

22 December 2011

**EFRAG AND THE UK ASB ISSUE
A DISCUSSION PAPER:
‘IMPROVING THE FINANCIAL REPORTING OF
INCOME TAX’**

The European Financial Reporting Advisory Group (EFRAG) and the Accounting Standards Board (UK ASB) of the FRC have published today a Discussion Paper, ‘Improving the Financial Reporting of Income Tax’. The Discussion Paper results from a project developed by EFRAG and the UK ASB jointly, as part of EFRAG’s proactive agenda. Tax is an important expense for most companies, and transparent and complete financial reporting is complex because the tax effects of transactions do not always fall in the same period as they are reported in the financial statements.

Requirements for the financial reporting of income tax are currently set out in IAS 12 ‘Income Taxes’. Some consider that the information that is provided in compliance with that standard is not as useful as it might be, and that the standard is cumbersome and difficult to understand and apply in practice. The new paper discusses ways in which the usefulness of information prepared in accordance with IAS 12 could be enhanced. In particular it discusses possible changes to the reconciliation of tax expense to a standard rate; revisions to the requirements in respect of uncertain tax positions; and whether deferred tax should be discounted.

The paper also discusses alternative approaches that could form the basis for a new accounting standard that would replace IAS 12. These are the flow-through approach (under which only the tax payable on taxable income for the period is reported as an expense); the partial allocation approach (under which only those tax effects likely to affect the tax payable for future periods is deferred); the valuation adjustment approach (under which tax effects are dealt with as part of the carrying amount of related assets and liabilities); and the accruals approach (under which the tax effect of all transactions are recognised and allocated to the period to which they relate).

The Discussion Paper is open for comment until 29 June, 2012 and can be downloaded, together with a summarised presentation of the proposals subject to discussion, from the EFRAG website www.efrag.org.

22 December 2011**Notes for Editors:****Note for editors:**1. *About EFRAG (www.efrag.org)*

EFRAG, the European Financial Reporting Advisory Group, was set up principally for the purpose of:

- Providing pro-active advice to IASB (the International Accounting Standards Board);
- Advising the European Commission on the acceptability of International Financial Reporting Standards (IFRS) for endorsement for use in Europe in the consolidated accounts of all listed companies;
- Stimulating, coordinating and carrying out proactive accounting activities;
- Advising the European Commission on any resulting changes to be made to the accounting directives and related topics.

2. *About FRC and UK ASB*

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The role of the ASB is to oversee the financial reporting requirements for UK entities. This is done by maintaining and improving UK Financial Reporting Standards (FRS) and influencing the development of international standards. The ASB achieves this by collaborating with accounting standard-setters from other countries and the International Accounting Standards Board (IASB).

3. *Discussion paper*

The Discussion Paper can be downloaded, free of charge, from the EFRAG website <http://www.efrag.org/>

4. *Press enquiries*

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