

Media Release

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Deloitte welcomes rethink of accounting for income taxes, but warns against complacency

Friday 30 October 2009: Professional services firm, Deloitte, has welcomed global accounting standard setters' decision to abandon proposals for wholesale changes to accounting for income taxes in favour of a 'watered down' short-term convergence project.

The joint meeting of the International Accounting Standards Board (IASB) and United States Financial Accounting Standards Board (FASB) has not revealed the details of the new project, however, and Deloitte has warned companies to remain vigilant, particularly in the contentious and commercially sensitive area of uncertain tax positions.

According to Debbie Hankey, Accounting Technical partner with Deloitte, the IASB response was appropriate given the overwhelmingly negative reaction to the proposals in the IASB Exposure Draft ED/2009/2 Income Taxes, including Deloitte's own submission to the Australian and global standard setters.

"The proposals in the exposure draft neither achieved convergence between IFRS and US-GAAP, nor solved many of the difficult issues faced by companies in applying the current accounting standards on income taxes," Ms Hankey said.

Paul Fogarty, a Corporate Tax partner with Deloitte, said that the biggest concern with the proposals was the treatment of 'uncertain tax positions'. These proposals required a weighted probability analysis of many items included in tax returns, combined with potentially onerous disclosures.

"The commercial implications of the uncertain tax position proposals were a real concern for companies as positions taken in current tax returns would have been caught by the new requirements. We're not out of the woods yet," Mr Fogarty said.

Debbie Hankey warned companies not to become complacent, as many of the proposals may re-emerge in the new project. The IASB and FASB's Memorandum of Understanding has identified income taxes as a key area of convergence in time for a possible adoption of IFRS in the United States, with a final determination expected in light of progress made by 2011.

"The new fast-tracked project now seems to be all about convergence with US-GAAP, which includes the 'FIN 48' requirements for uncertain tax position accounting. Our experience with FIN 48 in the

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United States indicates that this area remains a serious commercial concern warranting careful planning,” said Ms Hankey.

“Recognition of taxes within tax-consolidated groups and the determination of tax bases are also issues that may arise on convergence with US GAAP principles,” she added.

Australian companies will need to keep a close watch of developments as this project progresses, to ensure that the proposals align with the Australian taxation regime and result in meaningful financial information for users of financial statements.

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