

# ASPE

## At a Glance

Section 3465 - Income Taxes -  
Taxes Payable Method

# Income Taxes - Taxes Payable Method<sup>1</sup>

Effective Date  
Fiscal years beginning on or after January 1, 2011<sup>2</sup>

Scope	Income Taxes	Accounting Policy
<p><b>Does not apply to:</b></p> <ul style="list-style-type: none"> <li>Accounting for investment tax credits (see Section 3805).</li> </ul>	<p><b>Include:</b></p> <ul style="list-style-type: none"> <li>All domestic and foreign taxes that are based on taxable income;</li> <li>Taxes, such as mining taxes, that are based on a measure of revenue less certain specified expenses;</li> <li>Alternative minimum income taxes, including taxes based on measures other than income and that may be used to reduce income taxes of another period; and</li> <li>Taxes, such as withholding taxes, that are based on amounts paid to the enterprise.</li> </ul>	<ul style="list-style-type: none"> <li>An enterprise must make an <u>accounting policy choice</u> to either account for income taxes using:                             <ul style="list-style-type: none"> <li>The taxes payable method; or</li> <li>The future income taxes method.</li> </ul> </li> <li>In making this choice, the entity does not need to meet the criteria in paragraph .06(b) of Section 1506, <i>Accounting Changes</i>.</li> </ul>

## Taxes Payable Method

- A method of accounting under which an enterprise reports as an expense (income) of the period only the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by taxation authorities.
- Current income taxes, to the extent unpaid or recoverable, must be recognized as a liability or an asset.
- The benefit relating to a tax loss arising in the current period that will be carried back to recover income taxes of a previous period must be recognized as a current asset.
- Income tax liabilities and assets must be measured at the balance sheet date using the income tax rates and laws that are expected to apply when the liability is settled or the asset is realized, which are normally those enacted at the balance sheet date.

## Intraperiod Allocation

- Income tax expense**
  - The cost (benefit) of current and future income taxes must be recognized as income tax expense included in determining net income / loss for the period before discontinued operations, except for:
    - Any portion of the cost (benefit) of current and future income taxes that relates to capital transactions, or items that are credited / charged directly to equity in the current period. This amount is credited / charged directly to equity. For more details on how to account for such items refer to the guidance provided in paragraphs 3465.59 (c), (h) and (i).
- Refundable taxes**
  - Taxes based on certain types of income that are refundable when certain amounts are paid to shareholders.
  - Refundable taxes in the nature of advance distributions related to a component of an instrument classified as equity in accordance with Section 3856, *Financial Instruments*, are charged to retained earnings when it is more likely than not that the taxes will be recovered in the foreseeable future. The recovery of such refundable taxes is credited to retained earnings.
  - When it is not more likely than not that the taxes will be recovered in the foreseeable future, the taxes are charged to income.
  - Refundable taxes are accrued relating to all related elements of income recognized in the period, whether the taxes relating to these amounts are payable currently or in the future.
- Taxes related to distributions or future distributions**
  - Are treated the same for accounting as the distributions themselves.

## Presentation

- Income tax expense**
  - Included in determining net income / loss before discontinued operations is presented on the face of the Income Statement.
- Income tax liabilities and income tax assets**
  - Must be presented separate from other liabilities and assets.
  - Current income tax liabilities and assets must be offset if they relate to the same taxable entity and taxation authority.

<sup>1</sup> Includes portions of Section 3465 - *Income Taxes*, that relate to the taxes payable method. For the remainder of the guidance provided in Section 3465 related to the future income taxes method, please refer to our publication "ASPE At a Glance - *Income Taxes - Future Income Taxes Method*".

<sup>2</sup> Except as specified in paragraph 3465.92.



## Disclosure

- **When an enterprise applies the taxes payable method of accounting for income taxes, the financial statements must disclose the following:**
  - A reconciliation of the income tax rate or expense related to income or loss for the period before discontinued operations to the statutory income tax rate or the dollar amount that would result from its application, including the nature and amount of each significant reconciling item.
  - The amount and timing of capital gain reserves and similar reserves to be included in taxable income within five years.
  - The amount of unused income tax losses carried forward and unused income tax credits.
  - The portion of income tax expense (benefit) related to transactions charged (or credited) to equity.
- **The net charge of refundable dividend taxes must be disclosed separately.**
- **An enterprise that is not subject to income tax because its income is taxed directly to its owners shall disclose that fact.**

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