



Deutsches Rechnungslegungs Standards
Accounting Standards

Committee e.V.
Committee of Germany



Der Standardisierungsrat

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DSR – öffentliche SITZUNGSUNTERLAGE

DSR-Sitzung:	130. / 02.04.2009 / 17:45 – 18:45 Uhr
TOP:	05 – DSR-ASB Income Tax
Thema:	Vorstellung des gemeinsamen Projekts von DSR/ASB zu Income Taxes
Papier:	05b_DSR-ASB Income Tax_Schedule (Zusatzinformation)

Accounting for Corporate Income Tax Project Activity Schedule and Decision Log

The following table sets out issues to be considered at future meetings of the Tax Advisory Panel and the Boards.

The Schedule is updated after each meeting and the forward plan of issues is only indicative and may change over the course of the project. Shaded sections indicate those issues have been discussed by the Panel. Because of the iterative nature of accounting policy development it will be necessary to revisit some of these past themes over the life of the project.

Below each block of issues is a decision log to track the preliminary views of the Panel and the Boards as we move through each phase of the project.

Theme	Issues	Panel Meetings ¹	ASB Meetings ²	GASB Meetings
1. What is the economic substance of corporate income tax?	<ul style="list-style-type: none"> • What are corporate income taxes? • What are the principal differences between tax and accounting (or book) income and why do they arise? • What information do users need to understand the economic consequences of income tax? • What about current taxes payable? Is there an obligation and how should it be measured? • Costs and Benefits (justification for the project)³ 	2 March (Berlin)	5 March	9-10 March

¹ The Boards have asked that consideration be given to meetings with users to better understand their needs. The project staff are reviewing the options for gathering information about user's needs.

² Meetings dates for the ASB and GASB are shown here is a guide only. These dates represent the first board meeting to fall after a TAP meeting and it may not always be possible or appropriate to include a report back from the Project at these meetings.

³ The costs and benefits associated with accounting for tax will be considered throughout the project.



Decisions

27 Nov 2008 (Joint UK ASB & GASB Meeting)

- ASB and GASB agree terms of the project and that the principal focus should be on developing an approach to tax that starts from first principles – developing an approach that is practical but anchored in the *Framework*. It was agreed that the project would have a watching brief on the development of IAS 12 but that it should not become the focus of the project.
- The membership of the Tax Advisory Panel agreed and the establishment of a ‘corresponding group’ to enable broader participation from other jurisdictions and provide a diverse base of expertise that the project can draw upon.
- It was noted that the project was part of the Pro-Active Accounting in Europe projects and that EFRAG may establish a European panel to provide pan-European input to the project.

2 March 2009 (Tax Advisory Panel Meeting)

- Decisions on technical issues:
 - The project should **adopt a broad definition of ‘corporate income tax’** noting that tax systems varied a great deal around the world. It was clear that taxes that apply to gross flows (ie based on revenue) should not be included and taxes on net income (or some notion of comprehensive income) were clearly within scope. The grey area were those taxes that applied to a gross margin (revenue less some expenses) and judgment would need to be applied as to whether it was appropriate to apply the principles developed in the project to those taxes. The definition was important because it was the basis for determining where the accounting treatment prescribed by IAS 37 was not appropriate and a different (or more detailed methodology) was called for. The definition was also important from a communication perspective in conveying the ‘corporate income tax’ incurred by an entity. Accordingly, there was a need to ensure that disclosures make transparent what is in fact included in this number. It was also noted that when the project looks at presentation it was important to look at whether it was relevant to disclose the total tax contribution of an entity given that corporate income tax is only part of the total taxes paid by entities.



- Notwithstanding greater reliance by tax authorities on GAAP based income as the starting point for determining taxable income, significant differences remain between book and tax income. It was agreed that the **financial statements should make clear the nature of these differences** and that while reconciliations from the statutory tax rate to the effective tax rate were important they needed to be supported by meaningful explanations. There was also a lack of consistency in practice about how ‘tax rates’ were determined – whether they were the rates applicable to the parent, a blended group rate etc and that it would be useful to get some clarity about what such rates represented to be useful to users of the financial statements. It was also noted that tax planning (or structuring/sheltering) was the most significant driver of differences between book and tax income. It was however difficult to pin down exactly how this impacts that development on an approach to corporate income tax. It was agreed that the **implications of tax planning should be revisited throughout the project** to establish how it may impact the development of an approach to tax accounting.
- It was agreed that the **information needs of users should form the basis for developing an approach to corporate income tax**. While the primary users were investors and creditors, corporate income tax also represents an entity’s contribution to its community and therefore it was important that regard was given to ensuring that the needs of the general public were satisfied in understanding whether an entity had paid its ‘fair’ share of corporate income tax. It was also agreed that users were interested in understanding the how tax would impact the entity’s future cash flows, the sustainability of its effective tax rate, the nature of tax risks and its overall tax strategy.
- In determining taxes payable the **emphasis should be on making an assessment of the effects of a transaction** rather than restricting application to circumstances where an entity determines it has a ‘taxable event’. That is, an entity may consider a transaction unlikely to have any tax effects because it has taken steps to create a tax shelter. Where this is the case it is still relevant for the user to understand the tax implications of the transaction notwithstanding that management may consider there to be no taxable event.

Theme	Issues	Panel Meetings	ASB Meetings	GASB Meetings
<p>2. How does tax affect the financial performance and position of an entity?</p> <p><i>Inter-period tax allocation: What are the economic consequences of taxes and do they give rise to assets or liabilities? Are there any exceptions?</i></p>	<ul style="list-style-type: none"> • What assumptions need to be made about the ‘future’ in determining tax consequences? • How do we make sense of management intent? • Do future obligations to pay tax (and receive tax benefits) give rise to liabilities (and assets) under the Framework? • Is there a case for not recognising tax deferrals – eg ‘flow through’ and what are the impacts? 	<p>23 March (London)</p>	<p>2 April 23 April</p>	<p>2-3 April</p>
<p>3. How do we determine those tax effects for future periods?</p> <p><i>Methods for calculating deferred assets and liabilities.</i></p>	<ul style="list-style-type: none"> • Deferral approach • Liability approach • Hybrid approaches (including new ones that the distinction between changes to the carrying amount of tax assets and liabilities and deferrals). • What are the issues in applying these methods? • What assumptions underpin these (eg about effective tax rate, management intent etc) and are they reasonable given the objectives of financial reporting? • What are the specific transactions give rise to tax effects that are complicated to account for? (eg earnings of subsidiaries, net operating losses, withholding tax etc) • How useful are these various methods in capturing the effects of tax structures? 	<p>4 June (Berlin)</p>	<p>18 June</p>	<p>8-9 June</p>

Theme	Issues	Panel Meetings	ASB Meetings	GASB Meetings
<p>4. How do we measure the tax effects of transactions and other events?</p> <p><i>Measurement issues: how to measure tax assets and liabilities; the impact of uncertain tax positions; determining values and impairment testing.</i></p>	<ul style="list-style-type: none"> • Having established that a tax liability (asset) exists, what is the basis of measurement? • Should tax assets and liabilities be discounted? • How should uncertainty be factored into the measurement and how should the probability of different outcomes be reflected? • How should tax assets be measured? • How should tax assets be tested for impairment and how should that be reflected in the financial statements? 	<p>27 July (London)</p>	<p>3 September</p>	<p>31 August- 1 September</p>
<p>5. How is comprehensive income affected by taxes?</p> <p><i>Intra-period allocation: how to display tax effects for the period.</i></p>	<ul style="list-style-type: none"> • To satisfy the objectives of financial reporting, how should tax effects be allocated within and outside of comprehensive income? • Can tax be allocated, other than arbitrarily, and are such allocations useful for users? • To what extent should tax effects mirror financial statement classification of the underlying transaction or other event? • Should there be symmetry in the treatment for both initial and reversing tax effects? • What are the practical issues in tracking tax effects within CI? 	<p>21 September (Berlin)</p>	<p>24 September</p>	<p>1-2 October</p>

Theme	Issues	Panel Meetings	ASB Meetings	GASB Meetings
<p>6. Having considered a range of approaches how to they compare in terms of information about tax effects useful for decision-making and stewardship?</p> <p><i>Other presentation issues: what information about tax effects should be disclosed in the notes to the financial statements and other places (eg management commentary).</i></p>	<ul style="list-style-type: none"> • What information is useful for users of the financial statements and how should this be presented? • To what extent should the assumptions that underpin tax effects recognised (and not recognised) in the financial statements be made transparent and how is this balanced against an entity's competitive position/relationship with the tax authority? (eg issues in disclosing information about managements expectations of future profitability)? • What other disclosures are useful for users? 	7 December	17 December	2010
7. Sweep issues	<ul style="list-style-type: none"> • To include consideration of issues arising from the specific transactions identified in 3 above. 	2010	2010	2010
8. Review of draft discussion paper	<ul style="list-style-type: none"> • To include a discussion about costs and benefits. 	2010	2010	2010