International Financial Reporting Standards

Income Taxes

Webcast 3 June 2009

The views expressed in this presentation are those of the presenter,
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Overview of Presentation

- **A short introduction to Income Taxes ED**
  - Objective
  - Significant changes
  - Proposals
  - Next steps
- **Questions**

Objective of the Tax Project

- **Clarify and improve IAS 12**
- **Reduce differences between IAS 12 and SFAS 109**
  – Remove most exceptions
  – Arrive at common recognition and measurement requirements
  – Require the same allocation to comprehensive income and equity

Significant Changes to IAS 12

- Restructure format of the standard
- Align definitions of tax basis and temporary difference with practice under US GAAP
- Remove initial recognition exception
- Amend exception for investments in subsidiaries, associates and joint ventures
- Align recognition of deferred tax assets with US GAAP
- Add requirements on uncertain tax positions
- Align requirements on tax allocation with US GAAP

Tax Basis and Temporary Difference

- If the recovery or settlement of an asset or liability is not expected to affect taxable profit, there is no temporary difference
- Tax basis is the measurement under existing tax law for consolidated or separate tax returns
- For assets, tax basis is determined through recovery through sale

Initial Recognition Exception

- **Proposal**
  1. Separate asset or liability into:
     - A The asset or liability excluding entity-specific tax effects
     - B Entity-specific tax advantage or disadvantage
  2. Recognise A in accordance with other IFRS
  3. Recognise any resulting deferred tax asset or liability
  4. Recognise any difference between 2+3 and the purchase price as a premium or allowance
- **Effect**
  – Same as existing exception unless there is an entity-specific tax effect

Subsidiaries, Associates and Joint Ventures

- **Remove exception for investments in associates**
- **Remove exception for domestic subsidiaries**
- **Change exception for investments in foreign subsidiaries, joint ventures and branches changed:**
  - not based on control
  - instead, no deferred tax if the investment is essentially permanent in duration, unless the temporary difference is likely to reverse in the foreseeable future

Deferred Tax Assets

- Recognise in full
- Determine highest amount, more likely than not, realisable from future profits
- Raise a valuation allowance for the difference

Uncertain Tax Positions

- **Measure current and deferred tax assets and liabilities at the probability-weighted average of all possible outcomes**

Allocation Of Tax – Proposal

- SFAS 109 requirements
- Recognise tax effects in the same component as the transaction or event giving rise to the tax
- Recognise changes in those tax effects in continuing operations, subject to specific exceptions

Allocation of Tax
- Alternative

- **Current IAS 12 requirements**
  – Recognise tax effects and subsequent changes in the same component as the transaction or event giving rise to the tax
- **Plus:**
  – Tax on continuing operations is the fixed amount
  – Deferred tax assets should be recognised in the same component as the transaction or other event giving rise to the asset
  – Not the component containing the profit that allows it to be realised

Summary of proposals

- Identified objectives
- Reduced exceptions
- Improved structure
- Addressed practice issues
- Reduced differences with SFAS 109

Next Steps

- Please send us your comments now - ED comment deadline 31 July
- IFRS expected late 2010

Questions or Comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

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