

IASB's proposed income tax standard:

The responses are in...

Background

In March 2009, the International Accounting Standards Board (IASB) issued an Exposure Draft proposing significant changes to the current international standard on accounting for income taxes, IAS 12, *Income Taxes*. The proposal would more closely align IFRS and US GAAP in some areas; however, some significant differences would remain. If adopted in its current form, the proposal could impact the tax accounting and reporting of many organizations worldwide.

The comment period for the IASB's Exposure Draft closed on July 31, 2009. The IASB received feedback from more than 160 constituents on its proposed income tax standard. Many expressed different views however, several common themes emerged. This article explores some of those common themes.

Is this the right direction?

The responses received by the IASB indicate that many question if the proposals in the Exposure Draft are a step in the right direction.

- Nearly half of the respondents do not support the IASB's proposal as the basis for a revised standard.
- Many expressed concerns that the proposal is not cost-beneficial as it would increase complexity without significantly improving financial reporting.
- A significant majority of respondents support convergence of IFRS and US GAAP, yet many do not believe the proposed changes to IAS 12 achieve that goal.
- Given the FASB's decision to suspend its deliberations on the income tax project, many believe that the IASB working alone cannot achieve convergence.

PwC observation: We share the same concerns as many respondents that certain of the IASB's proposals increase complexity without a significant improvement in financial reporting. We agree that the IASB should reconsider those proposals. However, we support the IASB's broader objectives for this project. Although the FASB has suspended its project, we believe that there is value to bringing the standards closer together where such a change improves the quality of financial reporting. We also agree with certain respondents that the IASB should consider a comprehensive review of the tax accounting model.

A closer look at some of the details

Although there were clear differences in the responses to the IASB's detailed questions, some overall themes emerged.

Uncertainty about uncertain tax positions

A significant majority of respondents did not agree with the IASB's proposal related to uncertain tax positions. Respondents found the proposed probability weighted average model too complex and without a perceived improvement in financial reporting. A large number of respondents who disagreed said that a "best estimate" is preferable. Some respondents indicated that the IASB's position on income taxes should be consistent with the guidance on provisions being developed as part of the current project on IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

IASB's proposed income tax standard

Not sold on sale basis

Respondents generally did not agree with the IASB's proposal to use a sale assumption when identifying the tax basis. Instead, these respondents believe management's intent and expectations should be used in the determination of the tax basis. This would be consistent with current IAS 12. Further, several respondents said that the use of a sale assumption is inconsistent with a going concern assumption.

I'd prefer to backward-trace

A majority of respondents said the IASB should retain the IAS 12 backward-tracing approach for allocating income taxes. In general, these respondents believe that the IASB's proposal, which is based upon the US GAAP model, is overly complex and does not improve financial reporting.

Domestic investments can be complex too

Respondents generally did not agree with the IASB's proposal to limit the exception for recording deferred taxes related to investments in subsidiaries to foreign entities. In general, these respondents believe there is not a significant difference in complexity between foreign and domestic subsidiaries. They suggest the proposed exception include both foreign and domestic entities.

Agree with eliminating the exception, *but...*

Nearly half of the respondents did not agree with the IASB's proposal on accounting for the initial recognition of temporary differences that arise when an asset is acquired outside a business combination. While many respondents support elimination of the existing exception in IAS 12, they believe that the IASB's proposal is too complex. A number of respondents suggested that the proposed accounting would, in many instances, be similar to the results under current IAS 12, and, therefore, recommend retaining the provisions of IAS 12.

Where to go for more

The written responses to the IASB (including PwC's response) can be viewed on the IASB's website (<http://www.iasb.org/Current+Projects/IASB+Projects/Income+Taxes/Exposure+Draft+and+Comment+Letters/Comment+Letters/Comment+Letters.htm>). In addition, PwC has published a series of articles addressing the key provisions of the IASB's Exposure Draft on Income Taxes. These articles can be found at www.pwc.com/usifrs/tax.

What next?

The IASB's proposal indicates that it expects to issue a revised standard in 2010. The FASB previously planned to solicit input from US constituents through an "Invitation to Comment" on the IASB's proposed standard. However, the FASB no longer intends to issue such a document. At this time, we do not know how the responses and the FASB's decision will impact the IASB's path forward. The IASB could decide to proceed with the project as planned, remove the project from its agenda or make certain amendments to IAS 12 rather than replace the standard in its entirety.

We believe US companies should remain engaged with the IASB's proposal. If adopted in its current form, it would have a significant impact on US companies that currently report under IFRS. Moreover, the proposal would have a much broader impact on US companies upon the conversion to IFRS in the US.

Contacts

Clients of PricewaterhouseCoopers are encouraged to open a dialogue about the IASB Exposure Draft with their PwC engagement partner or with the authors of this summary:

David Beaver

Senior Manager

Phone: +1 973 236 4350

Email: david.a.beaver@us.pwc.com

Jennifer Spang

Partner

Phone: +1 973 236 4757

Email: jennifer.a.spang@us.pwc.com

Brett Cohen

Partner

Phone: +1 973 236 7201

Email: brett.cohen@us.pwc.com

Garth Leggett

Manager

Phone: +1 973 236 5585

Email: garth.s.leggett@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 to view our comprehensive library of tax 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.

For our complete list of US IFRS publications and webcasts, please visit www.pwc.com/usifrs.

PwC's US IFRS leadership team

John Barry

US IFRS Leader

Phone: +1 646 471 7476

Email: john.j.barry@us.pwc.com

Ken Kuykendall

US IFRS Tax Leader

Phone: +1 312 298 2546

Email: o.k.kuykendall@us.pwc.com

Terri McClements

US IFRS Advisory Leader

Phone: +1 703 918 3174

Email: terri.mcclements@us.pwc.com