

# 16

CURRENT TAX

FINANCIAL REPORTING  
STANDARD



ACCOUNTING  
STANDARDS  
BOARD

*Financial Reporting Standard 16  
'Current Tax' is issued by the  
Accounting Standards Board in respect  
of its application in the United Kingdom  
and by the Institute of Chartered  
Accountants in Ireland in respect of its  
application in the Republic of Ireland.*

# 16

CURRENT TAX



ACCOUNTING  
STANDARDS  
BOARD

*Financial Reporting Standard 16 is set out in paragraphs 1-22.*

*The Statement of Standard Accounting Practice, which comprises the paragraphs set in bold type, should be read in the context of the Objective as stated in paragraph 1 and the definitions set out in paragraph 2 and also of the Foreword to Accounting Standards and the Statement of Principles for Financial Reporting currently in issue.*

*The explanatory paragraphs contained in the FRS shall be regarded as part of the Statement of Standard Accounting Practice insofar as they assist in interpreting that statement.*

*Appendix V 'The development of the FRS' reviews considerations and arguments that were thought significant by members of the Board in reaching the conclusions on the FRS.*

# CONTENTS

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*Paragraphs*

## SUMMARY

### FINANCIAL REPORTING STANDARD 16

<i>Objective</i>	1
<i>Definitions</i>	2
<i>Scope</i>	3-4
<i>Recognition</i>	5-16
<i>Disclosure</i>	17
<i>Date from which effective and transitional arrangements</i>	18-21
<i>Withdrawal of SSAP 8 and UITF Abstract 16</i>	22

### ADOPTION OF FRS 16 BY THE BOARD

### APPENDICES

- I ILLUSTRATION OF PROFIT AND LOSS ACCOUNT DISCLOSURE
- II TRANSITIONAL ARRANGEMENTS FOR ADVANCE CORPORATION TAX (UK ONLY)
- III NOTE ON LEGAL REQUIREMENTS
- IV COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS
- V THE DEVELOPMENT OF THE FRS

## **SUMMARY**

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- a** Financial Reporting Standard 16 ‘Current Tax’ specifies how current tax, in particular withholding tax and tax credits, should be reflected in financial statements.
- b** Current tax should be recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that has been recognised directly in the statement of total recognised gains and losses. Where a gain or loss has been recognised directly in the statement of total recognised gains and losses, the tax relating to that gain or loss should also be recognised directly in that statement.
- c** Dividends, interest and other amounts payable or receivable should be recognised at an amount that:
- includes withholding taxes payable to the tax authorities wholly on behalf of the recipient.
  - excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient.
- d** Subject to the above, income and expenses should be included in the pre-tax results on the basis of the income or expenses actually receivable or payable, without any adjustment to reflect a notional amount of tax that would have been paid or relieved in respect of the transaction if it had been taxable, or allowable for tax purposes, on a different basis.
- e** Current tax should be measured using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

## FINANCIAL REPORTING STANDARD 16

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### *Objective*

- 1 The objective of this FRS is to ensure that reporting entities recognise current taxes in a consistent and transparent manner.

### *Definitions*

- 2 The following definitions shall apply in the FRS and in particular in the Statement of Standard Accounting Practice set out **in bold type**.

#### *Current tax:-*

The amount of tax estimated to be payable or recoverable in respect of the taxable profit or loss for a period, along with adjustments to estimates in respect of previous periods.

#### *Tax credit:-*

The tax credit given under UK tax legislation to the recipient of a dividend from a UK company.

The credit is given to acknowledge that the income out of which the dividend has been paid has already been charged to tax, rather than because any withholding tax has been deducted at source. The tax credit may discharge or reduce the recipient's liability to tax on the dividend. Non-taxpayers may or may not be able to recover the tax credit.

*Taxable profit or loss:-*

The profit or loss for the period, determined in accordance with the rules established by the tax authorities, upon which taxes are assessed.

*Withholding tax:-*

Tax on dividends or other income that is deducted by the payer of the income and paid to the tax authorities wholly on behalf of the recipient.

*Scope*

- 3 **The FRS applies to all financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure) for a period.**
- 4 **Reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt from the FRS.**

*Recognition*

- 5 **Current tax should be recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of total recognised gains and losses.**
- 6 **Where a gain or loss is or has been recognised directly in the statement of total recognised gains and losses, the tax attributable to that gain or loss should also be recognised directly in that statement.**

- 7 Accounting standards (or, in their absence, legislation) require or permit certain gains or losses to be credited or charged directly in the statement of total recognised gains and losses (ie not in the profit and loss account). The FRS requires any attributable tax to be treated in the same way. In exceptional circumstances it may be difficult to determine the amount of current tax that is attributable to gains or losses that have been recognised directly in the statement of total recognised gains and losses. In such circumstances, the attributable tax is based on a reasonable pro rata allocation, or another allocation that is more appropriate in the circumstances.
- 8 **Outgoing dividends paid and proposed (or declared and not yet payable), interest and other amounts payable should be recognised at an amount that:**
- (a) **includes any withholding taxes; but**
  - (b) **excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient.**
- 9 **Incoming dividends, interest or other income receivable should be recognised at an amount that:**
- (a) **includes any withholding taxes; but**
  - (b) **excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient.**

**The effect of any withholding tax suffered should be taken into account as part of the tax charge.**

- 10 The amount recognised therefore excludes attributable tax credits of the type defined in the FRS and underlying tax.\*
- 11 **Subject to paragraphs 8 and 9, income and expenses should be included in the pre-tax results on the basis of the income or expenses actually receivable or payable. No adjustment should be made to reflect a notional amount of tax that would have been paid or relieved in respect of the transaction if it had been taxable, or allowable for tax purposes, on a different basis.**
- 12 The requirement in paragraph 11 applies, for example, to non-taxable income, non-deductible expenditure and income and expenditure subject to non-standard rates of tax.
- 13 The requirement applies only to notional tax, ie tax that is not actually paid or recovered. In some specialised industries, such as leasing and life insurance, profit from transactions is allocated to accounting periods on a post-tax basis and the tax charge and pre-tax profit relating to the accounting period is found by applying the effective rate of tax to the post-tax profit. Where, as is usually the case, such post-tax methods result in the actual pre-tax profit and the actual tax charge being recorded over the life of the transactions, their use is consistent with the requirements of the FRS.

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\* In certain circumstances, a UK company receiving dividends from an overseas company obtains relief for the tax (underlying tax) that the overseas company has paid on the profits from which the dividend has been paid. The UK company's taxable income is increased by the amount of underlying tax attributed to the dividend and relief is given against the resulting UK tax charge.

- 14 **Current tax should be measured at the amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.**
- 15 A UK tax rate can be regarded as having been substantively enacted if it is included in either:
- (a) a Bill that has been passed by the House of Commons and is awaiting only passage through the House of Lords and Royal Assent; or
  - (b) a resolution having statutory effect that has been passed under the Provisional Collection of Taxes Act 1968.\*
- 16 A Republic of Ireland tax rate can be regarded as having been substantively enacted if it is included in a Bill that has been passed by the Dail.

*Disclosure*

- 17 **The following major components of the current tax expense (or income) for the period in the profit and loss account and the statement of total recognised gains and losses should be disclosed separately:**
- (a) **UK or Republic of Ireland tax (depending on the companies legislation in accordance with which the entity is reporting); and**
  - (b) **foreign tax.**

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\* Such a resolution could be used to collect taxes at a new rate before that rate has been enacted. In practice, corporation tax rates are now set a year ahead to avoid having to invoke the Provisional Collection of Taxes Act for the quarterly payment system.

**Both (a) and (b) should be analysed to distinguish tax estimated for the current period and any adjustments recognised in respect of prior periods. The domestic tax should be disclosed before and after double taxation relief.**

*Date from which effective and transitional arrangements*

- 18 **The accounting practices set out in the FRS should be regarded as standard in respect of accounting periods ending on or after 23 March 2000. Earlier adoption is encouraged.**
- 19 **Non-taxpaying entities that, at the date of implementation of the FRS, are entitled to transitional relief following the removal of their right to reclaim tax credits may continue to present that transitional relief as part of the income to which it relates. The nature and amount of the relief should be separately disclosed.**
- 20 **Any unrelieved advance corporation tax (ACT) that at the date of implementation of the FRS is carried forward for relief against future taxable profits should be recognised on the balance sheet only to the extent that it is regarded as recoverable. Any change in the amount of ACT regarded as recoverable should be recognised as part of the tax expense (or income) for the period in the profit and loss account and separately disclosed on the face of the profit and loss account or in a note.**

- 21 Guidance on the circumstances in which ACT can be regarded as recoverable is included in Appendix II.

*Withdrawal of SSAP 8 and UITF Abstract 16*

- 22 **The FRS supersedes SSAP 8 ‘The treatment of taxation under the imputation system in the accounts of companies’ and UITF Abstract 16 ‘Income and expenses subject to non-standard rates of tax’.**

## **ADOPTION OF FRS 16 BY THE BOARD**

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*Financial Reporting Standard 16 'Current Tax' was approved for issue by the ten members of the Accounting Standards Board.*

Sir David Tweedie (Chairman)  
Allan Cook CBE (Technical Director)  
David Allvey  
Ian Brindle  
Dr John Buchanan  
John Coombe  
Raymond Hinton  
Huw Jones  
Professor Geoffrey Whittington  
Ken Wild

**APPENDIX I****ILLUSTRATION OF PROFIT AND LOSS ACCOUNT DISCLOSURE**

This example illustrates one method of showing (by way of note) the tax items required to be disclosed under companies legislation\* and the FRS.

*This appendix is for general guidance and does not form part of the Statement of Standard Accounting Practice.*

	£000	£000
<i>UK† corporation tax</i>		
Current tax on income for the period	a	
Adjustments in respect of prior periods	b	
	<u>c</u>	
Double taxation relief	(d)	
	<u>          </u>	e
<i>Foreign tax</i>		
Current tax on income for the period	f	
Adjustments in respect of prior periods	g	
	<u>          </u>	h
<i>Tax on profit on ordinary activities</i>		<u><u>i</u></u>

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\* In Great Britain, the Companies Act 1985; in Northern Ireland, the Companies (Northern Ireland) Order 1986; and in the Republic of Ireland, the Companies (Amendment) Act 1986.

† Companies reporting in accordance with companies legislation in the Republic of Ireland would instead show the Republic of Ireland tax.

## APPENDIX II

### TRANSITIONAL ARRANGEMENTS FOR ADVANCE CORPORATION TAX (UK ONLY)

*The definition of recoverable advance corporation tax (ACT) and the treatments for ACT set out below are based on the requirements of SSAP 8. These continue to be relevant for the shadow ACT system, which is designed to ensure that ACT carried forward after April 1999 is recovered only if it could have been recovered had the ACT system still existed.*

1 *Recoverable ACT:-*

ACT is regarded as recoverable where the amount of the ACT previously paid on outgoing dividends can be:

- (a) set off against a corporation tax liability on the profits of the period under review or of previous periods;
- (b) properly set off against a credit balance on the deferred tax account; or
- (c) expected to be recoverable taking into account expected profits and dividends—normally those of the next accounting period only.

2 Although ACT can be carried forward indefinitely if necessary, in each year there is an overriding restriction on the use of ACT for set-off imposed by the shadow ACT system. The shadow ACT system is designed to be no more generous than the old ACT system. Its effect is to ensure that ACT that was previously irrecoverable becomes recoverable only to the extent that it would have become recoverable under the old ACT system.

- 3 In deciding whether ACT should be carried forward as recoverable, regard should be had only to the immediate and foreseeable future. How long this future period should be will depend upon the circumstances of each case, but it is suggested that where there is no deferred tax account it should normally not extend beyond the next accounting period.
- 4 ACT should be offset against a credit balance on the deferred tax account only if, in the period in which the underlying timing differences are expected to reverse, the reversal will create sufficient taxable profits to enable ACT to be recovered under the shadow ACT system.
- 5 Subject to the preceding paragraph, if the ACT on dividends relating to previous periods is regarded as recoverable but has not yet been recovered, it should be deducted from the deferred tax account if such an account is available for this purpose. In the absence of a deferred tax account ACT recoverable should be shown as a deferred tax asset.
- 6 If ACT that was previously regarded as recoverable becomes irrecoverable, it is required to be charged in the profit and loss account as a separately disclosed component of the tax charge.
- 7 Where the recovery of the ACT was not regarded as reasonably certain and foreseeable, it will have been written off in the profit and loss account. Events may occur under the system applying from April 1999 (the shadow ACT system) causing ACT that has previously been written off as irrecoverable to be recovered. Such ACT is required to be credited in the profit and loss account as a separately disclosed component of the tax charge.

## APPENDIX III

### NOTE ON LEGAL REQUIREMENTS

#### *Great Britain*

- 1 The main requirements that are directly relevant are set out in Schedule 4 to the Companies Act 1985 and are summarised below.
- 2 Paragraph 3(7) of Schedule 4 requires every profit and loss account to show separately as additional items the aggregate amount of any dividends paid and proposed.
- 3 The formats in Schedule 4 set out where tax is to be shown in the balance sheet and the profit and loss account.
- 4 Paragraph 54(2) of Schedule 4 requires particulars to be given of any special circumstances that affect liability in respect of taxation of profits, income or capital gains for the financial year or liability in respect of taxation of profits, income or capital gains for succeeding financial years.
- 5 Paragraph 54(3) of Schedule 4 requires the following components of tax on profit or loss on ordinary activities to be stated:
  - (a) the amount of the charge for UK corporation tax;
  - (b) if the amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief;
  - (c) the amount of the charge for UK income tax; and
  - (d) the amount of the charge for taxation imposed outside the UK of profits, income and (so far as charged to revenue) capital gains.

***Northern Ireland***

- 6 The statutory requirements in Northern Ireland are set out in the Companies (Northern Ireland) Order 1986. They are identical to and parallel the references for Great Britain in the Companies Act 1985.

***Republic of Ireland***

- 7 The main requirements that are directly relevant are set out in the Companies (Amendment) Act 1986 and are summarised below.
- 8 Section 4(15)(a) requires every profit and loss account to show separately the aggregate amount of the dividends paid and the aggregate amount of the dividends proposed to be paid.
- 9 The formats in the Schedule set out where taxation is to be shown in the balance sheet and the profit and loss account.
- 10 Paragraph 40(1) of the Schedule requires the basis on which the charge for corporation tax, income tax and other taxation on profits (whether payable in or outside the State) is computed to be stated.
- 11 Paragraph 40(2) of the Schedule requires particulars to be given of any special circumstances which affect liability in respect of taxation on profits, income or capital gains for the financial year concerned or liability in respect of taxation of profits, income or capital gains for succeeding financial years.

- 12 Paragraph 40(3) of the Schedule requires that the amount of the charge for corporation tax, income tax and other taxation on profits or capital gains, so far as charged to revenue, including taxation payable outside the State on profits (distinguishing where practicable between corporation tax and other taxation) shall be stated.
- 13 Any amounts required to be stated under paragraph 40(1)-(3) shall be stated separately in respect of each of the amounts which is or would, but for section 4(6)(b) (items combined in the accounts) of the Act, be shown under the following items in the profit and loss account—‘tax on profit or loss on ordinary activities’ and ‘tax on extraordinary profit or loss’.
- 14 Paragraph 33 of the Schedule requires that the amount of any provision for taxation other than deferred taxation shall be stated.
- 15 Paragraph 3 (note 7 on the balance sheet formats) of the Schedule requires the notes to the balance sheet to show separately the combined amounts included under the heading ‘Other creditors including tax and social welfare’ (format 1, items C8 and F8 and format 2, item C8) in respect of taxation and social welfare, specifying separately the amount due under the different categories of tax payable and the total amount of social welfare due.

## **APPENDIX IV**

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### **COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS**

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- 1 The International Accounting Standard on current tax is IAS 12 (revised 1996) 'Income Taxes'.
- 2 The main differences between the two standards are that:
  - the IAS requires current tax to be presented separately on the face of the balance sheet; the FRS does not.
  - the FRS specifies how a reporting entity should account for the tax consequences of outgoing or incoming dividends and other distributions; the IAS does not.
  - the FRS requires all current tax income or expense for the period to be included in the statements of performance (ie profit and loss account or statement of total recognised gains and losses). The IAS requires current tax to be charged directly to equity if it relates to items that are also charged or credited directly to equity.
  - the IAS requires disclosure of the tax expense relating to discontinued operations; the FRS does not.

## APPENDIX V

### THE DEVELOPMENT OF THE FRS

#### *Background*

- 1 In the last few years there have been important changes in the tax systems of the UK and the Republic of Ireland. Amongst other changes, the reclaimability of tax credits became restricted in July 1997\* and advance corporation tax (ACT) was abolished in April 1999. Further, in the Republic of Ireland, the previous imputation system was replaced by a system of withholding taxes.
- 2 The changes raised questions about the continuing relevance of SSAP 8 'The treatment of taxation under the imputation system in the accounts of companies'. SSAP 8 had been introduced in August 1974 for the UK, with Appendix 3 for the Republic of Ireland added in December 1977. It required incoming dividends to be recognised at the amount received plus the attributable tax credit and contained detailed requirements regarding the treatment of ACT.
- 3 In response to the earlier change in the UK that restricted the ability of non-taxpayers to reclaim tax credits attributed to dividends received, the Board published proposals for a limited amendment to SSAP 8.† The main proposal was that dividend income should not be grossed up to include tax credits.

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\* In 1998 in the Republic of Ireland.

† *Exposure Draft: Amendment to SSAP 8 'The treatment of taxation under the imputation system in the accounts of companies', October 1997.*

- 4 This proposal received substantial support from commentators. However, in November 1997, the Chancellor of the Exchequer announced a far-reaching review of the UK tax system, part of which was a plan to abolish ACT. Similarly, in December 1997, the Minister for Finance in the Republic of Ireland announced changes to the Irish tax system that included abolition of ACT.
- 5 The Board therefore accepted a recommendation of its Urgent Issues Task Force that, rather than make a limited amendment to SSAP 8, the whole standard should be reviewed. At the time it was thought that it might be possible to incorporate revised requirements for current tax into the FRS being developed on deferred tax. However, this would have meant a delay in the introduction of the requirements for current tax. To avoid such a delay, the Board decided to issue two separate FRSS.
- 6 In June 1999, the Board published its proposals for revising SSAP 8 in an Exposure Draft, FRED 18 ‘Current Taxation’. The basic requirements proposed were widely supported and have remained largely unchanged in the FRS.

### ***Changes to the requirements of SSAP 8***

- 7 The main changes introduced by the FRS are in the treatment of tax credits, withholding taxes and similar methods of collecting tax at source:
  - (a) the FRS requires dividends to be recognised at an amount that does not include any attributable tax credit or underlying tax. SSAP 8 had required dividends to be recognised at an amount that included the attributable tax credit.

- (b) the FRS addresses the treatment of withholding taxes, which SSAP 8 did not. It requires dividends to be recognised at an amount that includes any withholding taxes.

The reasons for these changes are discussed further in paragraphs 9–20 below.

8 Other changes introduced by the FRS are:

- (a) *inclusion of requirements prescribing the circumstances in which current taxes should be recognised directly in the statement of total recognised gains and losses rather than in the profit and loss account.* The requirements reflect the principle underlying the consensus in UITF Abstract 19 ‘Tax on gains and losses on foreign currency borrowings that hedge an investment in a foreign enterprise’ ie that tax should be charged in the same performance statement as the gains and losses on which it arises. The FRS does not fully supersede Abstract 19, which also covers other issues.
- (b) *inclusion of the consensus from UITF Abstract 16, which is now withdrawn.* The FRS thus requires income and expenses to be included in the pre-tax results on the basis of the income or expenses actually receivable or payable. No adjustment is made to reflect a notional amount of tax that would have been paid or relieved had the transaction been taxable or allowable on a different basis.
- (c) *removal of requirements relating to ACT.* With the abolition of ACT in both the UK and the Republic of Ireland, the requirements in SSAP 8 will not be relevant in future. Residual issues arising under the ‘shadow’ ACT system have been addressed as transitional arrangements in the FRS.

- (d) *a requirement to use ‘substantively enacted’ tax rates and laws to measure current taxes.* This requirement is discussed further in paragraphs 21 and 22 below.

### ***Tax credits and withholding tax***

#### *Proposals in FRED 18*

- 9 FRED 18 proposed that incoming dividends should be recognised at the amount received or receivable without any attributable tax credit but including any withholding tax deducted at source.
- 10 The proposal arose from reconsidering the principles underlying the standard rather than as a result of the restriction in the reclaimability of tax credits or the abolition of ACT. The Board took the view that, whilst these changes affected those entities that are not taxpayers (through the restrictions on reclaimability<sup>\*</sup>) and the timing of the tax payments (through ACT<sup>†</sup>), they did not fundamentally change the underlying tax system. The central feature of the tax credit system—dividends received with a tax credit fall outside the corporation tax computation altogether for companies and have no basic rate tax liability for individuals (and partnerships)—remained unchanged.
- 11 In developing its proposals, the Board considered the three possible amounts at which dividends could be recognised, ie:

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<sup>\*</sup> *Recipients of dividends that are taxpayers receive the benefit from the tax credit through no further tax being payable (except higher rate tax for some individuals). It is only for non-taxpayers that the extent to which the tax credit is recoverable is relevant.*

<sup>†</sup> *ACT, except where irrecoverable, affects only the timing and not the amount of tax due.*

- (a) *including* withholding taxes but *excluding* tax credits;
  - (b) *including* both withholding taxes and tax credits; or
  - (c) *excluding* both withholding taxes and tax credits.
- 12 In support of (a), it was argued that there is a difference in nature between tax credits and withholding tax. It is not only that a withholding tax is tax that has actually been paid by (or at least on behalf of) the recipient of the dividend. The differences are more than merely technical matters of how the tax is collected, at what rates it is levied and whether the income to which the tax relates is included in a company's corporation tax computation. There are also differences of substance:
- in many circumstances, no further tax is payable on dividends received with a tax credit: the dividend is treated as non-taxable income. In contrast, income on which withholding tax has been suffered is treated as taxable and subject to further tax, unless (unusually) the amount of the withholding tax is sufficient to discharge the full liability.
  - the amount at which the dividend is measured if it is subject to further tax is different. When dividends are received subject to withholding tax, further tax is levied on the amount received plus the withholding tax. When reporting entities have further tax to pay on dividends received with tax credits (for example, when the investments are held by a bank as part of its trading portfolio), the further tax is levied on the amount received without the tax credit.

- 13 In support of option (b)—ie including both withholding taxes and tax credits—it was argued that any differences between a tax credit and a withholding tax are a matter of technical form rather than economic substance. Differences arise in the rate of the tax, the method of payment, the system for gaining credit for the tax suffered etc. But in both cases the recipient entity is liable for a reduced or nil amount of tax on the income received as a result of tax paid by the payer of the income. (The payer of the dividend has paid the tax either as corporation tax on the income out of which the dividend is paid or as withholding tax on behalf of the recipient.) Taking this view, it is further argued that the tax credit and the withholding tax have a real effect on the recipient of the dividend or other income and should therefore be reflected in the amount of income received. Grossing up is necessary to reflect the greater value of 100 received as dividend (no tax consequences) compared with 100 earned as trading profit (taxable).
- 14 In favour of option (c)—ie excluding both withholding taxes and tax credits—it was argued that, given the diversity of tax systems and their implications for different types of recipient, it would be impossible to unravel and account for each system in accordance with its economic substance. Consistency would be achieved, and both the substance and form followed, if this approach were adopted because the financial statements could show that different sources of income had different tax consequences. These could be highlighted in the entity's tax charge.

- 15 It was further argued that approach (c) can be regarded as consistent with UITF Abstract 16. This is because it applies a consistent rule that tax collections at source are not taken into account by grossing up. This approach also has the advantage of simplicity: it avoids the difficult issue of when such tax collections are ‘real’ (and should be taken into account) and when they are ‘notional’ (and should not be taken into account).
- 16 The majority of the Board found the arguments in favour of option (a)—ie measuring dividends at an amount that included withholding tax but not tax credits—the most persuasive. They took the view that to show only the net amount of income received subject to withholding tax failed to reflect the full amount taxable in the hands of the recipient. And they noted that the distinction between notional and real tax collections had already received general support in UITF Abstract 16. Hence, option (a) formed the basis of the proposals in the FRED.

*Changes to the FRED proposals*

- 17 The proposal to recognise dividends at an amount that includes withholding taxes but not attributable tax credits received widespread support from respondents to the FRED. Eighty-two per cent of respondents agreed with the proposal, and the preferences of the remaining 18 per cent were spread across a range of options.
- 18 However, a number of respondents noted that, by specifying requirements only for withholding taxes and tax credits of the type given to the recipients of dividends from UK companies, the FRS would fail to clarify how other forms of ‘tax credit’, some of which would have some of the characteristics of withholding taxes, should be treated. Examples included relief for ‘underlying’ tax and other credits given under double tax treaties.

- 19 Most of the respondents who raised this issue thought that underlying taxes and other forms of tax credit should be treated in the same way as UK tax credits. They argued that underlying tax is more like a tax credit than a withholding tax. It is more concerned with the taxes paid by the payer of a dividend rather than those paid by (or on behalf of) the recipient. To gross up a dividend received for the tax on the paying company's profits would fail to represent the substance of the dividend income. They noted that the grossed up amount would be difficult to interpret, being determined on the basis of accounts prepared using different accounting standards from those used in the UK and the Republic of Ireland. They further argued that whilst the measurement of withholding tax is relatively straightforward, underlying tax can be difficult to calculate and often takes time to agree with the Inland Revenue. The Board accepted these arguments, and reworded the requirements of the FRS to clarify that dividends should not be grossed up for any taxes other than withholding taxes.
- 20 The general proposal that dividends should not be grossed up for UK tax credits has not changed. Rather it has been extended to other taxes that were not addressed by the FRED.

### ***Tax rates***

- 21 SSAP 8 required current tax to be measured at the latest known rate. The FRS instead requires current tax to be measured at the amount expected to be payable or recoverable based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The change has been made to increase consistency and align the FRS with the requirements of the international accounting standard, IAS 12 (revised 1996) 'Income Taxes'.

- 22 The change was proposed in the FRED and widely supported by those commenting on it. A number of respondents suggested that the requirement should be to use rates that had been substantively enacted by the date of signing the accounts rather than the balance sheet date. The Board acknowledged that this could lead to more accurate measures of the tax that would actually be paid in respect of the period. But it took the view that:
- it was desirable that a universal effect, such as a tax rate, should be applied by all reporting entities from the same date. This would not happen if the cut-off point were the date of signing the accounts.
  - practical problems could arise if a new tax rate or law was substantively enacted between the date on which a company announced its results and the date of signing the financial statements.

### ***Disclosures***

- 23 The disclosures required by the FRS are very similar to those required by SSAP 8. A significant difference is the removal of the requirement to disclose certain special reliefs that have been available in the Republic of Ireland. These reliefs are now being phased out.
- 24 The FRED had proposed a more general requirement to disclose the impact of any special reliefs. However, the Board has removed this proposal, having accepted the views expressed by some respondents that:
- to quantify the effects of all special reliefs obtained would be an onerous requirement for entities with worldwide operations, and

- the effects of significant reliefs are already disclosed because of the general requirement to explain any significant factors affecting the tax charge.

### *Transitional arrangements*

- 25 Charities and other entities at present receive a tapering transitional relief following the changes in the tax system that removed their right to reclaim tax credits. As a concession to these entities, the FRS permits them to continue to show that particular transitional relief as part of the income to which it relates, rather than as a tax refund.
- 26 The FRS contains no other transitional concessions. The application of the FRS for the first time will therefore be treated as a change in accounting policy, effective from the start of the accounting period in which it was first implemented. The Board chose this approach because the changes required arise from a review of the fundamental principles underlying the standard and not as a result of the changes to the tax system.

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