes the dividend for financial reporting purposes.	Treatment may depend on the facts. In jurisdictions where the distributed rate is lower, guidance requires use of the undistributed rate until the distribution occurs. <sup>3</sup>	Uses an expectations-based approach: If the company has the intention and ability to make distributions, it should use the distributed rate.
Recognition of deferred tax assets	Net approach: The company does not recognize assets unless it is probable (greater than 50 percent) that they will be realized.	Gross approach: The company records the full deferred tax asset and reduces it by a valuation allowance if it is not more likely than not to be realized.	Adopts the US GAAP approach. However, the IASB noted the change would have no effect on the net amount recognized.  The proposed standard also incorporates language from FAS 109 regarding determining the realizability of deferred tax assets.
Balance sheet classification	Deferred tax assets and liabilities are classified as noncurrent in the balance sheet. Disclosures are required of deferred tax assets and liabilities that are expected to reverse after more than 12 months.	Deferred tax assets and liabilities are classified as current or noncurrent based on the classification of the financial statement asset or liability generating the temporary difference. Deferred tax balances unrelated to financial statement assets and liabilities (e.g., net operating loss carryovers) are classified as current or noncurrent, based on their expected reversal dates.	Adopts the US GAAP approach.
Uncertain tax positions	There is no specific guidance. In practice, if the likelihood of a liability is greater than 50 percent, the company will record the liability measured as either a single best estimate or a weighted-average probability of the possible outcomes.	For uncertain tax positions having technical merits that meet the “more likely than not” recognition threshold, the benefit is measured at the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized.	All tax positions are considered for uncertainty.  Tax positions are measured at the weighted-average probability of <i>all</i> possible outcomes.

<sup>3</sup> EITF Issue No. 95-10 *Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No. 109*

Area	Current IAS 12	US GAAP	IASB's proposal
Uncertain tax position— disclosure	Disclose assumptions about the future and the major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next year.	Detailed disclosures specific to uncertain tax positions is required, including a roll-forward of unrecognized tax benefits.	Disclose information about major sources of estimation uncertainties relating to tax (including unresolved disputes with taxing authorities). The uncertainty must be described, and the disclosure should enable financial statement users to assess the possible financial statement effects of the uncertainties and related timing.  A numeric roll-forward is not required.
Other disclosures	Disclosures are required to assist the financial statement users in understanding the impact of current and deferred taxes on the financial statements.	The disclosure requirements are generally similar to those required by IAS 12.	The disclosure requirements are generally similar to those required by IAS 12 and FAS 109. Certain amendments were proposed to: 1) eliminate certain disclosures that were in IAS 12 but not in FAS 109, 2) add disclosures, where relevant, that were in FAS 109 but not in IAS 12, and 3) add new disclosures as a result of other proposed amendments to the standard.  Despite the proposed revisions to more closely align the disclosure requirements, differences between the proposed standard and US GAAP still remain.

## Next steps

The IASB's proposal was released on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and to provide the IASB with comments.

We also encourage companies to consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.

## Articles in the series

In this series we will explore accounting guidance related to the following topics:

Article	Release date
Tax Basis	April 14, 2009
Initial Recognition	April 16, 2009
Intercompany Transactions	April 21, 2009
Uncertain Tax Positions	April 23, 2009
Allocating Income Taxes	April 28, 2009
Investments in Subsidiaries	April 30, 2009
Financial Statement Disclosures	May 5, 2009
This and That	May 7, 2009

## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about IFRS with their PwC engagement partner or with the authors of and contributors to this series.

This series of articles was authored by the following individuals:

### Tami Van Tassell

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

### David Beaver

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

### Bill Maloney

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

Other contributors to the series include the following individuals:

### Jennifer Spang

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

### Brett Cohen

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

### Tony de Bell

Phone: +44 20 7213 5336

Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

# Income Tax Accounting under IFRS: A look ahead\*

Tax basis



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the second article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## Background

The tax basis of an asset or liability is one of the key elements in determining deferred tax assets (DTAs) and deferred tax liabilities (DTLs). A company determines DTAs and DTLs by comparing the book carrying amount of an asset or liability to the tax basis of that asset or liability, and then applying the applicable tax rate to the resulting difference.

Determining the tax basis of an asset or liability may appear straightforward, but it can be one of the more difficult aspects of calculating deferred taxes. The IASB's proposal attempts to clarify and simplify the determination of tax basis.

## The proposed changes

The IASB's proposal defines "tax basis" as *the measurement, under applicable substantively enacted tax law, of an asset, liability, or other item.*

Under the proposal, a company would determine an asset's tax basis based on the tax consequences of *selling* the asset for its carrying amount on the reporting date. For example, if the tax law allows a company to take a tax deduction for the original cost of the asset upon selling the asset, the tax basis would be the original cost of the asset. The tax basis of a liability would be determined by the tax consequences of settling the liability at its carrying amount on the reporting date.

The IASB's proposal retains from IAS 12, *Income Taxes*, the notion that some items may have a tax basis but no carrying amount. For example, research and development costs may be charged in the income statement when they are incurred, but be deducted for tax purposes over time. In those cases, the balance sheet does not include an asset or liability for the research and development costs, but a future tax deduction for the costs will be available. The tax basis is the expected future tax deduction.

The proposal also retains the concept that certain differences between the book carrying amount and the tax basis are not temporary differences and therefore do not give rise to a deferred tax. This concept rests on the assumption that a company will recover or settle the carrying amount of an asset or liability without tax consequences. For example, a company may accrue fines or penalties that are not deductible for tax purposes. The carrying value is different than the tax basis of the liability, which is nil. The difference, however, is not a temporary difference, because the settlement of the liability will not have a tax consequence.

Part of the difficulty in determining the tax basis of an asset or liability is that the tax deductions and the tax rate available to a company that is actively using an asset may differ from the deduction and rate that would be available to the company if it were to sell the asset. What if the tax basis of the asset is based on the assumption that the company will sell the asset, but in fact the company plans to consume the asset through use (and not recover any of the asset through sale)? Under the IASB's proposal, the company would have to measure the asset, as follows:

- If the same deductions are available for *both the use* (e.g., depreciation) and *sale* (e.g., deduction for basis at time of sale) of the asset, the company would measure the DTA or DTL at the applicable rate, based on the company's expected manner of recovering the asset.
- If the deductions are available only upon the sale of the asset, the company would measure the DTA or DTL by using the rate applicable to the sale.

Assume, for example, that a company has a taxable temporary difference of C50 related to a piece of equipment (i.e., the book basis of the asset exceeds its related tax basis by C50). The cost of the equipment is deductible as it is used. The same deduction is also available when the equipment is sold, less any deductions previously taken. The company is subject to an ordinary tax rate of 40 percent and a capital gains tax rate of 20 percent. If C10 of the taxable temporary difference will reverse because of future book depreciation, and C40 of the taxable temporary difference will reverse because of a future sale, the deferred tax liability should be measured at a rate of 24 percent  $(((C10 * 40\%) + (C40 * 20\%))/50)$ .

The expected manner of recovery impacts only the measurement of deferred taxes (e.g., the applicable tax rate), not the tax basis.

## Tax basis under IAS 12

Under current IAS 12, the tax basis is the amount attributed to an asset or liability for tax purposes. The tax basis should reflect the tax consequences of the method that, as of the balance sheet date, the company believes it will ultimately use to recover or settle the carrying amount of a particular asset or liability. In other words, understanding what will happen for tax purposes once the asset is eventually recovered (or once the liability is settled) is critical to determining the tax basis.

For example, if management expects to recover the carrying value of a piece of equipment by using the equipment, the tax basis is what management anticipates the tax deduction will be for the depreciation of that asset. If management expects to recover the carrying value by selling the equipment, the tax basis is what management anticipates the tax deduction will be when it sells the asset.

If management expects to recover the carrying value of an asset in a dual manner (i.e., use the asset and then sell it), the tax basis, tax rate, and related deferred taxes for the asset should reflect the dual manner of recovery. In such cases, the tax consequences of, and the temporary differences that result from, recovering a portion of the asset through use should be determined separately from the tax consequences of, and the temporary differences that result from, recovering a portion of the asset through sale. The company would have to apply the appropriate tax basis and rate to each portion of the asset.

If management expects to recover or settle assets or liabilities without tax consequences, the tax basis equals the carrying amount.

## How the proposal compares to IAS 12

The accounting results under the proposal could differ significantly from the accounting results that companies currently obtain under IAS 12. The differences may be particularly evident as companies apply the “expected manner of recovery” concept. As noted above, a single asset that is accounted for under IAS 12 might have more than one deferred tax balance associated with it: one for the portion recovered through use, and one for the portion recovered through sale. Under the proposal a single asset would have only one deferred tax balance associated with it.

## How the proposal compares to US GAAP

In deliberating the definition of tax basis, the IASB concluded that the definition used in practice under US GAAP is clearer and less open to interpretation than the IASB’s definition of that term in IAS 12. The definition of tax basis in the IASB’s proposal is meant to be consistent with US GAAP. The Board acknowledged that the proposed requirements are more specific than the definition of tax basis used in US GAAP, but concluded the resulting tax basis will be consistent with that used under US GAAP in most cases.

Inherent in FAS 109, *Accounting for Income Taxes*, is the assumption that a company’s assets and liabilities will be recovered or settled at their book carrying amounts. EITF 98-11<sup>1</sup> explains that the tax basis of an asset is the amount used for tax purposes and is not solely limited to the amounts that are deductible through depreciation. Rather, tax basis also includes any amounts under tax law that would be deductible upon sale or liquidation of the asset.

<sup>1</sup> Emerging Issues Task Force (EITF) No. 98-11, *Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations*.

## Practical example

Assume that a company acquires a property (land and building) in a business combination. The fair value of the building is C100. The property is held for the purpose of generating rental income. The company intends to sell the property after eight years, although the building has a useful life of ten years. The tax law does not allow deductions for depreciation of the building, but it does allow capital deductions of C100 when the building is sold. The residual value of the building is expected to be C20 when it is sold. The company is subject to a 40 percent ordinary tax rate and a 20 percent capital tax rate.

The deferred tax accounting under the proposal, US GAAP, and IAS 12 is compared as follows:

### Accounting under the proposal and US GAAP

The accounting treatment under the proposal is consistent with the US GAAP accounting. Even though the depreciation is not deductible for tax purposes, the cost of the asset will be deductible when it is sold. At the time of the acquisition, both the book basis and the tax basis (as determined under the tax law) are C100, and no temporary difference exists. As the building depreciates for financial reporting purposes, the book basis decreases and a deductible temporary difference is created. The deduction under the tax law is available only upon sale of the asset, so the relevant tax rate is the rate applicable to the sale. Therefore, the company should record a DTA (measured by using the 20 percent rate) and assess the DTA's realizability. A valuation allowance may be necessary because of the capital nature of the DTA. Certain tax jurisdictions might not allow companies to offset capital losses with ordinary trading income.

This example is relatively straightforward. In more complicated fact patterns, it might be unclear how a company should apply the proposal.

### Accounting under IAS 12

Under IAS 12, the company needs to determine the portion of the asset's carrying value that will be recovered through use and the portion that will be recovered through sale. The company then needs to determine the tax consequences of, and the temporary differences arising from, the portion recovered through use and the portion recovered through sale.

The expected residual value of C20 implies that the company expects to recover C80 of the carrying value through use. The tax basis of the portion of the asset to be recovered through use is nil because no tax deductions are available for depreciating the property. The carrying value of the asset recovered through use will result in tax payments that are higher than those that would arise if there were tax deductions in use. The nil tax basis results in a taxable temporary difference of C80 and a DTL of C32 (C80 \* 40%).

The company expects to recover C20 through the sale of the asset, and a capital deduction of C100 will be available. This expected recovery results in a deductible temporary difference of C80. The resulting DTA of C16 (C80 \* 20%), which represents a potential capital loss upon disposal, should be assessed for recoverability under IAS 12. Recognition of the DTA may be precluded because of the capital nature of the deduction.

As illustrated in the example, the IASB's proposed changes could have a significant impact on the deferred taxes of companies currently applying IAS 12.

## Questions to consider

Several important questions come to mind in contemplating the practical application of the IASB's proposed definition of the term tax basis:

### **Should companies consider uncertain tax positions when determining the tax basis?**

At times, a tax position that a company takes in its tax return may be uncertain. The IASB's proposal does not provide guidance on whether management should consider the expected outcome of an uncertainty when determining the tax basis of an asset or liability.

### **Will illogical accounting answers result from the proposal's requirement to determine an asset's tax basis by reference to an assumed sale?**

Consider a tax jurisdiction that provides a tax deduction for the depreciation of an asset but no tax deduction when an asset is sold. We presume based on the definition in the proposal the tax basis in that situation would be nil even if a company were to expect to recover the carrying value by using the asset. The tax basis under both US GAAP and current IAS 12 would be the expected tax deduction for using the asset.

In contrast, consider a tax jurisdiction that provides a tax deduction for the cost of the asset only when it is sold. The proposal is clear that the tax basis would equal the cost of the asset. A DTA would arise, therefore, when the carrying amount of the asset is depreciated. What is not clear from the proposal is whether a company would need a valuation allowance if it has no plans to sell the asset. Would a company need to predict the availability of capital gains to recover the DTA if the DTA is capital in nature? Would it be acceptable to record the DTA as long as the fair value of the asset is greater than or equal to the tax basis? The proposal does not answer these questions.

## Next steps

The IASB's proposal was released on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and to provide the IASB with comments.

The FASB plans to issue an Invitation to Comment on the IASB's proposal to solicit input from US constituents as it considers its own convergence efforts. Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12. We encourage companies to consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.



## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about IFRS with their PwC engagement partner or with the authors of and contributors to this series.

This series of articles was authored by the following individuals:

Tami Van Tassell

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

Bill Maloney

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

David Beaver

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

Other contributors to the series include the following individuals:

Jennifer Spang

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

Tony de Bell

Phone: +44 20 7213 5336

Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

Brett Cohen

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

# Income Tax Accounting under IFRS: A look ahead\*

Initial recognition



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the third article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## Background

Temporary differences can arise when a company initially recognizes an asset or liability. Such differences have a tendency to arise in a business combination when the assets and liabilities are recorded at their fair values but the tax bases do not change. Temporary differences can also arise when an asset is acquired outside a business combination, if the amount attributed to the asset for tax purposes is different from the financial statement carrying amount.

## The proposed changes

The IASB's proposal would provide guidance on the accounting for temporary differences that arise upon a company's initial recognition of an asset or liability. (The table below summarizes the IASB's proposed guidance.) One of the changes the IASB is proposing is that in measuring the value of an asset or liability, the company must use the same assumptions about the tax basis that other market participants would use. This would address situations in which the amount an entity is willing to pay for an asset is influenced by the associated tax attributes that are specific to the entity. The company would recognize a deferred tax asset (DTA) or deferred tax liability (DTL) for any resulting temporary difference. The financial statement effect of recognizing the deferred tax would depend on the circumstances in which the transaction takes place.

<p><b>Initial recognition of an asset or liability acquired in a business combination</b></p>	<p>A temporary difference that arises when an asset or liability is acquired in a business combination results in recognizing a DTA or DTL, with the offsetting effects either being recorded in goodwill or impacting the ultimate amount of the bargain purchase gain.</p>
<p><b>Initial recognition of an asset or liability acquired in a transaction that is outside a business combination and affects comprehensive income, equity, or taxable profit</b></p>	<p>In some situations, a temporary difference arises when an asset or liability is initially recognized outside a business combination and the transaction affects comprehensive income, equity, or taxable profit. In those instances, the resulting tax charge or benefit should be classified in a manner consistent with the pre-tax accounting.</p> <p>For example, a company may receive cash in exchange for providing goods or services in the future. Assume that, for tax purposes, the company includes the payment in taxable income upon receiving the cash. For financial reporting purposes, the company records the cash with an offset to deferred revenue. There is a deductible temporary difference for the deferred revenue, for which the company records a DTA.</p> <p>The transaction affects taxable profit. Therefore, the company records the deferred tax charge in the income statement.</p>
<p><b>Initial recognition of an asset or liability acquired outside a business combination, with <i>no</i> effect on comprehensive income, equity, or taxable profit</b></p>	<p>In some situations, a temporary difference arises when an asset or liability is acquired outside a business combination and the transaction does not affect comprehensive income, equity, or taxable profit.</p> <p>Assume that a company pays C1,000 for the shares of an entity. The entity is a shell company that holds a single asset and is not considered a business. The acquisition therefore is not accounted for as a business combination.</p> <p>The asset has a carryover tax basis of zero. There is a taxable temporary difference of C1,000 related to the asset.</p> <p>In this case, the company would record the deferred tax. It would also recognize, as an allowance (discount) against or premium on the deferred tax balance, the difference between the consideration paid and the total recognized amount of the asset or liability (including deferred taxes).</p> <p>The company would classify the discount or premium with deferred tax. However, the company would not consider the discount or premium to be a source of future taxable profit when determining whether a valuation allowance is necessary.</p> <p>The discount or premium would be reduced on a pro rata basis with changes in the related deferred tax asset or liability. The company would recognize the resulting tax expense or income as part of income tax expense (benefit) in the financial statements.</p>

## Comparison to IAS 12

The proposal is generally consistent with IAS 12, *Income Taxes*, regarding the accounting for temporary differences arising upon the initial recognition of assets and liabilities:

- in a business combination, and
- in a transaction that (1) is outside a business combination and (2) affects comprehensive income, equity, or taxable profit.

The proposal differs from IAS 12 on the accounting for temporary differences that arise upon the initial recognition of assets and liabilities acquired in a transaction that (1) is outside a business combination and (2) does not affect comprehensive income, equity, or taxable profit. IAS 12 does not permit a company to recognize deferred taxes in that situation.

There are situations in which the amount a company is willing to pay for an asset is influenced by the associated tax attributes. For example, a company may negotiate a lower purchase price for an asset with a low tax basis if that asset could have been obtained in a transaction that provided the buyer with a higher tax basis. In other situations, the purchase price for an asset might be increased because the remaining tax basis assumed in the transaction exceeds the amount that would have been deductible had the asset been acquired separately.

In deliberating the issue, the IASB discussed whether (1) measuring the asset or liability to reflect the tax advantage or disadvantage and then (2) recognizing deferred tax to reflect the difference between the carrying amount and the tax basis is a more faithful representation of the transaction's underlying economics. The IASB acknowledged that in these transactions, the consideration paid might not equal the sum

of the carrying amount and the deferred tax balance. In the IASB's view, this difference results largely from the time value of money and the premium or discount on future tax cash flows that a willing buyer and seller would agree to. And, because deferred taxes are recorded on an undiscounted basis, there will naturally be a "disconnect" when these transactions are initially recorded.

The IASB therefore concluded that it is most appropriate to (1) classify the discount or premium along with the related deferred tax balance and (2) reduce the discount or premium pro rata with changes in the related deferred tax asset or liability.

## Comparison to US GAAP

The proposal is generally consistent with US GAAP regarding the accounting for temporary differences arising upon the initial recognition of assets and liabilities:

- in a business combination, and
- in a transaction that is (1) outside a business combination and (2) affects comprehensive income, equity, or taxable profit.

The proposal differs from US GAAP on the accounting for temporary differences arising upon the initial recognition of assets and liabilities acquired in a transaction that is outside a business combination and does not affect comprehensive income, equity, or taxable profit. Currently, companies account for such temporary differences by following the guidance in EITF 98-11.<sup>1</sup> Under that guidance, a company determines the assigned value of an asset acquired and the related DTA or DTL by running simultaneous equations. The practical effect of this model is to gross up the asset and the related deferred tax.

<sup>1</sup> Emerging Issues Task Force (EITF) Issue No. 98-11, *Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations*

## Practical example

Assume that a company acquires the shares of an entity that has a single asset. The purchase is not a business combination. The transaction does not affect comprehensive income, equity, or taxable profit.

The consideration paid was C100. The tax basis of the asset is the same as the previous owner's tax basis, which is nil. The company could have purchased the asset outright for C120, instead of purchasing the shares of the entity. In that case, the tax basis would have equaled the consideration paid. The tax rate is 40 percent.

The following observations can be made about the three accounting approaches:

- the US GAAP guidance would result in the highest depreciation charge; the IASB proposal would result in the next highest amount; and the IAS 12 guidance would result in the lowest amount.
- the US GAAP guidance normalizes the impact on the effective tax rate, whereas the guidance under both the proposal and IAS 12 result in a disproportionate impact on the effective tax rate.

## Proposed guidance

The company would not record the asset at the amount of consideration paid; rather, the company would measure the asset so that it reflects the value of the asset that has the higher tax basis available to market participants (C120).

The proposal requires the company to record a DTL of C48 (C120-nil) \* 40%), with an offsetting discount of C28.

Asset	120
Discount	28
Cash	(100)
Deferred tax liability	(48)

As the asset depreciates, the DTL would reverse proportionately and the discount would be reduced on a pro rata basis. The unwinding of the discount would affect the company's effective tax rate.

## IAS 12

The company would record the asset at the amount of consideration paid (C100). Deferred taxes would not be recorded in this situation.

Asset	100
Cash	(100)

Because the asset would depreciate with no corresponding tax benefit, the company's effective tax rate would be impacted.

## US GAAP

The company would record the asset at an amount determined by using a simultaneous equation. The company would initially record a DTL of C40 (C100 \* 40%) and increase the cost of the asset by C40. This increase would, in turn, increase the temporary difference, requiring a new calculation of the DTL and so on. This situation is typically resolved by use of the "simultaneous equations" method. The final result is a DTL of C67 and an asset of C167 (C100 + C67).

Asset	167
Cash	(100)
Deferred tax liability	(67)

As the asset is depreciated, the company would adjust the deferred tax liability, and the effective tax rate would not be impacted.

## Questions to consider

The IASB's proposal raises many important questions about the practical application of the initial recognition model:

### **Would the accounting and financial reporting effect under the proposal differ materially from that under IAS 12?**

In the practical example above, the DTL was recorded at C48, and the discount was recorded at C28. The proposal specifies that the premium or discount would be reduced pro rata with changes in the related deferred tax asset or liability. The IASB does not specify what it means by "pro rata." We presume it means that as the DTL reverses, the discount would be reduced by an equal amount. If the amortization of the discount or premium is generally consistent with the reversal of the related DTA or DTL, the net effect on the income statement in any given period is nil.

### **The proposal specifies that a company should measure assets or liabilities by using the same assumptions about the tax basis that other market participants would use. How should this guidance be applied?**

The proposal appears to require that when measuring the value of an asset, a company that *could have* acquired the asset in a manner that would have resulted in a higher tax basis should assume that the asset will be fully tax deductible (even though, in reality, there is no—or only a partial tax—basis to deduct).

Take, for example, a company that acquires an asset with a carryover tax basis (e.g., in a share purchase) but could have acquired the asset in a manner that would have resulted in a higher tax basis (e.g., in an asset purchase). In measuring the value of the asset, the company should assume full deductibility. So if, for example, the value of the asset was being determined through use of a discounted cash flow model, it would be appropriate to assume full deductibility of the asset for tax purposes, notwithstanding the fact that actual future deductions are limited to the asset's remaining tax basis.

In contrast, assume that a company enters into an agreement with the taxing authority before acquiring an asset. The purpose of entering into the agreement is to receive a favorable tax basis—one that is not available to other market participants. Does this mean that the company should ignore that agreement when subsequently measuring the value of the acquired asset? The proposal does not provide a clear answer to this question.

### **The proposal specifies that a company should reduce the premium or discount pro rata with changes in the related deferred tax asset or liability. How should this model be applied when considering the need for a valuation allowance?**

The proposal specifies that the discount or premium would be classified as deferred tax on the balance sheet. However, in measuring or determining the need for a valuation allowance on DTAs, the company would not consider the discount or premium a source of future taxable profit or a future deductible amount that needs to be recovered. If, in a subsequent period, a company records a valuation allowance on the DTA, the proposal is unclear about whether the company should cease amortizing the related discount and, if not, on what basis the company should continue amortizing the discount.

A number of other questions arise when one considers the interaction of the discount or premium with a company's deferred tax analysis:

1. Assume the initial DTA that emerges upon recording one of these transactions requires a valuation allowance. Would the company calculate the discount or premium before assessing the need for a valuation allowance? In turn, would making the calculation mean the transaction could possibly result in an immediate income statement charge if the DTA requires a valuation allowance at inception?
2. Assume that the valuation allowance referenced in 1 above is no longer needed in a subsequent period? Depending on the accounting treatment in 1, is the discount also reinstated, or would any potential premium/discount be ignored when the valuation allowance is reversed?
3. Assume that a DTL arising in one of these transactions reduces the need for a valuation allowance on the company's pre-existing DTAs? Should the tax benefit that results from releasing the valuation allowance be recorded in the income statement in a manner similar to that prescribed by the new business combinations guidance? If so, should the benefit be recorded before or after the company accounts for the premium or discount?

## Next steps

The IASB's proposal was released on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and to provide the IASB with comments.

The FASB plans to issue an Invitation to Comment on the IASB's proposal to solicit input from US constituents as it considers its own convergence efforts. Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12. We encourage companies to consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.

## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about IFRS with their PwC engagement partner or with the authors of and contributors to this series.

This series of articles was authored by the following individuals:

Tami Van Tassell

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

David Beaver

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

Bill Maloney

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

Other contributors to the series include the following individuals:

Jennifer Spang

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

Brett Cohen

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

Tony de Bell

Phone: +44 20 7213 5336

Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

This document is provided by PricewaterhouseCoopers LLP for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, written tax advice under Circular 230 or professional advice of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult with a professional adviser who has been provided with all pertinent facts relevant to your particular situation. The information is provided 'as is' with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties or performance, merchantability, and fitness for a particular purpose.

# Income Tax Accounting under IFRS: A look ahead\*

## Intercompany transactions



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the fourth article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## Overview

Although the IASB's proposal will not change the accounting for income tax consequences resulting from intercompany transactions under IFRS, it will add new disclosure requirements. To provide context in understanding the proposed disclosure requirements, and because determining the appropriate accounting for those tax consequences can be tricky, this article reviews the current accounting guidance, highlighting the differences between US GAAP and IFRS.

## Background

Some companies within a consolidated group (parent company, sister company, and/or subsidiary) have frequent transactions with other companies in the group. For example, a subsidiary may sell inventory to a sister company, or a parent may transfer intellectual property to its subsidiary. This article refers to such transactions as intercompany transactions.

Oftentimes there is an income tax consequence if an intercompany transaction is between companies that are not included in the same consolidated income tax return.

In general, the profit the seller realizes on the sale is taxed currently by the seller's local taxing authorities. For the buyer, the tax basis of the asset is typically the amount the buyer paid. In the consolidated financial statements, the profit on the intercompany sale is eliminated and the asset is carried at the value it originally had, before the intercompany sale. In this situation, a deductible temporary difference is created because the tax basis of the asset in the buyer's jurisdiction is higher than the carrying amount in the consolidated financial statements.

For the most part, US GAAP and IFRS have the same basic approach to accounting for income tax: Record current tax charges (benefits) in the period incurred, and record deferred tax charges (benefits) in the period that the temporary difference arises. The two sets of guidance diverge, however, when it comes to intercompany transactions. US GAAP specifies an exception to the basic approach: The group would not immediately recognize a current tax charge for income taxes paid on intercompany profits from the sale of an asset that will remain in the consolidated group; nor would it recognize a deferred tax asset for the increase in tax basis arising from the transaction [FAS 109, par. 9(e)]. IFRS contains no such exception.

## Example

The following example illustrates the impact of the difference between US GAAP and IFRS in accounting for the income tax consequences of intercompany transactions. For the sake of simplicity, the effect of currency translation is ignored in the example.

CoA and CoB are fully owned subsidiaries of the same parent. CoA sells inventory to CoB for C150, with a profit margin of C50. Before selling the inventory to CoB, CoA had no temporary difference related to the inventory.

The seller's tax rate is 40 percent. The buyer's tax rate is 30 percent. The profit of C50 on the intercompany sale of inventory is eliminated in the consolidated financial statements. The taxing authority in CoA's jurisdiction will tax the profit on the sale in the period of sale to CoB. CoB's tax basis in the inventory is C150, the amount paid by CoB.

The following income tax accounting entries are recorded in the consolidated financial statements when the inventory is sold from CoA to CoB:

US GAAP	debit/(credit)
Deferred charge (balance sheet)	C20
Income tax payable	(C20)
<i>To defer the current tax charge due in the seller's jurisdiction.</i>	
<i>The deferred charge is a balance sheet account.</i>	

IFRS	debit/(credit)
Current tax expense	C20
Income tax payable	(C20)
<i>To record the current tax due in the seller's jurisdiction.</i>	
Deferred tax asset	C15
Deferred tax expense	(C15)
<i>To record the deferred tax asset in the buyer's jurisdiction</i>	

The group has a current tax payable of C20 (C50 margin x 40% rate) in CoA's jurisdiction as a result of the transaction.

The group also now has tax basis in the inventory of C150 in CoB's jurisdiction, which exceeds the consolidated book basis of C100 by C50. This in turn results in a potential deferred tax asset of C15 (C50 basis difference x 30% rate).

When the inventory is sold outside the consolidated group, the income tax consequences are recognized in the financial statements under US GAAP. Assume that the inventory is sold to a third party for C170. The group has a current tax payable of C6 (C20 margin x 30% rate) in CoB's jurisdiction as a result of selling the inventory to a third party.

The following income tax accounting entries are recorded in the consolidated financial statements when the inventory is sold outside the consolidated group:

US GAAP	debit/(credit)
Income tax expense	C20
Deferred charge (balance sheet)	(C20)
<i>To recognize the deferred charge in the seller's jurisdiction.</i>	
Current tax expense	C6
Income tax payable	(C6)
<i>To record the current tax expense in the buyer's jurisdiction.</i>	

IFRS	debit/(credit)
Deferred tax expense	C15
Deferred tax asset	(C15)
<i>To reverse the deferred tax asset in the buyer's jurisdiction.</i>	
Current tax expense	C6
Income tax payable	(C6)
<i>To record the current tax expense in the buyer's jurisdiction.</i>	

## Summary of the impact

Ultimately, once the inventory has been sold outside the consolidated group, the consolidated financial statements under both IFRS and US GAAP will reflect the following items, as they relate to the intercompany profit:

- A charge at the seller's tax rate (because the seller was taxed on the profit in its jurisdiction)
- A charge at the buyer's tax rate for any additional profit that occurs when the inventory is sold outside the group

If the statutory rates in the seller's and buyer's jurisdictions are the same, there is typically no net impact on reported results. If the tax rates are not the same, the difference between US GAAP and IFRS is in the timing of the recognition of the intercompany sale's income tax consequences.

Under US GAAP, the parent company (1) defers the income tax consequences of the intercompany sale until the item is sold outside the group and (2) matches the income tax consequences to the profit from the third-party sale. In the case of an amortizable asset, such as intellectual property, a parent company that reports under US GAAP matches the income tax consequences of the intercompany sale to the property's "recovery through use," as the property is amortized. Therefore, the impact on the effective tax rate (i.e., the tax rate "arbitrage") occurs either at the time of the third-party sale or over time as the property is amortized.

Under IFRS, the income tax consequences of the intercompany transaction are reflected when the intercompany sale occurs. Although the profit from recovering the asset from a third party has not yet been recognized at the time of sale, the entity has nonetheless incurred/received an economic tax charge/benefit. Therefore, the effective tax rate is affected immediately, at the time of the intercompany sale.

Some financial statement users have expressed concerns about the income tax consequence of an intercompany transaction being recorded in a period when the pre-tax accounting is eliminated in preparing consolidated financial statements. The Board acknowledged this concern and added disclosure requirements to the proposed standard to address it. For example, companies must disclose: (1) deferred tax assets and liabilities, and (2) the net tax expense resulting from transfers of assets and liabilities within a consolidated group between taxing jurisdictions with different tax rates either for all transactions or for those whose terms are not customary.

## Other considerations

Companies that transition to IFRS will adjust their first IFRS balance sheet so that amounts they had recognized under US GAAP reflect the recognition and measurement guidance under IFRS. For a company reporting under US GAAP, there might be income tax consequences from intercompany transactions that have been deferred. The company would write off that amount when it adjusts the opening IFRS balance sheet on the transition date. Additionally, the company would record deferred tax assets (or liabilities) not previously recorded under US GAAP, to reflect temporary differences created by intercompany transactions. The offset for both entries would be recorded against retained earnings.

Companies should also consider the impact that accounting and disclosure requirements for intercompany transactions will have on systems and processes. In particular, companies will benefit from having a process in place to track the temporary differences that arise in the buyer's jurisdiction as a result of intercompany transactions and to determine when such temporary differences have reversed.

## Next steps

The IASB's proposal was released on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and to provide the IASB with comments.

The FASB plans to issue an Invitation to Comment on the IASB's proposal to solicit input from US constituents as it considers its own convergence efforts. Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12. We encourage companies to consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.

## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about IFRS with their PwC engagement partner or with the authors of and contributors to this series:

This series of articles was authored by the following individuals:

### [Tami Van Tassell](#)

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

### [David Beaver](#)

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

### [Bill Maloney](#)

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

Other contributors to the series include the following individuals:

### [Jennifer Spang](#)

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

### [Brett Cohen](#)

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

### [Tony de Bell](#)

Phone: +44 20 7213 5336

Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

This document is provided by PricewaterhouseCoopers LLP for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, written tax advice under Circular 230 or professional advice of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult with a professional adviser who has been provided with all pertinent facts relevant to your particular situation. The information is provided 'as is' with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties or performance, merchantability, and fitness for a particular purpose.

# Income Tax Accounting under IFRS: A look ahead\*

## Accounting for uncertain tax positions



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the fifth article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## The proposed changes

Because income tax laws are complex and are subject to differing interpretations, there may be uncertainty about whether a company will ultimately sustain a position it has taken on a tax return. In its proposal, the IASB provides guidance on accounting for such uncertain tax positions. This is the first time the IASB has provided explicit guidance on this subject.

The IASB has proposed that companies measure current and deferred tax assets and liabilities using the probability-weighted-average amount of all the possible outcomes. Companies would be required to assume that the taxing authorities will review the amounts reported to them and will have full knowledge of all relevant information. Importantly, in this regard, companies are not allowed to consider the possibility that the position will go undetected. The IASB's proposal requires that changes in measurement be based on new information, not a new interpretation of previously available information.

The IASB's proposal does not define an uncertain tax position. Further, there would be no probability-based recognition threshold. Instead, any uncertainty about whether the tax authorities will accept the position taken is included in the measurement of the tax assets and liabilities themselves.

## Comparison to IAS 12

IAS 12 does not explicitly address the accounting for uncertain tax positions. In practice, companies reporting under IAS 12 generally record liabilities for uncertain tax positions that are not more likely than not to be sustained by using either a probability-weighted-average approach or a single-best-estimate approach.

Eliminating the recognition threshold of more-likely-than-not and the single-best-estimate approach is expected to have a significant impact on the accounting for income tax uncertainties—in particular, on highly certain and highly uncertain positions.

**Under a single-best-estimate approach, highly certain positions may have resulted in a full benefit being recognized. Conversely, under a probability-weighted-average approach, some level of reserve may be recorded.**

Assume that Entity A takes a deduction for an uncertain tax position that results in a potential tax benefit of C100 and that management is 80 percent certain the entity will sustain the position.

Potential benefit	Individual probability	Probability weighted calculation
C100	80%	C80
0	20%	<u>0</u>
		<b>C80</b>

Under a single-best-estimate approach, Entity A would recognize the full benefit (C100) of the tax deduction. Under a probability-weighted-average approach, Entity A would recognize a C80 tax benefit and a C20 liability.

**Under a single-best-estimate approach, highly uncertain positions may have resulted in a full liability being recognized. Under a probability-weighted-average approach, some level of benefit may be recorded.**

Assume that management was 80 percent certain the tax position would *not* be sustained.

Potential benefit	Individual probability	Probability weighted calculation
C100	20%	C20
0	80%	<u>0</u>
		<b>C20</b>

Under a single-best-estimate approach, Entity A would recognize no tax benefit and a C100 liability. Under a probability-weighted-average approach, Entity A would recognize a C20 tax benefit and a C80 liability.

## Comparison to US GAAP

US GAAP provides explicit guidance on uncertain tax positions. In FIN 48, *Accounting for Uncertainty in Income Taxes*, the FASB requires that a company evaluate its tax positions by using a two-step process:

- Step 1: Determine whether it is more likely than not that the tax position will be sustained upon examination, based on the position’s technical merits (this likelihood is the “recognition threshold”)
- Step 2: Measure the amount of tax benefit that is to be recognized in the financial statements

A tax position that meets the recognition threshold is measured at the largest amount of benefit that has more than a 50 percent likelihood of being realized upon settlement. No benefit is recorded for tax positions that do not meet the recognition threshold.

The IASB’s proposal and FIN 48 are significantly different in terms of recognition and measurement of uncertain tax positions. The following example illustrates how the absence of a recognition threshold in the proposal can cause a different outcome between the proposal and US GAAP.

**The IASB’s proposal does not establish a recognition threshold. Consequently, more tax positions could result in a tax benefit under the proposal than under US GAAP.**

Assume that Entity A takes a deduction for an uncertain tax position that results in a potential tax benefit of C100 and that it believes the position has only a 20 percent chance of being sustained.

Potential benefit	Individual probability	Probability weighted calculation
C100	20%	C20
0	80%	0
		<b>C20</b>

Under FIN 48, the tax position would not meet the recognition threshold. Therefore, Entity A would recognize no tax benefit and a C100 liability. Under the proposal, Entity A would recognize a C20 tax benefit and a C80 liability.

FIN 48 and the IASB’s proposal also differ in their measurement approaches. FIN 48 requires companies to use a cumulative-probability approach to measure the amount of tax benefit they must recognize, whereas the IASB’s proposal requires the use of a probability-weighted-average approach. As illustrated below, the difference in approaches is likely to affect the amounts companies record in their financial statements.

The proposal and FIN 48 both require that changes in measurement be based on new information. However, for positions that do not meet FIN 48’s recognition threshold, the period in which a company recognizes measurement changes under FIN 48 may differ from the period it would recognize those changes under the IASB’s proposal.

Assume, for example, that a taxpayer obtains favorable new information supporting a tax position that has not met FIN 48’s recognition threshold. Unless the new information were to cause the tax position to meet the recognition threshold, the company would not record a benefit until the company effectively settles the position. Since the IASB’s proposal does not establish a recognition threshold, changes in measurement would be recognized when new information is obtained.

## In summary

The guidance provided in the IASB's proposal is different than under both the international and US standards today. The following example illustrates this difference.

Assume Entity A takes a deduction for an uncertain tax position that results in a tax benefit of C1,000. The tax position meets the FIN 48 recognition threshold. Entity A estimates the probability of potential outcomes as follows:

Potential benefit	Individual probability	Probability weighted calculation	Cumulative probability
C1,000	15%	C150	15%
800	20%	160	35%
600	20%	120	55%
400	30%	120	85%
200	15%	30	100%
		<b>C580</b>	

Under FIN 48, Entity A would recognize the largest amount of tax benefit that has a likelihood of greater than 50 percent in this case, a tax benefit of C600, with a corresponding liability of C400.

Although IAS 12 does not provide specific guidance in this area, we believe companies may recognize a tax benefit under IAS 12 by using the probability-weighted-average of the expected outcomes (C580), or the single-best-estimate of the most likely outcome (30% probability). Under a single-best-estimate approach, Entity A would recognize a tax benefit of C400 and a C600 liability.

Under the proposal, Entity A would recognize a tax benefit for the probability-weighted-average of the expected outcomes. Accordingly, Entity A would recognize a tax benefit of C580 and a C420 liability.

## Questions to consider

Several important questions come to mind in contemplating the practical application of the IASB's proposed guidance:

### **How should highly certain (or uncertain) tax positions be assessed?**

In response to concerns that it would be unduly onerous to use a probability-weighted-average approach of the expected outcomes in all cases, including when the possibility of a different outcome is remote, the IASB noted in its Basis for Conclusions that it did not intend for entities to seek out additional information to apply the guidance in its proposal. It is unclear what the IASB meant by this statement.

### **How should the appropriate unit of account be determined?**

FIN 48 requires tax positions to be analyzed at the level of an individual tax uncertainty. That analysis depends on how the taxing authority may view a company's tax position and how the company supports the position. For example, a company may determine that a unit of account comprises all research credits, or that it consists of an individual research project (perhaps even just an individual cost within a project).

The IASB's proposal does not provide guidance on determining the unit of account. However, in an illustrative example accompanying the IASB's proposal, the uncertainty of two positions is assessed at the level of each deduction. It remains unclear whether the unit of account could be assessed at a higher level in certain circumstances. This is likely to be an area where significant judgment will need to be applied in practice.

### **How should companies account for and classify interest and penalties?**

FIN 48 requires a company to begin expensing interest and penalties in the period that they start accruing per the tax law. Because IAS 12 does not address interest and penalties, practice is diverse. Some argue that interest and penalties are part of a lump sum payment to the taxing authority and cannot be separated from tax expense. They account for and classify interest and penalties as tax expense. Others argue that interest and penalties are not based on taxable income and should be accounted for and classified as financing or operating costs, respectively. The IASB's proposal does not

provide guidance on interest and penalties, except to require disclosure of the entity's classification policy. Does the lack of guidance allow for alternatives in accounting for and classifying interest and penalties?

### **How should companies classify liabilities for uncertain tax positions?**

FIN 48 requires companies to classify liabilities for uncertain tax positions as noncurrent unless payment of cash is anticipated within one year. The proposal does not provide guidance on the classification of liabilities for uncertain tax positions. It is unclear, therefore, whether liabilities for uncertain tax positions should be recorded separately from the related current and deferred tax assets and liabilities (i.e., gross presentation) and, if so, whether a company should classify those liabilities according to expected reversal or expected cash payment. Another approach may be to classify all as current liabilities on the basis that the entity does not have an unconditional right to defer settlement once the taxing authority demands payment.

## Next steps

The IASB's proposal was released on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and to provide the IASB with comments.

The FASB plans to issue an Invitation to Comment on the IASB's proposal to solicit input from US constituents as it considers its own convergence efforts. Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12. We encourage companies to consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.



## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about IFRS with their PwC engagement partner or with the authors of and contributors to this series.

This series of articles was authored by the following individuals:

### [Tami Van Tassell](#)

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

### [David Beaver](#)

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

### [Bill Maloney](#)

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

Other contributors to the series include the following individuals:

### [Jennifer Spang](#)

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

### [Brett Cohen](#)

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

### [Tony de Bell](#)

Phone: +44 20 7213 5336

Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

This document is provided by PricewaterhouseCoopers LLP for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, written tax advice under Circular 230 or professional advice of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult with a professional adviser who has been provided with all pertinent facts relevant to your particular situation. The information is provided 'as is' with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties or performance, merchantability, and fitness for a particular purpose.

# Income Tax Accounting under IFRS: A look ahead\*

Allocating income taxes



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the sixth article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## Background

Allocating income tax expense (or benefit) to the various components of comprehensive income and equity is arguably one of the most challenging aspects of accounting for income taxes.

Both IAS 12, *Income Taxes*, and FAS 109, *Accounting for Income Taxes*, include allocation methodologies; however, those methodologies significantly differ. One of the more significant differences is the allocation of an income tax expense (or benefit) that is recorded in one year and relates to an event that occurred in a prior year.

IAS 12 generally requires companies to allocate income tax expense (or benefit) to the area where the pre-tax item was initially charged or credited (sometimes referred to as “backwards tracing”). FAS 109 generally requires companies to record income tax expense (or benefit) in continuing operations, because FAS 109 usually prohibits backwards tracing. There are, however, situations where FAS 109 requires backwards tracing, such as for certain tax effects related to stock based compensation.

<p><b>The IAS 12 approach to allocating income tax expense (or benefit) is quite simple to articulate and the conceptual basis is easy to understand. In essence, the income tax expense or benefit follows the pre-tax item, regardless of the period in which each is recorded.</b></p>	<p>For example, a company reporting under IAS 12 records an unrealized loss on available-for-sale securities in OCI in the first year.</p> <p>The unrealized loss is a deductible temporary difference, for which the company does not record a deferred tax asset (DTA) because realization of the benefit isn’t “more likely than not”.<sup>1</sup> As a result, the unrealized loss is recorded in OCI, with no corresponding tax benefit.</p> <p>In the second year, there is no change in the unrealized loss. However, the company determines that the DTA is now realizable. The company records the corresponding deferred tax benefit in OCI, to follow the pre-tax item to which it relates.</p>
<p><b>While the IAS 12 approach is relatively easy to understand, it can be quite difficult to apply.</b></p>	<p>For example, a company has several DTAs for which the company has recognized zero benefit (i.e., realization of the benefit is not “more likely than not”). If in a subsequent period the company determines it can realize a portion of the DTAs, the company will need to determine which portion relates to items recognized outside the income statement. This determination can be quite difficult, especially when the DTA includes loss carryforwards. When allocating the tax benefit to the loss carryforward, the company will need to determine which portion of the loss carryforward arose from items recognized outside of the income statement.</p> <p>The IAS 12 backwards-tracing approach can also be challenging when a rate change is enacted. That is because it can be difficult to determine which portion of the effect of the rate change relates to items recognized outside the income statement.</p>

<sup>1</sup> The net DTA under IAS 12 is similar to the net DTA under FAS 109. However, IAS 12 does not use a “valuation allowance;” a DTA is recognized only if it is more likely than not that the benefit will be realized. Under FAS 109, a company records the full DTA and then reduces it by a valuation allowance if it is more likely than not that the benefit, in whole or part, won’t be realized. The IASB has proposed adopting the FAS 109 approach.

The FAS 109 approach is more difficult to articulate and can be complicated to apply. Under that approach, a company first computes the total tax expense (or benefit), and then computes the tax expense (or benefit) attributable to continuing operations. After that, the company allocates among the other financial statement components the difference between the total tax expense (or benefit) and the amount allocated to continuing operations.

This approach is further complicated by exceptions to the general process. For example, certain tax effects are specifically allocated to continuing operations. And, companies must consider income from other components (e.g., discontinued operations) when determining the amount of tax benefit to allocate to a loss from continuing operations.

**The FAS 109 approach is easier to apply when there is a change in the value of DTAs and deferred tax liabilities (DTLs) that were generated from activity in a prior year.**

Using the facts in the previous example for IAS 12 purposes, the reversal of the valuation allowance would not be backwards-traced to OCI. In determining where in the financial statements to record the tax benefit derived from releasing the valuation allowance, the company must look to the reason behind the release.

If the company determines that the DTA was realizable because of projections about income in *future* years, the benefit will be recorded in continuing operations. However, if the company realized the DTA by using income in the current period, the company would record the benefit in the same location as the pre-tax income that allowed for realization.

The FAS 109 approach also requires that companies record certain other tax effects (e.g., changes in tax laws or rates) in continuing operations, which helps reduce complexity to a degree by eliminating the need to determine where the original tax effect was recorded.

## The proposed changes

The question of where to record income tax expense (or benefit) is a difficult one. The IASB has noted that backwards tracing might not be appropriate in all situations and even considered developing a new method of allocating income tax expense. Given the complexities and the unavoidable arbitrariness that would exist in any method, the IASB decided it will adopt the approach used in FAS 109. However, the IASB also included an IAS 12-based model in its proposal and is asking constituents to comment on each. The IASB believed it would be beneficial to solicit feedback on both models in an effort to avoid having to re-expose the proposal before issuing a final standard.

## Questions to consider

Companies should consider the financial reporting results of each model—the IAS 12 backwards-tracing model and the FAS 109 non-backwards-tracing model—for different scenarios, such as the valuation allowance reversal illustrated above. Companies should consider which model provides the most meaningful information to financial statement users.

Given (1) the complexities associated with both models and (2) financial-reporting results that, at times, may appear counterintuitive, should the IASB consider a third alternative—reporting income taxes in a single-line item?

Reporting income taxes in a single line item would eliminate the arbitrary allocation and reduce complexity. In some ways, this alternative model might provide more meaningful information to financial statement users, since it would report the total income tax effect of all company transactions for the period.

On the other hand, it would increase volatility in a company's effective tax rate. Would the decreased complexity that results from reporting all income tax in a single line item sufficiently compensate for an increase in the volatility of the effective tax rate? Would it be sufficient for companies to explain such

volatility in their disclosure of the reconciliation of the effective tax rate? Such a disclosure is likely to be required in any event because of increased volatility in the rate attributable to other standards. For example, the relatively new standard on accounting for business combinations contains provisions that will increase volatility in the effective tax rate. Under IFRS, the current (and proposed) income tax accounting for share-based compensation increases volatility in the effective tax rate beyond the volatility experienced under current US GAAP.

The IASB noted that it simplified the requirements of the FAS 109 model without changing the basic approach. Companies should consider whether the language used by the IASB would produce different results than the FAS 109 model. Companies should also consider whether a FAS 109 model with fewer exceptions would be beneficial. The requirement to backwards trace certain items combined with other exceptions in the FAS 109 model would increase the overall complexity and arbitrariness of the allocation process.

## Next steps

The IASB's proposal was released on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and to provide the IASB with comments.

The FASB plans to issue an Invitation to Comment on the IASB's proposal to solicit input from US constituents as it considers its own convergence efforts. Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12. We encourage companies to consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.

## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about IFRS with their PwC engagement partner or with the authors of and contributors to this series.

This series of articles was authored by the following individuals:

Tami Van Tassell

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

David Beaver

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

Bill Maloney

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

Other contributors to the series include the following individuals:

Jennifer Spang

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

Brett Cohen

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

Tony de Bell

Phone: +44 20 7213 5336

Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

This document is provided by PricewaterhouseCoopers LLP for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, written tax advice under Circular 230 or professional advice of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult with a professional adviser who has been provided with all pertinent facts relevant to your particular situation. The information is provided 'as is' with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties or performance, merchantability, and fitness for a particular purpose.

# Income Tax Accounting under IFRS: A look ahead\*

## Investments in subsidiaries



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the seventh article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## Background

Temporary differences may arise between (1) the carrying amount of investments in subsidiaries and associates or interests in joint ventures, and (2) the tax basis of those investments or interests.

These differences are typically referred to as *outside basis differences*. They can occur for various reasons, including unremitted earnings, impairment of the investment, and changes in foreign exchange rates. Accounting for these outside basis differences can be complex. The IASB proposes that companies recognize deferred tax liabilities (DTLs) and deferred tax assets (DTAs) for these temporary differences, with one exception.

## The proposed changes

The exception the IASB proposes would apply to investments in foreign subsidiaries and foreign joint ventures when the investment is essentially permanent (what the IASB terms “permanent in duration”) and when it is apparent that the temporary difference will not reverse in the foreseeable future. An investment in a foreign subsidiary or foreign joint venture is essentially permanent if the investor can provide evidence that it has a specific plan to reinvest the undistributed earnings, demonstrating that remittance of the

earnings will be postponed indefinitely. In the case of such entities, a company applying the IASB’s proposal would not recognize a DTL or DTA for an outside basis difference.

The proposal does not extend the exception to investments in associates, even if an investor can control the timing of the reversal of the temporary difference. For example, an investor may have an agreement with an associate that allows the investor to control the timing of the distribution of profits of the associate. The investor, therefore, may be able to assert that the temporary difference will not reverse in the foreseeable future. It appears, however, that the proposal would still require deferred taxes to be recorded in this situation.

If an investor were to lose control of a foreign subsidiary, the proposal’s exception would not apply, meaning that the investor would recognize deferred taxes. If, on the other hand, a foreign investee were to become a subsidiary, the investor would do two things: (1) derecognize the previous deferred taxes related to the investee before it became a subsidiary and (2) apply the proposal’s guidance to determine whether to recognize deferred taxes on the subsidiary (i.e., determine whether the exception to recognizing deferred taxes would apply in that circumstance). Any change in deferred taxes would be recognized in the income statement.

## Comparison to IAS 12

The guidance in the proposal resembles the guidance in IAS 12, *Income Taxes*. With regard to *taxable* temporary differences, both grant an exception to recording a DTL for an outside basis difference. The exception in IAS 12, however, is broader than the proposal's exception. That is because IAS 12 applies to foreign *and* domestic subsidiaries, associates, and joint ventures. Under IAS 12, if two criterion are met an entity would not record DTLs for outside basis differences:

- The investor must be able to control the timing of the reversal of the temporary difference.
- It must be probable (more likely than not) that the temporary difference will not reverse in the foreseeable future.

With regard to *deductible* temporary differences, under IAS 12 a DTA should be recorded on an outside basis difference only if it is probable that the temporary difference will reverse in the foreseeable future. Under the proposal, a DTA is not recorded if the investment is essentially permanent in duration and the temporary difference will not reverse in the foreseeable future.

In its proposal, the IASB acknowledges that the exceptions in IAS 12 have no conceptual basis. However, the IASB goes on to state that calculating deferred taxes for outside basis differences in *foreign* subsidiaries and *foreign* joint ventures can be sufficiently complex that the costs outweigh the benefits. The IASB, therefore, concluded to retain an exception for foreign subsidiaries and joint ventures.

Calculating deferred taxes for outside basis differences in some domestic subsidiaries may also be complex, particularly where companies cannot file consolidated tax returns and cannot recover their investment in a tax free manner. The IASB did not, however, extend the exception in the proposal to domestic subsidiaries. This change may have a significant impact on some companies.

Although the proposal's exception does not include domestic subsidiaries, joint ventures, and associates, a DTL might nonetheless be avoidable for a domestic subsidiary. If, under the proposal, an investor were able (and intended) to recover its investment in a domestic subsidiary without a tax consequence, the basis difference would not qualify as a temporary difference and no deferred taxes would be recorded.

## Comparison to US GAAP

The guidance in the proposal is largely consistent with US GAAP. Under FAS 109, *Accounting for Income Taxes*, a number of factors go into determining whether deferred taxes should be recorded for outside basis differences. Those factors include: the form of ownership of the interest (e.g., subsidiary or corporate joint venture as opposed to equity or cost-method investee); whether the entity is domestic or foreign; and management's intentions.

DTAs for outside basis differences of domestic or foreign subsidiaries and joint ventures are recorded only if it is apparent that the temporary difference will reverse in the foreseeable future; the starting presumption for a DTA is that it might not be recorded.

DTLs are recorded for *domestic* subsidiaries and joint ventures unless the reported amount of the investment can be recovered tax-free without significant cost. In the US, investments in domestic subsidiaries can often be recovered in a tax-free manner.

APB 23, *Accounting for Income Taxes—Special Areas*, provides guidance on recording DTLs on outside basis differences of foreign subsidiaries and foreign joint ventures that are essentially permanent. Under APB 23, there is a presumption that the undistributed earnings of a foreign subsidiary will be transferred to the parent company and be subject to income taxes in the parent company's jurisdiction. Unless the company can overcome that presumption, it should recognize a DTL. A company may overcome the presumption if it can demonstrate its intent and ability to delay indefinitely the reversal of the temporary difference (e.g., by indefinitely reinvesting the undistributed earnings).

The guidance in US GAAP for changes in control differs from the guidance in the proposal. APB 23 specifies that when a foreign equity- or cost-method investee becomes a subsidiary, the investor must "freeze" the existing DTL on the unremitted earnings of that equity- or cost-method investment. The DTL is reversed when and if those earnings are later remitted.

## Questions to consider

The proposal raises important questions about the practical application of the model for recognizing deferred taxes on investments in subsidiaries, associates, and joint ventures.

### **Would applying the proposal result in a DTA-recognition threshold for outside basis differences that differs from the corresponding thresholds under current IAS 12 and FAS 109?**

Under US GAAP (FAS 109 and APB 23) and current IAS 12, the threshold for recognizing a DTA for outside basis differences is higher than the threshold for other deductible temporary differences. If a company has no specific plan for reversing the outside basis difference in the foreseeable future, it would not record a DTA.

In the proposal, it is not clear whether having such a plan is a criterion for recording a DTA. Rather, the proposal's guidance implies that a company should recognize a DTA when (1) the investment is not permanent and (2) the tax basis of the investment is higher than the carrying amount of the investment. Whether this is meant to serve as the new threshold for recognizing a DTA for an outside basis difference, replacing the threshold in IAS 12 (and in US GAAP if the US adopts IFRS), is not clear from the proposal's language.

In addition, what is meant by "permanent" is unclear. Under the proposal an investment is considered permanent if there are specific plans to reinvest the undistributed earnings. How should that criterion be applied to investments that have losses? Also, what would the position be if only a portion of the outside basis was considered permanent? That is, while the company had unremitted earnings, they had followed a practice of bringing back only a portion of their foreign earnings but not all.

### **Does the proposal give conflicting guidance on allocating income tax expense (benefit)?**

The proposal specifies that if a change in circumstances causes a company to either reverse a DTA or DTL on an outside basis difference or record a new DTA or DTL where none had previously existed, the company must recognize income tax expense (benefit) in the income statement.

However, in describing the allocation requirements for income tax expense (benefit), the proposal specifies that the tax effect of items charged to other comprehensive income (OCI) during the year should be recorded in OCI. How do these two bits of guidance interact? Assume that upon a change in circumstances, a company records a DTL on July 1 for an outside basis difference. Assume also that a portion of the outside basis difference results from currency translation adjustments (CTA) made between January 1 and June 30. Should the tax effect of the CTA arising during that period be recorded in OCI or in the income statement? The proposal does not provide a clear answer to this question.

## Next steps

The IASB's proposal was released on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and provide the IASB with comments.

The FASB plans to issue an Invitation to Comment on the IASB's proposal to solicit input from US constituents as it considers its own convergence efforts. Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12. We encourage companies to consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.

## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about IFRS with their PwC engagement partner or with the authors of and contributors to this series.

This series of articles was authored by the following individuals:

### [Tami Van Tassell](#)

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

### [David Beaver](#)

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

### [Bill Maloney](#)

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

Other contributors to the series include the following individuals:

### [Jennifer Spang](#)

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

### [Brett Cohen](#)

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

### [Tony de Bell](#)

Phone: +44 20 7213 5336

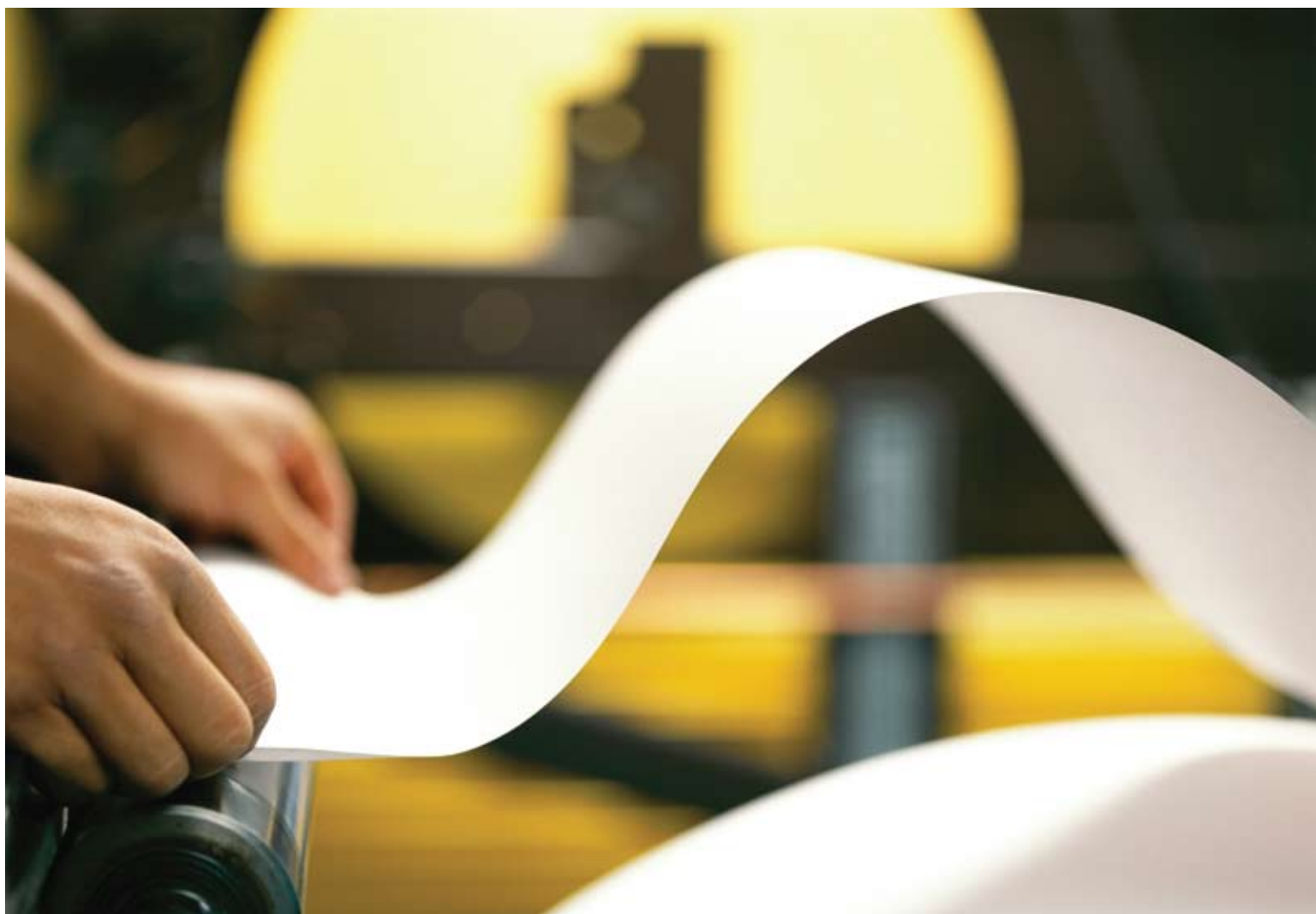
Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

This document is provided by PricewaterhouseCoopers LLP for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, written tax advice under Circular 230 or professional advice of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult with a professional adviser who has been provided with all pertinent facts relevant to your particular situation. The information is provided 'as is' with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties or performance, merchantability, and fitness for a particular purpose.

# Income Tax Accounting under IFRS: A look ahead\*

Financial statement disclosures



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the eighth article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## Background

The IASB's proposal is another step toward providing comparable information to financial statement users. In the proposal, the IASB retains the majority of the disclosure requirements of IAS 12, *Income Taxes*, and incorporates certain disclosure requirements from FAS 109, *Accounting for Income Taxes*. The proposal also requires some entirely new disclosures.

This article highlights some of the proposal's more significant disclosure requirements.

## Guidance in the IASB's proposal

### Income statement disclosures

The IASB's proposal requires companies to disclose significant components of tax expense. Those components may include current and deferred tax expense, as well as amounts related to changes in (1) tax rates, (2) tax status, and (3) valuation allowance. Disclosure is also required of any adjustments arising from possible outcomes of a review by taxing authorities (i.e., uncertain tax positions). Companies must also reconcile a period's tax expense with tax expense that was based on the parent company's domestic statutory tax rate.

**By proposing that the requirement to reconcile the effective tax rate be amended, the IASB is trying to make IAS 12 more consistent with FAS 109. Under IAS 12, companies have the option of aggregating separate reconciliations by using the domestic rate in each jurisdiction. Under the IASB's proposal, the reconciliation must use the domestic rate in the parent company's jurisdiction. Here the proposal is inconsistent with FAS 109, because the proposal has its own definition of "domestic rate." In the proposal, the domestic rate is an aggregate of the national tax rate and any local tax rates if the local taxes are computed on a substantially similar level of taxable profit.**

### Balance sheet disclosures

The IASB's proposal also requires companies to provide a numerical analysis of the change in deferred tax assets (DTAs) and deferred tax liabilities (DTLs) *for each type of temporary difference*. A company's analysis would include items such as:

- Origination and reversal of the temporary difference
- A change in tax rates, imposition of new taxes, or change in tax status
- A change in measurement of any uncertainty in the tax position
- Amounts recognized in other comprehensive income or directly in equity

**The IASB's proposal represents a significant increase in the disclosures required by either IFRS or US GAAP related to DTAs and DTLs. Companies should consider the incremental effort that may be needed to make the proposed disclosures. Companies that operate in multiple jurisdictions will need to have sufficient processes in place to obtain the necessary information at the appropriate level of detail.**

## Other disclosures

The IASB's proposal also requires disclosure of the following:

- Tax expense related to (1) the gain or loss upon the sale of a discontinued operation and (2) the period's profit or loss related to the discontinued operation
- Aggregate amount of temporary differences related to investments in subsidiaries and joint ventures for which DTLs have not been recognized<sup>1</sup>

**The IASB decided against requiring additional disclosures related to these unrecorded DTLs. The IASB has asked for suggestions about disclosures that might provide meaningful information to financial statement users.**

- Any DTAs and DTLs resulting from transfers of assets and liabilities that (1) are within a consolidated group and (2) are being transferred between taxing jurisdictions that have different tax rates. Companies must also disclose the net tax expense for all such transfers or for those transfers that are not considered customary for the group<sup>2</sup>

**Acknowledging that some financial statement users may have concerns about possible earnings management resulting from the proposed income tax accounting for intercompany transactions, the IASB included new disclosure requirements in the proposal to address those concerns. Companies will need to have sufficient processes in place to obtain the necessary information at the appropriate level of detail.**

- Methodology used to record income taxes in the separate financial statements of an entity that is a member of a group filing a consolidated return

## How the proposed disclosures compare to existing IFRS and US GAAP

The more notable incremental disclosures from both an IFRS and US GAAP perspective are included in the description above. There are, however, disclosure requirements in IAS 12 and FAS 109 that are not carried over in the IASB's proposal. For example, IAS 12 requires companies to disclose the nature of the evidence supporting a DTA's recognition if (1) realization of the DTA depends on future taxable income and (2) the company had a loss in the current or preceding year. The IASB did not retain this disclosure in the proposal. However, the IASB proposed to require disclosure of the amount of any valuation allowance, any changes in that amount, and the reasons for such a change.

### Uncertain tax positions

The IASB's proposal also excludes several US GAAP disclosures related to uncertain tax positions, such as the following:

- Rollforward of unrecognized tax benefits from the beginning to the end of the period

**Although the IASB's proposal does not include a tabular reconciliation of unrecognized tax benefits, it requires disclosure of the major sources of estimation uncertainty including (1) a description of the uncertainty, (2) an indication of its possible impact on the financial statements and (3) the timing of such impact.**

- Amount of unrecognized tax benefits that may affect the effective tax rate
- Tax years that are open to assessment by the tax authority in a major tax jurisdiction

<sup>1</sup>Our seventh article in this series discusses the IASB's proposed accounting for investments in subsidiaries and joint ventures.

<sup>2</sup>Our fourth article in this series discusses the IASB's proposed accounting for intercompany transactions.

- Significant increases or decreases within the next 12 months that are reasonably possible, including the nature of the uncertainty, the event that would cause the change, and an estimate of the change

**The IASB's proposal to disclose major sources of estimation uncertainty partially addresses this disclosure. In addition, IAS 1, *Presentation of Financial Statements*, requires a company to separately disclose those sources of estimation uncertainty that have a significant risk of material adjustment within the next financial year. When viewed together, the IFRS requirement would be similar to the existing US GAAP disclosure for material uncertainties.**

- Total amount of interest and penalties expensed in the income statement and accrued in the balance sheet

**The IASB's proposal requires disclosure of the company's policy on classification of interest and penalties. However, it does not require disclosure of the amounts of interest and penalties. If material, disclosure may be required under IAS 1.**

## Next steps

The IASB's proposal was released on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and to provide the IASB with comments.

The FASB plans to issue an Invitation to Comment on the IASB's proposal to solicit input from US constituents as it considers its own convergence efforts. Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12. We encourage companies to consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.

## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about the IASB's proposal and other IFRS matters with their PwC engagement partner or with the authors of and contributors to this series.

This series of articles was authored by the following individuals:

Tami Van Tassell

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

David Beaver

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

Bill Maloney

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

Other contributors to the series include the following individuals:

Jennifer Spang

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

Brett Cohen

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

Tony de Bell

Phone: +44 20 7213 5336

Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

This document is provided by PricewaterhouseCoopers LLP for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, written tax advice under Circular 230 or professional advice of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult with a professional adviser who has been provided with all pertinent facts relevant to your particular situation. The information is provided 'as is' with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties or performance, merchantability, and fitness for a particular purpose.

# Income Tax Accounting under IFRS: A look ahead\*

This and that



## About this series

The IASB has proposed significantly changing the current IFRS standard on accounting for income tax. This is the ninth and final article in a series that explores how the proposed changes might impact companies. Each article focuses on a particular aspect of the IASB's proposal. The articles can be found at [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax).

## Background

So far, each article in this series has focused on a single provision in the IASB's proposal. This article wraps up the series by exploring a variety of the proposal's provisions.

## Distributed or undistributed rate

Certain jurisdictions base their tax rate for corporate income on whether that income is distributed to shareholders. The guidance in the IASB's proposal, IAS 12, *Income Taxes*, and US GAAP compares as follows:

### Proposal

---

Companies must measure current and deferred tax assets (DTAs) and deferred tax liabilities (DTLs) by using the rate that is expected to apply, incorporating past practices and expectations about future distributions.

---

### IAS 12

---

Companies must use the undistributed rate, without considering expectations about future distributions.

---

### US GAAP

---

Whether a company uses a distributed rate or an undistributed rate depends on the fact pattern. The EITF has provided multiple pieces of guidance on this matter. In jurisdictions where the distributed rate is lower, guidance generally requires use of the undistributed rate until the distribution occurs.<sup>1</sup>

---

The IASB's proposed guidance specifies that when a company considers future expectations in determining whether the distributed rate should apply, the company must have the intent and ability to make distributions for the period in which the DTA or DTL is expected to be realized or settled. In certain situations, a DTA may reverse into a deductible amount and increase a current year loss. When this occurs, the DTA will not provide a cash tax savings to the company until a future period when the net operating loss is used. It is unclear whether the IASB intended realization to refer to the period in which the DTA reverses or to the period in which it provides cash tax savings. If the company does not expect to make distributions, it should use the undistributed rate. Companies must disclose their estimates relating to future distributions and their effect on the tax rate used to measure DTAs and DTLs.

## Special deductions

A jurisdiction's tax law may allow companies to take certain "special deductions". While US GAAP does not define a special deduction, it does provide US tax law examples of what might be considered special deductions, such as statutory depletion and the deduction for qualified domestic production activities. Under FAS 109, *Accounting for Income Taxes*, the tax benefits of special deductions are not recognized until the year that the deductions can be taken on the tax return.

IAS 12 and the IASB's proposal do not provide guidance on special deductions. In the proposal, the IASB explains that global application of IFRS prohibits the IASB from listing specific special deductions. The IASB considered whether it was possible to establish a clear principle for determining (1) which deductions should be reflected in the rate used to measure DTAs and DTLs and (2) which deductions should not be anticipated (i.e., treated as special deductions, as in the existing US GAAP model). It concluded that comprehensive consideration of the matter would add significant time to the drafting of the proposal, and so it stayed silent on the topic.

The IASB acknowledged in its Basis for Conclusions that by remaining silent, companies may account for special deductions by using the treatment currently applied under US GAAP. It is not clear, however, whether a company that is currently preparing financial statements in accordance with IFRS and applying the US GAAP approach to special deductions is required to continue using that approach or whether they could change their accounting policy (e.g., accounting for the special deduction as a rate reduction).

<sup>1</sup> EITF Issue No. 95-10 *Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No. 109*

## Valuation allowance

The IASB's proposal requires a company to use a valuation allowance to reduce DTAs to the amount that it is more likely than not the company will realize. This approach requires companies to record DTAs in full (i.e., gross) and then reduce them by a valuation allowance, if necessary. A valuation allowance shall be allocated on a pro rata basis between current and non-current deferred tax assets by jurisdiction.

The IASB and the FASB have acknowledged that their two standards on accounting for income taxes were already "converged" with respect to recognizing DTAs, except regarding presentation (i.e., use of a valuation allowance versus recording DTAs on a net basis). The IASB noted that both standards include useful guidance on assessing the realizability of DTAs; therefore, the IASB has incorporated into its proposal much of FAS 109's description of when a valuation allowance might or might not be necessary. The IASB noted its expectation that the proposed change would have no impact on the net amounts recognized.

## Use of substantively enacted rates

### Proposal

---

Companies must measure DTAs and DTLs at tax rates that are expected to apply to the period in which either the asset is realized or the liability is settled, based on tax rates and laws that have been *substantively enacted* at the reporting date.

---

### IAS 12

---

The requirement to apply substantively enacted tax rates and laws is not a change from IAS 12.

---

### US GAAP

---

FAS 109 requires the use of *enacted* rates.

---

"Substantively enacted" would mean that future events required by the enactment process historically have not affected the outcome and are unlikely to do so. Thus, under the proposal, companies may need to apply new tax rates and laws earlier than under US GAAP. For example, a law enacted in the UK would be applied by companies following US GAAP when the monarch signs the law. The new rates would be applied by companies following IFRS when the law is passed by Parliament, before the monarch signs the law. The determination of when a law has been substantively enacted will vary by jurisdiction and requires knowledge of the legal process in each applicable jurisdiction.

In the United States, switching to a substantively enacted rate is not expected to be a substantive change, since enactment is considered to be substantive only when the US president approves the law. The IASB's proposal acknowledges this. Accordingly, we do not expect this guidance to have a significant effect for most companies.

## Certain foreign exchange amounts

FAS 109 has an exception prohibiting companies from recognizing deferred taxes for differences arising from either exchange rate movements or indexing for assets and liabilities that the company remeasures from the local currency into the functional currency using historical exchange rates. Neither IAS 12 nor the IASB's proposal has a similar exception.

Under the IASB's proposal, companies that operate in jurisdictions where the local currency is not the functional currency would have to record deferred taxes on exchange rate movements and tax basis changes from indexing for inflation. Recording those deferred taxes could cause volatility in the effective tax rate. Tracking such movements can be difficult. Companies currently applying US GAAP may therefore need to make system modifications to obtain the necessary information.

## Alternative minimum tax

Certain jurisdictions require that a company pay tax based upon the greater of the regular corporate income tax or a minimum amount. The minimum tax is designed to ensure that corporations do not avoid their fair share of tax by taking advantage of certain provisions in the tax law.

FAS 109 includes guidance on how to account for this minimum tax in the United States (i.e., the alternative minimum tax). Although the proposal incorporates only some of the FAS 109 language, the IASB noted that the proposal is meant to reflect the FAS 109 requirements.

FAS 109 specifies that in the US federal tax jurisdiction, the applicable rate is the regular tax rate. It also specifies that a DTA is recognized for alternative minimum tax credit carryforwards. Does the proposal's exclusion of this specific guidance mean that a company may apply the alternative minimum tax rate in calculating DTAs and DTLs instead of the regular tax rate? The proposal does not say.

## Next steps

The IASB released its proposal on March 31, 2009. The comment period ends on July 31, 2009. We encourage companies to consider the impact of the proposed accounting and provide the IASB with comments.

The FASB plans to issue an Invitation to Comment on the IASB's proposal to solicit input from US constituents as it considers its own convergence efforts. Upon completing its review, the FASB will decide whether and how to proceed with eliminating remaining differences between FAS 109 and IAS 12. We encourage companies to also consider the questions that the FASB will pose in its Invitation to Comment and to provide comments to the FASB.

## Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about the IASB's proposal and other IFRS matters with their PwC engagement partner or with the authors of and contributors to this series.

This series of articles was authored by the following individuals:

### Tami Van Tassell

Phone: +1 973 236 5049

Email: [tami.van.tassell@us.pwc.com](mailto:tami.van.tassell@us.pwc.com)

### David Beaver

Phone: +1 973 236 4350

Email: [david.a.beaver@us.pwc.com](mailto:david.a.beaver@us.pwc.com)

### Bill Maloney

Phone: +44 20 7804 9491

Email: [william.d.maloney@us.pwc.com](mailto:william.d.maloney@us.pwc.com)

Other contributors to the series include the following individuals:

### Jennifer Spang

Phone: +1 973 236 4757

Email: [jennifer.a.spang@us.pwc.com](mailto:jennifer.a.spang@us.pwc.com)

### Brett Cohen

Phone: +1 973 236 7201

Email: [brett.cohen@us.pwc.com](mailto:brett.cohen@us.pwc.com)

### Tony de Bell

Phone: +44 20 7213 5336

Email: [tony.m.debell@uk.pwc.com](mailto:tony.m.debell@uk.pwc.com)

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit [www.pwc.com/usifrs/tax](http://www.pwc.com/usifrs/tax) or [pwc.com/usifrs](http://pwc.com/usifrs) to view our comprehensive library of our IFRS thought leadership, webcasts and tools addressing the business and technical issues that companies should be considering in anticipation of the move from US GAAP to IFRS.

This document is provided by PricewaterhouseCoopers LLP for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, written tax advice under Circular 230 or professional advice of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult with a professional adviser who has been provided with all pertinent facts relevant to your particular situation. The information is provided 'as is' with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties or performance, merchantability, and fitness for a particular purpose.



