

U.S. GAAP vs. IFRS: Income taxes

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Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for income taxes.

The guidance related to accounting for income taxes in U.S. GAAP is included in the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. In IFRS, the guidance related to accounting for income taxes is included in International Accounting Standard (IAS) 12, *Income Taxes*, and International Financial Reporting Interpretations Committee (IFRIC) Interpretation 23, *Uncertainty over Income Tax Treatments*.

Comparison

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 and IFRIC 23
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).
Deferred tax on exchange gains and losses related to foreign nonmonetary assets and liabilities	If the reporting currency is the functional currency, deferred taxes are not recognized for exchange gains and losses related to foreign nonmonetary assets and liabilities that are remeasured into the reporting currency using historical exchange rates or indexing for tax purposes.	Deferred taxes are recognized for exchange gains and losses related to foreign nonmonetary assets and liabilities that are remeasured into the functional currency using historical exchange rates or indexing for tax purposes.
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 <i>more likely than not</i> .	An entity records a deferred tax asset if it is probable (i.e., greater than 50% likely) that the asset will be realized.
Tax rates	The enacted tax rates are used to calculate income tax amounts.	Enacted or substantively enacted rates are used to calculate income tax amounts. A rate is considered <i>substantively enacted</i> 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 <i>more likely than not</i> 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% likely of being realized upon ultimate settlement.	If it is probable that the taxing authority will accept an uncertain tax position, the recognition and measurement are consistent with the position the entity took in its tax filing. If it is not probable that the taxing authority will accept an uncertain tax position, the entity should use the most likely amount or the expected value.
Outside basis differences	An entity does not recognize a deferred tax liability related to an investment in a foreign	An entity is required to recognize a deferred tax liability unless: (a) the entity has control over the

	U.S. GAAP	IFRS
	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.	reversal of the temporary difference and (b) it is <i>more likely than not</i> (i.e., greater than 50% 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.
Reconciliation of tax rates	Public companies are required to disclose a reconciliation (using either percentages or amounts) of the reported amount of income tax expense from continuing operations to the amount of income tax expense that would have resulted from applying the statutory rates to pretax income from continuing operations. Nonpublic companies are required to disclose all significant reconciling items; however, a numerical reconciliation is not required.	All entities are required to disclose a reconciliation of either (or both) of the following forms: a. A numerical reconciliation between income tax expense and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed. b. A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.
Deferred tax assets recognized for share-based payment arrangements	Temporary differences related to share-based payment arrangements are based on the amount of compensation cost that is recognized in profit or loss without any adjustment for the entity's current share price until the tax benefit is realized.	Deferred tax assets recognized in relation to a share-based payment arrangement are adjusted each period to reflect the amount of tax deduction that the entity would receive if the award were tax-deductible in the current period based on the current market price of the shares.

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 and IFRIC 23 for all of the specific requirements applicable to accounting for income taxes. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Consult your RSM US LLP service provider concerning your situation and any specific questions you may have. You may also contact us toll-free at 800.274.3978 for a contact person in your area.

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