

## Income Tax and IFRS - Update

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### Background

Since our November 2008 article “Tax Impact of IFRS” the IASB<sup>i</sup> has issued an exposure draft related to income taxes expected to come into force in 2010. In addition, the ASB’s<sup>ii</sup> has issued its final exposure draft on the convergence to IFRS and CRA<sup>iii</sup> has made its comments. In this article, we provide a brief update on what’s new for Income Taxes and IFRS.

### Adopting IFRS in Canada - Status

Issued in October 2009<sup>iv</sup>, the ASB has exposed the last round of IFRSs and IFRICs<sup>v</sup> for comment. This process permits users to provide commentary on the IFRSs and IFRICs exposed in respect of their applicability to Canadian publically accountable entities (or PAEs). The ASB found no “compelling arguments” why the IFRSs and IFRICs exposed in the first two exposed drafts should not be adopted and accordingly they will be incorporated into the Handbook by the end of 2009.

The IASB issued an exposure draft in March 2009 which is expected to come into force in 2010 with a prospective effective date for the 2012 calendar year. This leaves PAEs with a choice of converging with a standard not in effect yet (as of the January 1, 2011 date) or making changes again in 2012. If early adoption is permitted, PAEs could choose to adopt for January 1, 2011. If early adoption permitted but a PAE chooses not to adopt, is still required to follow the transitional requirements for new IFRSs - possibly requiring retrospective application.

The IASB’s exposure draft will result in substantial changes to the accounting figures from its existing IFRS and proposes to permit early adoption in 2011. The IASB expects to release its final IFRS for income taxes in the latter half of 2010. This will give PAEs some time to review and assess whether early adoption is beneficial for them.

### The CRA’s actions

The Canada Revenue Agency (“CRA”) has stated:

*“Once adopted for accounting purposes, financial statements prepared under IFRSs will be considered an acceptable starting point for computing taxable income. As well, all references to GAAP in CRA documents or tax legislation can be interpreted as IFRSs for those entities that report under IFRSs. After initial adoption, we expect taxpayers to apply IFRSs on a consistent basis to all income tax filing and all years.”*

The CRA supports their positions with *Canderel Ltd*<sup>vi</sup> which stated that in ascertaining profit, the taxpayer is free to adopt any method which is not inconsistent with: (a) the provisions of the Income Tax Act; (b) established case law principles or “rules of law”; and (c) well-accepted business principles.

The CRA has established an IFRS Advisory Committee on Tax Administration as of March 2009 which includes representatives from the big four accounting firms, the accounting associations,



and a cross-section of industries. The focus of the Committee is to determine the effect that IFRSs will have on the reporting, filing and compliance due to the convergence.

The Committee will provide the CRA with its views on identified IFRSs impacts on existing tax administration and be an avenue for business concerns relating to the impact of the IFRSs on taxation to be heard by the CRA. The CRA has also said the Committee will recommend solutions to key taxation issues arising but has not as of yet, provided a format as to how that will be communicated

### **The Claret Partners Limited**

The conversion to IFRS is a large project for any entity; we can assist you in the following ways.

- Preparation of the comparison of existing GAAP to IFRS for your entity and in particular IAS 12 as it exists and its future revisions,
- Assessing the entity's options under IFRS 1 and its impacts on income taxes balances,
- Assisting in defining the scope, time table and resources required for implementation,
- Preparing the implementation plan,
- Preparing an analysis on the impact IFRS will have on tax filings,
- Preparing an analysis on the impact IFRS will have on existing and proposed tax plans,
- Revision of policies, procedures and processes due to the adoption of IFRS, and
- Implementing the conversion.

*The Claret Partners Limited is a consulting firm dedicated to providing the best in regulatory compliance, tax, risk and governance services as consultants and project managers creating workable and practical solutions. **For more information please contact us at [contact@theclaretpartners.com](mailto:contact@theclaretpartners.com).***

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<sup>i</sup> International Accounting Standards Board

<sup>ii</sup> Accounting Standards Board (Canada)

<sup>iii</sup> Canada Revenue Agency

<sup>iv</sup> Comments to be received by November 15, 2009

<sup>v</sup> International Financial Reporting Interpretation Committee bulletins

<sup>vi</sup> Canderel Ltd v The Queen 2002 SCC 46