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cutting through complexity

Time to get ready for the tax consequences of 'New GAAP'

Most Irish companies will have to apply new accounting standards for accounting periods commencing on or after 1 January 2015. This change will affect the calculation of profits, and also impact the calculation and presentation of current and deferred tax. Now is the time to consider the impact of these changes for your business.

- Under the new rules, existing Irish and UK GAAP ("Existing GAAP") preparers will generally have a choice of either:
  - a) Migrating to FRS 102, which is based heavily on the IASB's "IFRS for SMEs": or
  - b) Voluntarily applying EU-adopted IFRS.
- Qualifying entities – subsidiaries and parent companies of Groups preparing publicly available consolidated financial statements – will also have the ability to avail of reduced disclosure requirements, whether applying FRS 102 or FRS 101 (using recognition and measurement of EU-adopted IFRS), provided equivalent disclosures are given in the group financial statements and certain conditions are met.
- Depending on the nature of their operations, entities adopting FRS 102 will face many changes in the requirements applicable to key areas of financial reporting. Undoubtedly, the most challenging issue for most will be the increased use of fair value measurement – particularly for certain financial instruments, all of which will now be recognised on balance sheet. Key changes to the requirements in respect of business combinations, leases and other arrangements, deferred tax and investment properties will also need detailed consideration.
- With mandatory adoption not required until accounting periods beginning on or after 1 January 2015, there is some time available before a set of financial statements prepared under FRS 102 will need to be drafted. Nonetheless, companies should begin to consider the impact the new requirements will have, particularly when entering into multi-year arrangements and structures which will survive the transition.
- The transition to a new framework may pose tax related challenges for preparers – both in the broader scope of deferred tax requirements under New GAAP and in current tax on fair value movements recognised in the profit or loss – not to mention the need to address current and deferred tax consequences that may arise if adoption of New GAAP triggers changes to current group structures and arrangements.

Now is the time to **start tackling the tax related challenges** which the impending change will inevitably bring!

What changes will FRS 102 potentially bring to 'tax' in your financial statements?

Accounting for tax	FRS 102 recognition and measurement	Practical implications
Deferred tax	Generally more deferred taxes are recognised under New GAAP.	• Training of accounts preparers. • Additional information required to collect historic base cost data of assets to calculate deferred tax.
Deferred tax	Deferred tax on timing differences to include those arising from past claims to rollover relief.	• Identification of past rollover relief claims made upon investment in assets including plant and equipment, buildings, goodwill, etc.
Current tax	Disclosure of total tax reconciliation.	• Training of accounts preparers. • Change in focus of reconciliation of profit before tax to total tax instead of current tax.
Close company	Recognise close company surcharge even if company intends to distribute profits or make election not to recognise dividend receipt.	• Identify close company charge for the period. • Impact on after tax profit or loss.
R&D tax credit	R&D tax credit recognised 'Above the Line'.	• Impact on disclosure of R&D tax benefit if currently recognise R&D tax credits in tax charge.

The approach to accounting for tax will change which will mean that your teams will need to be prepared to extract and collate new information to support the revised approach to accounting for tax.

Change in accounting approach to common balance sheet and profit or loss items can lead to related tax consequences

Do you have?	FRS 102 recognition and measurement	Tax implications
Intercompany payables and receivables	Intercompany balances are required to be measured initially at transaction price unless there is a financing element. "Financing transactions" must be discounted to reflect an effective interest rate.	• Consider tax treatment of discounting income or expense recognised. • Consider tax implications of any restructured intercompany funding flows.
Investment properties	Fair value movement recognised in profit or loss.	• Impact on measure of current taxable profit if property held as "trading stock" or deferred tax impact of timing differences on property assets. • Need to collect historic tax base cost information to calculate deferred taxes.
Loans treated as 'permanent as equity'	There is no concept of 'permanent as equity' in individual company accounts so foreign currency loans will be translated at each balance sheet date with foreign exchange movements taken to profit or loss.	• Consider tax recognition of foreign exchange movements. • Consider tax impact of any restructured loan investments.
Off balance sheet derivatives	Derivatives recognised on balance sheet at fair value with changes included in profit or loss.	• Changes in fair value may be taxable/deductible in measuring the results of the trade. • Potential for increased volatility in taxable profit or loss and related cash tax payments.
Functional currency	Required to consider whether or not entity is autonomous in determining functional currency.	• Could result in recognition of foreign exchange gains or losses if change of functional currency with related tax implications.
Goodwill	Goodwill is amortised under FRS 102 with maximum useful life of five years where a finite life cannot be determined.	• Consider tax implications of amortisation period.

Timing of tax recognition will typically follow accounting timing and measurement of taxable income or loss for trading companies. This means that changes in accounting recognition are likely to mean changes in tax recognition.

If accounting changes lead to changes in group structures and arrangements - consider the related tax consequences of restructuring.

Contacts

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How we can help

Initial impact assessments

We have prepared initial impact assessments for a number of clients. As part of this process we review the financial statements of selected entities and help you develop:

- An overview of the proposals and developing insights.
- An understanding of key tax recognition and measurement differences and their likely impact on a profit and loss account and balance sheet.
- Accounting policy choices that could affect tax.
- Practical implications of the GAAP differences.
- Impact on cash tax and deferred tax.

We can also:

- Provide tax advice on the consequences of changes.
- Provide tax focused training to both finance and non finance personnel on these accounting developments.

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