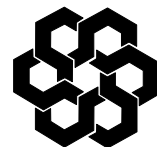


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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at the Global Preparers Forum meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the GPF meeting. Paragraph numbers correspond to paragraph numbers used in the GPF agenda paper.

INFORMATION FOR OBSERVERS

Global Preparers Forum Meeting: July 2008, London

**Project: Short term convergence
 Income taxes**

(Agenda Paper 6)



International
Accounting Standards
Board

Short term convergence Income taxes

*The views expressed in this presentation are those of the presenter,
not necessarily those of the IASB.*



Objective of project

- Improvement and clarification of IAS 12
- Convergence between IAS 12 and SFAS 109
- *Not* to debate the temporary difference approach
- ED planned for publication late 2008



Major changes to IAS 12

- Definitions of tax basis and temporary differences
- Removal of initial recognition exception and change to exception for investments in subsidiaries
- Proposals on uncertain tax positions
- Measurement includes tax effects of expected distributions outside the reporting entity
- Tax allocation converged with SFAS 109

Definitions of tax basis and temporary difference



- **Proposed converged definitions**
 - Measurement under existing tax law
 - If events do not have tax consequences, they do not give rise to temporary differences
 - Intended manner of recovery does not affect the tax basis
- **IASB clarification that tax basis depends on the consequences of selling an asset**

Removal of exceptions to the temporary difference approach

- **Initial recognition exception removed:**
 - assets and liabilities recognised at amount based on tax basis available to market participants
 - any resulting deferred tax assets and liabilities recognised
 - if necessary, premium or allowance recognised (as part of deferred tax balance) to make recognised amounts equal to transaction price
- **Exceptions for investments and subsidiaries changed:**
 - exception for foreign subsidiaries that are essentially permanent in duration
 - no exceptions for associates or domestic subsidiaries



Uncertain tax positions

■ FASB FIN 48

- Derecognition of asset approach
- Probability based recognition threshold
- Single best point estimate measurement

■ IASB proposed approach

- Recognition of stand-ready liability
- No probability-based recognition threshold
- Expected outcome measurement

Tax effects of distributions outside the reporting entity



- Measurement of tax assets and liabilities incorporates the entity's expectations of future distributions outside the reporting entity

Allocating tax to components of profit or loss and equity



- Converge on SFAS 109 approach
- So, changes in amounts originally recognised in equity are (generally) recognised in profit or loss



Conclusions

- IAS 12 is a difficult standard
- Amendments should achieve:
 - Greater convergence
 - More understandable standard