IFRS: What you need to know

IFRS, US GAAP, and US tax accounting methods*

Comparing IFRS & US GAAP and assessing the potential implications on US tax accounting methods

February 2009

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IFRS, US GAAP, and US tax accounting methods—a detailed comparative assessment

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The heart of the matter

How will changes in accounting policy resulting from a conversion to IFRS affect tax accounting methods?

Converting to International Financial Reporting Standards (IFRS) will be a significant undertaking for many companies and could result in the adoption of several new accounting policies in the United States and in each foreign jurisdiction in which the organization operates.

Assessing the tax implications of each of these newly adopted accounting policies will also be a labor intensive effort and will require a deep understanding of the differences between a jurisdiction's local GAAP and IFRS, as well as its local tax laws. As part of this assessment, companies will need to consider whether each new accounting policy change necessitates a tax accounting method change or, alternatively, creates an opportunity for a tax accounting method change that is strategic in light of the organization's overall tax planning objectives.

PricewaterhouseCoopers (PwC) has developed this IFRS publication, which compares the current US GAAP and IFRS treatment of several key pretax issues to help companies:

- Determine whether tax accounting method changes will be required or desired in the United States with respect to the computation of taxable income for domestic companies and of earnings and profits (E&P) for foreign subsidiaries.

- Assess the impact of each new accounting policy change on the computation of book-tax differences (also known in the United States as "Schedule M" adjustments) and E&P computations.

This document serves as a companion piece to the following PwC IFRS publications: *IFRS and US GAAP, similarities and differences*, which provides a more comprehensive overview and analysis of the significant pretax accounting similarities and differences between IFRS and US GAAP and *Implications of IFRS Conversion on US Tax Accounting Methods*, which provides an in-depth discussion of the potentially significant cash tax and tax compliance implications that conversion to IFRS may have on key US tax accounting method issues.

We are hopeful that this document will provoke strategic thinking and assist companies in identifying and prioritizing many of the key US tax accounting method implications that may result upon the conversion to IFRS.

An in-depth discussion

Will changes in accounting policy required upon the conversion to IFRS necessitate US tax accounting method changes?

US tax accounting method considerations

Newly adopted IFRS accounting policies may impact a company's tax accounting methods, and possibly its cash tax liabilities. To identify the potential implications accounting policy changes may have on US tax accounting methods, companies likely will need to consider the following:

- Can the current US GAAP method of accounting continue to be followed under US tax law?
- Can the newly adopted IFRS method of accounting be followed under US tax law?
- If both the current US GAAP and the newly adopted IFRS accounting methods are permissible, which is the most strategic or preferable for US tax purposes?
- What if neither the current US GAAP nor the newly adopted IFRS accounting methods are permissible under US tax law?
- Will changing the tax accounting method have a significant impact on taxable income, E&P, or deferred taxes?
- Will the company be able to compute the adjustments required for tax?
- Will systems need to be updated? For example, as new accounting policies are adopted, will book data used to calculate book-tax differences be captured properly within the existing tax systems?

It is critical that tax executives be involved throughout the selection of new accounting policies to ensure that these and other tax considerations are properly addressed and that any resulting tax accounting method changes and compliance issues are managed appropriately both within the organization and with the taxing authority.

As will become more evident in the detailed analysis contained in this publication, newly adopted IFRS accounting policies typically are not expected to result in tax accounting method changes for many companies. Rather, due to the specific tax law requirements that should be followed, it is expected that the adoption of new IFRS accounting policies primarily will change the computation of, or possibly eliminate, many book-tax differences. Nonetheless, tax accounting method changes will most likely be required or preferred under the following circumstances:

- The current tax accounting method requires book-tax conformity and IFRS does not permit the use of the current GAAP accounting method (e.g., the Last In, First Out (LIFO) inventory method);

- Costs are recharacterized as inventoriable for books, resulting in a change in the characterization of costs between §471 and §263A;

- A review of the book accounting method uncovers circumstances where tax should not have followed the book method, such as with revenue recognition for multiple deliverable contracts or the characterization of leases; and

- A review of the current tax accounting method identifies more favorable tax accounting method options, such as with respect to bad debts or cash discounts.

US tax accounting method change procedures

To the extent tax accounting method changes are required or desired in the United States, it is important to be aware of the relevant procedural rules. In general, the consent of the Commissioner must be obtained to voluntarily change a tax accounting method for purposes of determining US federal taxable income or E&P. Such consent generally is obtained by filing Form(s) 3115 with the Internal Revenue Service (IRS) National Office. By voluntarily filing a Form 3115 with the IRS National Office, a company generally receives audit protection preventing the IRS from raising the same issue in a previous year, as well as a one-year spread of a taxpayer-favorable §481(a) adjustment and a four-year spread of a taxpayer-unfavorable §481(a) adjustment.

The timeframe and procedures for filing a Form 3115 vary based on whether the tax accounting method change is an automatic change or a non-automatic change. Generally, automatic method changes require that a Form 3115 be filed in duplicate, with the original attached to the taxpayer's timely filed (including extensions) federal income tax return for the year of change, and a copy filed with the IRS National Office pursuant to the provisions of Rev. Proc. 2008-52. Non-automatic method change requests, on the other hand, must be filed during the year the change will be effective in accordance with Rev. Proc. 97-27.

Notwithstanding these general rules for filing tax accounting method changes, if a company is under IRS examination, then method change requests generally must be made by:

- Filing under either the "90-day window" (i.e., the first 90 days of the taxable year if the Company has been under exam for at least 12 consecutive months) or the "120-day window" (i.e., the first 120 days following the closing of an exam) provisions of Rev. Proc. 97-27 and Rev. Proc. 2008-52; or

- Requesting the consent of the Director. (Director consent typically only is requested for tax accounting method change requests resulting in a taxpayer-favorable §481(a) adjustment.)

A closer look

IFRS, US GAAP, and US tax accounting methods—a detailed comparative assessment

This publication will assist companies that wish to gain a broad understanding of the significant differences between IFRS and US GAAP and the implications of these differences on US tax accounting methods from a US taxable income (and indirectly E&P) perspective. By no means, however, is it all-encompassing. Instead, PwC has focused on a selection of the differences and implications most commonly found in practice and has highlighted only certain aspects of those differences. Moreover, the publication reflects only preliminary considerations that will no doubt be modified because interpretations may change as more US companies convert to IFRS and because US GAAP, IFRS, and the US tax law continue to evolve. See, for example, the IASB/FASB discussion paper, “Preliminary Views on Revenue Recognition in Contracts with Customers,” which was released in December 2008. Accordingly, when applying the individual accounting frameworks and considering the tax accounting method implications, companies should consult all of the relevant accounting standards and tax law in existence at that time.

The goals of this publication are to highlight that conversion to IFRS could have significant ramifications on an organization’s tax accounting methods and to encourage early consideration of what IFRS means to your organization. Specifically, this publication attempts to identify circumstances where tax accounting method changes may be required or desired and where Schedule M computations may change. It is assumed within the analysis of this publication that that the current tax accounting method being used is permitted under US tax law. Lastly, this publication considers existing accounting guidance and the US tax law as of November 30, 2008.

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Revenue recognition

In December 2008, the FASB and the IASB jointly issued the discussion paper, "Preliminary Views on Revenue Recognition in Contracts with Customers." This discussion paper proposes changes to both US GAAP and IFRS that, if ultimately included in a new standard, would have potentially significant ramifications to revenue recognition. This publication does not analyze the potential implications of this discussion paper. We strongly recommend, however, that companies closely monitor this discussion paper, as well as other emerging guidance, and actively participate in the analysis during the comment period.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Sale of goods	Revenue is recognized when it is realized/ realizable and earned. In addition, the SEC has interpreted, through its release of SAB 104, that revenue is realized/ realizable and earned when the following criteria are met: • Persuasive evidence of an arrangement exists; • Delivery has occurred or services have been rendered (i.e., the risks and rewards of ownership have been transferred); • The price is fixed or determinable; and • Collectability is reasonably assured. [SAB 104, SOP 97-2]	Revenue is recognized when all of the following criteria have been satisfied: • Significant risks and rewards of ownership have been transferred; • The seller retains neither continuing managerial involvement nor effective control; • Revenue can be measured reliably; • It is probable that the economic benefits will flow to the company; and • Costs can be reliably measured. [IAS 18, par. 14]	Revenue generally is recognized under §451 when there is a fixed right to receive the income and the amount is determinable with reasonable accuracy. There is a fixed right to receive income upon the earlier of the income being due, paid, or earned. See, for example, Rev. Rul. 84-31. With respect to a sale of goods, revenue generally is recognized when the goods are shipped, delivered, or accepted (i.e., when risks and rewards of ownership have transferred) or upon receipt of an advance payment for such goods, unless there is a position to defer the advance payment under Rev. Proc. 2004-34 or Treas. Reg. §1.451-5. Note that case law also recognizes the concept of nonaccrual if collection is not reasonably assured; however, this principle may be less applicable in the context of the sale of goods. With respect to the measurement of costs, the tax law also arguably recognizes that concept because gross income from the sale of goods, defined as receipts less cost of goods sold, must be reasonably determinable before it is recognized for tax.	US tax principles generally follow US GAAP and IFRS principles with respect to when revenue is earned from the sale of goods. As such, book-tax differences likely will occur only if the income is due or paid in advance of being earned. However, it is uncertain whether the second criteria in IAS 18, par. 14 (i.e., the seller retains neither continuing managerial involvement nor effective control) will have the effect in certain circumstances of deferring revenue for books even though tax ownership has passed and thus revenue must be recognized for tax. Further, it is expected that US GAAP (and tax) will differ from IFRS with respect to situations where a contractual arrangement is required but not signed. In this case, US GAAP (and likely tax) would not allow for the recognition of revenue. However, IFRS generally would allow for the recognition of revenue if it is probable the contract would be signed.	No method change. Possible change in the computation of Schedule M.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Sale of goods subject to installation	Assuming that the unit of accounting includes both the equipment and the installation (because the separation criteria in EITF 00-21 have not been met), under SAB 104, if goods are shipped subject to installation, revenue must be deferred if the installation is essential to the functionality of the equipment. Revenue may be recognized at shipment (prior to installation) only if the installation is both inconsequential and non-essential. SAB 104, Topic 13A (3c), Question 3, provides examples of when installation is, and is not, essential to the functionality of the equipment.	If goods are shipped subject to installation and the installation is a significant part of the contract, revenue is not recognized until the installation is complete. However, revenue is recognized immediately upon the buyer's acceptance of delivery when the installation process is simple in nature and the installation is insignificant. [IAS 18, par. 16 and Appendix]	Revenue generally is recognized under §451 when there is a fixed right to receive the income and the amount is determinable with reasonable accuracy. There is a fixed right to receive income upon the earlier of the income being due, paid, or earned. See, for example, Rev. Rul. 84-31. With respect to the sale of goods subject to installation, revenue is deferred until the installation is complete generally only if the taxpayer does not have a right to receive income from the provision of goods until the installation is complete (e.g., installation requires testing and is substantive).	IFRS does not appear to differ substantially from US GAAP and thus it is expected that the recognition of revenue from goods subject to installation will not change. It is also expected that US tax principles generally will follow IFRS principles. Thus, method changes are not expected as a result of IFRS.	No method change. Schedule M computation not expected to change.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Service arrangements	US GAAP prohibits the use of the percentage-of-completion (input measure-driven) model to recognize revenue under service arrangements unless the contract is within the scope of specific guidance for construction or certain production-type contracts. [SOP 81-1] Generally, companies would apply the proportional-performance (based on output measures) model or the completed-performance model. In limited circumstances where output measures do not exist, input measures, which approximate progression toward completion, may be used. Revenue is recognized based on a discernible pattern and if none exists, then the straight-line approach may be appropriate. The alternative to the proportional-performance model is the completed-performance model, which is appropriate when: • A measure of the vendor's performance is not available or is unreliable; • The customer's receipt of value from the services is predominately at completion; or • The customer believes they have contracted for the vendor to perform a single significant act.	When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognized by reference to the stage of completion using the percentage-of-completion (POC) method. The outcome of the contract can be estimated reliably when all of the following criteria are met: • The amount of revenue can be measured reliably; • It is probable that economic benefits will flow to the company; • The stage of completion can be measured reliably; and • The costs incurred and costs to complete can be measured reliably. The stage of completion may be measured using a variety of methods including: • Surveys of work performed; • Services performed to date as a percentage of total services to be performed; or • Costs incurred as a percentage of total costs to be incurred. When services are performed by an indeterminate number of acts over a specified period of time, revenue generally is recognized on a straight-line basis. When a specific act is much more significant than any other act, the recognition of revenue is postponed until the significant act is executed. When reliable estimation is not possible, revenue is recognized only to the extent of the costs incurred that are recoverable. [IAS 18, par. 20-28]	The percentage-of-completion method (PCM) prescribed under §460 is prohibited for the recognition of revenue for services. Revenue generally is recognized under §451 when there is a fixed right to receive the income and the amount is determinable with reasonable accuracy. There is a fixed right to receive income upon the earlier of the income being due, paid, or earned. See, for example, Rev. Rul. 84-31. With respect to services, revenue generally is recognized under §451 when the required services are complete or upon receipt of an advance payment for such services unless there is a position to defer the advance payment under Rev. Proc. 2004-34. Note that case law also recognizes the concept of nonaccrual if collection is not reasonably assured; however, this principle may be less applicable in the context of the provision of services.	US tax principles are inconsistent with IFRS as revenue is earned for tax when the services are complete and under IFRS as services are provided using a PCM. As a result, tax recognition generally will be deferred as compared to IFRS, but accounting systems must be able to capture data required to convert IFRS revenue recognition into tax recognition.	Possible change in the computation of Schedule M. Consider seeking IRS administrative relief that would allow optional use of the IFRS POC method to recognize service revenue for tax purposes, which would result in an acceleration of tax revenue, in light of significant administrative burden of compliance with tax laws expected after IFRS conversion.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Service arrangements with right of refund	A right of refund may preclude recognition of service revenue until the right of refund expires. In certain circumstances, companies may be able to recognize revenue over the service period (net of an allowance) if the strict criteria within the guidance are met. [SAB 104 and FAS 48]	A right of refund does not preclude recognition of service revenue if the outcome of the contract can be reliably measured and it is probable the company will receive the economic benefits related to the services provided. When reliable estimation is not possible, revenue is recognized only to the extent of the costs incurred that are probable of recovery. [IAS 18, par. 20-28]	Service revenue is earned under §451 when the required services are complete. A right of refund generally would be considered a condition subsequent that would not delay the recognition of revenue.	Although the US tax law follows neither US GAAP nor IFRS, the IFRS model, which allows the potential for revenue recognition, even though a right of refund exists, is expected to be more closely aligned with the US tax rules.	No method change. Possible change in the computation (or elimination) of Schedule M.
Multiple element arrangements	Revenue arrangements with multiple deliverables are attributed to separate units of accounting only if the deliverables meet specific criteria, most notably that there is objective and reliable evidence of the fair value of the undelivered unit/item. When an arrangement involving two or more deliverables does not meet the separation criteria, it must be accounted for as one unit of accounting. Generally, the recognition pattern of the last item to be delivered will dictate the revenue recognition pattern for the single combined unit of accounting. If the deliverables included in the single unit of accounting are services, the above guidance related to service arrangements should be followed. [EITF 00-21]	The revenue recognition criteria are usually applied separately to each transaction. In certain circumstances, however, it is necessary to separate a transaction into identifiable components in order to reflect the substance of the transaction. At the same time, two or more transactions may need to be grouped together when they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole. If available, relative fair value should be used. If relative fair value is not available, it would be appropriate to use the residual value or cost plus a reasonable margin to estimate fair value. [IAS 18, par. 13 and Appendix] In assessing the transaction's substance, the transaction should be viewed from the perspective of the customer and not the seller; that is, what does the customer believe they are purchasing? If the customer views the purchase as one product, then it is likely that the recognition criteria should be applied to the transaction as a whole. Conversely, if the customer perceives there to be a number of elements to the transaction, then the revenue recognition criteria should be applied to each element separately.	Revenue generally is earned under §451 (outside of the PCM context) as each good is provided and/or the required services are completed. As a result, contracts with multiple deliverables generally must be separated into the relevant deliverables and revenue must be allocated to each deliverable.	US tax principles generally follow IFRS principles, not US GAAP, with respect to the recognition of revenue for multiple deliverables. As such, existing tax methods should resemble IFRS principles and book-tax differences are likely to be eliminated. Note, however, it is possible that some taxpayers erroneously followed their US GAAP book method, which may have deferred revenue from multiple deliverable arrangements. These taxpayers will be required to change to a proper tax method. In addition, although it is more likely under IFRS than US GAAP that multiple deliverables under a contract will be accounted for separately, it remains possible under IFRS to account for multiple deliverables as a single unit of accounting. Thus, an analysis should be performed to identify any such circumstances.	No method change (unless erroneously followed US GAAP method). Elimination of Schedule M likely.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Royalties	Royalty revenue is generally recognized when all of the criteria in SAB 104 (as described above in the sale of goods section) have been met. [SAB 104]	Royalty revenue is recognized on an accrual basis in accordance with the substance of the agreement when: • It is probable that the economic benefits will flow to the entity; and • Revenue can be measured reliably.	Revenue generally is recognized under §451 when there is a fixed right to receive the income and the amount is determinable with reasonable accuracy. There is a fixed right to receive income upon the earlier of the income being due, paid, or earned. See, for example, Rev. Rul. 84-31. With respect to royalties, revenue generally is earned as the licensed property is used by the licensee. Note that case law also recognizes the concept of nonaccrual if collection is not reasonably assured.	Similar to the effect under US GAAP, it is anticipated that the tax recognition of royalty revenue will follow IFRS, except to the extent of advance payments that generally may be deferred for tax purposes only for one year as provided under Rev. Proc. 2004-34.	No method change. Schedule M computation not expected to change.
Construction contracts—criteria	SOP 81-1 applies to accounting for the performance of contracts for which specifications are provided by the customer for the construction of facilities, the production of goods, or the provision of related services. SOP 81-1, par. 13 and 14 provide examples of what types of contracts are included, or excluded, respectively, from the standard. [SOP 81-1, par. 11, 13-14]	IAS 11 applies to the accounting for construction contracts in the financial statements of contractors. A construction contract is one that is specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use. [IAS 11, par. 3] In addition, IAS 11 covers contracts for services that are directly related to the construction of the asset, contracts for the destruction or restoration of assets, and contracts for the restoration of the environment. [IAS 11, par. 3-5] Construction contracts do not include contracts for the recurring production of goods, such as homes built on speculation or goods produced as part of the seller's normal inventory.	Construction and certain manufacturing contracts must be accounted for using the PCM under §460, assuming certain criteria are met. In general, construction contracts subject to §460 PCM include contracts for construction, building, or installation of real property that span a taxable year. Manufacturing contracts subject to §460 PCM are contracts that span a taxable year for the production of "unique" property or of property that normally takes more than twelve months to produce. However, exceptions to mandatory PCM are provided for home construction, residential construction, small contractor construction, and shipbuilding contracts. If the contract is not subject to §460, revenue generally is recognized under §451 as the goods are provided or upon receipt of an advance payment for such goods unless there is a position to defer the advance payment under Rev. Proc. 2004-34 or Treas. Reg. §1.451-5.	No method change should be required as the tax specific criteria to determine contracts subject to PCM under §460 differs from both the US GAAP and IFRS criteria. However, the difference between US GAAP and IFRS with respect to contracts eligible for PCM—with IFRS generally excluding contracts for the production of goods—likely will mean more contracts will be accounted for using PCM for tax than IFRS, leading to additional complexities in computing book-tax differences and larger deferred tax assets.	No method change. Possible change in the computation of Schedule M, particu-larly with respect to manufacturing contracts.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Construction contracts—recognition	SOP 81-1 provides for two methods to determine how, and when, revenue and expenses should be recognized: the percentage-of-completion and completed contract methods. Within the percentage-of-completion model there are two different acceptable approaches with respect to the computation of earned income. The first approach is performed by taking the calculated percent-complete and applying the percentage to contract revenues and costs. The second approach is performed by taking the calculated percent-complete and applying the percentage to contract gross profit. Contract costs incurred are then added to this calculated gross profit to determine the amount of earned revenue. The completed contract method is only acceptable (and must be used) in situations in which an entity does not have the ability to make reliable estimates. For circumstances in which reliable estimates cannot be made, but there is an assurance that no loss will be incurred on a contract (e.g., when the scope of the contract is not well defined, but the contractor is protected from an overall loss), the percentage-of-completion method based on a zero-profit margin, rather than the completed-contract method, is recommended until more precise estimates can be made. Losses on contracts must be recognized in full when they are anticipated. [SOP 81-1]	IFRS utilizes a revenue-approach method of percentage-of-completion. When the final outcome cannot be estimated reliably, a zero-profit method is utilized (wherein revenue is recognized to the extent of costs incurred if those costs are expected to be recovered). The gross-profit approach is not allowed. The completed contract method is also not permissible. Losses on contracts must be recognized in full when they are anticipated. [IAS 11, par. 22-35] Contract revenue includes amounts agreed in the contract and contingent revenue that is probable and measurable. Contract costs include estimated warranty and claims, and generally exclude materials dedicated to the contract until they are installed, used, or applied.	If the contract is subject to §460, revenue generally is recognized using the PCM, with completion determined based on costs incurred to total estimated costs to complete. Certain contractors, (e.g., home construction, residential construction, small construction, and certain ship builders), however, are exempt (in whole or in part) from the required use of PCM and may use another permissible method, including the completed contract method (in whole or in part). Losses may not be anticipated under tax PCM. Under the §460 regulations, contract revenue includes all revenue that the taxpayer reasonably expects to receive under the contract. This must include contingent revenue, no later than when it is included for financial reporting purposes under US GAAP. Under the §460 regulations, allocable contract costs generally include costs allocable to the contract under the §263A principles. Allocable costs exclude warranty costs and include materials that are dedicated to the contract.	Determination of tax PCM based on a tax cost-to-cost formula, and without recognition of anticipated losses, will continue to differ under IFRS as it did under US GAAP. Inclusion of contingent revenue in the contract price is likely to be accelerated as a result of IFRS. That is, under both US GAAP and IFRS, contingent revenue is included in total contract price when it is probable and measurable. However, probable is defined under US GAAP as 75–80% and under IFRS as >50%. The lower threshold for including contingent revenue under IFRS is expected to impact tax recognition because the tax rules provide that contingent revenue must be included in the total contract price no later than when such revenue is included for financial reporting purposes under GAAP (if "GAAP" is replaced with—or interpreted to mean—IFRS). Similarly, the treatment of warranty and claims as allocable contract costs under IFRS, as well as not allocating raw materials until they are used under IFRS, will backload costs under the IFRS cost-to-cost formula and have the effect of slowing down revenue recognition for IFRS as compared to tax.	No method change. Computation of Schedule M likely to change. Possible acceleration of revenue related to contingent revenue.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Construction contracts—combining and segmenting	The basic presumption is that each contract is the profit center for revenue recognition, cost accumulation, and income measurement. However, that presumption may be overcome if a contract, or a series of contracts, meets the conditions for combining or segmenting. [SOP 81-1, par. 35-42]	IAS 11 generally applies separately to each construction contract. However, for a contract that covers a number of assets, each asset must be treated as a separate contract if: • Separate proposals have been submitted; • Each asset has been subject to separate negotiation; and • The costs and revenues of each asset can be identified. Conversely, a group of contracts must be treated as a single contract when: • The group of contracts is negotiated as a single package; • The contracts are so closely interrelated that they are, in effect, one contract with an overall profit margin; and • The contracts are performed concurrently or in a continuous sequence. [IAS 11, par. 8-9]	Section 460 generally applies separately to each contract. However, in certain cases, a single contract must be severed, or one or more contracts must be aggregated, depending on whether there is independent or interdependent pricing, whether there is separate delivery and acceptance of the items, and whether a reasonable business person would enter into one contract without entering into the other. However, severing of long-term contracts otherwise subject to PCM is allowed only with the consent of the Commissioner.	It is expected that IFRS could require contracts to be severed more often than under US GAAP or tax. Tax will need to “unsever” any contracts subject to PCM to determine the amount of revenue to recognize from a tax perspective. In such circumstances, the computation of the book-tax difference will become more complex, and it is likely PCM revenue recognition will be accelerated for tax.	No method change. Possible change in the computation of Schedule M.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Advance payments	Advance payments are deferred and recognized when earned in accordance with the applicable US GAAP criteria described in the above sale of goods and service arrangements sections. [SAB 104]	Advance payments are generally deferred and recognized when earned in accordance with the applicable IFRS criteria described in the above sale of goods and service arrangements sections. [IAS 18 Appendix, par. 3-4]	Advance payments generally are recognized upon receipt. See, for example, *Schlude* and Rev. Rul. 84-31. However, certain administrative exceptions allow limited deferral of advance payments, including, for example, Treas. Reg. §1.451-5 (advance payments for goods, services, licenses of certain IP, etc), to the extent of the book deferral. Under Treas. Reg. §1.451-5, advance payments generally may be deferred until earned (or for two years following the receipt of substantial advance payments) as long as they are deferred for book purposes. Similarly, under Rev. Proc. 2004-34, qualifying advance payments generally may be deferred for one year to the extent they are deferred for book purposes. Note, the deferral provisions under §455 and §456 do not contain book conformity rules.	Specific methods are prescribed for advance payments for tax purposes and those methods will not change as a result of IFRS adoption. However, adoption of IFRS could result in acceleration of the recognition of advance payments deferred under the methods prescribed in Treas. Reg. §1.451-5 or Rev. Proc. 2004-34 due to the fact that revenue could be recognized sooner for book purposes under IFRS (see, for example, multiple element arrangements, which is discussed above) and tax deferral is only allowed to the extent of book deferral.	No method change. Possible change in the computation of Schedule M. Acceleration of revenue possible, particularly in the software industry.
Non-refundable upfront fees	Unless the upfront payment is in exchange for a product, service, or right and represents the culmination of a separate earnings process, the upfront fee should be deferred over the longer of the contractual life of the arrangement or the customer relationship life. However, in circumstances where the contractual period is sufficiently long and the customer has a substantive decision to make about renewal at the end of the contract term, the upfront fee may be amortized over the contract term. Revenue should be recognized systematically over the periods that the fees are earned (generally on a straight-line basis). [SAB 104, Topic 13A (3f)]	A non-refundable upfront fee should be recognized when earned in accordance with the applicable IFRS criteria described in the above sale of goods and service arrangements sections. [IAS 18]	An upfront fee is generally recognized as revenue upon receipt under §451 unless there is a position to defer the upfront fee under Rev. Proc. 2004-34 (for one year) or Treas. Reg. §1.451-5 (for at least two years).	Because the tax law generally only allows the deferral of upfront fees to the extent that the book method defers the fee, a change to recognize upfront fees under IFRS will result in earlier recognition of the fees for tax.	No method change. Possible change in the computation of Schedule M. Possible acceleration of revenue.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Gross vs. net reporting (agent vs. principle)	EITF 99-19 clarifies under which circumstances a company should present revenue based on: • The gross amount billed to a customer because it has earned revenue from the sale of the goods or services; or • The net amount retained (i.e., the amount billed to the customer less the amount paid to a supplier) because it has earned a commission or fee from the supplier or service provider. There are at least 11 indicators that should be considered in this evaluation. While the EITF concluded that no one factor should be determinative, the SEC staff has indicated that they believe the first indicator (i.e., who the primary obligor in the transaction is) will be very important in the assessment of the gross versus net presentation. [EITF 99-19]	Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Accordingly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission. [IAS 18, par. 8]	Determination of gross or net reporting generally is governed by agency and cost reimbursement principles as developed under case law. That is, amounts collected on behalf of third parties in an agency relationship are not revenue. In addition, amounts received as a fixed reimbursement for an expenditure are not income under the cost reimbursement doctrine. Similarly, expenditures made subject to a fixed right of reimbursement are not deductible.	No significant implications are expected to result from conversion to IFRS.	No method change. No change in the computation of Schedule M expected.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Barter transactions	In order for barter transactions to be recognized at fair value, sufficient evidence of the fair value of the items being exchanged must exist. In addition, an exchange must also have commercial substance and not be for products in the same line of business to facilitate sales to customers. [APB 29, par. 25 and FAS 153] For other than advertising-to-advertising barter transactions, it should be presumed that the fair value of the nonmonetary asset exchanged is more clearly evident than the fair value of the asset received and that the transaction should be reported at the fair value of the nonmonetary asset exchanged. [EITF 93-11] With respect to advertising-for-advertising barter transactions, revenue and expenses should be recognized at fair value if the fair value of the advertising surrendered in the transaction is determinable based on the entity's own historical practice. If the fair value of the advertising surrendered in the barter transaction is not determinable, the barter transaction should be recorded based on the carrying amount of the advertising surrendered, which likely will be de minimis. [EITF 99-17]	In an exchange of dissimilar nonmonetary assets (not involving advertising services), revenue is measured at the fair value of the goods or services received (adjusted by the amount of any cash or cash equivalents transferred). If this value is not reliably measurable, then entities can use the fair value of the goods or services given up (adjusted by the amount of any cash or cash equivalents transferred) to measure the transaction. [IAS 18, par 12] An exchange of similar nonmonetary assets (whether for advertising or not) is not a transaction that generates revenue under IAS 18. [SIC 31, par. 3 and IAS 18, par. 12] A seller that provides advertising services in its ordinary course of business recognizes revenue from a barter transaction involving advertising when, among other criteria, the services exchanged are dissimilar and the amount of revenue can be measured reliably. [IAS 18, par. 12 and 20a] Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received, but rather only at the fair value of advertising services provided, by reference to non-barter advertising transactions that meet specified criteria. [SIC 31, par. 5]	Under general tax principles, the amount realized from a barter transaction generally is determined based on the fair value of the goods received and such amount generally must be recognized upon consummation of the transaction. Certain exceptions to recognition exist, however, with respect to exchanges of similar goods. For example, §1031 provides for non-recognition treatment for certain like-kind exchanges (not including exchanges of inventory). Another similar exception arguably is found in Treas. Regs. §1.1001-1(a), which provides that where property is disposed of in exchange for money or other property differing materially either in kind or in extent, gain or loss would be realized, implying that when property is disposed of in exchange for property which is similar in kind or in extent, there is a non-realization event. Finally, an exchange of identical products could be viewed as a loan of the product with repayment in-kind, assuming the arrangement has sufficient indicia of a loan including, but not limited to, an unconditional promise to pay. TAM 200147032 provides that advertising revenue in a barter transaction must be recognized as the advertising services are provided.	It appears that tax will more closely align with IFRS reporting of revenue from non-advertising barter transactions, under which revenue generally is determined based on the value of assets received. As such, it is likely that a Schedule M related to recognized barter transactions could be eliminated. However, tax may not align with IFRS with respect to the non-recognition of an exchange of similar nonmonetary assets, unless the transaction qualifies for a specific exception to recognition for tax purposes. Tax also may not align with IFRS with respect to the provision of advertising services in exchange for similar advertising services as this is a non-recognition transaction for IFRS but likely a recognition transaction for tax purposes.	No method change. Schedule M could be changed or eliminated with respect to recognized barter transactions. Possible impact on effective tax rate related to exchange of advertising services (i.e., non-recognition transaction for IFRS; recognition transaction for tax).

Revenue recognition (application to specific items)

In December 2008, the FASB and the IASB jointly issued the discussion paper, "Preliminary Views on Revenue Recognition in Contracts with Customers." This discussion paper proposes changes to both US GAAP and IFRS that, if ultimately included in a new standard, would have potentially significant ramifications to revenue recognition. This publication does not analyze the potential implications of this discussion paper. We strongly recommend, however, that companies closely monitor this discussion paper, as well as other emerging guidance, and actively participate in the analysis during the comment period.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Software deliverables—multiple element arrangements	EITF 00-21 (as discussed in the sale of goods subject to installation, service arrangements with right of refund, and multiple element arrangement sections above) applies when a transaction has deliverables that are covered by revenue recognition guidance that provides no guidance for separation and allocation. For a transaction with multiple deliverables solely within the scope of SOP 97-2 with respect to software, revenue recognition is complicated and will vary with the nature of each of the deliverables and how, if at all, each deliverable relates to, or impacts another element. In general, SOP 97-2 requires vendor specific objective evidence (VSOE) of the fair value for each element if an arrangement were to be unbundled (with the appropriate revenue recognition criteria applied to each separately identifiable element). If the prescribed level of evidence (e.g., VSOE of fair value) is not available to the vendor, all revenue from the arrangement generally must be deferred (unless specific exceptions are met or the residual method can be applied). [SOP 97-2]	IFRS does not provide specific guidance on software related transactions, other than to indicate that fees from the development of customized software are recognized as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery service support. Accordingly, the general principles related to the sale of goods and provision of services as described above in the revenue recognition section must be applied. [IAS 18 Appendix, par. 19] In addition, software arrangements that contain multiple deliverables should be assessed based on the separation principles described above in the multiple element arrangements section (e.g., relative fair value). VSOE, which is not a defined concept in IFRS, is a higher threshold than fair value under IFRS. Accordingly, under IFRS, an entity may meet the fair value threshold earlier than under US GAAP.	An analysis must be performed to determine whether the transfer of the software is a sale (generally when all substantial rights are transferred) or a license (generally when less than all substantial rights are transferred). Revenue is generally recognized under §451 as the software is provided (if sale) or used (if licensed) or upon receipt of an advance payment for such software, unless there is a position to defer the advance payment under Rev. Proc. 2004-34 or Treas. Reg. §1.451-5. Under Treas. Reg. §1.451-5, advance payments for goods generally may be deferred until earned (or for two years following the receipt of substantial advance payments) as long as they are deferred for book purposes. Similarly, under Rev. Proc. 2004-34, qualifying advance payments (including payments for goods, services, and certain IP licenses) generally may be deferred for one year to the extent they are deferred for book purposes.	It is expected that IFRS will allow unbundling of software licensing agreements, resulting in an earlier recognition of income under IFRS. As a result, to the extent advance payments are received with respect to licensing agreements, revenue will be accelerated for tax, as well.	No method change. Computation of Schedule M likely to change. Acceleration of revenue related to advance payments likely. Consider seeking IRS relief to spread effect of revenue acceleration even though no method change required.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Service concession arrangements (infrastructure deals)	There is no direct US GAAP guidance on service concession arrangements.	Under IFRIC 12, "operators" of public infrastructure (e.g., roads, bridges, tunnels, prisons, and hospitals) that are contractually obligated to construct, operate, maintain and upgrade such infrastructure for the grantor (typically a governmental body) are treated as service providers and revenue is recognized in accordance with IAS 11 and IAS 18. If the operator performs more than one service (e.g., construction or upgrade services and operations), consideration must be allocated to each deliverable by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. Generally, for construction or upgrade services, revenue is recognized under IAS 11 using the percentage-of-completion (POC) method. For operation services, revenue is recognized under IAS 18 using the POC method.	The construction element of the contract generally is recognized using the cost-to-cost percentage-of-completion method under §460. The operation and maintenance elements of the contract generally are carved out from the contract under the §460 regulations and recognized as service revenues when the all-events test of §451 is met (i.e., the earlier of when due, paid, or earned with earned being determined based on completion of required services). However, see *Koch Industries.*	Due to the specific rules prescribed for tax purposes to account for the construction and service elements of the contract, no method change is expected as a result of the conversion to IFRS. However, the recognition of the service element of the contract using the POC method under IFRS could create significant administrative burdens for taxpayers that must convert from POC under IFRS to an accrual method for tax purposes.	No method change. Computation of Schedule M likely to change.

Contra receivables

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Allowance for doubtful accounts	Companies are required to record accounts receivable at net realizable value (or the amount expected to be received in cash). Accordingly, companies often establish an allowance for doubtful accounts in which an estimate is made of the expected uncollectible accounts from all sales made on account or from the total of outstanding receivables.	Determination of a provision for bad or doubtful debts is based on the impairment rules for financial assets in IAS 39, which generally requires objective evidence of impairment. IFRS prohibits the recognition of a provision for unplanned or unexpected losses. Such assessment of impairment is performed individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. [IAS 39, par. 64]	Tax law under §166 allows a bad debt deduction for wholly worthless debt, or for partially worthless debt that has been charged off the books. Some taxpayers treat the write off of the allowance account as charging the debt off the books, while others follow case law that treats debt as charged off the books when the debt is specifically reserved. See, for example, *Brandtjen & Kluge, Inc. v. CIR*, 34 T.C. 416.	It is more likely under IFRS than US GAAP that companies will establish bad debt reserves for specific receivables, in which case tax will be able to follow book and deduct the related allowance account to the extent the debt is wholly or partially worthless. If the taxpayer currently is disallowing the entire bad debt reserve, a method change would be required to change to a method that deducts bad debt in accordance with §166.	Possible method change. Possible change in the computation (or elimination) of Schedule M. Possible acceleration of tax deductions.
Rights of return	FAS 48 specifies strict criteria that must be met in order for revenue to be recognized when a buyer has the right (either explicit or implicit) to return a product. [FAS 48]	Revenue is generally recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors. [IAS 18, par. 17]	Tax requires recognition of revenue under §451 even when a right of return exists to the extent ownership is transferred (e.g., not a consignment sale) as the possibility of a return generally is viewed as a condition subsequent. To the extent the return is fixed at year-end (e.g., sometimes occurs when the taxpayer has been notified of the return by year-end), the amount is reasonably determinable and payment is made within eight and a half months under the recurring item exception, a return liability may be accrued for tax.	Existing difference between US GAAP and tax expected to continue under IFRS.	No method change. Possible change in the computation of Schedule M.

Inventory

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Scope of inventory	Inventory does not include intangible assets.	Inventory may include intangible assets that are produced for resale (e.g., software that is produced for resale).	Inventory generally includes tangible personal property held for sale (e.g., software held for sale that is embodied in a tangible medium).	Book classification should not impact tax methods.	N/A
Consistency of group policies for cost formulas	The cost formula can differ by product or region. For example, the same product may be costed differently if it is produced in two different locations.	The same cost formula is applied to all inventories having a similar nature and use to the entity.	Cost is defined under §471, but determination of cost under §471 for tax purposes generally follows financial statements. Uniform capitalization rules under §263A effectively require consistency of cost formula across all locations.	The IFRS requirement for a consistent cost formula likely will result in changes in the costs that are inventoried for book purposes. Because reclassifications between §471 (book) costs and §263A (tax) costs are considered changes in accounting method by the IRS, method changes likely will be required even though the same costs continue to be capitalized for tax purposes. Currently, a change between §471 and §263A is a non-automatic method change that requires the advance consent of the Commissioner.	Method changes likely. Consider seeking IRS relief in the form of automatic consent for such changes. Computation of Schedule M likely to change.
Determination of cost—trade, cash, and other discounts	Cash consideration received from a vendor is presumed to be a reduction of the inventory price unless: • Payment can be specifically identified with separate assets or services to be delivered to the vendor; or • Payment is shown to be a reimbursement of costs. [EITF 02-16]	Trade discounts, rebates, and other similar items, including cash discounts for early payment, are deducted in determining the costs of purchases.	The cost of inventory must be reduced by trade or other discounts. In comparison, a taxpayer has the option of either reducing inventory costs or recognizing income for cash discounts (i.e., discounts provided by vendors for early payment), provided a consistent course is followed.	Generally, tax will follow book under IFRS as it did under US GAAP. However, the IFRS requirement to reduce inventory cost for anticipated cash discounts could create an opportunity for a cash discount method change if the taxpayer currently is recognizing cash discounts as income (as opposed to a reduction in inventory cost) for tax.	Possible method change will be desired. Possible reduction in cash tax.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Inventoriable costs	Cost is defined to mean acquisition and production cost. Offsite storage and distribution costs are deducted. G&A costs are normally treated as current period costs, unless such expenses can be clearly related to production. Selling expenses are never treated as inventory costs.	The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Requires expensing of offsite storage and holding costs, except those necessary to hold inventories during the production process.	In general, the cost of inventory under §471 and §263A includes direct costs and indirect costs that are directly related to or incurred by reason of the production or resale activity. Indirect costs generally include distribution and transportation costs, other than costs to distribute directly to a customer. In addition, storage and handling costs (including offsite storage and handling not at a retail sales facility) generally are required to be capitalized under §471 and/or §263A. Selling costs are not inventoriable costs.	Certain costs (such as offsite storage and handling costs necessary to bring inventories to their present location and condition) that are not inventoriable under US GAAP will be inventoriable under IFRS. In general, these costs also are inventoriable for tax purposes under §263A and thus have been treated as additional §263A costs. Thus, there will be no change in the ending inventory value following an IFRS conversion. However, because reclassifications between §471 (book) costs and §263A (tax) costs are considered changes in tax accounting methods by the IRS, method changes likely will be required even though the same costs continue to be capitalized for tax purposes. Currently, a change between §471 and §263A is a non-automatic method change that requires the advance consent of the Commissioner.	Method changes likely. Consider seeking IRS relief in the form of automatic consent for such changes. Computation of Schedule M likely to change.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Asset retirement obligations (AROs) and environmental remediation costs	Under US GAAP, AROs are added to the carrying amount of the related item of property, plant and equipment. The resulting depreciation is treated as an inventoriable cost if the asset relates to the production. Environmental remediation costs are distinguished from asset retirement obligations. A liability is recorded if it is probable that a liability has been incurred and the amount can be reasonably estimated. Guidance for the application of "probable" and "reasonably estimated" in relation to environmental obligations is located in SOP 96-1. Such costs are not inventoriable.	The costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred as a consequence of having used the item to produce inventories during the period are not added to the carrying amount of the property, plant, and equipment. Rather, such costs are accounted for as costs to produce the inventory and are either capitalized or expensed in accordance with the inventories standard, IAS 2. Environmental remediation costs are not distinguished from AROs.	Restoration costs that materially enhance the value of property, substantially prolong the life of property, or adapt property to a new or different use are treated as capital improvements to the property under §263(a) and are capitalized and depreciated. The resulting depreciation is treated as an inventoriable cost if the improved asset relates to production or resale. Removal costs generally are deductible. Rev. Rul. 2005-42 requires certain otherwise deductible environmental remediation costs, that may include decommissioning and restoration costs, to be treated as an inventoriable production cost. However, such costs may not be included in inventory costs until they have been properly incurred under §461 (i.e., the liability is fixed and determinable and economic performance has occurred).	Because the tax law has special rules to determine the treatment of dismantling, removal and restoration costs, as well as environmental remediation costs that differ from both US GAAP and IFRS, no method change should be required. The computation of the book-tax difference likely will change under IFRS, however, because future AROs and environmental remediation costs must be removed from book inventory directly (and under US GAAP, AROs typically are removed from book inventory as part of the book-tax depreciation adjustment while environmental remediation costs are not included in inventory).	No method change should be required. Computation of Schedule M likely to change.
Abnormal costs	The allocation of fixed production overhead is based on the range of "normal capacity." Normal production capacity is the production expected over a number of periods or seasons under normal circumstances taking into account loss of capacity. Abnormal costs such as idle facility expense or excessive spoilage should be included in current period charges rather than deferred as a portion of inventory costs.	The allocation of fixed production overhead is based on the normal capacity of the production facility. The amount of fixed overhead allocated to each unit of production is not increased as a result of low production or an idle plant.	A taxpayer is not permitted to deduct fixed overhead costs that may be expensed for book purposes for below normal capacity (i.e., practical capacity). An exception is provided, however, that allows the depreciation of temporarily idle equipment to be expensed. A taxpayer generally is not permitted to deduct abnormal production costs.	The IFRS rules are expected to follow US GAAP. Tax prescribes specific rules that differ from both. Accordingly, no method change should be required as long as the taxpayer is properly applying the tax rules.	Generally, no method change required. Possible change in the composition of Schedule M.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Cost flow	Methods of determining the cost of inventory include LIFO, FIFO, weighted average cost, and specific identification.	The LIFO method is prohibited. Available methods of determining the cost of inventory include FIFO, weighted average, and specific identification.	Section 472 allows the use of LIFO, but only if a LIFO method will be used for reporting income to partners, shareholders, and creditors. (However, see special rules in Rev. Rul. 78-246 related to foreign-owned companies.) Other permissible methods include FIFO, average cost, and specific identification.	Because a LIFO method generally cannot be used for tax purposes unless a LIFO method is used for financial reporting purposes, a method change likely will be required for companies using a LIFO inventory method.	Method change will be required for companies using LIFO. Increase in cash tax.
Valuation	Inventory is stated at the lower of cost or market (LCM). Market is defined as current replacement cost, provided that: • "Market" should not exceed the net realizable value (i.e., estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal); and • "Market" should not be less than net realizable value reduced by an allowance for an approximately normal profit margin. Depending upon the character and composition of the inventory, this rule is either applied to each item, each class, or in the aggregate.	Inventory is stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price less the estimated costs to complete the item and to complete the sale.	Inventory can be measured under §471 at either cost or LCM. Market for normal goods for tax purposes generally is defined as replacement or reproduction cost and is determined on an item basis. Market may not be determined on an aggregate basis. The regulations under §471 also provide for subnormal good write-downs to net realizable value. Note that the determination of net realizable value for tax purposes may differ from both US GAAP and IFRS.	No method change should be required because tax LCM is generally different than LCM as applied for either US GAAP or IFRS. Market for tax purposes is defined as replacement cost, irrespective of whether net realizable value is less than replacement cost.	Generally, no method change. Possible change in the computation of Schedule M.
Reversal of write downs	US GAAP prohibits the reversal of a write-down.	If the net realizable value of an item that has been written down increases subsequently, then the write-down is reversed (limited to the amount of the original write-down).	Tax requires the reversal of write downs if market is higher than cost as inventory must be valued at the lower of cost or market at the balance sheet date.	No method change should be required because tax rules are not impacted by financial accounting treatment. Possible elimination of book-tax differences because both tax and IFRS require reversal of write-downs.	No method change. Possible change in the computation of Schedule M.

Property, plant, and equipment (PP&E)

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Valuation	Requires historical cost accounting.	Permits historical cost or fair value accounting. Thus, allows revaluation of PP&E at fair value (FV). However, use of FV model is expected to be rare and if used, will only be for significant asset classes, such as buildings.	Cost generally must be used as the basis of PP&E. See, for example, §167(c), which provides that the basis for depreciation is the adjusted basis provided in §1011; §1011, which provides that the adjusted basis for determining gain or loss shall be the basis as determined by applicable sections, including §1012; and §1012, which provides, generally, the basis of property is the cost.	No method change will be required because tax will continue to follow the historical cost model. Moreover, it is anticipated that very few taxpayers will choose to use the FV model for book purposes under IFRS and that even if the FV model is chosen, it will be used only for certain asset classes that will not be too difficult to track for tax purposes. Nonetheless, a taxpayer that chooses the FV model under IFRS should maintain records that show the cost of the property acquired and disposed of for tax purposes.	No method change. Possible change in the computation of Schedule M.
Deferred payment for asset	In accordance with FASB Concepts Statement No. 5, PP&E is reported at its historical cost, which is the amount of cash, or its equivalent, paid to acquire an asset. Payments deferred beyond normal credit terms would be measured at the present value of the future payments discounted using a market rate of interest.	The cost of the PP&E is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is capitalized in accordance with IAS 23. The core principle in IAS 23 is that borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset form part of the cost of that asset. Therefore, any deferred payment terms are effectively a financing mechanism and interest should be recognized over the period of credit—either in the P&L or as part of the cost of the PP&E.	Cost generally must be used as the basis of PP&E. See, for example, §167(c), which provides that the basis for depreciation is the adjusted basis provided in §1011; §1011, which provides that the adjusted basis for determining gain or loss shall be the basis as determined by applicable sections, including §1012; and §1012, which provides, generally, the basis of property is the cost. However, the cost of property acquired with debt is determined based on the issue price of the debt if payment is deferred. If the debt does not have adequate stated interest, interest will be imputed such that the issue price (and thus the cost of the property) will be lower than the face amount of the debt. Note that exceptions to this general rule exist, including, for example, for certain debt with a term of less than one year and certain small loans.	No method change should be required because tax should continue to follow the tax specific rules with respect to deferred payments. In the event the actual cost of an asset is discounted to reflect the cash price equivalent for IFRS, but should not be discounted for tax, the taxpayer will need to track and adjust tax basis.	No method change. No change in the computation of Schedule M expected.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Components of assets—aggregation/separation	Permits the "separate significant component" method, but does not require it.	Requires separate significant components of an item of PP&E to be recorded and depreciated separately. For example, an airplane likely will be treated as several units of property, including airframe, engines, landing gear, etc.	Must follow the unit of property (UOP) principles established under case law until the final tangible regulations under §263(a) are effective. Generally, under case law, the UOP is determined considering the functional interdependence of one component with another component. Separate significant components typically are not treated as separate units of property. See, for example, *FedEx.*	The determination of a UOP for tax purposes will be significantly different from book under IFRS as compared to US GAAP. As a result, taxpayers theoretically will need to analyze separate significant components to determine the appropriate tax treatment under UOP rules, and where required, combine separate components into a single UOP. The differences between tax and IFRS UOP will necessitate tracking different assets, different placed in service dates, and different disposal dates. The different rules also will significantly complicate the analysis of whether a "repair" is a capital improvement and must be capitalized under §263(a) because such determination must be made considering the relevant UOP. In general, a smaller UOP under IFRS could result in earlier placed in service dates, more frequent disposals, and more frequent capitalization of repairs.	No method change. Significant change in Schedule M computations regarding depreciation, gain/loss on disposals, and repairs. Taxpayers may want to seek IRS relief to allow a book conformity safe harbor in determining the UOP before the tangible regulations are finalized.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Components of assets—removal costs	US GAAP allows for capitalization of subsequent expenditures if the expenditure benefits future periods by extending the useful or productive life of the asset. However, there is no requirement that the carrying amount of the parts that are replaced be expensed.	Subsequent expenditures are covered by the same recognition principles as the original PP&E purchase. An entity should recognize, in the carrying amount of PP&E, the cost of replacing part of an asset when that cost is incurred if the recognition criteria are met. The carrying amount of the parts that are replaced should be written off to expense at the time of replacement. [IAS 16]	Under Rev. Rul. 2000-7, if the retirement and removal of a depreciable asset occurs in connection with the installation or production of a replacement asset, the costs incurred in removing the retired asset are not required to be capitalized under §263(a) or §263A as part of the cost of the replacement asset. Any remaining basis in the retired asset also is recognized as a loss.	No method change should be required assuming removal costs are deducted, as allowed for tax purposes. Moreover, tax appears to be more similar to IFRS than US GAAP with respect to removal costs that relate to a separate UOP that also is being written-off for tax purposes. Thus, book-tax differences associated with removal costs capitalized for book purposes under US GAAP likely will be eliminated. However, due to significant differences between IFRS and tax regarding the determination of a UOP, book-tax differences generally will continue.	No method change. Possible change in the computation of Schedule M.
Asset retirement obligations (AROs)	Under US GAAP, AROs are added to the carrying amount of the related item of PP&E and depreciated over the useful life of the asset. The ARO is remeasured when there is a change in the estimated future cash flows.	The cost of an item of PP&E includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located if the obligation to dismantle or restore is incurred either when the item is acquired or is incurred as a consequence of using the item for purposes other than to produce inventories. [IAS 16, par. 16] The obligation is remeasured when there is a change in cash flows required to settle the obligation or a change in the current market-based discount rate.	AROs included in the basis of fixed assets for financial statement purposes need to be removed for tax purposes. A tax deduction is allowed when the ARO is actually incurred under §461.	Book-tax difference continues and possibly increases under IFRS. Taxpayers should adjust the book basis of fixed assets for tax purposes by removing the estimated future retirement obligation in order to avoid over depreciating the associated asset. Taxpayers also should take the deduction for the asset retirement liability once it is actually incurred for tax purposes. Remeasurement of ARO under IFRS could occur more frequently than under US GAAP, giving rise to more frequent book-tax differences.	No method change. Possible change in the computation of Schedule M.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
UNICAP interest capitalization, in general	FAS 34 requires capitalization of interest costs while an asset is being prepared for its intended use. Generally, the use of the avoided cost approach is required to determine the capitalization of interest. Generally, a weighted average borrowing rate is applied for capitalization of interest. However, when it is clear that a specific new borrowing can be identified with a qualifying asset, that association may be made for interest capitalization purposes.	Beginning January 1, 2009, borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are required to be capitalized as part of the cost of that asset. Prior to January 1, 2009, capitalization of borrowing costs was optional. To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset (e.g., inventory, manufacturing plants, power generation facilities, intangible assets, and investment properties), the entity shall determine the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. If borrowings cannot be directly attributed to the asset, then a weighted-average borrowing rate may be used.	Interest capitalization is required under §263A(f) during the production period of designated property, which generally is: • Real property; • Tangible personal property with an estimated production period exceeding two years; or • Tangible personal property with an estimated production period exceeding one year and estimated costs of production exceeding $1M. The determination of capitalized interest generally is based on the avoided cost method, but the application of specific rules with respect to eligible debt, related party debt, etc. differ between US GAAP/ IFRS and tax.	Taxpayers must continue to capitalize interest costs as required under §263A(f) and thus a method change should not be required. A book-tax difference would continue to result, though the difference likely will be less beginning in 2009 when interest is required to be capitalized under IFRS for certain property that is expected to substantially overlap with designated property.	No method change. Possible change in the computation of Schedule M.
Interest capitalization, effect of incidental income	Investment income is recognized in the P&L.	Investment income reduces borrowing costs eligible for capitalization.	Investment income earned on borrowed funds may not reduce interest expense subject to capitalization under §263A(f). Rather, investment income must be recognized as income in accordance with §451.	Taxpayers must continue to capitalize interest costs as required under §263A(f) and thus a method change should not be required. Conversion to IFRS will create a book-tax difference because incidental income should be recognized for tax purposes in accordance with §451 as opposed to being an offset to borrowing costs subject to capitalization under §263A(f).	No method change. New Schedule M may arise or a new adjustment to the current interest capitalization Schedule M may result.

Intangible assets and goodwill

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Intangible assets separately acquired	US GAAP provides no specific criteria that must be met in order for an asset to be recorded as an intangible asset, other than that outlined in FASB Concepts Statement No. 6 for recognition of an asset. An intangible asset that is acquired either individually or with a group of other assets (but not as part of a business combination) should be initially recognized and measured at its fair value. [FAS 142, par. 9] Under US GAAP, an assembled workforce may be recognized if it is separately acquired (i.e., not as part of a business combination).	As with all assets, for an intangible asset to be recognized it must be probable that future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be reliably measured. The probability criterion is always considered to be satisfied for separately acquired intangible assets under IFRS. If an intangible asset is acquired separately, cost is measured as the amount paid plus any directly attributable expenses. See the cost of intangibles section for examples of directly attributable expenses. An entity must also have control over the intangible asset in order to recognize it. In other words, the entity should be able to exclude other parties from using the asset to obtain economic benefit. This control is usually accomplished through contractual or other legal restrictions. [IAS 38, par. 13] Under IFRS, an assembled workforce may not be recognized as an intangible asset.	Treas. Reg. 1.263(a)-4 requires capitalization of the following intangibles: • Acquired intangibles; • Certain self-created intangibles; • Separate and distinct intangibles assets; • Future benefits identified in published guidance (none as of the date of publication); and • Facilitative costs related to the above. Thus, separately acquired intangibles always must be capitalized for tax purposes. Separately acquired intangibles are amortizable over their useful life or under a 15 year safe harbor in Treas. Reg. §1.167-3, as applicable.	No method change should be required as tax has specific capitalization rules that are not affected by the financial accounting treatment. The intangible regulations under §263(a) do not have the same criteria to consider for capitalization of intangible assets as IFRS. Instead, the intangible regulations set out specific items that require capitalization, such as acquired intangibles, prepaid expenses, and certain contract rights. However, the intangible regulations are based on the same underlying principles as IFRS, and thus it is expected that in many circumstances, costs required to be capitalized for IFRS must be capitalized for tax. Note, an acquired workforce-in-place may be capitalized and amortized under §197 (see the intangible assets purchased as part of a business combination section for more information).	No method change. No change in the computation of Schedule M expected.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Intangible assets purchased as part of a business combination	When an intangible asset is purchased as part of a business combination, in order to recognize it apart from goodwill, it must be identifiable. An intangible asset is identifiable if it is separable or if it arises from contractual or legal rights. Intangible assets are separable if they can be sold, transferred, licensed, rented, or exchanged separately or together with a related contract, asset, or liability. Intangible assets can also arise from contractual or other legal rights, regardless of whether those rights are transferable or separable.	Recognition criteria for intangible assets acquired as part of a business combination under IFRS are the same as under US GAAP. When an intangible asset is purchased as part of a business combination, in order to recognize it apart from goodwill, it must be identifiable. An intangible asset is identifiable if it is separable or if it arises from contractual or legal rights. Intangible assets are separable if they can be sold, transferred, licensed, rented, or exchanged separately or together with a related contract, asset, or liability. Intangible assets can also arise from contractual or other legal rights, regardless of whether those rights are transferable or separable.	Under Treas. Reg. §1.263(a)-4(c), the cost of acquired intangibles must always be capitalized. Intangible assets acquired in the acquisition of a trade or business generally are §197 intangibles. See §197(d) and Treas. Reg. §1.197-2(b)(3) for definitions. In general, §197 intangibles are capitalized and amortized over 15 years. Other acquired intangibles are amortizable over their useful life or under a 15 year safe harbor in Treas. Reg. §1.167-3, as applicable.	No method changes are expected due to specific capitalization and amortization rules that must be followed for tax purposes. Book-tax differences with respect to basis differences (e.g., as a result of the assumption of contingent liabilities and inclusion of transaction costs) and amortization are expected to continue under IFRS.	No method change. Schedule M computation not expected to change.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Internally generated intangible assets	Under US GAAP, costs of internally developing, maintaining, or restoring intangible assets that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, are recognized as an expense when incurred. US GAAP does not specify how the costs of specifically identifiable, internally-developed intangible assets that have finite lives should be treated. Other than those situations where specific authoritative literature addresses the accounting for certain types of specifically identifiable internally developed intangible assets (e.g., internally developed computer software and advertising costs), practice is generally to expense these costs as incurred.	To qualify for capitalization under IFRS, internally generated assets must meet the definition of an intangible asset—that is, the asset must be identifiable, the entity must have control over the asset, and future economic benefit must exist. Under IFRS, most internally generated intangible assets should be recognized if the criteria in IAS 38 is met. Internally generated brands, mastheads, publishing titles, customer lists, and items similar in substance shall not be recognized as intangible assets.	Treas. Reg. §1.263(a)-4(d) requires the capitalization of the following created intangibles: • Financial interests; • Prepaid expenditures; • Certain memberships and privileges; • Certain rights acquired from a governmental agency; • Certain contractual rights; • Certain contract terminations; • Certain benefits arising from real property owned by another; and • Costs to defend title to property.	The lack of certain of the IFRS requirements (e.g., control and probable future economic benefit) under US GAAP allowed certain intangibles to be recognized for US GAAP that will not be recognized under IFRS, including certain intangibles related to advertising (e.g., catalogs), contract transition, start-up, pre-opening, and pre-operating costs. Because these intangibles (other than start-up) generally are not capitalized for tax purposes, conversion to IFRS could eliminate book-tax differences or highlight intangibles capitalized for books that were not required to be capitalized for tax, in which case method changes will be desired.	Generally, no method change. Possible change in the computation (or elimination) of Schedule M.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Internally generated research and development costs	Under US GAAP, both research and development costs generally are charged to expense as incurred.	Under IFRS, the determination as to whether an internally generated intangible asset should be recognized depends on the phase of development in which the cost is incurred. Internally generated assets are created in two phases: • The research phase • The development phase Expenditures for research shall be recognized as an expense when incurred. An intangible asset arising from development shall be recognized if the entity can demonstrate all of the following: • The technical feasibility of completing the intangible asset so that it will be available for use or sale; • Its intention to complete the intangible asset and use or sell it; • Its ability to use or sell the intangible asset; • How the intangible asset will generate probable future economic benefits; • The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible; and • Its ability to measure reliably the expenditure attributable to the intangible asset during its development. Capitalization in the development phase is required if the above criteria are met, it is not a choice.	Research or experimental costs may be expensed currently under §174(a), or capitalized and amortized over five years under §174(b).	No method change will be required because the tax treatment of R&E costs will not change following an IFRS conversion. Development costs capitalized under IFRS likely will be eligible for immediate deduction for tax under §174(a). However, analysis likely will be required to substantiate all such deductions under §174. Moreover, consideration should be given to modifying accounting systems to capture deductible R&E costs to avoid the administrative burden of identifying them separately for tax.	No method change. New Schedule M likely.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Cost of intangibles	An intangible asset that is acquired either individually or with a group of other assets (but not as part of a business combination) should be initially recognized and measured at its fair value. Under both IFRS and US GAAP, intangible assets acquired as part of a business combination should be recognized at their estimated fair value at the acquisition date. Both IFRS and US GAAP specify that in determining the value to be allocated to intangible assets in the purchase price allocation, buyer-specific assumptions (including the expected use of the intangible asset) should not be considered.	For separately acquired intangible assets, cost is defined as purchase price. Directly attributable costs of separately acquired intangible assets include employee costs, professional fees arising directly from bringing the asset to its working condition, and testing costs. Directly attributable costs generally do not include costs of introducing a new product or service, costs of doing business in a new location or with a new class of customers, and administrative or other general overhead costs. For internally generated intangible assets, cost includes the cost of materials and services used or consumed plus directly attributable costs of preparing the asset for its intended use. Directly attributable costs of internally generated intangible assets include employee costs, fees to register a legal right, amortization of patents and licenses that are used to generate the intangible asset, the costs of materials and services used or consumed in generating the intangible asset, and certain interest. Directly attributable costs generally do not include selling, administrative, and other general overhead costs; identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and training costs. Under both IFRS and US GAAP, intangible assets acquired as part of a business combination should be recognized at their estimated fair value at the acquisition date. Both IFRS and US GAAP specify that in determining the value to be allocated to intangible assets in the purchase price allocation, buyer-specific assumptions (including the expected use of the intangible asset) should not be considered.	Cost is determined under §263(a) as purchase price, inducement costs, and facilitative costs. Under §263(a), facilitative costs are costs incurred in the process of investigating or otherwise pursuing the transaction. However, exceptions are provided for the following otherwise facilitative costs in certain acquisitions: internal costs (employee compensation and overhead) and de minimis costs. Certain intangibles (e.g., creative property, such as films, sound recordings, and manuscripts) also are subject to §263A.	No method change should be required because the tax specific costing rules under §263(a) and §263A must continue to be followed. Note that book-tax differences may arise related to employee compensation and benefit costs, which are not required to be capitalized for tax under the §263(a) regulations but are required to be capitalized under IFRS. In addition, fees to register a patent are deductible for tax under §174, and interest costs are not capitalizable unless attributable to the production of designated property under §263A(f), which for intangibles only includes certain creative property, such as films.	No method change. Possible change in the computation of Schedule M.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Intangibles acquired via a government grant	An intangible asset may sometimes be acquired free or for a nominal amount by way of a government grant. Examples include allocations of airport landing rights and import quotas. Under US GAAP, intangible assets that are purchased from third parties, including grants from government entities, are recognized following the provisions of FAS 142. Such assets should be recorded at fair value, and amortized over their economic useful lives.	Intangible assets, such as these, may be recognized either at fair value or nominal value. This is an accounting policy choice. Assets that have been received for free or for a nominal amount are recorded at zero or the nominal amount, if the entity has chosen that policy. Any expenditure incurred by the entity that is directly attributable to preparing the asset for its intended use is also included in the initial measurement of cost. If the entity chooses to recognize the asset at fair value, that fair value is determined using an appropriate method.	Under §118, gross income does not include any contribution to the capital of a corporate taxpayer, whether coming from a shareholder or nonshareholder. In general, government grants that are not a prerequisite for services, but provide only indirect, intangible benefits to the government, such as a benefit to the community at large, are excluded from income as nonshareholder contributions to the extent they satisfy the five-part test outlined in *Chicago, Burlington, & Quincy*. Most notably, the grant must be bargained for, become a permanent part of working capital, and not be a prerequisite for services. The basis of property that is obtained by a corporation through a nonshareholder contribution to capital is zero under §362(c).	Basis differences will continue if the fair value model is chosen for IFRS because government contributed intangibles that are excluded from income under §118 have no basis under §362(c). Book-tax differences will continue with respect to the book recognition of income and tax exclusion to the extent §118 applies.	No method change. Schedule M computation not expected to change.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Subsequent measurement (and amortization)	Intangibles with finite lives other than goodwill are carried at historical cost, amortized, and subject to impairment testing when there is an indictor that an impairment may exist. Goodwill and other indefinite lived intangibles are not amortized but are subject to annual impairment testing as well as impairment testing when there is an indication of impairment. The amortizable amount of an intangible asset should be allocated on a systematic basis reflecting the best estimate of its useful life. Amortization of the asset should reflect the pattern in which the asset's economic benefits are consumed by the entity. If that pattern cannot be determined reliably, the straight-line method should be used.	IAS 38 provides for intangibles (other than goodwill) to be measured either at: • Cost, less accumulated amortization and impairment; or • The revaluation model, if an active market exists. The revaluation model can only be used if there is an active market for the intangible asset. In practice, we expect few intangibles to qualify for this treatment. The concepts behind amortization of intangible assets are generally the same under IFRS and US GAAP.	Intangibles must be valued using the historical cost model under §1012, which likely will differ from cost determined under IFRS (as it does for US GAAP) due to differences in purchase accounting rules, contingent liabilities, capitalizable transactions costs, etc. Intangibles generally may be amortized for tax purposes to the extent they are §197 intangibles, have an ascertainable useful life, or are eligible for the 15 year safe harbor provided under Treas. Reg. §1.167-3. Impairment write downs are not permissible for tax purposes.	Similar book-tax differences with respect to basis and amortization under US GAAP will continue under IFRS. No method change should be required because the tax specific rules must continue to be followed. Taxpayers will need to maintain records that show the allocation of tax purchase price and/or the cost of the property, which is used as tax basis, particularly if the revaluation model is used for IFRS purposes.	No method change. Change in Schedule M computation is expected if the revaluation model is used.
Assessment of amortization method	There is no explicit requirement for a review of the amortization method or residual value used for intangible assets under US GAAP, but an annual review of the remaining useful life is carried out to determine if there are events or circumstances that warrant revision thereof.	Under IAS 38, a company must assess the amortization method, residual value, and period used for amortizing a finite-life intangible asset at least annually.	Treas. Reg. §1.167(a)-3 generally provides that an intangible asset may be amortized over its useful life. While there is no requirement for a periodic review of the useful life, due consideration should be given to whether the useful life has changed. Note that a change in useful life is not a change in method of accounting under Treas. Reg. §1.446-1(e)(2)(ii)(d)(3)(i).	Taxpayers should consider any changes in the useful life under either US GAAP or IFRS to assess the impact on the tax useful life. A method change is not required as any resulting change in the tax useful life is not a change in method of accounting for tax purposes.	No method change.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Software amortization	Under US GAAP, amortization is the greater of the amount that would be recognized on a straight-line basis or the ratio of current gross revenues of the product to the total of current and anticipated future gross revenues of the product.	Under IFRS, capitalized software costs are amortized on a systematic basis over the useful life of the asset. The accumulated amortization shall rarely, if ever, be lower than the amount that would be recognized if the straight-line method was applied.	Under Rev. Proc. 2000-50, costs properly attributable to internally developed software can be treated as current expenses or capitalized and amortized over three years. Under §167(f) and Treas. Reg. §1.167(a)-14(b), capitalized computer software may be amortized using a straight line method over three years.	No method change will be required as the tax specific rules must continue to be followed. Moreover, the book-tax difference related to the current deduction and/or amortization periods will continue.	No method change. No change in the computation of Schedule M expected.
Negative goodwill	Recognized as an extraordinary gain. Effective January 1, 2009, a bargain purchase is no longer recognized as an extraordinary gain as it had been under the previous business combination standard. Bargain purchases will be treated similar to the IFRS treatment.	If the net of the identifiable assets acquired and the liabilities assumed exceeds the consideration transferred, before recognition of a gain, the acquirer should: • Reassess whether it has correctly identified all of the assets acquired and all liabilities assumed and recognize any additional assets or liabilities that are identified in that review • Review the procedures used to measure the amounts required to be recognized at the acquisition date for all of the following: – The identifiable assets acquired and liabilities assumed – The noncontrolling interest in the acquiree, if any – For a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree – The consideration transferred If an excess amount remains after applying the requirements above, the acquirer should: • Recognize the resulting gain in the P&L on the acquisition date; and • The gain should be attributed to the acquirer.	Section 1060 and the regulations thereunder provide specific allocation rules applicable to asset acquisitions. In the context of a bargain purchase, the basis of acquired assets will be reduced below fair value so that no negative goodwill is created (and no gain is recognized).	No method change is required because existing book-tax differences will continue. That is, similar to US GAAP, IFRS creates an initial book-tax difference for income recognized under IFRS that is not taxable for US tax purposes, which is offset by additional basis reported under IFRS as compared to tax basis determined under §1060.	No method change. No change in the computation of Schedule M expected.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Acquired in-process research and development (IPR&D)	Acquired IPR&D is expensed immediately unless it has an alternative future use. Upon the adoption of FAS 141(R), US GAAP will be similar to IFRS. IPR&D will initially be recognized and measured at fair value and treated as indefinite lived, subject to amortization upon completion or impairment.	Acquired IPR&D is recognized as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be reliably measured, subject to amortization upon completion or impairment.	Acquired IPR&D must be capitalized, and is amortized over its determinable useful life or the 15 year safe harbor provided under Treas. Reg. §1.167-3 (unless §197 applies).	For tax purposes, the prior treatment of acquired R&D is continued and thus a method change is not required. IFRS will eliminate the book-tax basis differences in connection with IPR&D that is written-off under US GAAP (prior to the adoption of FAS 141(R)). However, there likely will continue to be book-tax differences under IFRS for the difference in recovery lives.	No method change. Eliminate Schedule M for basis differences, but possibly create Schedule M for recovery differences.

Impairments

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Noncurrent non-financial assets—revaluation method	US GAAP does not allow assets to be carried at revalued amounts. Noncurrent assets are subject to impairment testing pursuant to FAS 142 or FAS 144. All impairment losses are recorded in the P&L.	IAS 16 and IAS 38 permit fixed assets and certain intangible assets to be carried at revalued amounts. Revaluation of assets should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Impairment losses on revalued assets are charged directly to the revaluation surplus account in equity to the extent that it reverses a previous revaluation increase related to the same asset previously recorded in equity. Any revaluation decrease in excess of the previously recognized surplus, if any, is recognized directly in the P&L.	In general, a loss is taken under §165 when assets are retired, sold, abandoned, destroyed, or otherwise permanently withdrawn from use. Impairment losses are not permissible for tax purposes.	No method change will be required as losses will continue to be recognized in accordance with §165 for tax purposes. Impairments that are recognized on the P&L will continue to create book-tax differences.	No method change. No change in the computation of Schedule M expected.
Reversals of impairments	Under US GAAP, the recording of an impairment loss results in a new carrying amount of the long-lived asset. Reversal of any impairment loss is prohibited.	IAS 36 requires that at each balance sheet date an entity shall assess whether there is any indication that an impairment loss recognized in prior periods for any asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of the related asset or cash-generating unit to determine if all or only a portion of the prior impairment should be reversed.	In general, a loss is taken under §165 when assets are retired, sold, abandoned, destroyed, or otherwise permanently withdrawn from use. Impairments generally are non-recognition events for tax.	No method change will be required as losses will continue to be recognized in accordance with §165 for tax purposes. Impairment adjustments will continue to create book-tax differences.	No method change. No change in the computation of Schedule M expected.

Leasing

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Classification of leases	Applies only to PP&E	Broader scope of application	The classification of a purported lease as a true lease, a financing transaction, or as a service contract, has broad application to all types of property.	The similar scope of application of the leasing rules under IFRS and tax, as well as similar classification principles, could eliminate book-tax differences that existed under US GAAP.	No method change. Possible elimination of Schedule M.
Finance lease—indicators	Form-driven requirements (e.g., the 75% economic life test and the 90% FV test) are applied to determine lease classification. [FAS 13]	IAS 17 applies substance over form to determine classification. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all risks and rewards. Quantitative thresholds are not provided in the standard. Examples of situations that individually, or in combination, could lead to a lease being classified as a finance lease include: • The lease transfers ownership to the lessee at the end of the lease term • A bargain purchase option exists • The lease term is for the major part of the asset's economic life • The present value of the minimum lease payments amounts to substantially all of the FV of the asset • The asset is of a specialized nature such that only the lessee can use it without major modifications	Generally, the tax law requires the determination of sale vs. lease to be based on a substance over form analysis of which party has the benefits and burdens of ownership. The determination of tax ownership must be made based on all of the facts and circumstances considering case law (see, for example, *Grodt and McKay*), as well as the IRS factors outlined in Rev. Proc. 2001-28, which provides guidelines the IRS will use for advance ruling purposes in determining whether transactions purporting to be leases are in fact leases for tax purposes. In general, the factors used to assess tax ownership are very similar to the factors outlined in IAS 17; but for tax purposes, no single factor is determinative.	No method change will be required because tax substance-over-form rules must continue to be followed, unless it is determined that the book GAAP classification inadvertently was followed for tax purposes. IFRS is more similar to the tax law than US GAAP because tax looks to substance over form to determine tax ownership and thus whether the transaction is a sale (because ownership is transferred) or a lease (because ownership is not transferred). The substance-over-form approach under IFRS could eliminate book-tax planning that took advantage of the US GAAP objective rules to allow a transaction to be treated as a sale for book purposes (thus allowing recognition of gain for book) and a lease for tax purposes (thus preventing recognition of gain and allowing tax depreciation). However, it is possible that IFRS interprets factors indicating a lease consistent with the FAS 13 objective measures (e.g., if the present value of the minimum lease payments are greater than or equal to 90% of the property's value, then it is characterized as sale) such that IFRS will in practice be similar to US GAAP.	No method change. Possible change in the computation (or elimination) of Schedule M. Possible acceleration of income if business practices change to structure sales transactions for IFRS that also are sales transactions for tax.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Initial direct costs/lease acquisition costs	Deferred and amortized over the lease term of an operating lease in proportion to the recognition of rental income. [FAS 13, par. 19c] Shall be accounted for as part of the investment in a direct financing lease. [FAS 91, par. 23] In a sales-type lease, any initial direct costs shall be charged to income in the period that the sales-type lease profit or loss is recognized. [FAS 13, par. 17c]	Added to the carrying amount of the leased asset in an operating lease and recognized as an expense over the lease term on the same basis as the lease income. [IAS 17, par. 52] Included in the initial measurement of a finance lease receivable. [IAS 17, par. 38] Initial direct costs incurred by a manufacturer/dealer lessor in a finance lease should be recognized as an expense at the commencement of the lease term. [IAS 17, par. 46]	Lease inducement costs and related facilitative costs are capitalized under Treas. Reg. §1.263(a)-4 and may be amortized under Treas. Reg. §1.167-3 generally over the lease term, but considering the amortization period rules under §178. For a financing lease (installment sale), lease acquisition costs are recovered through depreciation of the assets acquired.	No method change is expected as specific tax rules must continue to be followed. No book-tax difference is expected unless the amortization period differs.	No method change.
Renewal options	Exercise of renewal option beyond the original lease term is normally considered a new agreement.	If option is ultimately exercised based on the contractually stated terms of the lease, the original lease classification continues into the extended term of the lease; it is not revisited.	Renewal options are a factor to consider in determining the initial classification of a lease, which carries into any renewal periods. Renewal options also are factors to be considered in determining the useful life of a lease. Under §178 (in determining the amount of the deduction allowable to a lessee for exhaustion, amortization, etc.), in respect of any cost of acquiring a lease, the term of the lease shall be treated as including all renewal options if 75% of such cost is attributable to the period of the term of the lease remaining on the date of its acquisition.	No method change will be required because specific tax rules will continue to be followed. Any US GAAP-tax difference associated with different classifications of renewed leases likely will be eliminated under IFRS because the IFRS treatment of renewed leases is consistent with the tax law.	No method change. Possible change in the computation (or elimination) of Schedule M.
Sale-leaseback, finance lease	Any profit or loss on the sale shall be deferred and amortized in proportion to the amortization of the leased asset, unless the fair value of the property is less than its carrying value, in which case a loss is recognized for the difference. [FAS 28, par. 3]	Gain or loss is deferred and amortized over the lease term. [IAS 17, par. 59]	To the extent the transaction is characterized as a sale or financing transaction, gain or loss is recognized since the transaction is effectively a sale for tax purposes.	No method change will be required as the tax specific rules regarding recognition of gain or loss will continue. The book-tax difference under US GAAP associated with a deferred gain from a sale-leaseback will continue under IFRS.	No method change. No change in the computation of Schedule M expected.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Sale-leaseback, operating lease	If the seller relinquishes substantially all of the use of the asset, gain or loss is recognized at the date of sale. If the seller retains more than a minor part, but less than substantially all of the use of the property, any profit in excess of the present value of the minimum lease payments is recognized at the date of sale. A loss must be recognized immediately by the seller-lessee to the extent that the net book value exceeds the fair value.	Gain or loss is recognized immediately when the sale occurs at fair value. If the sales price is below fair value, any profit or loss should be recognized immediately, unless the favorable price is compensated for by future lease payments at below-market rates. In that case, the impact would be deferred and amortized in proportion to the lease payments over the lease period. [IAS 17, par. 61-63]	Gain or loss recognition occurs at the time of sale for a true sale-leaseback agreement.	No method change will be required as the tax specific rules regarding recognition of gain or loss will continue. US GAAP and IFRS both defer gains or losses in certain circumstances and thus to the extent IFRS requires deferral of gain/loss, a book-tax difference will be created or continued.	No method change. No change in the computation of Schedule M expected.
Rent step-ups	Lease payments under an operating lease are recognized on a straight-line basis over the lease term unless another systematic basis is more representative of the user's benefit. There is specific guidance requiring free rent and rent step-ups to be recognized on a straight-line basis over the lease term.	Lease payments under an operating lease are recognized on a straight-line basis over the lease term unless another systematic basis is more representative of the user's benefit. [IAS 17, par. 33]	Under §467, rental income or expense generally must be recognized based on the allocation of rents provided in the agreement (i.e., generally based on cash receipts and payments). Note that in the case of disqualified leasebacks or long-term agreements (with tax avoidance purposes), rent is recognized on a constant rental accrual basis for tax purposes.	No method change is required as the tax specific rules under §467 must continue to be followed. Because both US GAAP and IFRS require straight lining of rent, book-tax differences will continue following an IFRS conversion.	No method change. No change in the computation of Schedule M expected.

Liabilities

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Contingent liabilities/ provisions	An accrual for a loss contingency is required if it is probable that there is a present obligation resulting from a past event and that an outflow of economic resources is reasonably estimable. [FAS 5] Guidance uses the term probable to describe a situation in which the outcome is likely to occur. While a numeric standard for probable does not exist, practice generally considers an event that has an approximately 75%–80% or greater likelihood of occurrence to be probable. When some amount within the range (of loss) appears at the time to be a better estimate than any other amount within the range, that amount shall be accrued. When no amount within the range is a better estimate than any other amount, however, the minimum amount in the range should be accrued. [FIN 14]	A contingent liability is: • A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or • A present obligation that arises from past events but is not recognized because: – It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or – The amount of the obligation cannot be measured with sufficient reliability. [IAS 37, par. 10] A provision is a liability of uncertain timing or amount. [IAS 37, par. 10] Provisions are recorded when three criteria are met: • A present obligation from a past event exists; • An economic outflow of resources to settle the obligation is probable; and • A reliable estimate of the amount of the obligation can be made. [IAS 37, par. 14] The term probable is used for describing a situation in which the outcome is more likely than not to occur (i.e., greater than 50%). The amount recognized should be the best estimate of the expenditure required. Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the midpoint of the range is used.	Under §461, a liability is incurred and generally taken into account when: • All the events have occurred to establish the fact of the liability; • The amount of the liability is determinable with reasonable accuracy; and • Economic performance has occurred with respect to the liability, or if the recurring item exception is applicable, economic performance occurs within eight and a half months of year-end. In certain cases (e.g., tort and breach of contract) economic performance requires payment to the person to whom the liability is owed.	No method changes are expected as the tax specific rules as to when a liability is taken into account must continue to be followed. Moreover, the specific tax requirements under §461 differ from both US GAAP and IFRS, and thus book-tax differences will continue. The lower threshold in IFRS with respect to establishing a liability and the IFRS requirement to book the midpoint of the range, as opposed to the minimum amount, likely will result in a change in the computation of Schedule M.	No method change. Possible change in the computation of Schedule M.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Environmental obligations	Distinguished from asset retirement obligations. A liability is recorded if it is probable that a liability has been incurred and the amount can be reasonably estimated. Guidance for the application of "probable" and "reasonably estimated" in relation to environmental obligations is located in SOP 96-1.	Not distinguished from other decommissioning, restoration, and similar liabilities. Refer to the accounting for asset retirement obligations and environmental remediation costs section above.	Under §461, environmental liabilities may not be taken into account until the liability is fixed and determinable, and economic performance has been satisfied, generally when the remediation services occur. In addition, environmental remediation costs might be capitalizable under §263(a) or inventoriable under §263A. See, for example, Rev. Rul. 94-38 and Rev. Rul. 2005-42.	No method change is expected as the tax specific rules as to when an environmental liability is taken into account must continue to be followed. Moreover, although the timing of when environmental liabilities are taken into account under US GAAP differs from IFRS, both US GAAP and IFRS differ from the tax rules under §461. Thus, a book-tax difference will continue.	No method change. Possible change in the computation of Schedule M.
Reimbursement expected for liabilities recorded	If the expected reimbursement meets the definition of a contingent gain, the guidance for accounting for contingent gains is followed. [FAS 5] Otherwise, reimbursements may generally be recognized when they meet the definition of an asset (i.e., a probable future economic benefit obtained or controlled as a result of past transactions or events). Probable is generally interpreted to mean a likelihood of at least 75%–80%.	Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. [IAS 37]	Under the court-developed cost reimbursement doctrine, reimbursements of expenditures are excluded from income if the taxpayer has a right to receive the reimbursement at the time of the expenditure. Otherwise, reimbursements are included in income, but not until the right to receive such reimbursement is fixed and determinable in accordance with §451. An expenditure that is subject to a right to reimbursement also is not taken into account for tax purposes. Note that the courts generally require a fixed right to receive reimbursement, but the IRS only requires that the reimbursement be reasonably certain.	No method change is expected as the tax rules with respect to reimbursed expenditures should continue to be followed. However, it is possible that an IFRS conversion may highlight where US GAAP was followed and thus a right to reimbursement was recognized for tax that was probable but not fixed (e.g., for an insurance reimbursement). A conversion to IFRS could eliminate book-tax differences with respect to reimbursements if the IFRS "virtually certain" standard is interpreted to mean the taxpayer has a right to receive the reimbursement.	No method change. Possible change in the computation (or elimination) of Schedule M.

Subject	US GAAP	IFRS	US tax method	US tax method implications	Action items
Contingent assets	A gain contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to a possible gain. Gain contingencies are recognized only when they are realized or realizable. A gain is realizable when sufficient evidence exists that the entity has a right to the cash, even though it may not have been received yet. It is often difficult to meet the "realizable" criteria, and therefore gain contingencies are often not recorded until realized. [FAS 5]	A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognized in the financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, the related asset is not a contingent asset and its recognition is appropriate. [IAS 37]	Income is recognized under §451 when the taxpayer has a fixed right to receive the income and the amount can be determined with reasonable accuracy. Therefore, a gain contingency typically would not be recognized until it is realized in accordance with §451.	No method change as the tax rules with respect to the recognition of income should continue to be followed. A conversion to IFRS could eliminate any book-tax difference arising under US GAAP if the IFRS "virtually certain" standard is interpreted to mean the taxpayer has a fixed right to the income.	No method change. Possible change in the computation (or elimination) of Schedule M.

PricewaterhouseCoopers is committed to helping companies navigate the conversion from US GAAP to IFRS. With that in mind, please visit **www.pwc.com/usifrs** to view a complete list of our comprehensive IFRS thought leadership, webcasts and additional tools addressing the business and technical issues that companies should be considering in anticipation of the inevitable move from US GAAP to IFRS.

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Contacts

This publication is intended not just to inform but to raise questions. Clients of PricewaterhouseCoopers may want to open a dialogue about IFRS with their PwC engagement partner or the primary authors of this paper who welcome any questions about the tax accounting method implications of IFRS:

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