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Tax implications of key changes arising from FRS 102

Q: I am aware that there are forthcoming changes in UK financial reporting standards ("FRS") with the introduction of FRS 102; will these changes have significant tax implications for my company and are there any extra tax issues I need to be aware of?

Background: FRS 102 is part of a new UK FRS framework aimed at simplifying UK accounting practices. The new standards apply to accounting periods beginning on or after 1 January 2015.

A: Generally, where the introduction of FRS 102 changes accounting treatments, tax treatments follow. However, there are certain exceptions where a different tax treatment is prescribed. We have set out below the key changes arising from FRS 102 and their tax impacts in summary.

- **Transition to FRS 102 -** The change to FRS 102 is likely to give rise to a prior year adjustment for many businesses. The tax treatment of the adjustment will follow the accounts (i.e. will be taxable or deductible) subject to any specific rules identified below.

- **Leases** - The main changes to leases under FRS 102 is in respect of incentive periods. An incentive would previously have been spread over the period to the first beak clause but will now, generally, be spread over the entire lease period. It is compulsory that the treatment of leases is restated for those commencing after the transition date, however, you may restate earlier leases. The tax treatment follows the accounts, impacting upon the timing of the tax on this income or expense.

- **Employee benefit accruals** - FRS 102 introduces obligations to accrue for employee benefits (eg: sickness pay; holiday pay) if they are material. Tax relief will follow this new treatment unless the accrued benefits have not/ will not be taken within nine months of the year end.

- **Prior year adjustments** - The change from "fundamental" to "material" misstatements requiring prior year adjustment under FRS 102 may mean that prior year adjustments are seen more frequently. The tax treatment in this instance requires amendment to earlier tax returns to reflect the adjustment. There could be timing complications around making such amendments.

- **Investment properties and revalued assets** - There are various changes in the recognition of unrealised gains and losses for investment properties and revalued assets under FRS 102. As these are unrealised movements on capital assets they will be disregarded in arriving at the company's tax charge but will impact deferred tax positions for accounting purposes.

- **Intangible assets** - Changes introduced under FRS 102 have the potential to increase the number of individual intangible assets and accelerate the release of amortisation to the profit and loss account. Amortisation released to the profit and loss account will either be allowed as a deduction or disregarded for tax depending on the nature of the intangible and the time and method of its acquisition.

- **Derivatives and loan relationships** - With FRS 102 come greater requirements to recognise derivatives and financial assets and liabilities at fair value, with movements going through the profit and loss account in most cases. Generally the tax follows the accounting treatment except where specific tax rules exist - the rules in this area are extremely complex!

We would recommend a discussion with your tax advisers on the implications of these changes.