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# *Global tax accounting services newsletter*

Focusing on tax accounting issues affecting businesses today

October – December 2015

pwc

# Introduction

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Senior tax buyers name PwC as their first choice provider for tax accounting services globally*

**These results are based on an independent survey of 1,605 primary buyers of tax accounting services globally, conducted by research agency Jigsaw Research (Q1 & Q2 2015).*

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The *Global tax accounting services newsletter* is a quarterly publication from PwC's Global Tax Accounting Services (TAS) group. In the newsletter we highlight issues that may be of interest to tax executives, finance directors, and financial controllers.

In this issue, we provide an update on the recent activity of the Financial Accounting Standards Board (FASB) and the exposure draft issued by the International Financial Reporting Standards (IFRS) Interpretation Committee on accounting for uncertainties over income tax treatments. We also update you on European Securities and Markets Authority's (ESMA) enforcement priorities for 2015 IFRS financial statements.

In addition, we draw your attention to some significant tax law and tax rate changes that occurred around the globe during the quarter ended December 2015.

Finally, we summarise some key tax accounting areas that could be relevant to the preparation of 2015 year-end financial statements.

This newsletter, tax accounting guides, and other tax accounting publications are also available online and on our new TAS to Go app, which you can download anywhere in the world via App Stores. To register for our quarterly TAS webcasts and access replays, please click here.

If you would like to discuss any of the items in this newsletter, tax accounting issues affecting businesses today, or general tax accounting matters, please contact your local PwC team or the relevant Tax Accounting Services network member listed at the end of this document.

You should not rely on the information contained within this newsletter without seeking professional advice. For a thorough summary of developments, please consult with your local PwC team.

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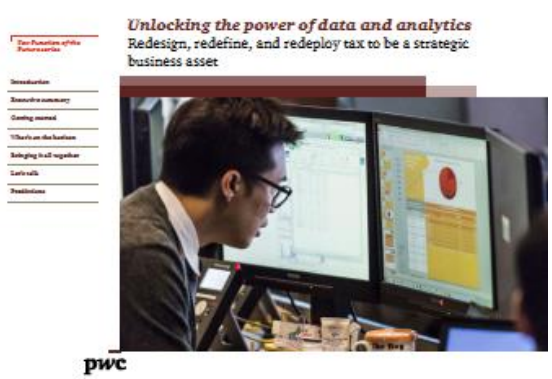
# Accounting and reporting updates

This section offers insight into the most recent developments in accounting standards, financial reporting, and related matters, along with the tax accounting implications.

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## The FASB activity update

### Overview

During the fourth quarter of 2015, the FASB undertook considerable activity related to areas of accounting for income taxes. In particular, the FASB issued the following key documents:

- an Accounting Standards Update (ASU) for the balance sheet classification of deferred taxes
- an ASU simplifying the accounting for measurement-period adjustments
- an exposure draft proposing detailed disclosures of discretionary government assistance

The FASB also considered external comment letters and other feedback received on the exposure drafts focused on intra-entity asset transfers and stock compensation that were issued earlier this year.

### In detail

**ASU for the balance sheet classification of deferred taxes**

Prior to the new ASU, US GAAP required deferred taxes for each tax-paying jurisdiction of an entity to be presented as a net current asset or liability and net non-current asset or liability. This required a jurisdiction-by-jurisdiction analysis of deferred taxes and the underlying classification of the assets and liabilities to which they related. Deferred taxes not related to assets and liabilities for financial reporting were analysed and classified based on the expected reversal date.

To simplify presentation, the new Standard now requires all deferred income tax assets and liabilities to be classified as non-current on the balance sheet. The guidance does not affect the existing requirement to offset the deferred tax assets and liabilities of each tax-paying jurisdiction. As a result, each jurisdiction will now have one net non-current deferred tax asset or liability.

Continued

# Accounting and reporting updates

The new guidance is effective for public business entities in fiscal years beginning after 15 December 2016, including interim periods within those years (i.e., in the first quarter of 2017 for calendar year-end companies). For entities other than public business entities, the amendments are effective for fiscal years beginning after 15 December 2017, and interim periods within fiscal years beginning after 15 December 2018.

Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period.

The guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively (i.e., by reclassifying the comparative balance sheet). If applied prospectively, entities are required to include a statement that prior periods were not retrospectively adjusted. If applied retrospectively, entities are also required to include quantitative information about the effects of the change on prior periods.

### ASU simplifying accounting for measurement period adjustments

Prior to the new ASU, US GAAP required companies to restate prior period financial statements for measurement period adjustments.

The new ASU eliminates this requirement and requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognised in the reporting period in which the adjustment is identified.

The new Standard should be applied prospectively to measurement period adjustments that occur after the effective date. For public business entities, the new standard is effective for interim and annual periods beginning after 15 December 2015. For entities other than public business entities, the new standard is effective for annual periods beginning after 15 December 2016 and interim periods beginning after 15 December 2017. Early adoption is permitted for all entities.

### Exposure draft requiring detailed disclosures of discretionary government assistance

Currently, US GAAP does not provide explicit guidance for the accounting for government grants (including tax credits, tax exemptions, tax abatements, loan guarantees, grants, and low-interest or interest-free loans) received by business entities.

This results in diversity in practice in the recognition, measurement, and disclosure related to some forms of government assistance.

To increase the transparency of information provided in the financial statements about government assistance, and further to its deliberations in the Q3 of 2015, the FASB issued an exposure draft *Disclosures by Business Entities about Government Assistance*.

The exposure draft would require a business entity to disclose information to aid users in assessing the effect of government assistance on the financial statements. Specifically, the following disclosures would be required:

- nature and significant terms and conditions of the assistance, including a general description of the significant categories of assistance (e.g., grants, tax incentives)
- the form in which the assistance was received (e.g., cash, in-kind, offset against other payments)

Continued

- if government assistance has been recognised in the financial statements, the accounting policies used, including the timing of recognition (e.g., up front or over time)
- the line items on the balance sheet and income statement affected and the amount of assistance recorded to each line item
- unless impracticable, the amount of government assistance received but not recognised directly in the financial statements (e.g., the benefit of a loan guarantee or below-market rate)

Depending on the specific facts in a particular jurisdiction, elements of government assistance that are subject to the recognition and measurement guidance for accounting for income taxes (ASC 740), may be subject to the disclosure requirements of the proposed guidance.

The exposure draft is open for comments until 10 February 2016.

**Intra-entity asset transfers**

Existing US GAAP for intra-entity asset transfers represents an exception to the general principles of comprehensive recognition of current and deferred income taxes. Currently, the buyer and seller in a consolidated reporting group are generally required to defer the income tax consequences of intra-entity asset transfers when the profits from such transfers are eliminated in consolidation.

Under the FASB's initial proposal, the exception would be eliminated, and as a result, the seller's tax expense on the profit from the transfers of assets and the buyer's deferred tax benefit on the increased tax basis would be recognised when the transfers occur. As proposed, this would result in the recognition of the tax consequences of intra-entity transfers even though the pre-tax profit is eliminated in consolidation. The FASB believed the proposed simplification would reduce diversity in practice and result in more transparent decision-useful information, which in many cases would more closely align with tax cash flows.

After evaluating feedback received on the exposure draft, the FASB agreed that the FASB staff should undertake additional, but narrowly scoped research on the costs and benefits of the exception applying to inventory transactions only. Once the staff completes their research, the FASB will consider whether to go ahead with the ASU as currently drafted (i.e., the exception would be eliminated) or to clarify that the existing exception would apply to transfers of inventory only.

**Stock compensation**

The FASB also considered external comment letters and other feedback received on the exposure draft on tax accounting for stock compensation released earlier this year (discussed in the Q2 2015 newsletter) and agreed to issue an ASU on various stock compensation simplification topics including the following tax items:

- All tax windfalls and shortfalls would be recognised within income tax expense.
- The requirement that cash taxes payable be reduced in order to record windfalls would be eliminated.
- The statement of cash flows requirement to display windfalls as an operating outflow and financing inflow would be also eliminated.

The ASU is expected to be issued in early 2016.

**The takeaway**

The above developments will in some way affect virtually all tax-paying entities that apply US GAAP. Organisations should be proactively evaluating the implications of the changes being proposed in these tax accounting areas. Organisations should also consider responding to the exposure draft on disclosure of government assistance which is open for comment until 10 February 2016.

Continued

# Accounting and reporting updates

## The IFRS Interpretations Committee update

### Uncertain tax positions

During the fourth quarter of 2015, the IFRS Interpretations Committee released a draft Interpretation ('the draft Interpretation') entitled 'Uncertainty over Income Tax Treatments.' The draft Interpretation proposes guidance on how to account for uncertain tax positions (UTPs), and the interpretation will be the IFRS equivalent of the US GAAP interpretation, ASC 740 – 10 (formerly FIN 48).

The Interpretation is expected to be finalised in 2016, and is expected have effect for periods beginning on or after 1 January 2017. However, there may be an opportunity for early adoption.

We summarise the main aspects of the draft Interpretation below.

**Scope** – The draft Interpretation proposes guidance on how to determine an organisation's taxable profits (or tax losses), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax to be accounted for under IAS 12. It therefore impacts both current and deferred tax where there is uncertainty over an organisation's tax position, commonly referred to as a UTP.

**Unit of account** – An organisation needs to decide whether to consider its UTPs individually or collectively, based on which approach provides a better prediction of the resolution of the uncertainties with the tax authority.

**Detection risk** – An organisation must assume the tax authority will examine the position (if entitled to do so) and will have full knowledge of all the relevant information.

**Recognition and measurement** – There is a two stage test. If it is probable (i.e., more likely than not) that a tax authority will accept a particular UTP (or group of UTPs), then the tax position recorded in the organisation's accounts should be consistent with what is or will be used in its tax returns. However, if it is not probable that a tax authority will accept a particular (group of) UTP(s) then the organisation must use either the most likely amount or the expected value of the impact on taxable profits (or tax losses), tax bases, unused tax losses, unused tax credits and tax rates, depending on which is thought to give a better prediction of the resolution of each (group of) UTP(s).

**Changes in recognition and measurement** – An organisation must reassess the accounting for a UTP if new information comes to light or if facts or circumstances change (e.g., if a period within which the tax authority may examine the tax treatment expires).

**Disclosures** – The draft Interpretation does not introduce any new disclosure requirements. However, it reinforces the need to comply with existing disclosure requirements related to judgements made, assumptions and estimates used, and tax-related contingencies.

**Transition** – The draft Interpretation proposes a choice on initial adoption of the Interpretation. It can recognise the cumulative effect in retained earnings or equity, at the start of the first reporting period when it first adjusts for the Interpretation, without adjusting comparative information. Alternatively, it can apply the Interpretation retrospectively to each prior reporting period in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

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The Interpretation will apply to all IFRS financial statements for public and private organisations alike. Adopting the Interpretation might require significant changes to an organisation's accounting policies, financial statement disclosures, data gathering processes and internal controls, especially for multinational groups. It might also impact existing corporate tax planning and management processes.

While the Interpretation is currently only in draft form, we anticipate that many organisations will wish to take early action to assess its impact on their financial statements. To assist organisations in this process we have prepared a suggested action plan for implementing the Interpretation, including an illustrative estimate of the time required to complete each phase. The action plan can be accessed **here**.

## What's next?

The draft Interpretation will be open for comment until 19 January 2016. Organisations reporting under IFRS should consider responding to the IFRS Interpretation Committee by that date.

We expect the draft Interpretation to be finalised in 2016, and to have effect for periods beginning on or after 1 January 2017. However, there may be an opportunity for early adoption.

Continued

# ESMA's enforcement priorities for 2015 IFRS financial statements

## Overview

ESMA is an independent EU Authority, whose predominant role is to serve as the EU's securities market regulator. One of ESMA's areas of responsibility is to promote the effective and consistent application of the European Securities and Markets legislation with respect to financial reporting.

On 27 October 2015, ESMA issued its public statement on the European common enforcement priorities for 2015 IFRS financial statements. These priorities identify topics that ESMA, together with European national enforcers, see as key areas of focus for their examinations of listed companies' financial statements.

## In detail

Based on the public statement, ESMA's enforcement priorities for 2015 IFRS financial statements are focused on the following topics:

1. impact of financial markets conditions on financial statements
2. consistency of the statement of cash flows and related disclosures with the other areas of financial statements
3. fair value measurement and related disclosures for non-financial assets and liabilities

ESMA also emphasised the need for quality disclosures in financial statements. In particular, disclosures should meet the following objectives:

a. **Tell the entity's own story.** Issuers should focus on entity-specific disclosures and avoid boilerplate language.

b. **Provide relevant information in the financial statements in an easily accessible way.** Relevant information helps to understand the issuer's financial performance and position and could influence an investor's economic decision.

c. **Reflect materiality.** IFRS refers to the principle of materiality which should result in providing information at a level of detail based on the relative importance of the transactions, other events and specific conditions concerned.

d. **Promote readability of the financial statements.** Financial statements should be written in as clear and concise a way as possible while still including all material information.

e. **Provide consistent information within annual reports**. Users expect consistency between information in the financial statements and information included in the accompanying documents (e.g., the management report). Issuers and auditors should ensure such consistency.

With respect to income taxes, ESMA reminded issuers of the requirements for recognition of deferred tax assets under IAS 12. In particular, entities with a history of recent losses can recognise a deferred tax asset related to unused tax losses carried forward only when there is convincing evidence that sufficient future taxable profits will be available to offset unused tax losses.

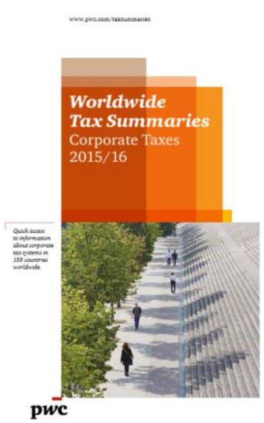
In addition, in light of the IFRS Interpretations Committee's draft Interpretation on UTPs (discussed above), ESMA expects issuers to disclose their accounting policy related to material uncertain tax positions in accordance with paragraphs 117 and 122 of IAS 1 *Presentation of Financial Statements*.

## The takeaway

The common enforcement priorities focus on recurring issues identified in the application of IFRS requirements and the current economic climate. In terms of accounting for income taxes, organisations should give particular attention to areas of management judgement, such as recognition of deferred tax assets and UTPs.

# Recent and upcoming major tax law changes

This section focuses on major changes in the tax law that may be of interest to multinational companies and can be helpful in accounting for income taxes. It is intended to increase readers' awareness of the main global tax law changes during the quarter, but does not offer a comprehensive list of tax law changes that should be considered for financial statements. Any significant income tax law developments that occur in December 2015 and not covered by this newsletter will be highlighted in a separate tax law changes alert in January 2016.




Worldwide tax summaries

## Notable enacted tax rate changes

| Country | Prior rate | New rate |
|---|---|---|
| United Kingdom (corporation tax) | 20% | 19%/18%[1] |
| United Kingdom (surcharge) | N/A | 8%[2] |
| United Kingdom (tax on restitution interest) | N/A | 45%[3] |

[1] This change was enacted on 18 November 2015. The 19% rate is effective from 1 April 2017 to 31 March 2020. The 18% rate is effective from 1 April 2020 onwards.

[2] The surcharge was enacted on 18 November 2015. It applies to taxable profits of banks & building societies for periods beginning on or after 1 January 2016.

[3] This change was enacted on 18 November 2015. The 45% rate will apply to the element of interest payments that are greater than simple interest on restitution payments. Restitution payments are generally made to companies by the UK tax authorities as a result of claims for tax paid under a mistake of law or for tax unlawfully collected. The new tax is effective from 21 October 2015, and will be withheld at source from restitution interest payments made on or after 26 October 2015. Companies need to consider the accounting treatment of this tax, in particular whether the tax should be treated as a tax based on income.

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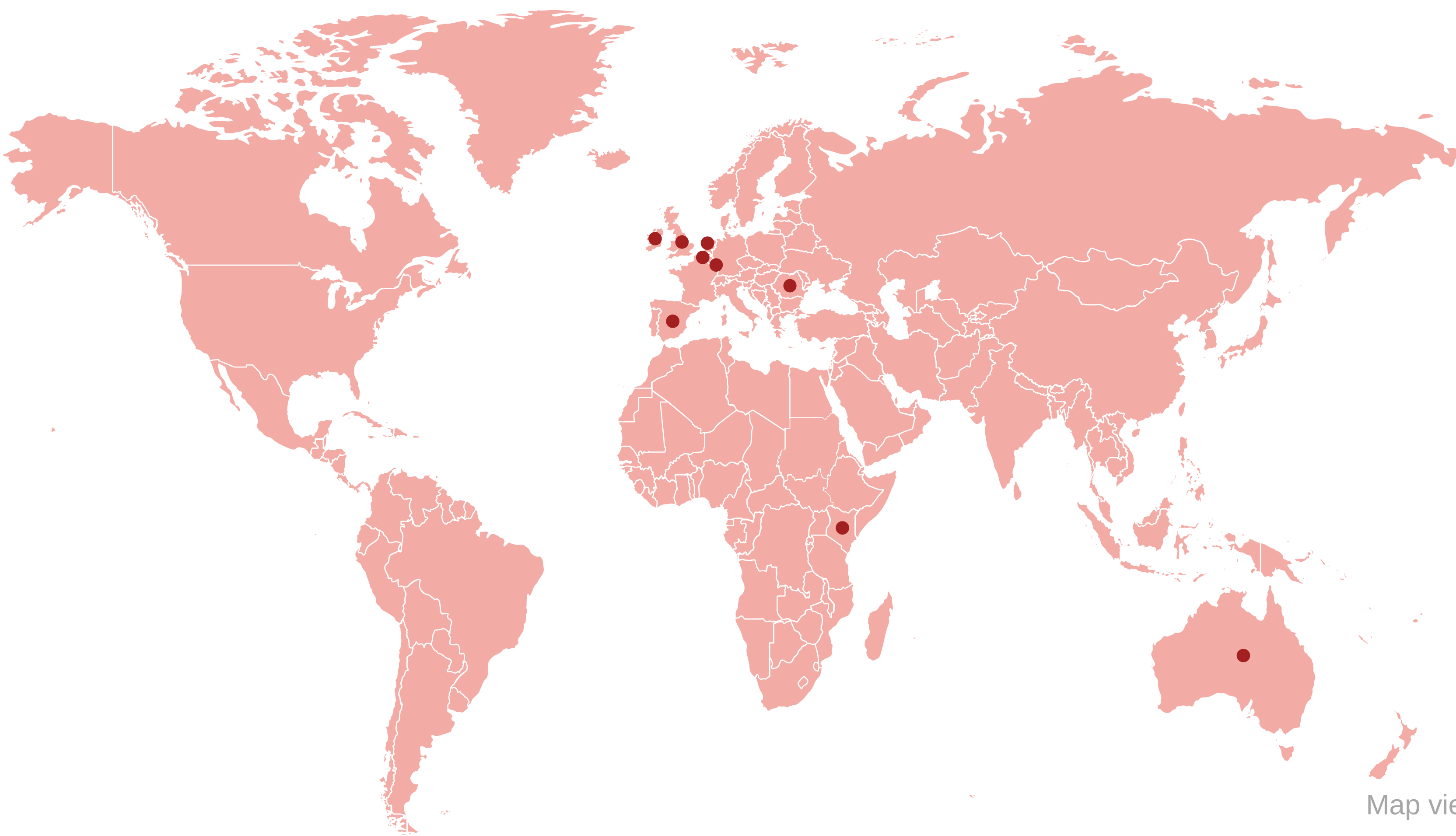
# Recent and upcoming major tax law changes

## Other important tax law changes

*Click each circle to review*



# Recent and upcoming major tax law change

## Australia

During the fourth quarter of 2015, the following measures were enacted in Australia:

- A new multinational anti-avoidance law (MAAL) will apply (from 1 January 2016) to tax certain non-residents as if they have a permanent establishment in Australia.
- Increased penalties apply under transfer pricing and anti-avoidance rules, including MAAL.
- CbC reporting will be required for years beginning on or after 1 January 2016.

## European Union

During the fourth quarter of 2015, the Finance Ministers of the European Union (EU) member states agreed to amend Directive 2011/16/EU on administrative cooperation in the field of taxation to include the automatic exchange of information on cross-border tax rulings. Once issued, the revised Directive is expected to be effective 1 January 2017 and would apply to both new rulings and previously concluded rulings.

## Ireland

During the fourth quarter of 2015, the Irish government delivered Budget 2016. The key measure of the Budget included a proposal for a knowledge development box (KDB) regime that would apply a 6.25% corporation tax rate (half the 12.5% standard rate) to income arising from qualifying Intellectual Property (IP) when some or all of that IP's development takes place in Ireland. Ireland also formally committed to the introduction of CbC reporting that would be effective on 1 January 2016.

## Kenya

During the fourth quarter of 2015 and after a 30-year suspension, Kenya reintroduced the tax on capital gains from transfers of property situated in Kenya, effective 1 January, 2015. The tax is imposed at the rate of 5% on net gains from transfers of property within or out of Kenya, regardless of when the property was acquired.

## Luxembourg

During the fourth quarter of 2015, the Luxembourg government released the following proposals:

- The minimum corporate income tax would be repealed. Instead, a minimum net wealth tax (NWT) would be implemented for all corporate entities having their statutory seat or central administration in Luxembourg. The minimum NWT charge due by a tax unity group would be capped at EUR 32,100.
- The NWT rates would be modified effective from 1 January 2016.
- The existing IP regime would also be repealed. The repeal is designed to align the IP regime with the modified nexus approach as agreed between the EU Member States and as described in the Organisation for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) Action 5 (Counter harmful practices more effectively). Taxpayers currently benefitting from the existing IP regime would still continue to benefit during a transitional period until 30 June 2021.

# Recent and upcoming major tax law change

## Netherlands

During the fourth quarter of 2015, the Dutch government released the following consolidation (fiscal unity) proposals:

- A Dutch fiscal unity would be allowed between a Dutch parent company and a Dutch sub-subsidiary owned by an intermediary company established in another EU member state.
- A Dutch fiscal unity would be allowed between Dutch sister companies owned by an EU parent company.

## Romania

During the fourth quarter of 2015, Romania made the following key changes to its Tax Code:

- Dividends are now exempt from corporate income tax when received by Romanian companies from their Romanian subsidiaries.
- The income withholding tax rate on dividends not qualifying for the participation exemption is reduced from 16% to 5% from 1 January 2017.
- The new Tax Code incorporates various provisions of European Directive no. 2011/96/EU which relates to the application of a common system of taxation in the case of parent companies with subsidiaries in different member states. The legislation introduces an anti-abuse rule which prevents unlawful tax practices used to obtain tax benefits contrary to the Directive's principles.
- The limits on interest deductibility for foreign-currency loans from non-credit institutions, and the deductible interest-rate cap were reduced.

## Spain

During the fourth quarter of 2015, a number of amendments to Spanish General Tax Law were enacted. The primary amendments relate to the following:

- Taxpayers' invoices for the provision of services and/or buying or selling goods have historically been generally considered privileged. However, the Spanish tax authorities may now request invoices from taxpayers as a means to substantiate the taxpayer's operations.
- The statute of limitations has been extended to ten years. A ten year statute of limitations period also applies with respect to unlawful State aid. This period begins at the time the illegal aid took effect under tax regulations.

## United Kingdom

During the fourth quarter of 2015, the following measures were enacted in the UK:

- For periods beginning on or after 8 July 2015, no tax deduction will be available for debits (typically amortisation or impairment charges) related to goodwill and customer related intangible assets arising from business acquisitions on or after that date. However, tax relief will be available for any such disallowed debits on a subsequent sale of the business.
- Income taxable under controlled foreign company (CFC) rules will no longer be offset against UK losses and expenses. This could result in a cash tax cost for loss-making groups with taxable CFC income.

Map view

# Tax accounting refresher

In this section we summarise key tax accounting areas that could be relevant to the preparation of 2015 year-end financial statements.


Greater regulation of businesses calls for strategic tax responses

## Key tax accounting areas

Calendar year 2015 has seen considerable activity in the accounting standard setting, regulatory and legislative landscapes around the world. To assist organisations in navigating these developments in preparation of 2015 year-end financial statements, we summarise key tax accounting areas below.

### Accounting standard developments

In 2015, the FASB undertook a number of projects associated with accounting for income taxes. This includes several income tax accounting projects aimed at reducing complexity in accounting standards. In particular, as we discussed above, the FASB issued an ASU on the balance sheet classification of deferred taxes, an ASU simplifying the accounting for measurement-period adjustments and exposure drafts on intra-entity asset transfers, stock compensation and disclosures of government assistance.

In addition, in 2015 the FASB focused on income tax disclosures as part of its broader disclosure framework project undertaken to improve the effectiveness of disclosures in financial statements. As a result of this project, the FASB is considering changes to income tax disclosures including foreign earnings, unrecognised tax benefits, the tax rate reconciliation, income taxes paid, tax attribute carryforwards, deferred taxes, valuation allowance and tax law changes. A useful summary of various FASB income tax projects, their status, timing and links to more information can be found here.

As mentioned above, the IFRS Interpretations Committee issued a draft Interpretation on accounting for UTPs. This is a significant development in IFRS as currently IAS 12, Income Taxes, does not address accounting for uncertainties in income taxes.

Organisations should be giving attention to these standard developments with their tax accounting and disclosure implications and consider whether early adoption (where allowed) could be warranted. Organisations should also consider active involvement in the standard setting process by responding to exposure drafts that are open for comment.

### Regulatory focus

In the US, the staff of the US Securities and Exchange Commission (SEC) continued to pose a significant number of income tax questions to preparers via staff comment letters. The majority of these comments were related to areas of management judgement – particularly in the areas of deferred tax asset valuation allowance and indefinite reinvestment of foreign earnings, as well as presentation of the effective tax rate.

Continued

# *Tax accounting refresher*

With respect to valuation allowances, the SEC looks to understand information about the facts, circumstances, judgments, and decisions made by management, as well the process that management went through in weighing specific positive and negative evidence. Emphasis is also placed on the importance of early warning disclosure of possible near-term valuation allowance changes.

Regarding the effective tax rate presentation, the SEC looks for quantitative and qualitative details supporting the amounts included in the 'foreign rate reconciling items' line item. Requests have included: (1) a discussion of how the line item was computed by identifying its significant components and (2) a reconciliation detailed by country. The SEC also focuses on situations where significant items were discussed in the financial statements but had no significant impact on the effective tax rate (e.g., a valuation allowance release with minimal rate impact.)

The SEC staff has continued to emphasise that a registrant's indefinite reinvestment assertion(s) related to foreign earnings should be consistent with its disclosures within: (1) Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), (2) financial statement footnotes, and (3) other publicly available information. The staff has frequently required additional disclosure in the liquidity section of the MD&A of potential tax effects from repatriating offshore cash and cash equivalents.

Organisations should provide accurate, transparent, and plain language disclosures for significant assertions and estimates in 2015 financial statements.

## State aid developments

In October 2015, the European Commission (EC) issued its final decisions in the formal State aid investigations into transfer pricing agreements between a Dutch Starbucks entity, Starbucks Manufacturing BV, and the Netherlands and Fiat Finance and Trade and Luxembourg.

The EC largely confirmed its preliminary conclusions issued in 2014 that both companies have benefited from unlawful State aid granted by the Netherlands and Luxembourg, respectively. The EC ordered full recovery of all the aid which was estimated to be between EUR 20-30m for each company. The exact amounts would have to be confirmed by the Dutch and Luxembourg tax authorities. However, the Dutch government has already announced it would appeal the EC's decision that its tax ruling with Starbucks amounts to illegal State aid.

The EC's final decisions on two more significant company investigations with tax agreements (i.e., into Apple's transfer pricing ruling in Ireland and Amazon's transfer pricing ruling in Luxembourg) and into the Belgian Excess Profit regime are expected shortly.

In December 2015, the EC also opened a formal investigation into tax rulings between McDonald's and the Luxembourg tax authorities on the tax treatment of McDonalds's royalty income received in Luxembourg. The EC believes that the tax rulings have led to a situation where McDonald's does not pay corporate income tax in either Luxembourg or the US on royalty income it receives from franchisee operated restaurants in Europe and Russia for the right to use the McDonald's brand and associated services. This is the first time that the EC has targeted double non-taxation resulting from the application of a double tax treaty.

Continued

# Tax accounting refresher

Organisations should consider the above decisions and the new investigation into McDonald's tax rulings in Luxembourg and monitor further State aid developments to consider if a tax ruling, tax settlement, or even tax regime may be considered unlawful State aid. The accounting consequences of such investigations, based on available information, are likely to be in the scope of ASC 740 and IAS 12.

State aid should be an important consideration when establishing any new tax position with the tax authorities, whether in relation to a tax ruling, tax settlement, or the application of a specific tax regime. Organisations should also assess the potential effect of these continuing developments on existing UTPs, as well as amounts owed for periods previously considered closed.

Organisations may need to seek expert support in assessing risks from appropriate legal counsel. Expert analysis should also address the company's position in the context of the relevant accounting standard.

Organisations will need to document management's assessment, as well as related internal controls. Enhanced disclosure should also be considered to more directly address the impact of the EC actions on ongoing risk assessments.

## The OECD's final BEPS project recommendations

On 5 October 2015, the OECD released its final recommendations from the BEPS project, which were endorsed by the G-20 Finance Ministers during their meeting on 16 November 2015.

The recommendations can be grouped into the following key themes:

- addressing substance – to align taxing rights with the relevant value-adding activity
- coherence of the international tax system - to remove gaps and 'black holes'
- transparency – to provide significant additional disclosure

In addition, the BEPS recommendations seek to address digital business, improve dispute resolution and create a multilateral instrument for rapid updating of bilateral tax treaties.

The majority of the OECD's BEPS recommendations could have tax accounting implications when implemented by territories into local legislation. For example, recommendations for Action 7 (Prevent the artificial avoidance of PE status) and Actions 8, 9 and 10 on transfer pricing outcomes could ultimately impact the uncertain tax positions analysis, and recommendations for Action 3 (Strengthen CFC rules) may impact the assessment of outside basis differences and transparent entity accounting.

The recommendations could also result in an overall increase in tax compliance responsibilities as greater transparency and sharing of tax information would be required. One of such actions is CbC reporting.

CbC reporting is likely to be one of the first BEPS recommendations to be implemented by territories, and its recommended effective date is 1 January 2016. Given this effective date, multinationals affected by the CbC reporting regime have a limited time to comply with the CbC reporting requirements. Such multinationals should monitor CbC reporting implementation in countries where they have operations to consider the applicability of the rules and assess what internal systems and process changes will be required for CbC reporting. In particular, multinationals should evaluate the capacity of their corporate information systems and controls to generate the level of financial detail required.

Continued

# Tax accounting refresher

It may also be useful to conduct a 'dry run' CbC evaluation to identify any process and data deficiencies, along with a risk assessment. Given the strategic nature of the disclosures it is recommended that a wide variety of stakeholders are involved.

Given the CbC template will be used as a high-level risk assessment tool by tax authorities, it will be important for management to be able to explain the reported data which may include reconciliations to a reliable source (e.g., to group/local statutory/audited accounts or filed tax returns). Although there is currently no requirement or recommendation to reconcile information reported in the CbC reporting template, multinationals may want to undertake such a reconciliation as a part of the organisation's internal risk management process.

## New taxes

In 2015, we have seen a few new taxes that may seek to tax the same income more than once, or could target profits that the taxing authorities believe have been unfairly sheltered from their reach. In some cases, new taxes have been used as a mechanism to stimulate certain corporate behaviours, rather than to simply generate tax revenues. Recent examples of such taxes include the diverted profits tax in the United Kingdom and the additional 10% surtax in Korea.

The impact of these new taxes on the financial statements depends on whether they are within the scope of ASC 740 and IAS 12. Companies should monitor any new taxes being introduced in countries where they operate and consider the mechanics of such taxes to determine their impact on financial statements.

If a tax is subject to the income tax guidance, companies need to consider a number of tax accounting issues, including the determination of the accounting period it affects, whether it affects or gives rise to deferred tax balances, whether any uncertainties exist, and what disclosures are required. The accounting for taxes that are not based on income follow other accounting principles that might have very different recognition, measurement, and disclosure requirements.

With any new tax legislation, it is important for entities to have a process in place to effectively consider the accounting implications in a timely manner.

# Contacts

For more information on the topics discussed in this newsletter or for other tax accounting questions, including how to obtain copies of the PwC publications referenced, contact your local PwC engagement team or your Tax Accounting Services network member listed here.

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Continued

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