IAS 12: Income Taxes — Flow-through Shares

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Current Canadian tax legislation permits entities meeting specified criteria to issue securities to investors whereby the deductions for tax purposes related to expenditures made previously, or in the future, may be claimed by the investors and not by the entity (commonly referred to as flow-through shares). When the entity issuing the securities incurs eligible expenditures and includes them in the carrying amount of related assets, the carrying amount of the asset may exceed the tax basis as a result of the entity renouncing those deductions to the investors. A deferred tax consequence may result. Canadian GAAP currently includes guidance on accounting for these securities in Section 3465, *Income Taxes*, and EIC-146, Flow-through Shares. On transition to IFRSs, this guidance will be withdrawn. IFRSs do not specifically address the accounting for flow-through shares or the related tax consequences arising from such transactions. However, paragraphs 10-12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides guidance when IFRSs do not specifically apply to a transaction, and Canadians would need to consider these paragraphs when addressing the accounting for flow-through shares

IDG members commented that an issuer would need to assess first what had been issued, because the investor receives both an equity interest and a right to a stream of tax deductions. To assess whether the transaction meets the criteria for treatment as a compound financial instrument or a multiple element arrangement, the issuer should consider guidance in IAS 32 *Financial Instruments: Presentation*, IAS *39 Financial Instruments: Recognition and Measurement* and IAS 18 *Revenue*, based on the facts of the situation. Some IDG members observed that in Appendix A of the November 2004 US Securities and Exchange Commission (SEC) publication "International Financial Reporting and Disclosure Issues in the Division of Corporation Finance," the view taken by Financial Accounting Standards Board staff on accounting for flow-through shares was outlined. AcSB staff noted that they had tried to find other jurisdictions in the world that had similar instruments, but had not identified any such instruments in that search. IDG members recommended that no request be made to the IFRIC on this issue, since the IFRIC is not inclined to address country-specific issues. Members agreed that it would be helpful to provide non-authoritative guidance setting out the questions that an entity might consider in determining an appropriate treatment for flow-through shares it has issued.

Source: www.frascanada.ca/ifrs-discussion-group