THE POWER OF BEING UNDERSTOOD

U.S. GAAP VS. IFRS: INCOME TAXES AT-A-GLANCE

Increasing globalization coupled with related regulations continues to put pressure on moving towards a common global accounting framework – International Financial Reporting Standards (IFRS). Currently, more than 100 countries use IFRS, so if your business goals include global expansion, it is critical to educate yourself about the impact of IFRS on your financial reporting processes and business now. To gain a better understanding of what IFRS means for your organization, we have prepared a series of comparisons dedicated to highlighting significant differences between IFRS and U.S. generally accepted accounting principles (GAAP). This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for income taxes. For other comparisons available in this series, refer to our U.S. GAAP vs. IFRS comparisons at-a-glance series.

A discussion about U.S. GAAP and IFRS would not be complete without mentioning the status of the Securities and Exchange Commission's (SEC) activities focused on determining whether the application of IFRS by U.S. registrants should be required or allowed. While the SEC has not made any final decisions with respect to use of IFRS by U.S. registrants, its activities are ongoing. For more information, refer to our IFRS Resource Center.

The guidance related to accounting for income taxes in U.S. GAAP is included in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. In IFRS, the guidance related to accounting for income taxes is contained in International Accounting Standard (IAS) 12, *Income Taxes*.

The significant differences between U.S. GAAP and IFRS with respect to accounting for income taxes are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 740	IAS 12
Tax basis	Tax basis is a question of fact under the tax law.	Tax basis is determined based on the amount deductible for tax purposes. The tax basis is influenced by the way in which the entity intends to settle or recover the carrying amount (by sale or through use).
Taxes on intercompany transfers of assets	The tax impact to the selling entity that arises out of an intercompany sale is deferred until the item is sold to a third party. The recognition of a deferred tax asset for the intra-entity difference between the tax basis of an asset in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements is prohibited.	For assets that are transferred between entities or tax jurisdictions yet remain within the consolidated group, the recognition of deferred taxes for the difference in tax bases is required.

RSM

	U.S. GAAP	IFRS
Use of valuation allowance	An entity records a full deferred tax asset and then reduces that recorded asset by a valuation allowance if realization of the asset is not "more likely than not."	An entity records a deferred tax asset if it is probable (i.e., greater than 50 percent likely) that the asset will be realized.
Changes in tax rates and laws	Changes in tax rates and tax laws used in the calculation of income tax amounts are reflected when enacted.	Changes in tax rates and tax laws used in the calculation of income tax amounts are reflected when enacted or substantively enacted. A rate is considered "substantively enacted" when only perfunctory actions are required for a measure to become law.
Uncertain tax positions	A two-step process is applied. A benefit is recognized when it is "more likely than not" that the position will be upheld based on its technical merits. The benefit would be measured at the largest amount that is greater than 50 percent likely of being realized upon ultimate settlement.	Specific guidance pertaining to uncertain tax positions is not provided. Tax assets and liabilities should be measured at the amount expected to be paid. If it is deemed more likely than not that a liability has been incurred, the entity would record the liability using either a single-best-estimate measure or a weighted-average probability of the outcomes.
Balance-sheet classification	The classification of deferred tax assets and liabilities is related to the classification of the asset or liability that generated the temporary difference.	All deferred tax assets and liabilities are classified as noncurrent regardless of what asset or liability generated the difference.
Outside basis differences	An entity does not recognize a deferred tax liability related to an investment in a foreign subsidiary or corporate joint venture that is essentially permanent in duration. This guidance applies to all subsidiaries (foreign or domestic), branches, associates and interests in joint ventures.	An entity is required to recognize a deferred tax liability unless: (a) the entity has control over the reversal of the temporary difference and (b) it is more likely than not (i.e., greater than 50 percent likely) that the temporary difference will not reverse in the foreseeable future. The exception applies solely to foreign subsidiaries and foreign joint ventures that are essentially permanent in duration.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for income taxes. Refer to ASC 740 and IAS 12 for all of the specific requirements applicable to accounting for income taxes. Refer to our U.S. GAAP vs. IFRS comparisons at-a-glance series for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Contact:

Richard Stuart, Partner
National Accounting Standards Group, RSM US LLP
+1 203 905 5027
richard.stuart@rsmus.com