

Changes to UK Generally Accepted Accounting Practice

Who is likely to be affected?

Businesses that change the accounting policies used to compute taxable profits and, in particular, businesses that adopt proposed changes to what constitutes UK Generally Accepted Accounting Practice (UK GAAP).

General description of the measure

This measure will ensure the current tax rules dealing with changes of accounting policy apply to the accounting transition adjustments arising as a result of changes to what constitutes UK GAAP.

Policy objective

The measure will ensure consistency and fairness across businesses. It will also prevent disadvantage to businesses and protect against Exchequer loss by maintaining the existing policy objective underlying current law. The policy remains that income should be taxed once and the expenditure should be relieved once.

Background to the measure

Acceptable accounting policies for computing taxable profits are those contained within International Accounting Standards (IAS) and UK GAAP. The Accounting Standards Board (ASB) announced in October 2010 that it intends to significantly change what constitutes UK GAAP during 2012.

There are a number of areas where the proposed new UK GAAP differs from current UK GAAP resulting in one-off accounting adjustments on transition.

This measure has not been previously announced, but does no more than maintain the existing policy objectives.

Informal consultations with accountancy bodies representatives on the proposed changes took place in October 2011. The representatives were supportive of the measure.

Detailed proposal

Operative date

The measure will apply to changes in accounting policy of the businesses concerned where accounts are prepared after 1 January 2012, including those for accounting periods starting before 1 January 2012.

Current law

Current tax law governing accounting transition adjustments arising from certain specified changes of accounting policy is at Chapter 14, Part 3 Corporation Tax Act 2009 and Chapter 17, Part 2 Income Tax (Trading and Other Income Act) 2005. The law provides that, in particular circumstances, on a change of accounting policy income is taxed once and expenditure allowed once.

Current tax law would not apply to the accounting transition adjustments arising from the changes to UK GAAP.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 to ensure that the law applies to all changes of accounting policy. The revised law will apply to the accounting transition adjustments arising from the changes to UK GAAP.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact. This measure also supports the Exchequer in its commitment to protect revenue.				
Economic impact	This measure is not expected to have significant economic impacts.				
Impact on individuals and households	This measure will not impact on individuals and households as it only affects businesses.				
Equalities impacts	There will be no impact on the equality of protected groups as the changes only affect companies.				
Impact on business including civil society organisations	<p>This measure is specific to those businesses changing their accounting policies. The ASB's impact assessment estimates that 96.7 per cent of UK companies will not be affected by their proposals for UK GAAP.</p> <p>The increase in admin burden arising from making a change in accounting practice is considered to be a negligible one-off cost per business affected with nil ongoing costs.</p>				
Operational impact (£m) (HMRC or other)	There is no significant operational impact on HMRC.				
Other impacts	The Government has considered the impacts of these proposals on small firms and, in line with the ASB, have concluded that there is little impact on small firms as they are not expected to be affected by the proposed changes to UK GAAP.				

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Alison Bull on 020 7147 2595 (email: alison.bull@hmrc.gsi.gov.uk) or Tony Linehan on 020 7147 0527 (email: tony.linehan@hmrc.gsi.gov.uk).

1 Changes of accounting policy

- (1) In section 227 of ITTOIA 2005 (adjustment on change of accounting basis: income tax) –
 - (a) in subsection (3)(a) for “relevant change of accounting approach” substitute “change of accounting policy”, and
 - (b) for subsection (4) substitute –
 - “(4) A “change of accounting policy” includes, in particular –
 - (a) a change from using UK generally accepted accounting practice to using generally accepted accounting practice with respect to accounts prepared in accordance with international accounting standards, and
 - (b) a change from using generally accepted accounting practice with respect to accounts prepared in accordance with international accounting standards to using UK generally accepted accounting practice.”
- (2) In section 180 of CTA 2009 (adjustment on change of accounting basis: corporation tax) –
 - (a) in subsection (3)(a) for “relevant change of accounting approach” substitute “change of accounting policy”, and
 - (b) for subsection (4) substitute –
 - “(4) A “change of accounting policy” includes, in particular –
 - (a) a change from using UK generally accepted accounting practice to using generally accepted accounting practice with respect to accounts prepared in accordance with international accounting standards, and
 - (b) a change from using generally accepted accounting practice with respect to accounts prepared in accordance with international accounting standards to using UK generally accepted accounting practice.”
- (3) Corresponding amendments are to be treated as having been made in section 64 of FA 2002.
- (4) In consequence of the amendment made by subsection (1)(b), omit paragraph 2 of Schedule 6 to F(No.2)A 2005.
- (5) The amendments made by this section have effect in relation to a change of basis if the new basis –
 - (a) is adopted for a period of account which begins on or after 1 January 2012, or
 - (b) is adopted for a period of account which begins before 1 January 2012 and the adoption is in consequence of the issue, revocation, amendment or recognition of, or withdrawal of recognition from, an accounting standard by an accounting body on or after 1 January 2012.

(6) In this section—

“accounting body” means the International Accounting Standards Board, the Accounting Standards Board, or a successor body to either of those Boards;

“accounting standard” includes any statement of practice, guidance or other similar document.

EXPLANATORY NOTE

CHANGES OF ACCOUNTING POLICY

SUMMARY

1. This clause will ensure the change of basis tax legislation, dealing with the consequences of certain changes of accounting policy, applies to the accounting transition adjustments arising from all changes of accounting policy between one period of accounts and the next. The revised legislation will therefore apply to the accounting transition adjustments arising from the proposed changes to UK Generally Accepted Accounting Practice (UK GAAP).
2. Acceptable accounting policies for computing taxable profits are those contained within International Accounting Standards (IAS) and UK Generally Accepted Accounting Practice (UK GAAP). The Accounting Standards Board (ASB) announced in October 2010 that it intends to significantly change what constitutes UK GAAP during 2012. There are a number of areas where the proposed new UK GAAP differs from current UK GAAP resulting in one-off accounting adjustments on transition.

DETAILS OF THE CLAUSE

3. Subsection (1) replaces the term “relevant change of accounting approach” in section 227(3)(a) ITTOIA 2005 with the term “change of accounting policy”. Section 227(4) ITTOIA 2005 is replaced with a new section 227(4) that explains a change of accounting policy can include, but is not limited to, a change from using UK GAAP to using IAS and vice versa.
4. Subsection (2) replaces the term “relevant change of accounting approach” in section 180(3)(a) CTA 2009 with the term “change of accounting policy”. Section 180(4) CTA 2009 is replaced with a new section 180(4) that explains a change of accounting policy can include, but is not limited to, a change from using UK GAAP to using IAS and vice versa.
5. Subsection (3) provides that corresponding amendments are to be treated as having been made to section 64 FA 2002, the predecessor to s227 ITTOIA 2005 and CTA 2009.
6. Subsection (5)(a) provides that the clause applies where a change of basis is adopted for a period of account which begins on or after 1 January 2012.

7. Subsection (5)(b) ensures that the clause will also apply where accounts have not been prepared for periods of account beginning prior to 1 January 2012 where there is a change of basis for those periods of account resulting from adopting an accounting standard that changes on or after 1 January 2012.
8. Subsection (6) defines what constitutes an accounting standard.

BACKGROUND NOTE

9. Acceptable accounting policies for computing taxable profits are those contained within IAS and UK GAAP. The Accounting Standards Board (ASB) announced in October 2010 that it intends to significantly change what constitutes UK GAAP during 2012. There are a number of areas where the proposed new UK GAAP differs from current UK GAAP resulting in one-off accounting adjustments on transition.
10. Current tax legislation governing accounting transition adjustments arising from certain specified changes of accounting policy is at Chapter 14, Part 3 Corporation Tax Act 2009 and Chapter 17, Part 2 Income Tax (Trading and Other Income Act) 2005. The legislation provides that, in particular circumstances, on a change of accounting policy income is taxed once and once only and expenditure allowed once and once only. Current tax legislation would not apply to the accounting transition adjustments arising from the changes to UK GAAP.
11. This clause will ensure that the legislation applies to all changes of accounting policy. The revised legislation will apply to the accounting transition adjustments arising from the changes to UK GAAP.
12. If you have any questions about this change, or comments on the legislation, please contact Alison Bull on 020 7147 2595 (email: alison.bull@hmrc.gsi.gov.uk) or Tony Linehan on 020 7147 0527 (email: tony.linehan@hmrc.gsi.gov.uk).