Straight away

IFRS bulletin from PwC

AASB issues Tax Transparency Code road map

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Tax transparency - the current state of play

Over the past two years, the Board of Taxation has introduced a voluntary disclosure regime for Australian corporates called the Tax Transparency Code (TTC). The TTC disclosures ask businesses to explain their effective tax rate annually as part of increased corporate transparency. The disclosures are tiered for large and small companies.

Many Australian corporate tax payers (by total tax take) have adopted the voluntary code, which sets out principles of expected disclosure. However, limited guidance has been provided to companies in adopting the specified disclosures.

New AASB guidance on effective tax rate for tax transparency code

In May 2017, the AASB released draft detailed guidance to assist businesses meet the tax transparency code recommendation for the suggested tax reconciliation and calculation of the effective tax rate (Part A of the the TTC). It sets out principles and guidance for entities to consider for the disclosures set out in the TTC.

Critically, the AASB guidance is only in draft form and does not change the core TTC disclosures. It only aims to provide taxpayers with guidance on applying the TTC provisions. The final version of the AASB guidance may be further amended.

Overview of the AASB guidance to assist businesses meet the TTC recommendations

The guidance, contained in a Draft Appendix to the TTC, promotes consistency and comparability of key information about entities' tax positions, in particular, their effective tax rate (ETR) relative to the corporate tax rate, and aims to help entities communicate their tax information. The guidance sets out the necessary disclosures to ensure interested parties can better understand the differences, if any, between the ETR under the TTC and the accounting ETR prepared in accordance with accounting standards. In addition, the Draft Appendix sets out guidance in relation to the characteristics of useful information which entities should consider when they apply the TTC disclosures.

The AASB guidance primarily supplements the Part A disclosures in the TTC around annual effective tax rates, as detailed in the table below:

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Requirement	AASB Guidance
Part A (minimum standard for large >$500M Australian turnover and medium >$100M Australian turnover businesses)	

A reconciliation of accounting profit to income tax paid or payable, and from income tax expense to income tax paid or payable.
 	
Identification of material temporary and non-temporary differences within the reconciliation.
	Entities should:
	• disaggregate material line items adjusting accounting profit before tax to allow comparison with similar entities
	• consider the nature and degree of detail to clearly explain the major line items
	• consider whether the following enhances understandability and comparability:
	  ○ disaggregation of foreign and domestic line item disclosures and/or key balances, and
	  ○ disaggregation of recurring and non-recurring income tax adjustments, and
	• provide comparatives.
	
	Depending on the extent of disclosures an entity may want to make, they should consider separately identifying the following:
	• income taxes paid or payable relating to foreign and domestic entities
	• accounting profit before tax relating to foreign and domestic entities, and
	• recurring and non-recurring income tax adjustments.

Disclosure of the accounting effective tax rates for Australian and global operations.	Additionally, in instances where the TTC ETR differs to the ETR as presented in statutory accounts, or ETR using non-GAAP measures, then entities should do the following: • Where the ETR is calculated on different bases, the entity should clearly define the basis adopted. • Any adjustments made to the accounting ETR to calculate the TTC ETR should be explained and reconciled. • Any key judgments made in determining accounting profit, Australian operations and the accounting profits attributable to those operations should be clearly disclosed. • Any changes to the way in which the calculations have been made in the prior year s should be clearly disclosed • The objective of any ETR other than the accounting ETR should be disclosed so that users can understand the difference between the non accounting ETR and the accounting ETR. • Reconcile the TTC ETR and additional ETRs to the accounting ETR, explaining how any adjustments to the accounting ETR are consistent with the objective of the TTC and any additional metrics.

Our view – what should companies do

Any entity that has already adopted or is about to adopt the TTC should reassess their current disclosures using the AASB draft guidance when presenting income tax disclosures under the TTC for the 2017 and later tax years.

As the guidance is only in draft form, changes to existing public disclosure frameworks should be carefully considered. Additionally, for companies that are thinking about implementing the TTC disclosures for the first time, the additional guidance should be taken into account when presenting illustrative disclosures to management and audit committees for consideration.

Further information: Tax transparency - a new era in reporting?, IFRS Spotlight, October 2016.

For more information on this publication please contact:

Jonathan Malone
Partner
02 8266 4770
jonathan.r.malone@pwc.com

Lynda Brumm
Principal
07 3257 5471
lynda.brumm@pwc.com

John Ratna
Director
03 8603 2568
john.ratna@pwc.com

Grainne O'Halloran
Manager
03 8603 1412
grainne.ohalloran@pwc.com