



Applying IFRS

A closer look at IFRS
accounting for the effects of
the US Tax Cuts and Jobs Act

January 2018

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What you need to know

- ▶ The Tax Cuts and Jobs Act significantly changes US income tax law, and entities need to account for the effects of these changes in the period that includes 22 December 2017 the enactment date.
- ▶ The Tax Cuts and Jobs Act reduces the corporate income tax rate to 21%, creates a territorial tax system (with a one-time mandatory tax on previously deferred foreign earnings), broadens the tax base and allows for immediate capital expensing of certain qualified property. It also requires entities to pay minimum taxes on foreign earnings and subjects certain payments by corporations to foreign related parties to additional taxes.
- ▶ Entities with reporting periods that end on a date other than 31 December will need to use a blended federal statutory tax rate because the new rate is administratively effective at the beginning of their fiscal year.
- ▶ The financial reporting effects of the Act may be complex, especially for multinationals. Entities must use their judgement in providing sufficiently detailed quantitative and qualitative disclosures to enable users to understand the impact of the tax reforms on its financial position, financial performance and cash flows.

Overview

The Tax Cuts and Jobs Act (the Act), which President Donald Trump signed into law on 22 December 2017, aims to encourage economic growth and bring back jobs and profits from overseas by reducing US corporate income tax rates, creating a territorial tax system, allowing for immediate expensing of certain qualified property and providing other incentives. The Act also includes various base-broadening provisions (e.g., the elimination of existing deductions) and anti-base erosion provisions.

On 22 December 2017, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin (SAB) 118¹ to provide guidance for entities that are not able to complete their accounting for the income tax effects of the Act in the period of enactment. The Financial Accounting Standards Board (FASB) staff has expressed views on implementation issues related to the accounting for the effects of the Act and finalised Staff question and answer (Q&A) documents on these matters.

Entities applying International Financial Reporting Standards (IFRS) must apply the relevant guidance in IFRS, in particular, IAS 12 *Income Taxes* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

On 26 January 2018, the European Securities and Market Authority (ESMA) issued a public statement *Accounting for Income Tax consequences of the United States Tax Cuts and Jobs Act under IFRS*, which provides clarifications on accounting for the income tax consequences of the Act under IFRS (see section 2 *ESMA public statement* below).

This publication incorporates our views - which are consistent with ESMA's Public Statement - on the IFRS accounting implications of the Act and is particularly relevant to IFRS reporters that are either Foreign Private Issuers in the US or that have material subsidiaries in the US. It also addresses the accounting implications for entities that use fiscal years that end on a date other than 31 December, among other things.

1. Summary of key provisions of the *Tax Cuts and Jobs Act*

The Act makes the following key changes to US tax law:

- ▶ Establishes a flat corporate income tax rate of 21% to replace current rates that range from 15% to 35% and eliminates the corporate alternative minimum tax (AMT)
- ▶ Creates a territorial tax system rather than a worldwide system, which will generally allow entities to repatriate future foreign source earnings without incurring additional US taxes by providing a 100% exemption for the foreign source portion of dividends from certain foreign subsidiaries
- ▶ Subjects certain foreign earnings, on which US income tax is currently deferred, to a one-time transition tax
- ▶ Creates a "minimum tax" on certain foreign earnings and a new base erosion anti-abuse tax (BEAT) that subjects certain payments made by a US entity to a related foreign entity to additional taxes

¹ SAB 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*.

- ▶ Creates an incentive for US entities to sell, lease or license goods and services abroad by effectively taxing them at a reduced rate
- ▶ Reduces the maximum deduction for net operating loss (i.e., unused tax loss) carryforwards arising in tax years beginning after 2017 to a percentage of the taxpayer's taxable income, allows any net operating losses generated in tax years ending after 31 December 2017 to be carried forward indefinitely and generally repeals carrybacks
- ▶ Eliminates foreign tax credits or deductions for taxes (including withholding taxes) paid or accrued with respect to any dividend to which the new exemption (i.e., the 100% exemption for the foreign source portion of dividends from certain foreign subsidiaries) applies, but foreign tax credits will continue to be allowed to offset tax on foreign income taxed to the US shareholder subject to limitations
- ▶ Limits the deduction for net interest expense incurred by US corporations
- ▶ Allows businesses to immediately write off (or expense) the cost of new investments in certain qualified depreciable assets made after 27 September 2017 (but would be phased down starting in 2023)
- ▶ May require certain changes in tax accounting methods for revenue recognition
- ▶ Repeals the Section 199 domestic production deductions beginning in 2018
- ▶ Eliminates or reduces certain deductions (including deductions for certain compensation arrangements, certain payments made to governments for violations of law and certain legal settlements), exclusions and credits, and adds other provisions that broaden the tax base

Many of the provisions could have implications for state and local tax in the US. Most state income tax laws use federal taxable income as a starting point for determining state income tax. While some states automatically adopt federal tax law changes, other states conform their laws with federal law on specific dates. States also may choose to decouple from new federal tax provisions and continue to apply current law. An entity may need to follow one set of rules when determining taxable income for US income tax purposes and multiple sets of rules when determining state and local taxable income.

Since states generally do not conform their income tax rates with changes in the federal tax rate, but generally conform to the federal definition of taxable income, state income taxes could rise as the federal tax base expands. Entities should understand the conformity rules in the states in which they operate so they can appropriately account for the effects on their state income taxes.

How we see it

The law could have significant income tax accounting implications for entities, beginning in the period of enactment. As a result, entities should not underestimate the time and effort needed to focus on their accounting and disclosure for the financial reporting effects of the new law.

2. ESMA public statement

As noted in the overview to this document, the SEC staff issued SAB 118 *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* to provide guidance for entities reporting under US GAAP. Footnote 6 to SAB 118 states, "The staff would also not object to a Foreign Private Issuer reporting under International Financial Reporting Standards applying a measurement period solely for purposes of completing the accounting requirements for the income tax effects of the Act under International Accounting Standard 12, *Income Taxes*." In addition, the FASB staff has published Q&A documents that address US GAAP implementation issues related to the accounting for the effects of the Act. However, the SEC and FASB guidance did not directly address IFRS questions and implementation issues.

To avoid the risk of inconsistent application of IFRS in the European Union, ESMA issued, on 26 January 2018, a Public Statement, *Accounting for Income Tax consequences of the United States Tax Cuts and Jobs Act under IFRS*, that provides clarifications on accounting for the income tax consequences of the Act under IFRS.

ESMA, together with National Competent Authorities in the EU member states, will monitor the level of transparency that issuers provide in their financial statements regarding the accounting for the effects of the Act and changes in estimates resulting from the Act's implementation. Therefore, EU issuers and their auditors must follow the ESMA guidance, while non-EU entities may wish to consider ESMA's Public Statement in developing their IFRS accounting policies.

The Public Statement specifically reminds issuers of the following:

- ▶ Developing a complete understanding of the implications of the Act may take some time. Nevertheless, ESMA expects EU issuers to be able to make a reasonable estimate of the impact of the material aspects of the Act on their current and deferred tax assets and/or liabilities in their 2017 annual financial statements in line with the deadlines set out in Article 4 of the Transparency Directive, as transposed by the national law.
- ▶ According to paragraphs 46 and 47 of IAS 12, current and deferred tax assets and liabilities are measured based on tax rates and tax laws that have been enacted, or substantively enacted, by the end of the reporting period. ESMA highlights that under IFRS there is no relief from these requirements, even to deal with circumstances in which complex legislation is substantively enacted shortly before the year-end.
- ▶ Paragraph 61A of IAS 12 requires recognition of current and deferred tax outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss (backward tracing).
- ▶ ESMA acknowledges that these reported amounts may be subject to a higher degree of estimation uncertainty than is usually the case and that measurement adjustments may need to be made in subsequent reporting periods as issuers get more accurate information on the impact of the Act.
- ▶ According to paragraphs 122 and 125-129 of IAS 1, entities should give additional consideration to their entity-specific disclosure on those estimates and the judgements they have made in their determination, as well as the nature and sources of estimation uncertainty. The disclosures

provided should reflect the complexity of the estimate and the degree of the estimation uncertainty.

- ▶ New information on application of the Act to the specific circumstances of the issuer might become available only progressively. ESMA expects that, in line with paragraph 5 of IAS 8, such adjustments in subsequent periods would, in most cases, constitute a change in accounting estimate where they result from a reassessment of the future expected benefits and obligations associated with the tax assets or liabilities. However, issuers should carefully assess whether measurement adjustments are a change in estimates or represent a correction of an error, as defined in paragraph 5 of IAS 8.
- ▶ Entities need to present transparent and informative disclosures both in relation to the amounts reported in the 2017 annual financial statements and on their subsequent re-measurement. Paragraphs 80(d) and 81(d) of IAS 12, require disclosure of the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes and the explanation of changes in the applicable tax rate(s) compared to the previous accounting period.

3. Timing of accounting for enacted tax law changes

IAS 12 requires the effects of changes in tax rates and tax laws on current and deferred tax balances (including the effects of the one-time transition tax discussed below) to be recognised in the period in which the legislation is substantively enacted. See Chapter 31 section 5.1 *Enacted or substantively enacted tax legislation* of EY's *International GAAP 2018*® for more detail. In the US, the income tax laws are considered enacted and substantively enacted on the date that the president signs the legislation (i.e., in this case, 22 December 2017).

While the effective date of the new corporate tax rates is 1 January 2018, an entity is required to calculate the effect on its deferred tax balances as of the enactment date. For entities with fiscal years that do not end on 31 December, the new lower corporate tax rate is applied by determining a blended tax rate for the fiscal year that includes the enactment date. Therefore, the effect of the rate change on a non-calendar year-end entity's current and deferred income taxes is considered in the first reporting period that includes the enactment date. This could be the entity's first interim period ending on or after 22 December 2017 (see section 9 *Special considerations for non-calendar year-end entities* below).

3.1 Subsequent events

Paragraph 3 of IAS 10 *Events after the Reporting Period* provides guidance on when events after the reporting period are considered to be adjusting or non-adjusting events. Events that provide evidence of conditions that existed at the end of the reporting period are adjusting events after the reporting period. Updated tax calculations, collection of additional data, clarifications issued by the tax authorities and gaining more experience with the tax legislation before the authorisation of the financial statements should be treated as adjusting events if they pertain to the balance-sheet date. Events that are indicative of conditions that arose after the reporting period should be treated as non-adjusting events. Judgement needs to be applied in determining whether

technical corrections and regulatory guidance issued after year-end are to be considered adjusting events.

Entities must update financial information that was previously published in a preliminary announcement for any new information and improved estimates that could reasonably be expected to have been taken into account at the date of authorisation of the financial statements.

4. Effects of a lower corporate income tax rate

4.1 Accounting for deferred tax assets and liabilities

Entities need to apply the new corporate tax rate when calculating the effects of the tax law change on their deferred tax balances as of the enactment date.

The Act established a flat corporate income tax rate of 21% to replace previous rates that ranged from 15% to 35%. Entities need to apply the new corporate tax rate when calculating the effects of the tax law change on their deferred tax balances as of the enactment date.

Calendar year-end entities may determine the effects of the rate change using year-end temporary differences if the temporary differences are expected to approximate the entities' deferred tax balances as of the enactment date. However, these entities may need to make adjustments for material unusual or infrequent transactions that occurred between the enactment date and year-end. Further, any assets or liabilities that are measured at fair value on a recurring basis should be adjusted to fair value at the enactment date. Entities that use a reporting period ending on a date other than 31 December are also required to account for the effects of the change in the tax law on their deferred tax balances as of the enactment date. Estimating temporary differences as of the enactment date may present additional challenges for these entities (see section 9 *Special considerations for non-calendar year-end entities* below).

The lower corporate income tax rate reduces the future tax benefits of existing deductible temporary differences, such as accruals for pension liabilities and unused tax loss carryforwards. It also reduces the expected future taxes payable from the reversal of existing taxable temporary differences, such as those related to accelerated depreciation on property, plant and equipment.

Deferred tax assets and liabilities are recognised under IFRS when they can be reliably measured based on the tax rate and tax laws that have been enacted, or substantively enacted, by the end of the reporting period. In the rare cases where no reasonable estimate can be made, SAB 118 requires an entity to assess the tax position based on the provisions of the tax laws that were in effect immediately prior to enactment, whereas IAS 12 requires the use of (substantively) enacted tax law. IFRS reporters must apply judgement in these cases.

4.2 Incomplete information

Entities that are impacted by the tax reforms are required to reflect the effect of the enacted tax legislation in their financial reporting. It is important to distinguish between two sources of uncertainty:

- ▶ *Uncertainty about the requirements of the law* may give rise to uncertain tax treatments, as defined by IFRIC 23 *Uncertainty over Income Tax Treatments*, and entities will often have limited ability to accelerate the resolution of such issues.

- ▶ *Incomplete information* because entities may not keep their books and records in a location and form that allows them to make certain detailed tax calculations at short notice. Entities must collect the data that they could reasonably be expected to obtain and take into account in making reasonable estimates.

It is not necessary for entities to have a complete understanding of every aspect of the tax law to prepare reasonable estimates, rather they should complete their estimates for those aspects of their tax calculations for which they have information available. Only in truly rare circumstances would it not be possible to come up with an estimate. In practice, this might only be the case for the one-time transition tax. When, however, a reasonable estimate cannot be made, the item is not recognised in the balance sheet or income statement.

To avoid errors in the preparation of financial statements, paragraph 5 of IAS 8 requires an entity to use reliable information that was available when those financial statements were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Changes in accounting estimates that result from new information or new developments are not considered corrections of errors and should be accounted for in the period of the change (and future periods, if affected). Future changes to amounts recognised in the financial statements that result from new information or more experience would generally be treated as changes in accounting estimates.

In applying their judgement, entities may wish to consider IFRIC 23 (issued by the IASB in June 2017), which is applicable for annual reporting periods beginning on or after 1 January 2019 (earlier application is permitted). Although IFRIC 23 is not yet mandatory, and was not specifically developed to deal with tax law changes, it provides helpful guidance that entities may wish to consider in accounting for the uncertainties that exist with respect to their tax positions in light of any changes in legislation.

The disclosures required by paragraphs 125-129 of IAS 1 *Presentation of Financial Statements* should be made with respect to sources of estimation uncertainty. Entities may wish to consider the guidance in IFRIC 23 with respect to situations in which the tax law is not clear. Foreign Private Issuers must consider the disclosure requirements in SAB 118 and make corresponding IFRS disclosures to describe the level of estimation uncertainty.

4.3 Backward tracing of changes in deferred taxation

Entities need to remeasure existing deferred tax assets (including loss carryforwards) and liabilities and then attribute the impact to the items in profit or loss, other comprehensive income and equity that gave rise to the tax in the first place. Paragraph 61A of IAS 12 requires tax relating to items recognised outside profit or loss, whether in the same period or a different period, to be recognised:

- ▶ In other comprehensive income, if it relates to an item accounted for in other comprehensive income
- ▶ Directly in equity, if it relates to an item accounted for directly in equity

The requirement to have regard to the previous history of a transaction in accounting for its tax effects is commonly referred to as 'backward tracing'.

The backward tracing requirements also apply to any subsequent changes in accounting estimates.

Illustration 1 – How changing the tax rate affects taxable temporary differences

Assume that at the end of 2017, a calendar year-end entity's only temporary difference is a US\$1 million taxable temporary difference that arose in the prior year and is expected to reverse in 2018 and 2019. The deferred tax liability at the beginning of 2017 is US\$350,000, reflecting the 35% corporate tax rate in effect at that date. On 22 December 2017, legislation was enacted that reduced the tax rate to 21%, effective 1 January 2018.

The entity's deferred tax liability at 22 December 2017 would be US\$210,000 (US\$1 million x 21%). As a result of applying the new 21% tax rate, the deferred tax liability would be reduced by US\$140,000 (US\$350,000 – US\$210,000) as of 31 December 2017. In 2017, the US\$140,000 adjustment would be recognised (under IAS 12.61A) in profit or loss, other comprehensive income, or directly in equity, depending on where the item that it relates to was originally recognised.

Note: If a portion of the temporary difference was expected to reverse in 2017, the entity would first be required to estimate its temporary differences as of the enactment date rather than using the balance at the beginning of the year.

IAS 12 acknowledges that, in exceptional circumstances, it may be difficult to determine the amount of tax that relates to items recognised in other comprehensive income and/or equity (IAS 12.63). In such cases, a reasonable pro-rata method, or another method that achieves a more appropriate allocation in the circumstances, may be used. IAS 12 gives the following examples of situations where such an approach may be appropriate:

- ▶ There are graduated rates of income tax and it is impossible to determine the rate at which a specific component of taxable profit (tax loss) has been taxed
- ▶ A change in the tax rate or other tax rules affects a deferred tax asset or liability relating (in whole or in part) to an item that was previously recognised outside profit or loss

Or

- ▶ An entity determines that a deferred tax asset should be recognised, or should no longer be recognised in full, and the deferred tax asset relates (in whole or in part) to an item that was previously recognised outside profit or loss

4.4 Unit of account

One of the key issues in the selection of accounting policies by preparers is deciding the level at which an entity should separately account for items (i.e., the 'unit of account'). The unit of account should be determined based on a judgement as to which approach allows for the best possible estimate of the tax position and reduces the extent to which no reliable estimate can be made. In practice, entities should look at individual aspects (e.g., tax rate change, one-time transition tax, BEAT, GILTI and FDII) of the tax reforms as the unit of account. Furthermore, the assessment should be based on a judgement as to which approach to grouping of tax treatments better estimates the tax position. Paragraph 6 of IFRIC 23 provides guidance that is helpful in determining a unit of account

4.5 Changes in tax rates and adoption of new standards

Many entities adopted new accounting standards (most notably, IFRS 15 *Revenue from Contracts with Customers*) on 1 January 2018 (or shortly thereafter, depending on their fiscal year end). The following discussion focuses on IFRS 15, but the concepts equally apply to IFRS 9 *Financial Instruments* and any new accounting standard or accounting change that revises amounts previously reported for periods prior to the enactment date of the new tax law.

4.5.1 Accounting for the year of enactment

Entities that have not adopted a new accounting standard prior to the enactment date need to first calculate the tax accounting effects of the new tax law (e.g., remeasure deferred taxes for the tax rate change and recognise the impact in profit or loss, other comprehensive income or equity, as appropriate) without considering the change in accounting that will occur in the future. For example, if a calendar year-end entity adopts IFRS 15 on 1 January 2018, its 2017 annual financial statements will show the effects of the enactment of the new tax law, but not the effects of IFRS 15.

4.5.2 Accounting in the year of adoption

Entities that account for the adoption of a new accounting standard after accounting for the effects of changes in the tax law will likely need to calculate the enactment date effects of the Act for a second time, if the new accounting standard changes the financial results for transactions that occurred prior to the enactment date. The first calculation would be for the reporting period that included the enactment date (e.g., the period ended 31 December 2017). The entity will then need to account for the income tax effects of adopting the new standard, which will change the previously reported financial results (i.e., a change to the previously issued financial statements that included the period of enactment or a change reflected in the cumulative catch-up effect of adoption).

For example, if an entity adopts the new revenue standard on 1 January 2018 and elects to use the full retrospective method, it will restate its 2017 financial results for the period prior to enactment based on the tax law in effect during those periods. The effects of tax reform on the enactment date will then be recalculated based on the revised IFRS 15 results. This means that the enactment date effects of the Act in an entity's recast financial results will generally differ from the amounts reported in the 2017 financial statements that an entity issues.

Under the modified retrospective method, an entity will first need to elect either to apply the new revenue guidance to all contracts, as of the date of initial application, or only to contracts that are not completed as of that date. Based on that election, an entity will recognise a cumulative catch-up adjustment to the opening balance of retained earnings on the date of initial application. Like entities that use the full retrospective approach, entities will need to consider the tax laws in effect during the contract period to calculate the income tax effects of the cumulative catch-up adjustment. Therefore, for entities electing to use the modified retrospective approach, the change in the

The enactment date effects of the Act should be recalculated if the new accounting standard changes the financial results for transactions that occurred prior to the enactment date.

enactment date effects of the Act as a result of applying IFRS 15² will be embedded in the tax effect of the cumulative catch-up adjustment.

5. One-time transition tax

Foreign earnings on which US income taxes were previously deferred are subject to a one-time tax as the entity transitions to the new dividend-exemption system. Generally, US corporations need to include in income for each specified foreign subsidiary's last tax year beginning before 2018 their pro rata share of the net post-1986 historical earnings and profits (E&P) of the foreign subsidiaries if E&P have not been previously subject to US tax. The foreign earnings subject to the transition tax need to be measured on 2 November 2017 and on 31 December 2017, and the transition tax is based on the greater amount.

The portion of the E&P comprising cash and other specified assets is taxed at a 15.5% rate, and any remaining amount is taxed at an 8% rate. An entity can elect to pay its tax liability over a period of eight years, interest free, based on the payment schedule included in the law.

5.1 Cash versus other specified asset rate

The portion of the E&P comprising cash and other specified assets is taxed at a 15.5% rate, and any remaining amount is taxed at an 8% rate. To determine the aggregate foreign cash position of the US shareholder, cash is measured on the following three dates:

- ▶ Date 1 – Close of the last taxable year beginning before 1 January 2018 (31 December 2017 for a calendar year-end entity)
- ▶ Date 2 – Close of the last taxable year that ends before 2 November 2017 (31 December 2016 for a calendar year-end entity)
- ▶ Date 3 – Close of the taxable year preceding Date 2 (31 December 2015 for a calendar year-end entity)

The aggregate foreign cash position for a US taxpayer is the greater of the foreign cash position determined as of Date 1 or the average of the foreign cash positions determined as of Date 2 and Date 3.

An entity with non-calendar year-end foreign subsidiaries may not be able to determine its aggregate foreign cash position until the end of its 2018 fiscal year. As a result, such an entity would need to consider whether the amount it recognised for its one-time transition tax payable can be completed earlier than that date (see section 9 *Special considerations for non-calendar year-end entities* below).

Existing unused tax loss and foreign tax credit carryforwards can be used to offset the transition tax. However, the Act sets certain limits that may restrict an entity's use of any foreign tax credits generated from the one-time transition tax.

² That is, the difference between (1) what was originally reported (and will continue to be reported in the 2017 financials) as the effects of enactment prior to the adoption of IFRS 15 and (2) the recomputed effects of enactment after factoring in the adoption of IFRS 15.

5.2 Accounting for the one-time transition tax

An entity needs to recognise the income tax accounting consequences of the one-time transition tax in the period of enactment. Entities that recognised deferred taxes for prior foreign earnings may need to adjust previously recognised deferred tax liabilities and consider the classification of the transition income tax payable.

Under IFRS, entities should apply judgement and include a reasonable estimate in their financial statements of the effects of the one-time transition tax. Only in truly rare circumstances would it not be possible to come up with an estimate (see section 4.2 *Incomplete information* above).

While the transition tax is intended to apply to all post-1986 taxable E&P of an entity's non-US investees that were previously tax deferred, it does not necessarily eliminate all book and tax basis differences. Entities still need to determine the outside basis differences for each of their foreign subsidiaries after taking into consideration payment of the transition tax. For example, there still may be temporary differences related to the investment that, after taking into account the effect of the one-time transition tax, still qualify for the exceptions for recording deferred taxes under paragraphs 39 and 44 of IAS 12 (e.g., where the investor both controls the timing of any reversal and it is probable that there will be no reversal in the foreseeable future). Also, an entity must still consider any withholding taxes in foreign jurisdictions that are only triggered on distribution of earnings to shareholders and taxes that apply upon sale of the investments.

The one-time transition tax is considered a part of the income tax and must be presented as such in the financial statements. Additionally, entities need to consider the effect on the balance sheet classification between current and non-current, in accordance with IAS 1, if they elect to pay the transition tax over the allowed period of time.

5.3 Discounting the one-time transition tax

The legislation allows payment of the one-time transition tax over a period of eight years on an interest-free basis. This raises the question whether such current tax liability need to be recognised at its present value.

IAS 12 prohibits discounting of deferred tax, on the basis that:

- ▶ It would be unreasonable to require discounting, given that it requires scheduling of the reversal of temporary differences, which can be impracticable or, at least, highly complex
- ▶ It would be inappropriate to permit discounting because of the lack of comparability between financial statements in which discounting was adopted and those in which it was not (IAS 12.53-54).

However, IAS 12 is silent on the issue of whether current taxes should be discounted. In June 2004, the general view of the International Financial Reporting Interpretations Committee (IFRIC) was that current taxes payable should be discounted when the effects were material. However, the IFRIC also noted that, at the time, there was a potential conflict with the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

This has led to diversity in practice and entities are required to make an accounting policy choice that is to be applied consistently to all current tax balances (arising in all the jurisdictions in which the entity operates). If an entity has already made an accounting policy choice, the US tax reform in itself would not justify a change in accounting policy. The application of a new accounting policy for transactions, events or conditions that did not occur previously, or were immaterial, is not considered to be a change in accounting policy (IAS 8.16).

5.3.1 Presentation of accretion of interest

Many tax regimes require interest and/or penalties to be paid on late payments of tax. This raises the question of whether or not such interest and penalties fall within the scope of IAS 12 and how they should be presented in the income statement. If such penalties and interest fall within the scope of IAS 12, they are presented as part of income tax. If they do not fall within the scope of IAS 12, they should be included within profit before tax.

Some argue that penalties and interest have the characteristics of tax - they are paid to the tax authorities under tax legislation and in many jurisdictions are not a tax deductible expense. Others contend that penalties and interest are distinct from the main tax liability and therefore should not form part of tax expense. Those who hold this view would point out, for example, that under IFRS, the accretion of interest on discounted items is generally accounted for separately from the discounted expense.

The IFRS Interpretations Committee considered this issue in both March and September 2017, as a result of comments received from respondents regarding the scope of what is now IFRIC 23. Notwithstanding their decision to exclude interest and penalties from the scope of IFRIC 23 and their decision not to add a project on interest and penalties to its agenda, the Committee observed that:

- ▶ Entities do not have an accounting policy choice between applying IAS 12 and applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to interest and penalties. If an entity determines that amounts payable or receivable for interest and penalties are income taxes, then the entity applies IAS 12 to those amounts. If an entity does not apply IAS 12 to interest and penalties, then it applies IAS 37 to those amounts.
- ▶ Paragraph 79 of IAS 12 requires an entity to disclose the major components of tax expense (income). For each class of provision, paragraphs 84 and 85 of IAS 37 require a reconciliation of the carrying amount at the start and end of the reporting period as well as various other pieces of information. Accordingly, regardless of whether an entity applies IAS 12 or IAS 37 when accounting for interest and penalties related to income taxes, the entity would disclose information about those interest and penalty charges if it is material.
- ▶ Paragraph 122 of IAS 1 requires disclosure of the judgements that management has made in the process of applying the entity's accounting policies, that have the most significant effect on the amounts recognised in the financial statements.

We believe that a similar reasoning should also be applied to the presentation of the accretion of any interest resulting from a determination that current tax balances due after more than one year should be discounted.

6. The new territorial system

Under the worldwide taxation system previously in effect, US corporate income tax applied to all of an entity's income, regardless of whether it was earned in the US or overseas. However, foreign income earned by a foreign subsidiary of a US corporation was generally not taxed until the foreign earnings were repatriated to the US.

The Act created a territorial tax system that allows entities to repatriate certain foreign source earnings without incurring additional US tax by providing for a 100% dividend exemption. Under the dividend-exemption provision, 100% of the foreign source portion of dividends paid by certain foreign corporations to a US corporate shareholder are exempt from US taxation. The dividend exemption does not apply to foreign income earned by a domestic corporation through foreign branches (including foreign corporations for which the entity made check-the-box elections) or to gains on sales attributable to the appreciation of stock. However, the dividend exemption generally applies to the gain on the sale of foreign stock attributable to the foreign subsidiary's E&P.

This provision applies to E&P distributions made after 31 December 2017.

6.1 Accounting considerations related to the territorial system

Entities will need to reconsider the taxes that may need to be provided on outside basis differences, and whether the exceptions in paragraphs 39 and 44 of IAS 12 apply.

Outside basis differences represent the difference between the financial reporting basis and the tax basis of an investment. See Chapter 31, section 7.5 '*Outside* temporary differences relating to subsidiaries, branches, associates and joint arrangements' in EY's *International GAAP 2018*[®] for more detail. Under IAS 12, an entity may have historically applied certain exceptions for recording deferred tax amounts related to the outside basis differences of its subsidiaries, branches, associates and joint arrangements (i.e., it has control over any reversal and that the temporary difference will not reverse in the foreseeable future). In other instances, an entity may not have met the criteria to apply those exceptions or may have been required to record the related deferred tax amounts.

Under the new territorial tax system, an entity still needs to apply the guidance in paragraphs 39 and 44 of IAS 12 to account for the tax consequences of outside basis differences from investments in subsidiaries, branches, associates and joint arrangements. An entity needs to carefully evaluate the provisions of the law for each individual foreign investee to determine whether they can control any reversal and that the temporary difference will not reverse in the foreseeable future, otherwise they are required to recognise deferred tax liabilities related to outside basis differences (even after considering the one-time transition tax discussed in section 5 *One-time transition tax* above) and the appropriate tax effects of the outside basis differences.

The following are some of the considerations related to outside basis differences that entities will need to consider in evaluating taxes that may need to be provided on outside basis differences and whether the exceptions in paragraphs 39 and 44 of IAS 12 apply:

- ▶ *Outside basis differences* – The one-time transition tax applies to post-1986 tax E&P. That basis difference may not equate to the entire outside basis difference of some entities' subsidiaries, branches, associates and joint arrangements. The remaining outside basis difference will need to be examined to understand any federal, foreign or state taxes that could arise

and whether the exceptions in paragraphs 39 and 44 of IAS 12 apply. In addition, entities will need to evaluate their intention for the remission or continued retention of E&P subject to the transition tax. There may be additional taxes (e.g., state, local, foreign) that would be due on these earnings, if remitted. While future earnings may be subject to 100% dividend exemption, entities will need to continue to evaluate their intentions on future earnings and any other residual basis differences in order to determine if they can continue to conclude that the criteria in paragraphs 39 and 44 of IAS 12 apply, or if they will be required to provide for additional taxes that would be due on future earnings, if remitted, and/or the recognition of other basis differences.

- ▶ *Foreign taxes* (e.g., withholding taxes) – Entities still need to assess whether the exceptions in paragraphs 39 and 44 of IAS 12 apply to foreign earnings (including E&P subject to the one-time transition tax). Although an entity will need to provide US taxes on E&P due to the one-time transition tax, it will need to evaluate whether it can continue to conclude that the exceptions in paragraphs 39 and 44 of IAS 12 apply to those earnings with respect to withholding taxes and other foreign income taxes that could potentially be assessed.
- ▶ *Gains on sale* – Because gains from the sales of shares in a foreign investee are not eligible for the dividend exemption, entities need to separately track basis differences related to their investment balances and consider any intentions for disposal of a foreign investee.
- ▶ *State and local taxes* – Many states may have existing statutes, or will choose to enact legislation, to decouple from federal treatment of foreign sourced dividends. These differences could apply to both post-1986 E&P taxed under the federal one-time transition tax as well as pre-1987 E&P. As a result, entities will need to continue to assess their outside basis differences created by all book to tax differences and the state taxes that might apply. Individual state and local tax law changes should be accounted for when enacted in accordance with IAS 12.

Entities may not have all the information to do a full analysis of the reversal of outside basis differences in their investments in subsidiaries, branches, associates and joint arrangements, after considering the one-time transition tax, by their financial reporting deadline. Under IAS 12, entities should apply judgement and include a reasonable estimate in their financial statements of the future tax effects of their outside basis differences and the tax cost of any transition taxes. Only in truly rare circumstances would it not be possible to come up with an estimate (see section 4.2 *Incomplete information* above).

7. Anti-deferral and anti-base erosion provisions

The Act includes anti-deferral and anti-base erosion provisions targeting both US-based and foreign-based multinational entities, including:

- ▶ A new minimum tax on global intangible low-taxed income
- ▶ A lower effective tax rate (after deduction) on a US entity's sales, leases or licences of goods and services abroad that provides an incentive for these activities
- ▶ A new tax on certain payments from a corporation subject to US tax to a related foreign corporation that are otherwise deductible (e.g., royalty payments)

7.1 Global intangible low-taxed income (GILTI)

The Act subjects a US shareholder to current tax on their “global intangible low-taxed income” of its controlled foreign corporations. GILTI is calculated based on the following formula: the excess of the aggregate of a US shareholder’s pro rata share of net income of its controlled foreign corporations (CFCs) over a calculated return on specified tangible assets of the CFCs. The income inclusion under GILTI is eligible for a deduction that is intended to lower the effective tax rate to 10.5% for taxable years beginning after 31 December 2017 and ending in 2025. The deduction applied to GILTI income, will be lowered resulting in the intended effective rate rising to 13.125% for taxable years beginning after 31 December 2025.

Further, the Act limits foreign tax credits (FTCs) to 80% of the foreign tax paid and properly attributable to GILTI income. It also limits an entity’s ability to use these FTCs against other foreign source income or to carry these FTCs back or forward to other years.

7.1.1 Accounting for GILTI: Accounting policy choice

The income subject to tax under the GILTI provisions will be treated in a manner similar to a Subpart F income inclusion (i.e., it should be included in the US shareholder’s taxable income in the current year) and included in its US income tax provision. However, questions exist about whether entities should include the effects of the Act in income tax in the future period that the tax arises or as part of deferred taxes on the related investments.

The FASB staff Q&A *Accounting for global intangible low-taxed income* provides arguments for the appropriateness of providing for deferred taxes arising from the GILTI provisions. The FASB staff concluded that, under US GAAP, there is an accounting policy choice to account for the taxes on GILTI as either a current period charge similar to special deductions or by providing for deferred taxes.

It is acceptable to account for the tax on GILTI as either: 1) a period charge in the future period the tax arises, or 2) a part of deferred taxes related to the investment or subsidiary.

Similarly, under IAS 12, it could be argued that it is acceptable to account for the tax of GILTI in either of the following ways:

- ▶ *As a period charge in the future period the tax arises* - The calculation of GILTI is based on a taxpayer’s aggregate income from all foreign corporations and basis differences cannot be attributed to individual foreign corporations. In addition, the GILTI computation is dependent on contingent or future events and entities may not always need to pay the tax on GILTI. Therefore, it would be acceptable under IAS 12 to recognise the tax on GILTI as a period charge in the future period that the tax arises.
- ▶ *As part of deferred taxes related to the investment or subsidiary* - Deferred taxes generally are provided under IAS 12 for basis differences that are expected to result in Subpart F income upon reversal. The current tax imposed on GILTI is similar to the tax imposed on existing Subpart F income and, hence, it would be acceptable to provide for deferred tax under IAS 12. However, entities must apply judgement in reaching this conclusion. In particular, they must consider whether they expect to be subject to GILTI continuously and whether they can make a reasonable estimate of its impact under this approach.

Regardless of the accounting policy chosen, the tax on GILTI would be considered a part of the income tax and must be presented as such in the financial statements.

Under paragraphs 117 and 122 of IAS 1, an entity must disclose its significant accounting policies and the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

7.2 Export incentive on foreign-derived intangible income (FDII)

The law provides tax incentives to US entities to earn income from the sale, lease or licence of goods and services abroad in the form of a deduction for foreign-derived intangible income. Foreign-derived intangible income is taxed at an effective rate of 13.125% for taxable years beginning after 31 December 2017 and 16.406% for taxable years beginning after 31 December 2025.

7.2.1 Accounting considerations for the export incentive for FDII

It is acceptable to account for the deduction for FDII as either: 1) a deduction in the future period in which it arises; or 2) a part of deferred taxes.

IAS 12 does not specifically address accounting for deductions similar to the deduction for foreign-derived intangible income. Under IAS 12 it could be argued that it is acceptable to account for the deduction for FDII in either of the following ways:

- ▶ *As a deduction in the future period in which it arises* - Entities may not always qualify for an FDII deduction. Therefore, it would be acceptable to recognise the tax benefits no earlier than the year in which they are deductible on the tax return. This approach would be consistent with the treatment under US GAAP and avoids the need for complex forecasts.
- ▶ *As part of deferred taxes* - To the extent that temporary differences are affected upon reversal by the FDII deduction, it would be consistent with the requirements in IAS 12 to account for any deferred tax effects that arise. It should be noted that such an approach would involve a significant degree of complexity and, depending on the facts and circumstances, may not meet the criteria in paragraph 10 of IAS 8 regarding relevance and reliability.

Regardless of the accounting policy chosen, the tax FDII deduction would be considered a part of the income tax and must be presented as such in the financial statements.

Paragraph 13 of IAS 8 requires entities to apply consistent accounting policies to similar transactions, other events and conditions. Therefore, entities must consider the accounting policy to be applied for FDII deductions, together with the accounting policy for the deduction applied to GILTI income.

Under paragraphs 117 and 122 of IAS 1, an entity must disclose its significant accounting policies and the judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

7.3 Tax on otherwise deductible payments to related foreign corporations (BEAT)

The Act establishes a tax on certain payments from corporations subject to US tax to related foreign persons, also referred to as base erosion payments. Base erosion payments generally include payments from a corporation to foreign related parties for any amounts that are deductible, including royalty payments or payments to acquire depreciable or amortisable property. Base erosion payments do not include payments for costs of goods sold, payments for

certain qualified services and qualified derivative payments, if certain requirements are met.

Entities that meet certain thresholds are required to pay the new minimum base erosion and anti-abuse tax. The minimum BEAT is based on the excess of a percentage of the corporation's modified taxable income over its regular tax liability for the year reduced by certain credits, but the amount cannot be less than zero. The modified income is taxed at 5% in 2018, 10% in 2019 through 2025 and 12.5% for years beginning after 31 December 2025.

This provision generally applies to corporations that are subject to US net income tax with average annual gross receipts of at least US\$500 million and that have made related-party deductible payments totalling 3% (2% for banks and securities dealers) or more of the corporation's total deductions for the year. The BEAT is effective for base erosion payments paid or accrued in taxable years beginning after 31 December 2017.

7.3.1 Accounting considerations for BEAT provisions

For entities that meet certain thresholds, the base erosion provision of the Act creates additional tax on net income by effectively excluding deductions on certain payments to foreign related entities.

Questions exist about whether this tax should be considered part of the regular US tax system, which would require the effects of the BEAT to be included in income tax in the period the tax arises, or a separate parallel tax regime. If the tax is determined to be part of a separate parallel tax regime, a question would arise about the appropriate tax rate to be applied in measuring certain US deferred taxes, including temporary differences existing on the enactment date, by entities subject to the BEAT regime (i.e., the new US corporate tax rate of 21% or the BEAT rate).

The FASB staff Q&A *Accounting for the base erosion anti-abuse tax* notes that, although an entity may believe that it expects to be subject to the BEAT for the foreseeable future, ASC Topic 740 states that, "no one can predict whether an entity will always be an alternative minimum tax taxpayer." The FASB staff believes that a similar conclusion could be applied to BEAT, as it is considered similar to the alternative minimum tax. In addition, the FASB staff notes that taxpayers may take measures to reduce their BEAT exposure and, therefore, ultimately pay taxes at, or close to, the 21 percent statutory tax rate.

The BEAT computation is dependent on contingent or future events and entities may not always need to pay the tax. Hence, the FASB's approach is also acceptable under IAS 12.

The FASB staff therefore concluded that an entity that is subject to BEAT should measure deferred tax assets and liabilities using the statutory tax rate under the regular tax system. The FASB staff believes that the BEAT is similar to the AMT in that it is designed to be an incremental tax in which an entity can never pay less, and may pay more, than their regular tax liability. Measuring a deferred tax liability at the lower BEAT rate would not reflect the amount an entity would ultimately pay because the BEAT would exceed the tax under the regular tax system using the 21 per cent statutory tax rate. The FASB staff concluded that the tax under the BEAT provisions should therefore be recognised as a period charge in the future period when the tax arises.

Given that the BEAT computation is dependent on contingent or future events and entities may not always need to pay the tax, the FASB approach is also

acceptable under IAS 12. BEAT is considered part of income tax and must be presented as such in the financial statements.

8. Effects of certain other key provisions

8.1 Changes to NOL carryback and carryforward rules

The Act limits the amount taxpayers are able to deduct for net operating loss (i.e., NOL or unused tax loss) carryforwards generated in taxable years beginning after 31 December 2017 to 80% of the taxpayer's taxable income. The law also generally repeals all carrybacks for losses generated in taxable years ending after 31 December 2017. However, any net operating losses generated in taxable years ending after 31 December 2017 may be carried forward indefinitely.

Net operating losses generated in taxable years ending after 31 December 2017

- Not eligible for carryback
- Eligible for indefinite carryforward

Net operating losses generated in taxable years beginning after 31 December 2017

- Limited usage (80% of taxable income)

8.1.1 Accounting implications of changes to net operating loss carryback and carryforward rules

Entities need to re-evaluate the recoverability of any remaining net operating loss carryforwards (after appropriate remeasurement for the change in tax rates) after considering net operating losses used to offset their transition tax, as discussed above. Further, an entity that relies on projections of future taxable income when evaluating the recoverability of existing deferred tax assets, including net operating loss and tax credit carryforwards, needs to consider whether other provisions of the Act will affect its ability to use net operating losses in the future (e.g., the limitation on the use of net operating loss created after 31 December 2017 to 80% of the taxable income in any year).

Entities that can determine a reasonable estimate of those effects on their net operating loss carryforwards should include that estimate in the financial statements. Only in truly rare circumstances would it not be possible to come up with an estimate (see section 4.2 *Incomplete information* above).

Entities need to consider other provisions in the law and how they may affect projections of future taxable income (e.g., interest limitations and expense deductibility, discussed below) when recognising deferred tax assets.

It is not appropriate to assume deferred tax assets that will reverse in taxable years beginning after 31 December 2017 and will result in post-2017 net operating losses will ultimately be recovered simply because the related net operating loss does not expire. Similarly, net operating losses that arise in taxable years beginning after 31 December 2017 also need to be evaluated for recoverability, and the lack of an expiration date does not mean they are recoverable. It may not be possible under IAS 12 to recognise a deferred tax asset for the entire amount of net operating losses that do not expire if, based

on the weight of available evidence, it is more likely than not (likelihood of more than 50%) that the deferred tax asset will not be recovered.

How we see it

Entities must consider the effects of changes to net operating loss carryback and carryforward rules, including the new limits on using net operating losses, on the recoverability of their deferred tax assets and net operating loss and tax credit carryforwards. This may require entities to perform more precise scheduling or additional scheduling of the reversal of temporary differences than they have in the past. Non-calendar year-end entities may need to perform additional analysis regarding the recoverability of their deferred tax balances.

8.2 Repeal of the corporate alternative minimum tax

The corporate alternative minimum tax was repealed. Taxpayers with AMT credit carryovers can use the credits to offset regular tax liability for any taxable year. In addition, the AMT credit is refundable in any taxable year beginning after 2017 and before 2022 in an amount equal to 50% (100% in the case of taxable years beginning in 2021) of the excess of the minimum tax credit for the taxable year over the amount of the credit allowable for the year against regular tax liability. Thus, a taxpayers' entire AMT credit carryforward amounts are fully refundable by 2022.

8.2.1 Accounting implications of AMT repeal

IAS 12 prohibits discounting of deferred tax balances. However, to the extent that AMT credits are classified as current tax assets (which will depend on an entity's facts and circumstances), we believe that an entity has an accounting policy choice that is to be applied consistently to all current tax balances. Discounting current tax balances is discussed in detail in section 5.3 *Discounting the one-time transition tax*. The AMT credits are considered to be a part of the income tax and must be presented as such in the financial statements.

Additionally, entities need to consider the effect on the balance sheet classification between current and non-current in accordance with IAS 1.

8.3 Interest expense deduction limits

The law limits the deduction for net interest expense that exceeds 30% of the taxpayer's adjusted taxable income (ATI) for that year. ATI is computed initially excluding depreciation, amortisation or depletion (approximating earnings before interest, taxes, depreciation and amortisation) and includes these items beginning in 2022 (approximating earnings before interest and taxes).

The Act permits an indefinite carryforward of any disallowed business interest. This provision applies to taxable years beginning after 31 December 2017 and provides exceptions to the interest limitation for entities with gross receipts not exceeding US\$25 million.

8.3.1 Accounting implications of interest expense deduction limits

Going forward, entities with interest limited under the new law will have to assess the recoverability on any resulting deferred tax assets for interest carried forward. An entity whose interest deduction is already limited may not be able to realise the benefits of amounts carried forward.

8.4 Immediate expensing

Entities are able to claim bonus depreciation to accelerate the expensing of the cost of certain qualified property acquired and placed in service after 27 September 2017 and before 1 January 2024. For the first five-year period (through 2022), entities may deduct 100% of the cost of qualified property. During the period starting in 2023, the additional bonus depreciation is gradually phased out by 20% each year through 2027.

Entities need to implement processes to identify eligible capital expenditures and revise tax depreciation to properly measure deferred tax liabilities related to qualified property.

8.4.1 Accounting implications of immediate expensing

Entities need to carefully determine the appropriate rate to apply when calculating their deferred taxes and current taxes at the enactment date when claiming the bonus depreciation. Given the retroactive nature of this provision, a calendar year-end entity should record deductions in the 2017 current tax provision calculation at 35%, while measuring the related deferred tax liability at the newly enacted rate.

8.5 Limit on employee remuneration

The Act expanded the number of individuals whose compensation is subject to a US\$1 million cap on deductibility under Section 162(m) and includes performance-based compensation such as stock options and stock appreciation rights in the calculation.

Until now, a publicly listed entity has been able to deduct up to US\$1 million of compensation paid to covered employees consisting of the chief executive officer and the next three highest compensated officers (but not the chief financial officer (CFO)). However, the limit did not apply to performance-based compensation.

The new law expands the definition of covered employees to include the CFO and any individual who has been considered a covered employee, even if that individual is no longer a covered employee. Thus, once an individual is a covered employee, the deduction limitation applies to compensation paid to that individual at any point in the future, including after a separation from service. Any individual who is a covered employee for a tax year after 31 December 2016 will remain a covered employee for all future years. The law also eliminates the exception for performance-based compensation.

The provision generally applies to taxable years beginning after 31 December 2017 and provides a transition for compensation paid pursuant to a written binding contract that is in effect on 2 November 2017. Entities will need to carefully review the terms of their compensation plans and agreements to assess whether they are considered to be written binding contracts in effect on 2 November 2017.

8.5.1 Accounting implications of limits on employee remuneration

Entities need to evaluate the effect of these changes on their deferred tax assets in the period of enactment, as well as the effect on their effective tax rate.

8.6 Tax method changes

In certain cases, the Act requires entities to change their tax accounting methods for revenue recognition to conform with their financial reporting methods. The law generally requires a taxpayer to recognise revenue no later than the taxable year in which it is recognised in the taxpayer's financial statements. As a result, an entity will automatically conform its tax method with its book method for all revenue items recognised sooner under the book method. This provision is effective for years beginning after 31 December 2017.

8.7 Repeal or limits of exclusions, deductions and credits

The Act repeals or limits deductions for amounts previously deductible (beginning in 2018 unless otherwise noted), including:

- ▶ Repeals the Section 199 domestic production deduction
- ▶ Creates additional restrictions on deductions for meals and entertainment
- ▶ Reduces the allowable deduction against the dividends received from a domestic corporation other than certain small businesses or those treated as "qualifying dividends" from 70% to 50%, and from 80% to 65% for dividends received from 20% owned corporations
- ▶ Extends the amortisation period of research and experimental expenses incurred in the US to five years and for expenses incurred outside the US to 15 years, beginning in years after 2021
- ▶ Eliminates the deductibility of payments made or incurred to a government after 22 December 2017 in connection with the violation of a law, except for restitution payments to come into compliance with the law and amounts subject to a binding agreement as of the enactment date, meaning deferred tax assets related to the accrual of such settlements may need to be adjusted at the enactment date
- ▶ Eliminates the deductibility of payments made for settlements of certain harassment suits, meaning any deferred tax amounts related to accruals for potential settlements before the enactment date will need to be adjusted

Deferred tax assets and liabilities are recognised under IFRS based on the tax rate and tax laws that have been enacted, or substantively enacted, by the end of the reporting period. Only in truly rare circumstances would it not be possible to come up with an estimate (see section 4.2 *Incomplete information* above).

9. Special considerations for non-calendar year-end entities

9.1 Effects of a lower corporate income tax rate – blended rate

Non-calendar year-end entities subject to US tax law need to calculate the blended tax rate at which they will be taxed.

Based on language in the Act, non-calendar year-end entities might conclude that the 21% corporate tax rate would be effective in the first taxable year beginning on or after 1 January 2018. However, existing tax law,³ which was not amended by the Act, governs when a change in tax rate is effective. The tax law provides that if the taxable year includes the effective date of any rate changes (unless the effective date is the first day of the taxable year), taxes

³ Internal Revenue Code, Section 15 *Effect of changes*.

should be calculated by applying a blended rate to the taxable income for the year. To compute the blended rate, an entity calculates the weighted average tax rate based on the ratio of days in the fiscal year prior to and after enactment.

Illustration 2 – Blended rate

Assume Entity A has a fiscal year ending 30 June 2018. To determine its blended rate, Entity A calculates an average tax rate weighted based on the ratio of days in the fiscal year prior to and after the enactment date, as follows:

Days prior to enactment	184	Percentage of days at that rate	Weighted average tax rate
Days after enactment	181		
Total days	365		
Tax based on 35% tax rate		50.41%	17.65%
Tax based on 21% tax rate		49.59%	10.41%
Blended rate for the year ended 30 June 2018			28.06%

Entity A's blended tax rate for its fiscal year ended 30 June 2018 is 28.06%.

As explained above, the blended rate does not depend on an entity's taxable income for the period and, therefore, may be calculated using only its fiscal year end. The following table lists the blended rates based on certain fiscal 2018 year-end dates. Entities with periods ending on dates other than the end of the month will need to determine their blended tax rate based on their specific fiscal year end.

Fiscal year ending on	Blended rate	Fiscal year ending on	Blended rate
31 January 2018	33.81%	31 July 2018	26.87%
28 February 2018	32.74%	31 August 2018	25.68%
31 March 2018	31.55%	30 September 2018	24.53%
30 April 2018	30.40%	31 October 2018	23.34%
31 May 2018	29.21%	30 November 2018	22.19%
30 June 2018	28.06%	31 December 2018	21.00%

9.2 Effective tax rate reconciliation

Entities (including non-calendar year-end entities) reporting under IFRS need to present a reconciliation of their effective tax rate. Often, the most meaningful starting point in such a reconciliation is the domestic rate of tax in the country in which the entity is domiciled. International groups operating predominantly in the US sometimes use the US tax rate as the starting point for their reconciliations. However, for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction (IAS 12.85).

Paragraph 81(c) of IAS 12 requires entities to disclose an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

- ▶ A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate

Or

- ▶ A numerical reconciliation between the average effective tax rate and the applicable tax rate

IAS 12 explains that the purpose of the tax reconciliation is to enable users of financial statements to understand whether the relationship between tax expense (or income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future. In explaining the relationship between tax expense (or income) and accounting profit, an entity must use an applicable tax rate that provides the most meaningful information to the users of its financial statements.

9.3 Considerations related to deferred tax assets and liabilities

Entities with a non-calendar year end may face additional complexities in calculating their deferred tax assets and liabilities at the enactment date and determining the appropriate rate to use. These entities need to schedule when temporary differences are expected to reverse in order to apply the appropriate rate. Temporary differences reversing during the fiscal year that includes the enactment date should be remeasured using the applicable tax rate described in section 9.1 *Effects of a lower corporate income tax rate – blended rate* above. Temporary differences reversing after that fiscal year should be remeasured at the new 21% rate.

Estimating temporary differences as of the most recent quarter end (e.g., 31 December) for purposes of remeasuring deferred tax amounts at the enactment date is often adequate with appropriate consideration of significant adjustments between the enactment date and the quarter end. However, if the enactment date is not near the beginning or end of a reporting period, entities need to estimate temporary differences as of the enactment date. Since non-calendar year-end entities do not typically estimate the reversal of temporary differences during interim periods, they may require additional effort to determine the effect on their temporary differences at the enactment date.

Entities may also find the guidance in IAS 34 *Interim Financial Reporting*, as described in section 9.4.1 *Accounting for the effects of rate change on WAAITR* below, useful in accounting for the tax effects when they have a non-calendar year-end.

9.4 Interim reporting considerations

Paragraphs 30(c) and B12 of IAS 34 require income tax expense to be recognised in each interim period based on the best estimate of the weighted average annual income tax rate (WAAITR) expected for the full financial year. In estimating the WAAITR, an entity should consider the progressive tax rate structure expected for the full year's earnings, including changes in income tax rates scheduled to take effect later in the year that are (substantively) enacted as at the end of the interim period. Entities should re-estimate, at the end of each interim reporting period, the estimated average annual income tax rate on a year-to-date basis. Accordingly, the amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period if that estimate changes.

In addition, a non-calendar year-end entity may need to consider temporary differences that originate or reverse between the enactment and the end of its

fiscal year when estimating its WAAITR. Since these temporary differences will affect the current-year income tax payable at the non-calendar year-end entity's blended rate and the related deferred tax will be measured at the new 21% corporate income tax rate at the end of the year, the effects of this rate differential should be considered in computing the WAAITR.

See Chapter 39 section 9.5.2.C *Enacted changes applying only to subsequent years* of EY's International GAAP 2018® for more detail.

Finally, it should be noted that the WAAITR for IAS 34 purposes may differ from the blended federal statutory tax rate, as described in section 9.1 above. Also, it will often differ from the average effective tax rate that is used as a starting point in the IAS 12 effective tax rate reconciliation, as described in section 9.2.

9.4.1 Accounting for the effects of rate change on WAAITR

The effects of new tax legislation on taxes currently payable must be recognised in the period of enactment (see sections 4.1 *Accounting for deferred tax assets and liabilities* above).

Illustration 3 – Effects of rate change on WAAITR

Assume that for the full fiscal year, an entity with a 30 June year end anticipates ordinary taxable income of US\$100,000. All income is taxable in one jurisdiction at a 35% rate. All anticipated transactions will have tax consequences.

New legislation enacted in the second quarter of the entity's fiscal year reduces the tax rate to 21%. As a result, the entity revises its WAAITR computation using the blended rate as described above (in practice, the WAAITR may differ from this rate).

Tax at statutory rate (US\$100,000 at 28.06%)	US\$ 28,060
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The effect of the new legislation is not reflected until it is effective. Accordingly, quarterly tax computations are, as follows:

Period	Ordinary income			Tax		
	Quarter (US\$)	Year to date (US\$)	WAAITR	Year to date (US\$)	Less previously reported (US\$)	Reporting period (US\$)
Q1	20,000	20,000	35.00%	7,000	-	7,000
Q2	20,000	40,000	28.06%	11,224	7,000	4,224
Q3	20,000	60,000	28.06%	16,836	11,224	5,612
Q4	<u>40,000</u>	<u>100,000</u>	28.06%	<u>28,060</u>	<u>16,836</u>	<u>11,224</u>
		<u>100,000</u>				<u>28,060</u>

9.5 One-time transition tax considerations

The portion of E&P comprising cash and other specified assets is taxed at a 15.5% rate, and any remaining amount is taxed at an 8% rate, as discussed in section 5 *One-time transition tax* above. To determine the aggregate foreign cash position of the US shareholder, cash is measured on the following three dates:

- ▶ Date 1 – Close of the last taxable year beginning before 1 January 2018
- ▶ Date 2 – Close of the last taxable year that ends before 2 November 2017
- ▶ Date 3 – Close of the taxable year preceding Date 2

The aggregate foreign cash position for a US taxpayer is the greater of the foreign cash position determined as of Date 1 or the average of the foreign cash position determined as of Date 2 and Date 3. For example, an entity with a 30 September fiscal year end, Dates 1, 2 and 3 would fall on 30 September 2018, 2017 and 2016, respectively.

Because an entity with non-calendar year-end CFCs may not be able to determine the aggregate foreign cash position until the CFC completes its 2018 fiscal year, such an entity needs to consider whether the amounts recognised for its one-time transition tax payable can be reasonably estimated.

9.6 Interim disclosures

Entities must consider the requirement in paragraphs 15 to 16A of IAS 34 in disclosing the effect of changes in the tax legislation. In particular, paragraph 15C of IAS 34 would suggest that entities might also consider providing the disclosures required in IAS 12 if this is determined significant to an understanding of the changes in an entity's financial position or performance since the last annual reporting period.

Illustration 4 – Disclosure example for a 30 June year-end entity

In the second quarter, the entity revised its estimated annual effective tax rate to reflect a change in the US federal statutory tax rate from 35% to 21%, resulting from legislation that was enacted on 22 December 2017. As a result, the blended US statutory tax rate for the year is 28.06%.

In addition, we recognised a tax benefit in our tax provision for the period related to adjusting our deferred tax balance to reflect the new corporate tax rate. As a result, income tax expense reported for the first six months was adjusted to reflect the effects of the change in the tax law and resulted in a decrease in income tax expense of US\$400,000 during the second quarter. This amount comprises a reduction of US\$100,000 in income tax expense for the six-month period ended 31 December 2017 related to the lower corporate rate and US\$300,000 from the application of the newly enacted rates to existing deferred tax balances.

10. Other effects

10.1 Intercompany asset transfers before enactment of the Act

Transactions may occur among entities that are part of a consolidated reporting entity. In accordance with IFRS 10 *Consolidated Financial Statements*, intercompany balances and transactions are eliminated in the preparation of the consolidated financial statements. However, income tax consequences may result from intragroup transactions. An unrealised intragroup profit or loss eliminated on consolidation will give rise to a temporary difference where the profit or loss arises on a transaction that alters the tax base of the item(s) subject to the transaction. Such an alteration in the tax base creates a temporary difference because there is no corresponding change in the carrying amount of the assets or liabilities in the consolidated financial statements, due to the intragroup eliminations.

IAS 12 requires recognition of current and deferred income taxes resulting from an intragroup transfer of any asset (including inventory) when the transfer occurs. IAS 12 does not specifically address the measurement of such items. However, IAS 12 generally requires an entity, in measuring deferred tax, to have regard to the expected manner of recovery or settlement of the tax. It would generally be consistent with this requirement to measure

deferred tax on temporary differences arising from intragroup transfers at the tax rates and tax laws applicable to the 'transferee' entity rather than those applicable to the 'transferor' entity, since the 'transferee' entity will be taxed when the asset or liability subject to the transfer is realised or sold.

10.2 Business combinations

10.2.1 Acquisitions before the enactment date

New information about the facts and circumstances that existed at the acquisition date for tax positions acquired in or that arose from a business combination may result in an adjustment to goodwill during the business combination measurement period. However, a change in tax rate after the business combination occurred would not result in a business combination measurement period adjustment. That is, a change in income tax position attributable to a change in tax law, including the remeasurement of deferred tax balances or a change in the assessment of recoverability of acquired deferred tax assets, should be recognised as income tax in profit or loss, other comprehensive income or equity, as appropriate.

Questions have arisen about how to account for the tax effects of changes to an entity's preliminary purchase accounting made during the IFRS 3 *Business Combinations* measurement period but after the enactment date. The IFRS 3 measurement period adjustments should consider the tax effects based on the law in place at the acquisition date. That is, the deferred tax effects from IFRS 3 measurement period adjustments would first be measured using the tax rate as of the acquisition date (e.g., 35%). A second adjustment would be recorded to adjust those deferred tax balances to the new tax rate under the Act (e.g., 21%). During the measurement period, the entity (i.e., the acquirer) must retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date (IFRS 3.45 and 49).

Similarly, changes to the tax base of assets resulting from the additional bonus depreciation discussed in section 8.4 *Immediate expensing* above will not give rise to a measurement period adjustment.

Illustration 5 –Accounting for a business combination that occurred before the enactment date

Assume that an entity entered into a business combination on 1 September 2017. At that date, the entity did not finalise its accounting for intangible assets and expects to finalise its accounting during the IFRS 3 measurement period. On the date of the acquisition, the entity recorded a provisional amount of US\$1 million for the fair value of its intangible assets. Assume that the tax basis is zero. At the date of the acquisition, the entity would have recorded a US\$350,000 deferred tax liability for the book and tax basis difference, with an offsetting adjustment to goodwill (based on the tax law in effect on that date).

The entity records the following journal entries on 1 September 2017 to recognise the intangible asset and related tax effects:

Dr. Intangible assets	1,000,000
Cr. Goodwill	1,000,000
Dr. Goodwill	350,000
Cr. Deferred tax liabilities	350,000

On 22 December 2017, the new tax law was enacted and it reduced the tax rate to 21%. The entity reduces the deferred tax liability associated with the acquired intangible asset by US\$140,000, with the offsetting adjustment to income tax expense.

The entity records the following journal entry on 22 December 2017:

Dr. Deferred tax liabilities	140,000
Cr. Income tax expense	140,000

On 1 May 2018, the entity finalises its accounting under IFRS 3 for the intangible assets and increases the business combination provisional amount by US\$100,000. The entity recognises the following entries to adjust its comparative information for prior periods to recognise the IFRS 3 measurement period adjustment and related deferred tax effects based on the tax law that was in place at the acquisition date:

Dr. Intangible assets	100,000
Cr. Goodwill	100,000
Dr. Goodwill	35,000
Cr. Deferred tax liabilities	35,000

Also on 1 May 2018, the entity would adjust its comparative information for prior periods to recognise the deferred tax liability to reflect the effects of the new tax rate on the final adjustment:

Dr. Deferred tax liability	14,000
Cr. Income tax expense	14,000

10.2.2 Acquisitions after the enactment date

If a business combination occurs after the enactment date, the acquirer may recognise provisional amounts associated with income tax assets and liabilities in accordance with IFRS 3. These amounts may include an estimate for the effects of the new tax law. We believe that changes to provisional amounts resulting from new information about the facts and circumstances that existed at the acquisition date, including additional information about estimates related to the new tax law, would be recognised as measurement period adjustments under IFRS 3.

10.3 Goodwill impairment testing

Many entities performed their annual goodwill impairment testing on a date prior to the enactment date that fell within the reporting period that includes the enactment date (e.g., a 1 October 2017 annual goodwill impairment assessment date for a calendar year-end entity). Questions have arisen about

Enactment of the new tax law is an event that entities should consider when determining whether a goodwill impairment test is necessary.

whether the effect of US tax reform should be considered in performing annual goodwill impairment testing during the quarter that includes the enactment date when the annual goodwill impairment testing date precedes the enactment date.

Paragraph 90 of IAS 36 *Impairment of Assets* requires a cash generating unit (CGU) or group of CGUs to which goodwill has been allocated to be tested for impairment annually by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with its recoverable amount. The impairment test does not have to be carried out at the end of the reporting period. The standard permits the annual impairment test to be performed at any time during an annual period, provided the test is performed at the same time every year. This annual impairment test is not a substitute for management being aware of events occurring or circumstances changing between annual tests that might suggest that goodwill is impaired. IAS 36 requires an entity to assess at each reporting date whether there is an indication that a CGU may be impaired.

The annual goodwill impairment test, including the determination of the recoverable amount, should be based on the facts and circumstances that existed as of the annual assessment date and should consider market participant assumptions at that date. If the annual goodwill assessment date occurred prior to the 22 December 2017 date of enactment, the analysis of the fair value less cost to sell would include market participant assumptions related to income taxes that existed as of that date. The valuation would consider the uncertainty that existed on the annual testing date about whether tax reform would be enacted and should not factor in the hindsight of ultimate enactment.

When an event occurs or circumstances change between annual tests that provides an indication that a CGU may be impaired, entities are required to perform a goodwill impairment test. We believe the enactment of the new tax law is an event that entities should consider when determining whether a goodwill impairment test is necessary (i.e., it may be an impairment indicator). Entities should evaluate the effects of the Act on the carrying amount and recoverable amount of a CGU to determine whether the recoverable amount of a CGU is below its carrying amount. For example, the recoverable amount of a CGU may change, depending on whether the assumptions used to measure the recoverable amount change as a result of the Act. Judgement will be required to determine whether additional goodwill impairment testing should be performed.

10.4 After-tax hedging of foreign currency risk

Entities that designate hedges of foreign currency risk on an after-tax basis will need to consider whether the Act affects the hedging arrangement. For example, for entities that apply paragraphs 39 and 44 of IAS 12 related to outside basis difference and enter into hedges of a net investment, it is common to designate the hedging instrument based on the after-tax exposure in order to compensate for the non-taxable nature of the translation gain or loss that results from the net investment.

In these situations, entities will need to consider how the change in tax rates will affect the hedging relationship, including whether the hedge remains highly effective or whether any ineffectiveness after the enactment date needs

to be recognised in profit or loss, as per paragraph 102 of IAS 39 *Financial Instruments: Recognition and Measurement*. The shift to a territorial tax system may also affect an entity's ongoing use of after-tax hedging strategies.

Given that the provisions in the Act can affect both the amount of a net investment in a foreign operation eligible to be hedged and the tax-effected gains and losses on the hedging instrument, entities must assess their original hedging relationships to determine whether to de-designate and re-designate new hedging relationships in the first assessment period after the enactment date. Entities need to consider not only the reduction in US corporate income tax rates, but how the BEAT and GILTI provisions of the Act may affect their effective tax rates when re-designating or entering into new hedges of a net investment.

10.5 Annual pension and other post-retirement benefit plans

Entities that have defined benefit plans and other long-term employee benefits need to consider the effects of the new corporate tax rates on deferred tax balances related to these plans. Such entities should calculate the tax effect of enactment on their defined benefit plans and other long-term employee benefits deferred tax balances. The tax effect of a remeasurement of existing deferred taxes should be recorded in:

- ▶ Profit or loss, to the extent that it relates to items that were previously recognised in profit or loss
- ▶ Other comprehensive income, to the extent that the tax effect relates to actuarial gains and losses that were previously recognised in other comprehensive income.

10.6 Fair value measurements

The Act may have immediate and long-term implications for valuations of businesses, equity interests and other assets and liabilities (e.g., intangible assets). Entities should review their fair value estimates and consider whether and, if so, how the Act has affected a market participant's view of fair value.

Entities should review their fair value estimates and consider whether and, if so, how the Act has affected a market participant's view of fair value.

The implications may go beyond the change in the assumed tax rate. Changes in the calculation of taxable income, which may be affected by the industry and location of an entity's operations, should also be considered. For this reason, entities that use an income approach will need to carefully model and appropriately support the changes in taxable income due to the Act. It might also be appropriate for an entity to use a market approach, such as using a market multiple based on public company stock prices for comparable entities (e.g., a price to earnings ratio), because these prices should reflect a market participant view of fair value as of the measurement date. While the tax rate for most entities is expected to drop, how an entity is affected will depend on its facts and circumstances.

Entities must estimate fair value based on the market participant view using available information that is known or knowable to a market participant as of the measurement date. The overall objective of a fair value measurement is to reflect the price a market participant would pay for the asset or receive to assume the liability on the measurement date, assuming customary and normal due diligence. As such, it is possible that the market participant assumptions will evolve in subsequent periods when the market has had more time to fully assess the effects of the Act.

10.7 Equity method impairment considerations

An investor in associates and joint ventures that are accounted for under the equity method in IAS 28 *Investments in Associates and Joint Ventures* must evaluate whether the effects of tax reform indicate that its investment is impaired in accordance with IAS 36. Investors must evaluate whether the effects of tax reform have reduced the recoverable amount of the investment below its carrying amount. The determination of recoverable amount must consider all facts and circumstances at the measurement date, including market participants' assumptions about (substantively) enacted tax rates and other effects of tax reform. If the recoverable amount is less than the carrying amount of the equity method investment, the requirements in IAS 36 must be applied.

10.8 Other considerations

Entities also need to consider:

- ▶ Any effects on share-based payment plans
- ▶ The effect of the tax law change on previously recorded federal, state and foreign unrecognised tax benefits and assessment of uncertain tax positions as well as related recognition, measurement and disclosure requirements
- ▶ Any effects related to existing deferred state tax amounts
- ▶ Assessment of any deferred tax assets for recoverability
- ▶ The potential effect on other accounting assumptions that incorporate an entity's US tax rate

11. Disclosures

Entities must provide disclosures as required by IFRS, particularly those required by IAS 1 and IAS 12:

- ▶ The amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes (IAS 12.80(d))
- ▶ An explanation of changes in the applicable tax rate(s) compared to the previous accounting period (IAS 12.81(d))
- ▶ Its significant accounting policies that are relevant to an understanding of the financial statements, as per paragraph 117 of IAS 1
- ▶ Judgements, information about the assumptions made and other estimates, as per paragraphs 122 and 125-129 of IAS 1
- ▶ When it is probable that the taxation authority will accept an uncertain tax treatment, paragraph 88 of IAS 12 must be applied to determine the disclosure of a tax-related contingency

Foreign private issuers must consider the disclosure requirements in SAB 118 and make corresponding IFRS disclosures to describe the level of estimation uncertainty.

How we see it

Entities must use their judgement in providing sufficiently detailed quantitative and qualitative disclosures to enable users to understand the impact of the tax reforms on its financial position, financial performance and cash flows.

Where the entity has not been able to perform a full analysis of the effects of the new legislation, the disclosures should explain in sufficient detail the nature of assumptions and estimates made and, where possible, quantify the effect of significant changes in those assumptions and estimates.

12. Internal control considerations

Entities need to evaluate whether changes to their existing processes and controls are necessary to address the financial reporting effects of both implementing the Act and applying IAS 12 to it. That is, entities need effective internal controls to make sure that the accounting implications of the transition and future tax provision calculations are accurately recorded in their financial statements.

In addition to the overall effect of the Act on the income tax accounts, key areas also requiring controls include: the processes for estimating, calculating the one-time transition tax; tracking outside basis differences after enactment; determining the timing of the reversal of temporary differences; assessing the recoverability of deferred tax assets and carryforwards; calculating any minimum taxes; and making disclosures.

Additionally, entities need to evaluate whether they need any new information to account for the effects of the tax law changes and whether they will use any new information in internal control over financial reporting. If they will use new information, entities also need to consider the effectiveness of their controls over the completeness and accuracy of that new information.

13. What entities need to do now

Personnel in an entity's finance, treasury and tax departments need to work together to execute a plan to respond to items such as the new corporate tax rate, the one-time transition tax, an immediate write-off of certain assets, any changes to existing tax attributes and any changes to internal controls that might be required.

Steps entities need to take include:

- ▶ **Calculate changes to federal deferred tax balances** – Entities need to measure their deferred tax balances using the new tax rates in the period the tax law was enacted. Entities with fiscal years that do not end on 31 December need to estimate and schedule their temporary differences in the interim period that includes enactment to account for the effects of the tax law change.
- ▶ **Calculate the one-time transition tax on previously deferred foreign earnings and its accounting implications** – Entities must validate US tax attributes such as current and accumulated E&P, previously taxed income and foreign tax credit pools. Further, entities must identify the amount of accumulated E&P that is held in cash and other specified assets or in illiquid assets for the purposes of measuring the transition tax. Entities must

consider whether earnings subject to the transition tax are expected to be remitted and any additional tax consequences.

- ▶ **Evaluate whether unused tax losses and foreign tax credits are available to offset the transition tax and whether any remaining carryforwards are recoverable** – Entities must determine whether there are excess carryforwards and credits that will remain and whether these carryforwards and credits are more likely than not to be realised.
- ▶ **Estimate which outside basis differences related to subsidiaries, branches, associates and joint arrangements exist after considering any one-time transition tax** – Entities must evaluate whether any of the exceptions to recording deferred taxes are available for those basis differences. For any remaining outside basis differences that do not meet any of the exceptions in IAS 12, entities need to determine the appropriate tax rate to measure related deferred tax amounts. Entities should keep in mind that capital gains are not exempted.
- ▶ **Evaluate whether AMT credit carryforwards are recoverable** – Entities need to evaluate whether a deferred tax asset is currently recognised in connection with an AMT credit carryforward, the recoverability of AMT credit carryforwards and whether amounts should be reclassified to a current or long-term receivable at the enactment date.
- ▶ **Evaluate which assets qualify for immediate expensing** – Entities must finalise their inventory of qualified depreciable assets purchased since 27 September 2017.
- ▶ **Evaluate compensation plans** – Entities should determine whether their existing plans are subject to the grandfather provisions and whether any adjustments are needed to recorded deferred tax assets in the period of enactment.

14. Preparing for reporting after the effective date

Steps entities should take to prepare for the ongoing effects of the new tax law include:

- ▶ **Evaluate the effect of the GILTI inclusion and BEAT provisions** – Entities must evaluate what effect these provisions may have on their existing systems and processes to comply with these potential new tax laws.
- ▶ **Evaluate the effect on the estimated annual effective tax rates** – Entities must evaluate the Act's effects on their effective tax rate, including the effects of the new tax rates, GILTI and BEAT provisions.
- ▶ **Evaluate compensation plans** – Entities must determine whether additional employees are considered covered persons who are subject to existing deductibility limits.
- ▶ **Evaluate the effects of limiting deductions related to other expenses (e.g., meals and entertainment expenses)** – Entities need to consider the effect on their estimated effective tax rates if this change is significant.

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EYG no. 00565-183Gbl
EY-000054224.indd (UK) 01/18.
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