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DSR – öffentliche SITZUNGSUNTERLAGE

DSR-Sitzung:	**140. / 02.02.2010 / 15:15 – 16:15 Uhr**
TOP:	**10 – Tax Advisory Panel (ASB-DSR)**
Thema:	**Update des gemeinsamen Projekts von DSR/ASB zu Income Taxes**
Papier:	**140_10a_Draft DP_Chapter 1 to 4_Summary**

Summary of the Draft Chapters 1 to 4 of the DP:
The Financial Reporting of Corporate Income Taxes: A Discussion Paper

Chapter 1
Basic issues in accounting for corporate income tax

Because IFRS and tax regulations are different in a number of ways, pre-tax financial income and taxable income frequently differ. Consequently, the amount that a company reports as tax expense will differ from the amount of taxes payable to the taxation authority. However, a significant accounting issue arises where income and expenses are included in taxable income, but not for the same period in which they are taken into account in the financial statements.

There are a number of possible approaches to tax allocation. Differences between the various approaches include the circumstances in which tax allocation would be done, and how the liability should be measured and presented. The following three chapters describe three deferent approaches for tax allocation:

- Comprehensive tax allocation
- No tax allocation: the flow-through approach
- Partial tax allocation

Chapter 2
Comprehensive tax allocation

This Chapter explains the background to the current requirements for comprehensive tax allocation contained in IFRS, which are based on those developed in the United States. It notes that the current requirements were intended to secure that the amounts recognised in the balance sheet represented liabilities (and assets) as defined in the conceptual framework, and criticises this claim. The assumption made by current standards that the tax consequences of earning income in the future should not be anticipated in determining the existence of a deferred tax liability is considered and rejected as unnecessary and inconsistent with a proper understanding of the concept of recoverable amount It is concluded that, in some circumstances, current standards require a liability for deferred tax to be reported where no liability, as defined in the Framework, exists.

Chapter 3
No tax allocation: the flow-through approach

This Chapter examines the view that tax allocation is not appropriate, so that the financial statements report only the tax assessed on profit for the current year. This is often described as 'flow-through accounting'. It is noted that (with some qualifications) that flow-through accounting is, simple to apply, objective, verifiable and understandable. Arguments for and against flow-through accounting are evaluated, and it is concluded that whilst some may find them attractive, none of them conclusively establishes that flow-through accounting is preferable to some form of tax allocation. The Chapter then notes that it would seem that if flow-through accounting were to be adopted, it would be necessary to supplement the financial statements with disclosures, which might be voluminous. It would also be necessary to consider whether some exceptions to a flow-through approach would be appropriate, for example for short-term differences, or those relating to non-recurring items.

Chapter 4
Partial tax allocation

This Chapter considers the case of partial tax allocation. Under this approach tax is allocated only to the extent that it is foreseeable that, due to a reversal of timing differences a cash payment for additional tax will be required. No provision is made for timing differences that are not expected to reverse in the foreseeable future. Under this approach the amount reported in the balance sheet has a clear meaning: however the reported tax expense is less obviously meaningful. The classic ‘nonreplacement’ argument is considered: it is concluded that it can cogently be rebutted, but that in any event the case for partial tax allocation relies on the assumption that accelerated tax depreciation gives rise to a deferred tax liability which Chapter 1 has suggested is not always the case. The applicability of the partial tax allocation approach to cases other than accelerated depreciation appears to be problematic. It also seems to be more costly to preparers than comprehensive allocation, although it should provide useful information to investors and other users of the financial statements. It also requires the use of subjective estimates.