UK companies must disclose their tax risks

Nicholas Neveling

UK companies with listings in the US will soon be required to disclose all risky tax schemes in their corporate filings under a US standard that comes into effect in December.

The FIN 48 standard requires all companies that file US GAAP accounts to disclose any uncertain tax positions in their financial statements and quantify the financial risk from them. Experts believe that UK regulators could adopt similar rules for British companies.

The standard is very prescriptive and will force businesses to publish the penalties or interest charges that could arise from a tax scheme, as well as the tax charge itself.

FIN 48 will cast a spotlight on the tax planning of leading FTSE 100 companies such as AstraZeneca and BP. But all UK groups could eventually face similar scrutiny, as the International Accounting Standards Board is looking at introducing an IFRS equivalent to FIN 48, according to Ken Wild of Deloitte.

Ross Wilkinson, director of corporate tax at Chiltern, said that the additional disclosure required under FIN 48 would have a significant effect on the way shareholders, banks and revenue authorities viewed a company's tax affairs.

BP's US listing means tax transparency

'An actual financial number will now be appearing in accounts,' he said. 'Banks and shareholders will be able to use it to assess a company's tax risks, and HM Revenue & Customs will have a window into the tax affairs of companies.'

Under FIN 48, which is mandatory from 16 December, businesses must assess all their tax schemes and apply complex mathematical analysis to decide whether tax liabilities could arise from them. Schemes likely to incur a liability will have to be valued and published in a company's accounts.

Richard Murphy, director of Tax Research Limited, said the standard would protect investors and ensure companies were correctly valued.

He said that GlaxoSmithKline's $3.4bn (£1.8bn) settlement with the US Internal Revenue Service, and Vodafone's tax issues, demonstrated how important it was for companies to disclose uncertain tax positions.

'Companies have been taking tax risks that shareholders don't know about, and have been incorrectly valued as a result,' Murphy said. 'There are substantial future cashflows at risk and shareholders need to know about it.'

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