

Global Tax Accounting Services Tax Management and Accounting Services

*Focusing on tax
accounting issues affecting
businesses today.*

*Global Tax Accounting
Services newsletter
April – June 2012.*

Dear Readers

The Global Tax Accounting Services newsletter is a quarterly publication from PwC's Global Tax Accounting Services Group and highlights issues that may be of interest to tax executives, finance directors and financial controllers.

In this release, we discuss a recent update to the financial accounting convergence projects and other accounting and reporting developments along with the related tax accounting considerations. We also draw your attention to some significant tax law and tax rate changes during the quarter ended 30 June 2012 and some important tax accounting issues to consider.

For questions related to items discussed in this newsletter, for a comprehensive discussion of tax accounting issues affecting businesses today, or for general tax accounting questions, please contact your local PwC team member or the Tax Accounting Services network member listed at the end of this document.

Readers should not rely on the information contained within this newsletter without seeking professional advice. For a comprehensive list of developments, please consult with your local PwC representative.

Ken Kuykendall
Global Tax Accounting Services Leader
+1 (312) 298 2546
o.k.kuykendall@us.pwc.com

Andrew Wiggins
Global Tax Accounting Services
Knowledge Management Leader
+44 (0) 121 232 2065
andrew.wiggins@uk.pwc.com



Contents

Accounting and reporting related updates	4
IASB and FASB project on leasing	4
Levies charged by public authorities	5
Statutory accounts in the EU	5
Financial reporting of income tax	6
Recent and upcoming major tax law changes and the tax accounting implications	7
Some tax rate changes	7
Important considerations in tax law changes	7
Tax Account refresher	9
Backwards Tracing	9
Update on tax loss utilisation limitation	10
PwC tax accounting resources	11
Subscription to the Global TAS Newsletter	11
Contacts	12

Accounting and reporting related updates

This section offers insight into the most recent developments in accounting standards, financial reporting and related matters along with the tax accounting implications.

IASB and FASB project on leasing

In our January to March 2012 newsletter we gave an update on the most recent discussions between the International Accounting Standards Board ('IASB') and the Financial Accounting Standards Board ('FASB') on the ongoing joint project on accounting for leases. In particular we noted that further consultation was being undertaken to allow the Boards to better understand the operation of the proposed approaches for accounting for the lessee right-of-use asset in practice.

In June 2012, the Boards met to discuss the concerns over these proposed approaches. These concerns centred on the frontloading expense profile associated with the effective interest method proposed in the 2010 exposure draft to be applied to the finance element of the lease charge. They were raised by the retail and entertainment industries, among others, where there are typically a large proportion of short-term property leases.

To address this issue, the Boards have tentatively decided that a distinction be made between two different categories of leases depending on how much of the value of the asset will be consumed over the lease term. If a significant portion of the asset's value will be consumed over the lease term, then the previously proposed effective interest method of accounting would be applied, resulting in the front-loading expense profile similar to existing finance lease accounting. However when a significant portion of the asset's

value is not consumed over the course of the lease, a straight-line approach will be followed which would result in a more even expense profile for shorter leases, similar to operating lease accounting. Both types of lease would be capitalised on the balance sheet with a corresponding liability, but the income statement expense profile of the latter category would be similar to the existing operating lease accounting.

The Boards have also tentatively decided that, for leases of property, which mainly comprises land and buildings, there will be a rebuttable presumption that the straight-line expense recognition will be followed unless the lease term is for a major part of the life of the asset or the lease payments account for substantially all of the fair value of the asset. This is because it is viewed that many leases of land and buildings are for a relatively short period compared to the overall life of the asset. This may address the concerns raised by the retail and entertainment industries.

Conversely, for leases of assets other than property, primarily plant and machinery, there will be a rebuttable presumption that a significant portion of the value of the asset will be consumed over the lease term such that the front-loading, effective interest method will be used, unless it can be demonstrated that this presumption is not valid.

The next stage is likely to be a revised exposure draft, potentially by the end of 2012, which may include further guidance.

For tax purposes, in countries where tax returns are based on financial statements prepared under IFRS or US GAAP, this change could result in a material deferral in the timing of any current tax relief claimed on short term lease expenses compared to what may have been expected based on the previous proposals. Where tax returns are based on other accounting principles, there could be a material increase in deferred tax assets related to such leases. However there may be no change to a lessee's tax profile compared to the current position if the new proposals result in an expense profile which is consistent with current accounting.

We also note that there is still uncertainty over the deferred tax accounting under IFRS where both a right-of-use asset and a liability for future lease payments are recorded on the balance sheet at the same time. In particular, it is unclear whether the Initial Recognition Exception ('IRE') applies to both the asset and the liability. This situation would become considerably more common under the new proposals as those leases which are currently accounted for as operating leases would be brought onto the balance sheet. We anticipate that this will need to be clarified as part of the final proposals.

We will continue to monitor this and other developments in this project and provide further updates as matters progress. For more information on the joint leasing project, please refer to PwC's Straight away IFRS bulletins available at www.pwcinform.pwc.com. Straight away 87 published in June 2012 provides more detail on the June meeting.

Levies charged by public authorities

In recent years there have been a number of examples of governments introducing new ways of raising income compared to the traditional corporate taxes which companies are generally required to pay on profits. Typically these new levies are charged by public authorities on entities that operate in specific geographical or business markets.

The IFRS Interpretations Committee was recently asked to consider how the payment of such levies, other than income taxes, would be accounted for. Specifically they were asked to provide guidance on when the related liability should be recognised. For example, a levy on banks in the UK is calculated based on an entity's qualifying capital and borrowings at 31 December of any given year. The question therefore arose as to whether the expense and the liability should be accrued throughout the year based on the expected assets and liabilities at 31 December, or should be recorded discreetly on that date.

On 31 May 2012, the Interpretations Committee published proposed guidance on this area which clarifies that the obligating event that gives rise to a liability to pay a levy is the activity which gives rise to it, as identified by legislation. As regards the UK bank levy, the obligating event is the operation of the bank in the market on 31 December. As a bank could operate for part of the year and withdraw from the market before 31 December, it is possible that it could have no liability despite having been in operation for part of the year. It therefore follows that it would not be appropriate to accrue the levy before that date as it is possible for a bank to avoid payment. The proposed guidance confirms the appropriateness of this approach, even if there may be other factors preventing the bank from withdrawing from the market.

We note that other levies may be triggered by different conditions giving rise to different accounting. For example the charge for the current period may be made based on certain accounting figures reported in the previous year. In this situation, the triggering event may be the operation of the entity on the first or second day of the current period with the entire expense and liability being recorded on that date. The new proposed guidance can therefore give a different accounting answer depending on the facts and circumstances.

The comment period for the proposed IFRS guidance is open until September 2012. If the interpretation is issued in final form by the end of 2012, it could be effective from 2014.

We note that, under US GAAP, when such levies are charged by the US government they are often the subject of an Emerging Issues Task Force ('EITF') consultation. For example, a levy was introduced in recent years for companies in the US pharmaceutical industry which is payable when their revenue exceeds a certain threshold. Although the levy may be payable in January, the EITF guidance confirmed that the expense can be spread throughout the year. This area could give rise to GAAP differences between US GAAP and IFRS which may not have been considered previously.

There is currently no EITF guidance expected in respect of the bank levies discussed here however we will monitor the situation and provide updates as relevant in future editions of the newsletter.

Lastly, affected companies should also consider the related corporation tax accounting impact of this guidance, in particular as it may impact the timing of any related current, deferred or effective tax rate impact. For more information, please refer to PwC's Straight away bulletin 85 published in June 2012 and available at www.pwcinform.pwc.com.

Statutory accounts in the EU

The Fourth Directive of the European Union Council deals with various matters concerning the annual accounts and reports of limited liability companies. Article 57 of this Directive allows Member States the option of permitting certain group subsidiaries not to follow the Council requirements in Article 4 in respect of the content, auditing and publication of the annual accounts of dependent companies, subject to certain conditions. The main conditions are that the 'dominant' company of the group must be subject to the laws of a Member State, that that company must have publicly declared that it guarantees the commitments entered into by the relevant dependent subsidiary and that the annual accounts of the dependent subsidiary must be consolidated into the group's annual accounts.

The European Commission encourages full use of this Article, especially when the subsidiaries are small or medium sized. In the continued pursuit of simplification and reduction of the administrative burden for such companies, many Member States apply these exemptions for small and medium sized entities. However the Netherlands, Germany and Ireland have also applied some or all of these provisions in local law for subsidiaries which are not small or medium sized for many years. Specifically, the Netherlands permits abbreviated accounts for qualifying subsidiaries, Ireland permits qualifying subsidiaries exemption from filing accounts and Germany exempts qualifying subsidiaries from preparation, auditing and filing of both the annual accounts and the annual report.

In October 2011, the UK Department for Business Innovation & Skills ('BIS') also issued a consultation on proposals which included the exemption of all UK subsidiaries which meet the conditions set out in Article 57 from



audit requirements. The comment period ended on 29 December 2011 and a response is currently awaited from BIS in light of the responses received. We will monitor developments in the UK and any other countries considering reform in respect of subsidiary accounts and audits, and provide any relevant updates as they occur.

Financial reporting of income tax

In our October to December 2011 newsletter, we noted that the UK Accounting Standards Board ('the ASB') of the Financial Reporting Council ('FRC') and the European Financial Reporting Advisory Group ('EFRAG') published a paper in December 2011 in order to solicit views from constituent groups on how the financial reporting of income tax could be improved. The discussion paper closed for comment on 29 June 2012 and PwC issued a response on this date. However the topic has also continued to generate discussions in the intervening period.

As discussed in a recent Financial Reporting Blog published by the UK firm on 29 May 2012, the financial crisis and concern about whether large companies are paying enough tax have both contributed to the continued focus on this issue. Tax is no longer an internal company matter but has become a key driver of corporate reputation and a focus of stakeholders from employees to investors. This increased interest has been accompanied by a number of new proposals for increased and more transparent financial reporting of income tax. Some of these proposals are still being considered and debated and, if introduced, could significantly increase companies' tax disclosure requirements.

In addition to the broad December 2011 proposals in Europe, both the US and the EU have also focused specifically on the extractive industry. In 2010, the US passed the Dodd-Frank Wall Street Reform and Consumer Protection Act which requires SEC registered extractive companies to report on all payments made to both domestic and foreign governments. In 2011, the EU also issued a proposal for an amendment to the existing Transparency Directive to increase tax reporting in this industry.

The ongoing debate could be seen to seek improvement in two main areas of tax reporting: increased disclosure of cash taxes and greater economic relevance of the overall tax charge. Key components of the latter are whether discounting should be applied to tax, whether the deferred tax accounting model could be improved and what additional disclosure requirements may be usefully introduced, particularly around one-off or unusual items impacting the tax charge as well as any future developments expected to be relevant to tax. This is consistent with feedback from investors who have indicated that the four key areas of tax reporting where they would like additional information are: cash tax, deferred tax reversal and impact, the tax rate reconciliation and the tax expense on unusual items.

This information is key to investors as their primary focus is on assessing the potential value of a company. This value is often based on projections of future earnings and profitability, as well as the sustainability of those metrics. The Corporate Reporting Users Forum ('CRUF'), an independent discussion forum to help investors and analysts, indicated in their November 2011

'Meet the Experts' presentation that, where tax is a material component of the financial statements, it is important that investors are able to understand any future developments that are expected to impact the reported tax position. Geographical breakdowns and a reconciliation of the tax rate to the geographical weighted average rate rather than the headline rate of the parent company is also indicated as being helpful.

Of course, the benefit of some increased disclosure requirements will need to be weighed against the increased judgement that may be required of management to produce them. In some cases the increased uncertainty may be viewed as rendering the information less reliable.

One thing is clear: the debate and focus on the quality and usefulness of tax reporting does not show any signs of abating. Quality tax reporting is only likely to increase in importance as a factor which sets a company apart in the eyes of stakeholders.

For more information on this topic, please see PwC's two Point of View publications setting forth PwC's perspective on the need for a fresh and comprehensive review of the financial reporting of income tax. The US publication can be accessed via www.pwc.com/us/tas and the global publication can be accessed via www.pwc.com/ifrs.

Recent and upcoming major tax law changes and the tax accounting implications

This section focuses on major changes with tax accounting implications that may be of interest and related discussion around how they should be accounted for. It is intended to increase readers' awareness of the main global tax law changes during the quarter, but does not offer a comprehensive list for all countries.

Some tax rate changes

Country	Prior Rate	New Rate
Brazil (Foreign Exchange transactions) for payment terms between 2 & 5 years	6%	0% ¹
Chile (first category corporate rate)	18.5%	20% ²
Chile (chargeable gains on indirect sales)	0%	35% ³
Sweden (corporate income tax rate)	26.3%	25.3% ⁴

1. Effective date: The effective date is 14 June 2012. This represents a change in the rate applicable only to loans with payment terms between 2 & 5 years. See detail above under Brazil.

2. Effective date: This change is not yet enacted. If enacted, the increase would be effective from 1 January 2012.

3. Effective date: This change is not yet enacted. If enacted, the increase would be effective from 1 September 2012.

4. Effective date: This change is not yet enacted. If enacted, the increase would be effective from 1 January 2013. However the proposal is dependent on the development of the Swedish economy and the recently proposed interest deduction rules.

Important considerations in tax law changes

Austria

- In June 2012, the following changes were proposed to the Austrian income tax law:
 - Firstly, from January 2013, tax assessments in respect of statute-barred periods would be able to be adjusted going back to the year in which the error originated, but no earlier than 2003.
 - Also from January 2013, donations would be eligible for tax relief as operating expenses up to 10% of the taxable result. Currently the maximum relief is calculated based on the previous fiscal year's taxable result.
 - Where a foreign subsidiary of an Austrian parent company has low taxed income earned primarily from interest or royalties (and thus is not eligible for the participation exemption), it would no longer be able to avoid taxation of the earnings at 25% on distribution via retention of the profits and a subsequent merger with a sister company. Previously this rule only caught mergers with the parent company.

Brazil

- In April 2012, the Brazilian Government issued Provisional Measure ('PM') 563 introducing significant changes to the existing Brazilian transfer pricing regulations. If approved, the PM will be effective for transactions entered into from 2013 but can be early adopted from December 2012. It currently has the effect of a law while it is being analysed by the Brazilian Congress. Final approval or rejection will take place within a maximum of 120 days. Although it has the effect of law, this measure is not enacted for US GAAP purposes. It is, however, substantively enacted for IFRS.
- In June 2012, Decree 7,751/ 2012 was published confirming that the 6% Brazilian Tax on Foreign Exchange Transactions ('IOF'), shall only apply to inbound loan funds subject to registration with the Brazilian Central Bank with an average payment term of less than 720 days (2 years). Such loans with a payment term in excess of this time are subject to a rate of 0%. Previously the 6% rate applied to such loans with an average payment term of less than 1,800 days (5 years), so this amendment reduces the number of loans on which the 6% tax will need to be paid.

Chile

- The Chilean government submitted a significant tax reform bill in April 2012 with proposals to amend several components of the Income Tax Bill and other legislation. In addition to the proposed tax rate changes included in the table, the other key proposals are as set out here:
 - Changes were announced which would ensure consistency in the tax treatment of Limited Liability Companies ('LLCs') and Stock Corporations ('SAs') as regards distributions, disallowable expenses, determination of tax cost basis and taxation of chargeable gains.

- OECD based transfer pricing methods would be introduced, as well as Advanced Pricing Agreements ('APAs').
- For amortisation purposes, goodwill would be proportionately allocated among the non-monetary assets of the target, capped at the fair market value of the assets. Any difference would be treated as a deferred expense, deductible on a straight-line basis over 10 years.
- Permanent establishments would be subject to tax on their worldwide income, subject to the availability of unilateral and bilateral tax credit provisions.
- There would be changes to the calculation of the tax equity and related party debt concepts in the context of the thin capitalisation rules.
- Tax credits would be eligible for carry-forward even if the company were in a loss-making position.
- Provisional withholding tax calculations would be able to be prepared on a net basis rather than a gross basis as is currently the case.

Czech Republic

- In April 2012, the Czech Republic introduced proposals for investment incentives for technology and strategic service centres. The proposals are expected to be enacted in the near future.

Finland

- Finland proposed thin capitalisation rules in April 2012 which are expected to be enacted at the end of 2012, to be effective from 1 January 2013. Under the proposals, relief for interest to related parties would be restricted to 30% of taxable earnings before interest, tax, depreciation and amortisation ('EBITDA'), unless the annual interest expense is less than EUR 500,000. The restriction would be applied on a company by company basis, with any excess interest eligible for carry forward.

Germany

- In June 2012, the German Annual Tax Law 2013 was issued proposing various changes to the tax law. The major proposals with a tax accounting impact are set out here:
 - Dividend income from shareholdings of less than 10% would be subject to corporation tax in full. This change would be effective for fiscal years starting after 31 December 2011.
 - Gains on disposals of shareholdings of less than 10% would be subject to corporation and trade tax in full. This change would also be effective for fiscal years starting after 31 December 2011.
 - Dividend income would no longer be exempt from tax if the payment is treated as a business expense in the payor foreign subsidiary.
 - Lastly, in the case of mergers, income of the merged entity which arose in a retroactive period cannot be used to utilise losses of the receiving entity in the merger.

Israel

- In May 2012, the Israeli District Court in Tel-Aviv ruled that a company established under the rules of a foreign jurisdiction can be considered an Israeli tax resident by virtue of the place of its management and control. The court emphasised the importance of examining the day-to-day management of the company's activities and concluded that such a company is resident for Israeli tax purposes where it determines material business policy and makes strategic business decisions.

Netherlands

- On June 4 2012, draft legislation was published by the Dutch parliament aimed at restricting relief for interest expenses on debt used to finance qualifying participations. The draft legislation prevents relief for such interest expenses that relate to 'excessive' debt and provides a specific formula to be used to calculate this excessive amount. There will, however, be a threshold of EUR1m, with any interest below this amount on participation debt attracting tax relief unless restricted by any other provisions. It is envisaged that the new measure will apply to fiscal years starting on or after 1 January 2013, with no grandfathering provisions.

Spain

- On 12 May 2012, Spain enacted a 50% exemption for chargeable gains or income arising on the transfer of urban property between the date of enactment and 31 December 2012. It applies to both corporate and non-resident tax provided that, for the latter, the gains have not been derived through a permanent establishment in Spain. There are various conditions to be satisfied and clarification was also provided in respect of the interaction with other provisions of the tax law.

Ukraine

- On 22 June 2012, the Ukraine enacted a change to the Tax Code specifying that, from 1 July 2012, only 25% of tax losses accumulated up to 1 January 2012 will be eligible to be utilised per annum between 2012 and 2015. Any losses unused at the end of 2015 will not be eligible for carry-forward to future periods.

Tax Account refresher

Constantly changing tax laws present a barrier to efficient tax management on a global scale, particularly when the related tax accounting considerations must be addressed in the reporting period of enactment or substantive enactment.

Backwards Tracing

The issue

A particular area that needs to be considered when accounting for tax law changes is where in the financial statements the impact of the change should be recorded. For example, should the impact be reflected in the income statement (and if so, in which component of the income statement), or in other comprehensive income ('OCI') or in equity?

This issue has long been the subject of debate and review by the IASB and the FASB with the key challenge being how to strike a balance between simplicity and an equitable and appropriate tax result. To date, the FASB and the IASB have held different views in this area resulting in a different approach prescribed in IAS 12 compared to ASC 740.

IFRS

IAS 12 requires an entity to account for the tax consequences of transactions and events in the same way it accounts for the transactions and events themselves. Therefore, for transactions and events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside of profit or loss (either in OCI or directly in equity), any related tax effects are recognised in the same statement.

The main difference between IFRS and US GAAP is that IFRS extends this

principle to require backwards tracing. Thus, even where the tax impact is recorded in a different period to the pre-tax item, the tax impact must still be recorded in the statement in which the pre-tax item was recorded. Similarly any subsequent changes to a company's previously reported tax position must be recorded in the same statement in which the tax charge or credit was originally booked. This is particularly common for items such as stock-based compensation or retirement benefits where some portion of the tax charge or credit is booked to OCI or equity. It also often needs to be addressed where a change in tax rate results in a material adjustment to the carrying value of a deferred tax asset or liability.

While the IFRS approach helps ensure that the reported tax position is proportionate and usually gives a result which appropriately reflects the economic position, it can be very complex for companies to apply in practice. Where material adjustments to different statements are required, usually the most effective way for this to be calculated is for detailed scheduling to be undertaken by category of current or deferred tax as far back as is practicable so that any material items outside of the income statement which may need to be adjusted for can be identified. If possible, it is usually most effective if companies can do this detailed scheduling on proactive basis in anticipation of any future changes so that the information does not need to be recreated retrospectively when a tax law change occurs. This is particularly

relevant for deferred tax items as it is often deferred tax which is most significantly impacted by changes in tax laws or rates. For example, tax related to defined benefit retirement plans often presents significant complexity, largely due to the underlying accounting and the long periods over which balances can accumulate. There are usually a number of components making up the balance sheet surplus or deficit and the annual accounting charge or benefit which must be recorded in the financial statements based on strict allocation rules. As the tax allocation is closely linked to the accounting allocation, extensive tracking of both elements is particularly important.

However where detailed tracking has not been done or it is too complex to determine the amount of deferred tax relating to items recognised outside of profit or loss, IAS 12 permits the attributable tax to be calculated on a reasonable pro-rata basis, or another basis that is more appropriate in the circumstances. For example, an entity may not initially meet the criteria to recognise a potential deferred tax asset of \$5m, of which \$3m relates to items recorded in the income statement and \$2m relates to items recorded in OCI. In a subsequent period, it may be determined that it is now probable that sufficient taxable profits will be available to support recognition of \$3m of the deferred tax asset. In this situation, it would be reasonable under IFRS for \$1.8m (3/5 of \$3m) to be recorded in the income statement and \$1.2m (2/5 of \$3m) to be recorded in OCI.

US GAAP

Conversely, ASC 740 reflects a concept sometimes referred to as the primacy of continuing operations. This is reflected in the with-or-without or incremental approach to allocating current and deferred tax which broadly prescribes that the total tax expense be allocated first to continuing operations within the income statement and only afterward to other financial statement components.

While in many cases this approach results in a similar position under US GAAP and IFRS for current year items, there is usually a difference when adjustments are required to tax booked in prior periods or when tax is booked in the current period in respect of pre-tax income booked in prior periods. This is because US GAAP prohibits backwards tracing. Thus in the majority of cases, any tax impact of a change in tax legislation will be reported in the income statement within continuing operations. Although there are specific exceptions to this rule set out in US GAAP, the majority of these are not likely to be relevant to adjustments required due to changes in tax law.

However specific consideration may need to be given to situations involving source-of-loss items where the initial recognition of certain tax benefits is classified on the basis of the source of the loss that generates them rather than on the basis of the source of income that utilises, or is expected to utilise them. For example, if a change in tax legislation results in the recognition of a deferred tax asset against which a valuation allowance had previously been recorded, it may be necessary to trace back to where the pre-tax item was recorded that gave rise to the tax loss and record the release of the valuation allowance in the same financial statement component. However the specific guidance should be consulted if this situation may be relevant to your tax position.

While the US GAAP approach may be seen to be simpler than that prescribed by IFRS, some people believe it can result in tax charges that are inequitable or do not reflect the economics of a situation or transaction. For example, there have been cases where significant tax benefits have been reflected in equity or OCI but have been required to be reversed through the income statement on a subsequent change in tax law. It is also acknowledged that tax can become 'trapped' in OCI when it must originate through OCI but is not subsequently reversed out.

Currently there are no firm plans to converge IFRS and US GAAP in this area. Therefore, at least in the short term, it is likely that there will be differences between US GAAP and IFRS around where in the financial statements retrospective changes in tax law are accounted for.

Update on tax loss utilisation limitation

Also in our October to December 2011 newsletter, we discussed the developing trend of governments introducing tax legislation to limit the availability of brought forward tax losses to shelter future trading income. These rules tend to limit the amount of tax losses that can be used in any future period to a fixed percentage of that period's taxable income.

As noted previously, where a company is in an extended loss-making position and is expected to be loss-making going forward, taxable temporary differences under consideration to support the recognition of a deferred tax asset derived from brought forward losses should be limited to the same percentage as is applied in the tax loss limitation. Recently we have seen situations where this legislation creates complications as companies assess the appropriateness of deferred tax asset recognition. In response to this situation, companies are focusing more time on deferred tax asset recognition analysis through detailed scheduling of the expected reversal of temporary differences, to determine whether they may have to record or increase a deferred tax liability.

For example, assume a company generates operating tax losses of 1,200 against which, absent any other supporting factors, it would expect to record a full valuation allowance under US GAAP, or record no deferred tax asset under IFRS. However the company also has 1,000 of taxable temporary differences which are expected to reverse in corresponding periods to the losses. Ignoring any restriction on the

potential utilisation of the tax losses, the company would have a net deductible temporary difference of 200. However, as noted, the company does not expect to recover this deductible temporary difference so does not recognise the related deferred tax asset (IFRS) or records a valuation allowance of 200 (US GAAP). Overall there is no deferred tax impact.

If we now assume that the losses are subject to a loss limitation restriction of 50%, the company is now in a position where it can only use 500 of its 1,000 taxable temporary differences to support the recognition of a deferred tax asset in respect of its losses. A deferred tax asset can therefore only be recognized in respect of 500 of the losses. However a deferred tax liability would still need to be recorded in respect of the full 1,000 of taxable temporary differences (before considering the ability to offset the 500 deductible temporary differences). There is therefore now a net taxable temporary difference of 500 (1,000 of taxable temporary differences less 500 of losses) on which a deferred tax liability needs to be recognised. Under US GAAP, this is achieved via a 500 increase in the valuation allowance from 200 to 700 to reflect the fact that an additional 500 of losses no longer meets the recognition criteria. The result of the loss limitation legislation is therefore that a deferred tax charge now arises, even though the company is in a cumulative loss position. Going forward, the period over which the deferred tax asset will reverse, and so for which forecast scheduling is required, will likely be longer.

Companies should be aware of the potential unexpected consequences of this legislative trend and consider additional analysis of the recognition of its deferred tax assets. Internal and external stakeholder communication is also important as the accounting complexities and unexpected consequences of this tax legislation will require additional explanation to all affected parties.

PwC tax accounting resources

Subscription to the Global TAS Newsletter

PwC Subscription Management System

We are pleased to announce that the Global Tax Accounting Services Newsletter is now being distributed automatically via the PwC Subscription Management System. This allows you to sign up to receive the Newsletter emailed directly to your in-box each quarter. Instructions for registering are set out below.

New users

If you are not an existing user of the PwC Subscription Management System, you will need to have a profile created before you can sign up to the Global Tax Accounting Services Newsletter. You can either ask your PwC contact to do this for you or you can do this directly on the website. If you wish to do this yourself, type the following address into your web browser: <http://www.publications.pwc.com>, enter your email address in the space provided and click 'Submit'. Then click 'OK' when asked if you would like to create a new profile. All the information marked by a red asterisk needs to be completed.

Once this is done, click 'Submit' and then follow the instructions set out for existing users to subscribe to the Global Tax Accounting Services Newsletter.

Existing users

If you already have a profile set up in the PwC Subscription Management System, you can access this by using the 'Subscriber Profile' link provided in each email you receive from PwC Publications. Alternatively type the following address into your web browser: <http://www.publications.pwc.com> and follow the prompts to have a secure link to your profile emailed to you. To add the Newsletter to your subscription list, select the 'Click for Subscription(s)' tab, then choose 'Available publications' from the left hand menu and select 'Tax Accounting Insights' under the category 'General Tax'. You will see that there are two sub-topics available for this publication selection - 'Global' and 'United States'. If no topics are selected, you will receive all Tax Accounting Insight publications, both globally focused (initially this will just be the Global Tax Accounting Services Newsletter) and US focused. If you wish to receive only global publications, please ensure that only the 'Global' box is ticked and that the 'United States' box is left un-ticked.

Please note that there are several US focused publications already distributed to the Tax Accounting Insights publication group. Please bear this in mind when deciding whether to subscribe to both the US and Global groups or just the Global group. You can, however, change your subscription preferences at any time.

If you have any queries about this process or require any assistance, please speak to your usual PwC contact.

Contacts

For more information on the topics discussed in this newsletter or for other tax accounting questions, including how to obtain copies of the PwC publications referenced, contact your local PwC engagement team or your Tax Accounting Services network member listed below.

Chicago – US

Ken Kuykendall

Global, US & Americas Tax Accounting
Services Leader
+1 (312) 298 2546
o.k.kuykendall@us.pwc.com

Shanghai – China

Terry SY Tam

Asia Pacific Tax Accounting
Services Leader
+86 (21) 2323 1555
terry.sy.tam@cn.pwc.com

Birmingham – UK

Andrew Wiggins

Global Tax Accounting Services
Knowledge Management Leader
+44 (0) 121 232 2065
andrew.wiggins@uk.pwc.com

Miami – US

Rafael Garcia

Latin America Tax Accounting
Services Leader
+1 (305) 375 6237
rafael.h.garcia@us.pwc.com

Brussels – Belgium

Janet Anderson

EMEA Tax Accounting Services Leader
+32 (2) 710 4323
janet.anderson@be.pwc.com

www.pwc.com

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2012 PwC. All rights reserved. Not for further distribution without the permission of PwC. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.

Design Services 27839 (07/12).