
In brief

A look at current financial reporting issues

27 December 2017

US Tax Reform

This In brief supersedes and updates In brief INT2017-15 'US Tax Reform'

Issue

On 22 December 2017, President Trump signed into law extensive changes to the US tax system. These changes are known as the 'Tax Cuts and Jobs Act' (the 2017 Act).

The 2017 Act is substantively enacted for accounting purposes in 2017, and the impact of the tax law changes should therefore be reflected in financial statements at 31 December 2017. The tax law changes could have a significant impact on the current and deferred taxes of entities with a US tax presence.

The 2017 Act has, amongst other things, reduced tax rates, substantially changed the international tax rules, and made significant changes to the way in which tax losses are carried forward and recovered. The key changes include:

- a substantial reduction in the US corporate tax rate, from the existing rate of 35% to 21%, with effect from 1 January 2018;
- the transition to a largely 'territorial regime', with provisions which are intended to prevent the erosion of the US tax base, accompanied by an immediate 'toll' tax on previously undistributed earnings of foreign corporations owned by US parents;
- a number of business tax reform proposals, including substantial changes to the way in which losses are carried forward and recovered, and immediate expensing for certain capital expenditure; and
- greater limitations on the deductibility of interest.

Impact

The 2017 Act affects the financial statements of entities with a US tax presence. It affects, for example, the current tax charge each year, the measurement of deferred taxes, and the recoverability of deferred tax assets. The impact for many entities will be material.

An **In depth** describing the tax law changes and the tax accounting consequences has been issued by PwC in the US. The In depth focuses on US GAAP, which is similar to the IFRS requirements in most respects, but it also identifies areas in which the tax accounting under IFRS and US GAAP might be different.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2017 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

The In depth also addresses certain US GAAP accounting consequences in other areas, such as hedging and impairment. These issues will also be relevant and should be considered under IFRS, although the guidance is different in some areas.

The Securities and Exchange Commission (SEC) has issued Staff Accounting Bulletin No 118 (SAB 118), which recognises that, in some cases, it might be difficult to complete the accounting for the impact of the 2017 Act before the financial statements are issued, and it describes an accounting model that could be applied in these circumstances. SAB 118 also states that the staff would not object to a 'foreign private issuer' (reporting under IFRS) applying the same approach solely for the purposes of completing the accounting requirements for the income tax effects of the 2017 Act under IAS 12, 'Income Taxes'.

[SEC – Staff Accounting Bulletin No 118](#)

It is not clear whether other securities regulators will issue similar guidance. However, a model in which management uses all of the information and analyses available to estimate the accounting impact of the 2017 Act, and then revises that estimate as more information and analyses become available, is consistent with IFRS. Very careful consideration is required before concluding that it is not possible to make a reasonable estimate. Clear disclosure of the estimates and judgements made is essential.

Ihre Ansprechpartner aus dem National Office



Guido Fladt

Leiter des National Office (Grundsatzabteilung HGB und IFRS)
Frankfurt am Main
Tel.: +49 69 9585-1455
g.fladt@pwc.com



Andreas Bödecker

Unternehmenszusammenschlüsse,
Joint Arrangements, assoziierte
Unternehmen und Impairmenttest
nach IFRS
Hannover
Tel.: +49 511 5357-3230
andreas.boedecker@pwc.com



Peter Flick

Bankspezifische Fragestellungen
nach HGB und IFRS
(Finanzinstrumente)
Frankfurt am Main
Tel.: +49 69 9585-2004
peter.flick@pwc.com



Karsten Ganssaue

Bilanzierung von Finanz-
instrumenten und Leasing
nach IFRS
Hamburg
Tel.: +49 40 6378-8164
karsten.ganssaue@pwc.com



Dr. Sebastian Heintges

Umsatzrealisierung, Mitarbeiter-
vergütungen und latente Steuern
nach IFRS
Düsseldorf
Tel.: - 49 69 9585-3220
sebastian.heintges@pwc.com



Alexander Hofmann

Bilanzierung von Versicherungs-
verträgen nach HGB und IFRS
Düsseldorf
Tel.: +49 221 2084-340
alexander.hofmann@pwc.com



Dr. Bernd Kliem

Handelsbilanzielle Fragestellungen
München
Tel.: +49 89 5790-5549
bernd.kliem@pwc.com