ASPE 3465 Income Taxes

SCOPE	INCOME TAXES
This Section establishes standards for the recognition, measurement, presentation, and disclosure of income and refundable taxes in an enterprise's financial statements. **Does not apply to:** Special considerations related to accounting for investment tax credits (See ASPE 3805 *Investment Tax Credits*)	**Income taxes** include: (i) All domestic and foreign taxes that are based on taxable income. (ii) Taxes, such as mining taxes, that are based on a measure of revenue less certain specified expenses. (iii) Alternative minimum income taxes, including taxes based on measures other than income and that may be used to reduce income taxes of another period, and (iv) Taxes, such as withholding taxes, that are based on amounts paid to the enterprise.

ACCOUNTING POLICY CHOICE

An enterprise shall make an accounting policy choice to account for income taxes using either:

(a) The taxes payable method, or
(b) The future income taxes method.

In making this policy choice, the entity need not meet the criteria in ASPE 1506.06(b) *Accounting Changes*

TAXES PAYABLE METHOD

A method of accounting under which an entity reports as an expense (income) of the period only the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by taxation authorities. Only current income tax assets and liabilities are recognized.

Measurement	Recognition
Income tax liabilities and income tax assets shall be measured using the income tax rates and income tax laws that, at the balance sheet date, are expected to apply when the liability is settled or the asset is realized, which are normally those enacted at the balance sheet date.	Current income taxes, to the extent unpaid or recoverable, shall be recognized as a liability or asset. • Unpaid current tax for the current and prior period→ recognize as a current income tax liability. • If amounts paid > amounts due→ recognize *excess* as a current income tax asset. • The benefit relating to a tax loss arising in the current period that will be carried back to recover income taxes of a previous period shall be recognized as a current asset.

INTRAPERIOD ALLOCATION

Taxes Related to Distributions - Are given the same accounting treatment as the distributions.

Refundable Taxes

Taxes based on certain types of income and that are refundable when certain amounts are paid to shareholders.

- Refundable taxes in the nature of advance distributions related to a component of an instrument classified as equity in accordance with ASPE 3856, *Financial Instruments*, shall be charged to retained earnings when it is *more likely than not* (i.e. probability > 50%) that the taxes will be recovered in the foreseeable future. The recovery of such refundable taxes is credited to retained earnings. When it is NOT *more likely than not* that the taxes will be recovered in the foreseeable future, the taxes are charged to income.
- Refundable taxes shall be accrued with respect to all related elements of income recognized in the period, whether the taxes relating to these amounts are payable currently or in the future.

Income Tax Expense

The cost (benefit) of current income taxes shall be recognized as income tax expense included in the determination of net income / loss for the period before discontinued operations, except that:

(a) The income taxes related to discontinued operations of the current period shall be included in the income statement with the results of discontinued operations.
(b) Income taxes relating to capital transactions in the current period or relating to items that are credited or charged directly to equity in the current period, shall be charged or credited directly to equity.
(c) The income taxes arising at the time of changes in shareholder status shall be treated as a capital transaction (see ASPE 3610 *Capital Transactions*).
(d) Income taxes relating to the correction of an error or a change in accounting policy shall be recognized in a manner consistent with the underlying item (see ASPE 1506).

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FUTURE INCOME TAXES (FIT) METHOD

Definition	Basic Principles of FIT	Temporary Differences
A method of accounting under which an enterprise reports as an expense (income) of the period the cost (benefit) of current income taxes AND the cost (benefit) of future income taxes (FIT), determined in accordance with the rules established by taxation authorities.	• Recognize a future income tax liability (FITL) whenever recovery or settlement of the carrying amount of an asset or liability would result in FIT outflows. • Recognize a future income tax asset (FITA) whenever recovery or settlement of the carrying amount of an asset or liability would generate FIT reductions. • For unused tax losses, income tax reductions, and certain items that have a tax basis but cannot be identified with an asset / liability on the balance sheet, the recognition of future income tax benefits is determined by reference to the likely realization of a FIT reduction.	Temporary differences are differences between the tax basis of an asset or liability and its carrying amount on the balance sheet. Temporary differences may be either: • Deductible temporary differences when tax base >carrying amount • Taxable temporary differences when tax base < carrying amount When the enterprise is able to settle the carrying amount of an asset / liability without the incidence of tax, the tax basis of the asset / liability is considered to be the same as its carrying amount and there is no temporary difference.

Recognition of Future Income Tax Assets and Future Income Tax Liabilities

Recognition of FITL / FITA:

- A FITL shall be recognized for all taxable temporary differences other than those arising from goodwill.
- A FITA shall be recognized for all (a) deductible temporary differences (b) unused tax losses (c) unused income tax reductions
  - i. limited to the amount that is *more likely than not* to be realized, OR
  - ii. reduced by a valuation allowance to the extent that it is *more likely than not* that some portion or all of the assets will not be realized.

Both i and ii result in the same net asset.

Exceptions to the recognition of FITL / FITA:

- Integrated foreign operations – a FITA / FITL shall NOT be recognized for a temporary difference arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets / liabilities of integrated foreign operations.
- Intra-group transfers – When an asset is transferred between enterprises within a consolidated group a FITA / FITL shall NOT be recognized in the consolidated financial statements for a temporary difference arising between the tax basis of the asset in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements. Any taxes paid or recovered by the transferor as a result of the transfer shall be recorded as an asset / liability in the consolidated financial statements until the gain or loss is recognized by the consolidated entity.
- Investments in subsidiaries and interests in joint arrangements - a FITA / FITL shall NOT be recognized for a temporary difference arising from investments in subsidiaries and interests in joint arrangements when it is apparent that the difference will not reverse in the foreseeable future.

Assets Acquired Other Than in a Business	Business Combinations
• When an asset is acquired other than in a business combination and the tax basis is less than its cost, the cost of FIT recognized at the time of acquisition shall be added to the cost of the asset. • When an asset is acquired other than in a business combination and the tax basis is greater than its cost, the benefit related to FIT recognized at the time of acquisition shall be deducted from the cost of the asset.	• When, at the time of a business combination, the acquirer considers it ***more likely than not*** that it will realize a FITA of its own that was previously unrecognized, it shall recognize a change in the FITA in the period of the business combination, but shall NOT include it as part of the accounting for the business combination. • When a FITA acquired in a business combination that was NOT recognized as an identifiable asset by the acquirer at the date of the acquisition is subsequently recognized by the acquirer within the measurement period, the benefit shall be applied: (a) first to reduce to zero any unamortized goodwill related to the acquisition, and (b) then to reduce income tax expense. • When a FITA acquired in a business combination that was NOT recognized as an identifiable asset by the acquirer at the date of the acquisition is subsequently recognized by the acquirer after the measurement period, the benefit shall be recognized in income tax expense. • The above principles shall be applied: (a) When accounting for an investment subject to significant influence or an interest in a joint arrangement, and (b) When recognizing FITA in periods subsequent to the application of push-down accounting (see ASPE 1625 *Comprehensive Revaluation of Assets and Liabilities*). • When a FITA that was NOT recognized at the date of a comprehensive revaluation as a result of a financial reorganization (see ASPE 1625) is subsequently recognized, the benefit shall be applied: (a) first to reduce to zero any unamortized intangible assets that were recorded at the date of the comprehensive revaluation, and (b) then in a manner consistent with the revaluation adjustment recorded at the date of the comprehensive revaluation.

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FUTURE INCOME TAXES METHOD (CONTINUED)

Measurement of FITA and FITL

Refer to "Measurement" box in "TAXES PAYABLE METHOD" section above. In addition, FITL / FITA shall not be discounted.

Intraperiod Allocation

Income Tax Expense	Refundable Taxes	Alternative Minimum Tax	Taxes Related to Distributions
The cost (benefit) of FIT shall be recognized as income tax expense included in the determination of net income / loss for the period before discontinued operations, except that: • FIT arising at the time an enterprise renounces the deductibility of expenditures to an investor shall be treated as a cost of issuing the security to the investor. • FIT arising at the time of acquisition of an asset, other than an asset acquired in a business combination, shall be recognized in accordance with "Assets acquired other than in a business combination" section in "Future Income Taxes Method" above. • FIT recognized at the time of a business combination shall be included in the allocation of the cost of the purchase. • FIT related to a business combination, investment in a significantly influenced investee, interest in a joint arrangement or comprehensive revaluation of assets and liabilities shall be recognized in accordance with "Business combination" section above. • (a) - (d) of "Income Tax Expense" section in "TAXES PAYABLE METHOD" above. Changes in FIT balances as a result of changes in tax laws or rates shall be included in FIT expense reported in income before discontinued operations.	• Refer to "Refundable Taxes" section in "TAXES PAYABLE METHOD" above. • When a payment related to a component of an instrument classified as a liability in accordance with ASPE 3856 *Financial Instruments*, will give rise to a refund of income taxes previously paid, the refundable amount shall be recognized as a FITA.	Any amounts of income tax payable currently that may reduce income taxes of a future period shall be recorded as a FITA if it is *more likely than not* that income taxes will be sufficient to recover the amounts payable currently. Any amounts NOT *more likely than not* to be recovered shall be included in current income tax expense.	Taxes related to distributions or future distributions shall be given the same accounting treatment as the distributions.

PRESENTATION

Income Tax Expense

- Income tax expense included in the determination of net income or loss before discontinued operations shall be presented on the face of the income statement.

Income Tax Liabilities & Assets

- Income tax liabilities and assets shall be presented separately from other liabilities and assets.
- Current income tax liabilities and current income tax assets shall be presented separately from FITL and FITA.
- When an entity segregates assets and liabilities between current and non-current FITL and FITA shall be classified as non-current.
- Current income tax liabilities and current income tax assets shall be offset if they relate to the same taxable entity and the same taxation authority. This also applies to the offset of FITA and FITL.
- When entities in a group are taxed separately by the same taxation authority, a FITA recognized by one entity in the group shall NOT be offset against a FITL of another entity in the group unless tax planning strategies could be implemented to satisfy the requirements of paragraph 3465.83 when the FITL becomes payable.