



Exposure Draft

Proposed Accounting Standards for Private Enterprises

Income Taxes

September 2018

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
DECEMBER 5, 2018**

Respondents are asked to email their comment letters (in a Word file) to:
info@acsbcanada.ca

Please address your comments to:

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Accounting Standards Board
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Toronto, Ontario M5V 3H2

This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB).

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to amend INCOME TAXES, Section 3465 in Part II of the CPA Canada Handbook – Accounting. These amendments would remove an outdated example on “eligible capital expenditures” and remove the requirement to classify future income tax assets and liabilities as current and non-current when the future income taxes method is applied. This amendment would also apply to not-for-profit organizations using the standards in Part III of the Handbook, as relevant.

Background

The eligible capital property (ECP) rules in Section 14 of the Canadian Income Tax Act were repealed and replaced by new Class 14.1 of Schedule II to the Canadian Income Tax Regulations, effective on January 1, 2017. The example in INCOME TAXES, paragraph 3465.14(f), provides guidance on accounting for ECP for Canadian private enterprises, which is no longer applicable.

Section 3465 requires that future income tax assets and liabilities be classified as current and non-current, when the future income taxes method is applied. Unlike Section 3465, the International Accounting Standards Board’s guidance in IAS 12 *Income Taxes* includes a disclosure requirement to identify the types of temporary deferred tax differences. Also, a recent amendment to U.S. generally accepted accounting principles eliminated the requirement to segregate deferred tax assets and liabilities into current and non-current components since feedback indicated that it does not provide useful information to users of the financial statements.

Main features of the Exposure Draft

The key features of the proposals are as follows:

ECP

- The example that provides guidance on accounting for ECP would be removed.

Presentation

- The requirement to classify future tax assets and liabilities as current and non-current, when the future income taxes method is applied, would be replaced by a non-current classification requirement.

Disclosure

- A requirement would be added to disclose the amount of future income tax assets and liabilities for each significant type of temporary difference for each period presented.

Transition

- Retrospective application of the amendments in Section 3465 would be required in accordance with ACCOUNTING CHANGES, Section 1506.

Consequential amendments

As required, consequential amendments would be made to other standards in Parts II and III of the Handbook.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Board's Private Enterprise Advisory Committee. The Committee assists the Board in maintaining and improving accounting standards for private enterprises. The Board will also consult with its Not-for-Profit Advisory Committee for input on circumstances that are unique to NFPOs when applying the potential changes to the standard.

The AcSB will provide updates about its deliberations in its [decision summaries](#) and on the [project page](#).

Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the AcSB plans to issue the amendments in the second quarter of 2019 if no significant changes are required to the proposals.¹ In that case, the proposed effective date of the amendments would be for fiscal years beginning on or after January 1, 2020, with earlier application permitted.

Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

While the AcSB welcomes comments on all of the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. Do you agree that the example in paragraph 3465.14(f) be removed? If not, why not?
2. Do you agree that the requirement to classify future income tax assets and liabilities as current and non-current, when the future income taxes method is applied, be replaced by a non-current classification requirement (see paragraph 3465.82)? If not, why not?
3. Do you agree that a requirement be added to disclose the amount of future income tax assets and liabilities for each significant type of temporary difference for each period presented (see paragraph 3465.89(e))? If not, why not?
4. Do you agree that the amendments to Section 3465 be applied retrospectively in accordance with ACCOUNTING CHANGES, Section 1506 (see paragraph 3465.95)? If not, why not?
5. Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2020? If not, why not?

The deadline for providing your comment letter to the Board is December 5, 2018. You may email your comments (Word format preferred) to info@acsbcanada.ca.

¹ Refer to the Due Process Specifically Related to Domestic Standards in the [AcSB's Standard-Setting Due Process Manual](#).

INCOME TAXES, Section 3465

The following Sections would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

FUTURE INCOME TAXES METHOD

...

.14

...

Examples

...

- (f) ~~Under the current Canadian Income Tax Act, “eligible capital expenditures” are deductible for tax purposes to the extent of 75 percent of the cost incurred, and proceeds are ultimately taxable only to the extent of 75 percent of the amount received. Eligible capital expenditures with an original cost of \$1,000 are recognized at the beginning of Year 1 as an asset to be amortized over 10 years. For tax purposes, 75 percent of eligible capital expenditures are added to the cumulative eligible capital amount, which is deductible for tax purposes at the rate of 7 percent per year on a declining balance basis. If the asset were sold for its carrying amount, 25 percent of the proceeds would not be taxable. At any point in time, the tax basis is the balance in the cumulative eligible capital pool plus the non-taxable portion of the proceeds (25 percent of the carrying amount). Therefore, at the end of Year 1 the asset’s carrying amount is \$900 and its tax basis is \$922.50 (i.e., the balance in the cumulative eligible capital pool of \$697.50 plus 25 percent of the carrying amount of \$900.) There is a deductible temporary difference of \$22.50.~~

...

Presentation

Income tax liabilities and income tax assets

...

- .82 ~~When an enterprise segregates assets and liabilities between current and non-current assets and liabilities, it shall classify future income tax assets and future income tax liabilities as non-current the current and non-current portions of future income tax liabilities and future income tax assets shall also be segregated. The classification between current and non-current shall be based on the classification of the liabilities and assets to which the future income tax liabilities and future income tax assets relate. A future income tax liability or future income tax asset that is not related to a liability or asset recognized for accounting purposes, shall be classified according to the expected reversal date of the temporary difference. Future income tax assets related to unused tax losses and income tax reductions shall be classified according to the date that the benefit is expected to be realized.~~
- .83 ~~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. Future income tax liabilities and future income tax assets shall be offset if they relate to the same taxable entity and the same taxation authority. However, when an enterprise classifies assets and liabilities as current and non-current, the current portion of future income tax balances shall not offset any future income tax balances classified as non-current.~~

...

DISCLOSURE

...

- .89 *When an enterprise applies the future income taxes method of accounting for income taxes, the following shall be disclosed separately:*
- (a) *current income tax expense (benefit) included in the determination of income or loss before discontinued operations;*
 - (b) *future income tax expense (benefit) included in the determination of income or loss before discontinued operations;*
 - (c) *the portion of the cost (benefit) of current and future income taxes related to capital transactions or other items that are charged or credited to equity (see paragraphs 3465.68 and 3465.78); ~~and~~*
 - (d) *the total amount of unused tax losses and income tax reductions, and the amount of deductible temporary differences, for which no future income tax asset has been recognized.; ~~and~~*
 - (e) *the amount of future income tax assets and future income tax liabilities in respect of each significant type of temporary difference for each period presented.*

EFFECTIVE DATE AND TRANSITION

- .92 Except as specified in paragraphs 3465.93-~~94~~95, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

- .95 Amendments to paragraphs 3465.14(f), 3465.82-.83 and 3465.89, issued in [TBD], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2020. An enterprise applies these amendments retrospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(d). Earlier application is permitted.

ILLUSTRATIVE EXAMPLES

Example 2 — Future income tax assets and liabilities

The following sentence is removed from the two instances it appears in Example 2:

~~This calculation is done for the purpose of calculating the cost of future income taxes. Note that, in a classified balance sheet, any current portion of the future income tax liability or asset would not be aggregated with the non-current portion.~~

CONSEQUENTIAL AMENDMENTS TO ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES IN PART II OF THE CPA CANADA HANDBOOK – ACCOUNTING

The following significant consequential amendments to Part II of the Handbook have been identified. Additional text is denoted by underlining and deleted text by strikethrough.

CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510

CURRENT ASSETS

- .03 *As a balance sheet classification, current assets shall include those assets ordinarily realizable within one year from the date of the balance sheet or within the normal operating cycle, when that is longer than a year. ~~The current asset classification shall also include the current portion of future income tax assets (see INCOME TAXES, paragraphs 3465.80-.84).~~*

CURRENT LIABILITIES

- .08 *As a balance sheet classification, current liabilities shall include amounts payable within one year from the date of the balance sheet or within the normal operating cycle, when that is longer than a year. The normal operating cycle shall correspond with that used for current assets. ~~The current liability classification shall also include the current portion of future income tax liabilities (see INCOME TAXES, paragraphs 3465.85-.90).~~*

EFFECTIVE DATE AND TRANSITION

- .17 Except as specified in paragraph 1510.18, ~~t~~This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .18 Amendments to paragraphs 1510.03 and 1510.08, issued in [TBD], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2020. Earlier application is permitted.

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