

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 54: Changes of Accounting Policy

Summary

1. *Section 54* 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 Section

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 section 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 section 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 section 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.