

Newsalert

Global Tax Accounting Services Insights

Tax Management & Accounting Services

18 March 2010

PwC's global Tax Accounting Services (TAS) network

Our TAS team, part of our broader Tax Management & Accounting Services (TMAS) practice, is comprised of dedicated technical specialists around the globe who provide assistance, and direct best practice approaches related to a range of tax accounting issues including:

- Tax provision outsourcing and support
- Accounting for uncertain tax positions assessments and technical support
- IFRS conversion modelling to determine the tax impact of moving to IFRS and the potential tax accounting issues that must be addressed
- Other specialised tax accounting services, including deferred tax analyses and tax basis balance sheet assistance
- Tax accounting technical assistance and support, including training and knowledge sharing around developments impacting your business

Income Tax Accounting under IFRS - what is the status of the IASB's income tax project?

Pursuant to its objectives of clarifying and improving IAS 12 *Income Taxes* and of reducing the difference between IAS 12 and the US Standard ASC 740 *Incomes Taxes (formerly FAS 109)*, the IASB published an Exposure Draft (ED) to replace the existing standard on 31 March 2009.

The proposals included in the ED more closely aligned IFRS and US GAAP and attempted to address some of the practical issues with the existing standard. Although the ED did not change the basic principles of tax accounting (i.e., balance sheet liability model), it proposed some significant changes to IAS 12 (for more information, please refer to our series of articles exploring the key changes released from April to June 2009 and available at www.pwc.com/usifrs/tax - *IFRS tax publications section*).

The comment period ended on 31 July 2009. Respondents generally supported the two above mentioned objectives of the project. However, most of them considered that the ED failed to achieve these objectives and viewed many of the proposed changes in the ED not as improvements, but as an introduction of more complex rules. Overall, there was only very limited support for finalising the ED in its current form.

Subsequent to the presentation of the comment letters by the IASB staff to the IASB Board in the October meeting with the FASB, both boards indicated that they would consider undertaking a fundamental review of accounting for income taxes at some time in the future. In the meantime, the IASB board asked the staff to undertake a limited scope project analyzing the practical issues including:

- Issues previously rejected by the IFRIC because they would be resolved by the Board's income tax project
- Particular practical concerns in practice raised by respondents (for more information, please refer to Staff Paper 8 - Income Tax project - Appendix B - *List of practical issues on income tax* issued in November 2009)
- Amendments supported within the ED by respondents

The IASB staff has conducted this analysis and will be presenting their proposals on the way forward for IAS 12 to the Board on 18 March.

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The FASB has suspended its deliberations on the Income Taxes project and, together with the IASB, will consider undertaking a fundamental review of accounting for income taxes at some time in the future (consequently, there is no plan to issue amendments to ASC 740 *Income Taxes* at present).

Recent developments

One of the areas of focus highlighted by the IASB staff paper presented to the Board in the October joint meeting with the FASB relates to uncertain tax positions. This was one of the convergence issues that respondents on the ED on Income Taxes suggested that the Board reconsider. The IASB staff have commented that having no specific requirements on uncertain tax positions is a substantial gap in IAS 12 that should be filled. However, they have recommended that this issue not be addressed until the amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are finalised. This will allow the recognition and measurement requirements for uncertain tax positions in the scope of IAS 12 to be consistent with the general requirements for uncertain liabilities included in IAS 37.

The IASB published a limited Exposure Draft of proposed amendments to IAS 37 on 5 January 2010 (please refer to our IFRS bulletin released in January 2010, summarizing the proposals and available at www.pwc.com/ifrs - *publications section - Straight Away*). The IASB originally published an Exposure Draft to replace IAS 37 in June 2005. In the light of comments received on this ED and subsequent discussions, the Board has revised the proposals in the ED primarily to provide more guidance on applying the proposed measurement requirements. The comment period for the new January 2010 ED will be ending on 12 April 2010 with the new standard expected to be published in the third quarter of 2010.

The new proposals require that the measurement of provisions should be the amount that an entity would rationally pay at the measurement date to be relieved of the liability. This amount is expressed in the ED as "*the lowest of:*

- *The present value of the resources required to fulfil the obligation;*
- *The amount the entity would have to pay the counterparty to cancel the obligation; and*
- *The amount the entity would have to pay a third party to transfer the obligation to that third party."*

Appendix B to the ED provides comprehensive guidance on the expected present value technique: the estimate would take into account the expected outflows of resources, the time value of money and the risk that the actual outflows might ultimately differ from the expected outflows.

If the liability is to pay cash to a counterparty, the outflows would be the expected cash payments plus any associated costs. If the liability is to undertake a service at a future date, the outflows would be the amounts that an entity estimates it would pay a contractor at the future date to undertake the service on its behalf.

Related tax accounting questions to consider

From a tax accounting perspective, some questions come to mind in contemplating the practical application of the IASB's proposed measurement of uncertain liabilities:

Does the proposed measurement guidance of uncertain liabilities apply to uncertain tax positions?

The snapshot of IAS 37 revised by the IASB in January 2010 specifies that IAS 37 does not apply to items such as, among others, income tax liabilities because they are within the scope of other standards.

It is possible that the proposed amendments to IAS 12 will be consistent with the final IAS 37 model. The final IAS 37 is likely to apply to uncertain tax positions related to non-income based taxes (i.e., related to taxes excluded from the scope of IAS 12 such as VAT, sales taxes . . .).

If the proposed guidance of uncertain liabilities applies to uncertain tax positions, how would it apply?

The proposed amendments to IAS 37 require that the provision for uncertain liabilities would take into account the expected outflows of resources, the time value of money and the risk that the actual outflows might ultimately differ from the expected ones. If the liability is to pay cash to a counterparty, the outflows would be the expected cash payments plus any associated costs.

How would the IAS 37 model apply to uncertain tax positions? Would they be considered to be the best estimate of the amount to pay after negotiation with the Tax Authorities or would they be assessed based on the present value technique specified in the ED of IAS 37 replacement (i.e., a probability-weighted average of the present value of the expected cash payments for all the possible outcomes)?

At present this is not clear and does not clarify concerns of respondents to the ED of IFRS replacing IAS 12 on the uncertain tax positions issue.

Next steps

The comment period for responses to the ED of proposed amendments to IAS 37 ends on 12 April 2010. We encourage companies to consider the implications of the proposals and to provide the IASB with comments.

If you have any further questions on this topic or any other tax accounting related matters, please contact any one of the individuals listed below or your regular PricewaterhouseCoopers contact.

New York
USA [Dean Schuckman](#)
Global Tax Accounting Services Leader
+1 646 471 5687
dean.schuckman@us.pwc.com

Birmingham
UK [Andrew Wiggins](#)
Global Tax Accounting Services Knowledge Sharing Leader
+44 (0) 121 232 2065
andrew.wiggins@uk.pwc.com

New York
USA [Sandrine Caron](#)
Global Tax Accounting Services Director
+1 646 471 5374
sandrine.caron@us.pwc.com