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Financial Week

The Newspaper of Corporate Finance

crain

January 7, 2009

Tax departments bracing for IFRS: survey

Revenue and expense recognition top the list of convergence concerns

By Ronald Fink

The merging of international accounting standards and Generally Accepted Accounting Principles is still five years away. Nevertheless, companies are wasting little time examining the potential tax impact of convergence.

Although adoption of International Financial Reporting Standards isn't required of U.S. companies until 2014, almost one fourth of the 800 or so respondents polled by PricewaterhouseCoopers said they have stepped up their conversion efforts.

With IFRS more closely aligned with tax accounting than is U.S. GAAP, 60% of the respondents reported that they have involved their tax departments in their conversion efforts. Fifty-seven percent said they expect their tax departments to perform a detailed review of their current method of tax accounting in conjunction with their book accounting policy changes.

"Tax directors —and possibly CFOs—are seeing the necessity of bringing tax to the table in sufficient time to make a difference in both strategy and execution of this significant change," observed Ken Kuykendall, a partner in PwC's industry services group tax practice.

The accounting issues getting the most attention are revenue and expense recognition. About a third of the respondents said their company's transfer pricing arrangements under IFRS would be most impacted by changes to revenue recognition. Another 19% said changes to expense recognition would have the most dramatic impact.

Not surprisingly, a sizeable proportion of the survey respondents—41%— have begun to assess the potential tax impact of IFRS at their non-U.S. subsidiaries, since those subsidiaries may convert before their U.S. counterparts and would affect their parents' worldwide results.