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Q&A Tax Accounting Impact in relation to the Federal Act on Tax Reform and AHV Financing (TRAF)

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Contents

1. Introduction 2
1.1 Purpose of this Q&A 2
1.2 Legal background 2
2. Meaning of the term "substantive enactment" 4
2.1 Background 4
2.2 Special cases – Principal companies and Swiss Finance Branches 5
3. Abolishment of special tax regimes / transitional measures 6
3.1 Step-up - background 6
3.2 Accounting for Step-up 6
3.3 Dual Rate Approach - Background 8
3.4 Accounting for Dual Rate Approach 8
4. R&D incentive 10
4.1 Background 10
4.2 Accounting 10
5. Notional interest deduction ("NID") 12
5.1 Background 12
5.2 Accounting 12
6. Patent Box 13
6.1 Background 13
6.2 Accounting 13
6.3 Entry mechanism methods 13
7. Further considerations 16
7.1 Order of measures / Maximum relief limitation 16
7.2 Disclosures 16
7.3 Recognition of the benefit of a regime as a reduction in the tax rate 17
8. Abbreviations 18
9. Glossary 19

1. Introduction

1.1 Purpose of this Q&A

The purpose of this Q&A paper is to answer questions which may arise due to the changes of the tax laws as a result of the Federal Act on Tax Reform and AHV Financing ("TRAF") and may have implications on the accounting for income tax under the guidance of IFRS. The following Q&As and other statements are therefore limited to changes in the tax law with relevance to corporate tax payers and income taxes and do not include other changes or topics outside of IFRS and income taxes for corporate tax payers. However, similar considerations can be applied under Swiss GAAP FER.

1.2 Legal background

The Swiss public voted on 19 May 2019 to adopt the TRAF confirming the reform of corporate taxation in Switzerland. The tax reform generally focuses on legal certainty and investor confidence and pursues the following three objectives:
(1) safeguarding the tax competitiveness of Switzerland as a business location,
(2) promoting the international acceptance of Switzerland's corporate tax legislation, and
(3) ensuring sufficient tax revenues to finance public activities.

The reform has several consequences including a change of the Swiss Cantonal and Communal Income Tax Harmonization Act ("CCITHA") which defines a general framework providing mandatory and / or voluntary guidance on provisions in the cantonal tax laws for income and capital taxes.

The changed CCITHA is scheduled to enter into force at federal level on 1 January 2020.

To the extent that the tax reform measures relate to cantonal and communal income tax law changes, the measures will effectively be implemented through modification of the cantonal tax law. In addition to the changes resulting from the CCITHA many cantons are also expected to lower their statutory income tax rates.

The following main tax measures are available for the cantons to implement either voluntarily or mandatorily within TRAF:

- Abolishment of special tax regimes (mandatory)
- Transitional measures to consider the treatment of hidden reserves including "goodwill"[1] (dual rate approach) – mandatory. Cantons can set both the ordinary rate and the separate rate

[1] «goodwill» is given its tax meaning in this context and not the same as the accounting term under IFRS 3. "Goodwill" refer to the residual portion of the step-up, which is not allocated to a specific asset. This is of no further relevance to the accounting treatment, but the terms might be used in the tax declaration forms.

- Additional deduction for qualifying research and development (R&D) (up to 50%) -– optional.
- Patent box – tax exemption of up to 90% of qualifying income – mandatory. Cantons can choose the exemption rate to apply, up to the 90% maximum.
- Notional interest deduction (NID) on equity (only applicable for cantons with high tax rates such as e.g. Zurich)
- Overall limitation of certain measures on cantonal level. The benefits from certain measures are limited to 70% (or less, at the choice of the canton) in order to ensure minimal taxation.

The following sections briefly explain the most relevant elements of each measure and the key questions arising when considering Income Tax accounting under IFRS. The guidance provided relates to the expected application of the rules as set out in the text of the TRAF. Implementation of the measures may vary from canton to canton and should be assessed to determine the extent to which this guidance is applicable.

2. Meaning of the term “substantive enactment”

2.1 Background

In Swiss tax law, there is an interplay between the federal and cantonal tax laws. The CCITHA is a federal law that provides a framework and general guidelines to the cantons. The cantons are obliged to implement the mandatory guidelines of the CCITHA into cantonal law. Cantonal tax regulations are only applicable for tax-paying entities once the cantonal legislative process is completed. According to the transitional norms in the CCITHA the cantonal government must set the necessary temporary measures in case the ordinary cantonal implementation process should fail to be completed in time by 1 January 2020.

There is no historic precedent of the federal tax authorities overruling and repealing a cantonal tax assessment that contradicts the CCITHA.

IAS 12.46 requires current tax to be measured using tax rates or laws enacted or substantively enacted at the end of the reporting period. IAS 12.47 further states that “*DTAs and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period*.”

IAS 12 gives no further guidance as to how its requirements are to be interpreted in different jurisdictions. In Switzerland, after federal parliament has approved a new law, Swiss citizens can initiate a referendum by collecting signatures within a specified timeframe. A similar process exists at cantonal level. If a referendum is not initiated within the specified timeframe, substantive enactment is typically the date at which the period for collecting signatures lapses. In the case that a referendum is held, the date of substantive enactment is typically the date of the public vote (assuming it passes otherwise the legislator must start the process again). Subsequent steps, like the publication of the law in an official gazette, are purely of a formal nature but do not change the content of the law.

Question a) When is TRAF substantively enacted for IAS 12 purposes?

As the TRAF specifies a framework for cantonal law, which the cantons then adopt, it can be considered that substantive enactment is dependent on the timing of the cantonal legislative procedures. Thus, the legislative procedures for both the federal reform and the cantonal reform (to the extent that they relate to substantive enactment) need to be completed for the TRAF to be considered substantively enacted. The timeline for the cantonal legislative procedures varies from canton to canton and depends on whether a referendum is initiated.

Question b) What happens if the canton has not changed its tax law by 31 December 2019?

If cantons fail to successfully conclude their cantonal legislative implementation process (to the extent that it relates to substantive enactment) for TRAF prior to the end of 2019, the CCITHA foresees explicit transitional rules. Namely, the cantonal government must decide on the cantonal implementation parameters for the various relief measures. These will become temporarily effective until the formal cantonal legislative process is completed − including a successful cantonal referendum vote, if any. The date of the publication of the temporary regulations shall be considered as substantive enactment for tax accounting purposes. This is on the basis that a tax-paying entity is entitled to directly apply a provision of the CCITHA if a canton has not enacted its cantonal provisions on a timely basis and if a mandatory tax benefit foreseen in the CCITHA is not granted by the cantonal tax law.

2.2 Special cases – Principal companies and Swiss Finance Branches

Question c) What should entities benefitting from the principal allocation or Swiss finance branch practice take into account?

The Swiss Federal Tax Administration published on 24 May 2019 the official statement 012-DVS-2019 that withdraws the existing reliefs for principal companies and finance branches as of 31 December 2019. As both reliefs are solely based on given practice, no formal tax law change is needed. Consequently, this federal practice change should be considered as substantively enacted as at 24 May 2019.

As a consequence, temporary differences that currently benefit from a lower deferred tax rate taking into account the principal relief or the Swiss finance branch practice and that are expected to reverse after 31 December 2019, need to be measured at the ordinary federal tax rate going forward.

However, it is noted that temporary differences for Swiss finance branches are not very common.

Depending on the consideration and judgement of an entity’s management, principal entities may recognize a potential DTA on the step-up (which is based on new art. 61a SITA) at any reporting date in 2019 even though the law is only in force as from 1 January 2020. Entities should assess whether there is sufficient guidance from the tax authorities on the step-up calculation and whether they are already in a position to reasonably quantify the step-up amount that will be accepted by the tax authorities. In that respect, entities need to take into account the guidance in IFRIC 23.

3. Abolishment of special tax regimes / transitional measures

There are two cantonal transitional measures foreseen:

1) step-up (also referred to as 'current-law' step-up as many cantons already allow this mechanism based on current practice when regime companies lost their status due to the conditions no longer met);

2) dual rate approach (sometimes also referred to as 'two rate' or 'separate rate' approach).

3.1 Step-up - background

Under the step-up mechanism, the hidden reserves including self-generated "goodwill" (difference between fair market ("Verkehrswert") and net tax book value) created under a privileged tax regime, can be stepped-up tax free in the tax balance sheet by booking additional intangible assets (including step-up of hidden reserves on tangible and intangible assets as well as goodwill). The calculated step-up amount is limited for tax purposes to the tax-free quota under the privileged regime applicable currently, e.g. 100% for holding companies and generally between 80% - 90% for mixed companies. The step-up does not have an immediate current tax impact.

In the periods subsequent to the tax free step-up, the intangible asset(s) corresponding to the step-up amount can be amortised for tax purposes. The amortisation period is defined according to cantonal regulations or depreciation rates published by the Swiss Federal Tax Administration respectively up to a maximum of 10 years.

The step-up is based on current practice and can only be applied before TRAF enters into force, i.e. on or before 31 December 2019, as TRAF will become effective as per 1 January 2020.

The amortisation permitted under the mechanism can continue beyond the 1 January 2020. However, the measure is subject to the overall maximum relief limitation defined by each canton – which, in any case, cannot exceed 70%. For federal step-up purposes, no relief limitation exists.

3.2 Accounting for Step-up

Question a) Does the Step-up trigger a change in a tax base?

Answer: Yes.

Basis for conclusion:

The step-up reflects a change in the tax bases and hence directly impacts temporary differences.

Depending on the particular situation the step-up either creates tax deductible temporary differences or reduces pre-existing taxable temporary differences. Accordingly, a DTA would be increased, or a pre-existing deferred tax liability (DTL) should be reduced.

Subsequent amortisation of the step-up amount reduces the tax base and hence the initial temporary differences reverses over time.

Question b) Can the initial recognition exemption as per IAS 12 para 22, 24 be applied to the step-up?

Answer: No.

Basis for conclusion:

The step-up does not lead to the initial recognition of an asset or a liability in the IFRS accounts which is a pre-condition of the application of the initial recognition exemption. The step-up mechanism amends the tax base of existing assets and liabilities. As such, the initial recognition exemption does not apply.

Question c) Should the step-up be allocated to individual assets and liabilities?

Answer: It depends.

Basis for conclusion:

If an agreement with the tax authorities includes an allocation between specific assets and liabilities, or the entity intends to file the tax return with an allocation of the step-up between different assets and liabilities, then it must consider such allocation for tax accounting purposes.

If in line with the expected filing position entities do not have to allocate the step-up amount to individual assets and liabilities and the whole step-up amount can be treated as one deductible temporary difference leading to a single DTA amount.

Question d) How should the tax rate applicable to temporary differences be determined?

Answer: It depends.

Basis for conclusion:

IAS 12.47 requires entities to use tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

At the time when the new tax law is (substantively) enacted the timing of reversal of temporary differences needs to be considered. Any temporary differences that still reverse

under the privileged status continue to be measured at the privileged rate. Any temporary differences reversing after the regime change are to be re-measured at the applicable rate introduced by the new law.

3.3 Dual Rate Approach - Background

TRAF introduces a separate transitional method which foresees a separate taxation of future profits representing realised (or deemed realised) amounts of hidden reserves, including internally generated goodwill, which were created under the privileged regime applicable prior to TRAF. The separate rate approach will only be implemented upon introduction of TRAF and will be mandatory for all cantons. However, the Cantons are free to determine the applicable reduced tax rate and the allocation method to the ordinary rate and the separate tax rate. The dual rate approach is not available for Federal tax purposes.

Entities are able to apply a separate rate over a maximum period of 5 years upon implementation of TRAF. The profit of an entity applying for this approach will be separated into two baskets: one basket for the profit taxed at the ordinary cantonal tax rate and the other basket for the profit subject to the separate tax rate. The amount in the latter basket is linked to the amount of hidden reserves identified at entry into the regime, reduced each year by the portion thereof realized/deemed realized annually and the respective amount of income allocated to this basket. After the transitional period of 5 years, any unused special rate potential remaining is lost.

In contrast to the step-up, the separate rate approach does not interact with the overall maximum relief limitation.

3.4 Accounting for Dual Rate Approach

Question a) Does the dual rate approach result in the recognition of a new DTA?

Answer: No

Basis for conclusion:

The benefit operates in such a way that a separately enacted rate of income tax applies to a specified portion of the entity’s net income. In contrast to the step-up, there is no change to the tax balance sheet as a result of this mechanism and the IFRS carrying value is not impacted. Thus, the measure does not impact on temporary differences and consequently no DTA arises.

The benefit of the measure is recognized as current tax item in the period in which the entity generated profits which are taxable at a reduced rate.

Question b) What rate is applied to measure deferred tax?

Answer: Temporary differences expected to reverse after the five year period, should be measured with the substantively enacted applicable rate introduced by the new law.

For those reversing within the five year period it depends.

Basis for conclusion:

A sufficiently detailed estimate (scheduling) of the reversal pattern of different temporary differences is required for the measurement of deferred taxes.

The principle in IAS 12 para 51 foresees that the measurement of DTAs and liabilities *shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.* Thus, if an entity's agreement with the tax authorities foresees a fixed percentage (for example 80% special rate, 20% ordinary rate), a weighted average rate should be applied. However, if the agreement does not foresee a fixed pattern, entities should consider their expected filing position (under the assumption that entities expect such position to be accepted by the specific cantonal tax authorities). The guidance in IFRIC 23 *Uncertainty over income tax treatments* should be applied appropriately.

If there is no agreement, the specific facts and circumstances should be taken into account in deciding whether to apply a weighted average rate, or whether to apply an allocation, i.e. applying either the ordinary or reduced rate for each temporary difference depending on into which basket the reversal will be allocated to in the tax return. Entities should apply judgement and account for deferred taxes on the basis of what they expect to file in their tax returns (under the assumption that entities expect such position to be accepted by the specific cantonal tax authorities). To the extent the treatment is uncertain, IFRIC 23 *Uncertainty over income tax treatments* should be applied.

As a consequence, the expected tax rate will likely change in the moment an entity exits a privileged regime and enters into the dual rate approach.

4. R&D incentive

4.1 Background

An additional R&D deduction allows tax payers to benefit from a higher deduction for income tax purposes than the actual expenses occurred. Not all cantons have or will include such additional deductions in their cantonal law as this measure is not mandatory[2].

The qualifying R&D expenses are broadly defined as domestic expenses for:

- Basic research
- Applied research
- Science- based innovation

The additional deduction is limited to an additional maximum 50% deduction on qualifying R&D expenses being:

- Domestic employee expenses plus a mark-up of 35% in case of own domestic R&D and or;
- 80% of invoiced domestic R&D expenses (contract R&D)

The deduction is a yearly deduction and is only available if qualifying expenses occur. Tax payers cannot carry forward or carry back any balance in case the tax payer's situation would not allow to actually deduct the additional expense.

4.2 Accounting

Question a) Is the R&D incentive in the scope of government grants (IAS 20) or income tax benefit (IAS 12)?

Answer: It qualifies as income tax benefit and should be accounted for under IAS 12.

Basis of conclusion:

The additional R&D deduction will result in an additional expense to be claimed in the ordinary yearly income tax return and is therefore reducing the current income tax payable.

The application of IAS 12 is more appropriate when the economic substance of a tax benefit or tax credit is akin to a tax allowance. For example, under a general R&D tax incentive scheme, which is available to all taxable entities, a government allows entities to claim an additional tax deduction for a broad range of generic R&D expenditure in the period in which the expenditure is incurred. In the absence of any other relevant indicators, we believe that the economic substance of the benefit is more akin to a tax allowance and should be accounted for by analogy to IAS 12. Specific features of the benefit that support this conclusion include:

[2] The CCITHA includes a general provision which allows cantons to include an additional R&D deduction provision in their cantonal income tax laws if they want.

- The R&D deduction fully depends on profit or loss of the company in the respective year.
- The R&D deduction is claimed via an additional allowance in the tax return.
- Any possible excess deduction will forfeit immediately (i.e. no carry forward nor excess cash payment).
- The R&D deduction is not linked to other conditions within the tax law. Moreover, the R&D deduction is available to all Swiss tax payers with respective qualifying expenses.

Question b) Should the R&D incentive be treated as a reconciling item in the period of the additional deduction or as a reduced rate of income tax?

Answer: A generally acceptable approach would be to treat the benefit as a reconciling item.

Basis for conclusion:

There is no clear guidance in IAS 12.

The basis for treating the benefit as a reconciling item is as follows:

As the additional R&D deduction results in a reduced effective tax rate, the statutory rate applicable to the income is not modified as a result of the regime. The entity recognizes the R&D deduction benefit as reconciling item in the period in which the entity becomes entitled to the deduction. In limited circumstances there might be arguments in favour of factoring the benefit into the applicable tax rate used in the tax rate reconciliation, see 7.3 below.

5. Notional interest deduction ("NID")

5.1 Background

The notional interest deduction most probably will be available in the canton of Zurich only. The measures will allow corporate tax payers to deduct notional interests on equity reported in the Swiss statutory accounts as an additional expense in the yearly income tax return.

5.2 Accounting

Question a) Is the NID a reconciling item in the period of the additional deduction or a reduction of the applicable rate?

Answer: A generally acceptable approach would be to treat the benefit as a reconciling item.

Basis for conclusion:

Similar considerations as in 4.2 Question b) apply.

6. Patent Box

6.1 Background

The introduction of the patent box regime is mandatory for all cantons.

Nevertheless, each canton has the flexibility to determine the extent of the tax benefit resulting from the patent box.

Under the patent box regime, a special tax deduction from taxable profits is available for qualifying profit arising from patent rights. The cantons would be able to exempt up to 90% of the relevant IP profits.

The statutory rate of corporation tax is applied to the taxable profits determined following the special tax deduction of the relevant IP profits.

6.2 Accounting

Question a) Does the benefit of the patent box result in the recognition of a DTA?

Answer: No

Basis for conclusion:

As the patent box deduction only comes into existence once future qualifying profits are generated, no benefit should be recognized for the regime in anticipation of the year in which the entity is entitled to the patent box deduction. There is neither a tax credit nor a deductible temporary difference in existence related to the availability of future patent box deductions.

Question b) Should the benefit of the patent box be disclosed as a reconciling item in the period that the income is accounted for or be included in the applicable rate?

Answer: A generally acceptable approach would be to treat the benefit as a reconciling item.

Basis for conclusion:

Similar considerations as in 4.2 Question b) apply

6.3 Entry mechanism methods

The entity will access the patent box regime via an entry taxation mechanism, which varies between cantons.

Each entity will need to consider the particular law applicable in its canton of tax residence, however three models are currently seen and the accounting impacts are described below:

Model A - immediate taxation of related R&D costs with ordinary rate followed by step-up

The R&D expenses that were incurred in developing the patent are recaptured at the applicable tax rate at the moment of entering the patent box, i.e. R&D expenses that were previously deducted for tax purposes are reinstated at the date of entering into the patent box. The recaptured R&D expenses can be amortized over a specified period. Taxable income allocated to the box is partially tax exempt as a result of the amortisation.

Question A.1) What is the tax accounting impact of model A entry mechanism?

There are two impacts:

- The R&D recaptured expenses increase the taxable result and the tax impact is recognized in the same period for reporting purposes as the period of the tax return that the adjustment is expected to be included in.
- The future amortisation generates a deductible temporary difference through the increase of the tax base. The deferred tax should be calculated with the tax rate used to measure the other deferred tax items.

  The initial recognition exemption is not applicable in this case as the conditions are not met (refer to question b) in chapter 3.2). The instrument impacts taxable profit and does not arise from the initial recognition of an asset or liability.

Model B - offsetting of historic related R&D costs with future patent income

This model foresees an offsetting of qualifying historic R&D expenses against future patent box profits, and thus results in a delayed entry into the patent box benefit.

Such a model may also include an increase of the taxable result at the end of a certain specified period (e.g. 5 years) to the extent that the qualifying historic R&D expenses cannot be credited against patent box profits within this specified period.

Question B.1) What is the tax accounting impact of model B entry mechanism?

The offset mechanism does not impact on accounting book value or tax base and as such there is no change to temporary differences.

Question B.2) What happens if an entity is not able to offset patent box profits within the specified period and suffers a cash tax expense?

At the point that it becomes probable that an additional tax expense will be due as a result of the incomplete offset of the historic R&D expenses against qualifying income, an income tax liability should be recognized.

If in an earlier accounting period an income tax liability is more than remote but not probable, disclosure may be required in accordance with IAS 12.88.

Model C - immediate taxation of related R&D costs with reduced rate

The entry mechanism is effected through the immediate taxation of the previously incurred R&D expenses associated with the patent at a privileged tax rate.

Question C.1) What is the tax accounting impact of Model C entry mechanism?

Under IAS 12 there is no impact on the tax base as a result of this mechanism and as such there is no change to temporary differences. This model represents a reconciling item in the year that the entry fee becomes payable.

7. Further considerations

7.1 Order of measures / Maximum relief limitation

The CCITHA requires cantons to limit the overall benefit of the above measures to a relief of maximum 70% (or lower) of the taxable profit before the application of the participation exemption and the use of losses carried forward. The limitation does not cover the dual rate model as this is a transitional measure which should allow tax payers to mitigate the effect of the abolishment of the regimes and is thus limited to 5 years following the reform.

Some cantons have introduced or plan to introduce in the cantonal laws an order as to which measures should be considered first in case a tax payer can apply several instruments and would reach the overall limitation, while other cantons have left this point open. In case a canton has left this open entities should consider their expected filling position assuming this will be accepted by the tax authorities (refer to IFRIC 23).

Independently from the matter of order of measures the question arises if the overall limitation would have any impact on the other conclusions presented in this document.

Question a) What impact does the overall limitation have on the accounting?

Answer: It depends.

Basis for conclusion:

a) It might have an impact on the measurement of deferred taxes.

In cases where the positive evidence used to support the recognition of a DTA is dependent on future taxable profit forecasts it would have to consider the overall limitation in the forecasted future taxable profit used for recognition of the DTA.

In case the overall limitation leads to a restriction of a reconciling item (R&D super deduction, NID, and patent box) the overall limitation would limit the amount of the respective reconciling items.

b) It might have an impact on disclosures (see 7.2).

7.2 Disclosures

In determining the extent of necessary disclosures an entity considers the principle of fair presentation of IAS 1.17, i.e. whether further information is necessary to provide relevant and reliable information. Judgement is therefore needed when explaining the impact of TRAF in the notes to the financial statements, under consideration of materiality as defined in IAS 1.7.

Entities should consider disclosing:

- the chosen accounting policies,
- the significant estimates and judgements taken (see IAS 1.122 et seq. and IAS 1.125 et seq.),
- changes to the expected tax rate,
- changes to deferred tax assets and liabilities,
- whether any adjustments to their tax rate reconciliation are needed,
- impact of the entry mechanism for patent box.

7.3 Recognition of the benefit of a regime as a reduction in the tax rate

As set out in the analysis above, many of the benefits from a given regime result in a reconciling item, when the statutory rate is used as a starting point of the tax rate reconciliation.

In certain limited circumstances entities may conclude that factoring the impact of a given regime into the applicable tax rate used in the tax rate reconciliation is acceptable on the grounds that the benefit represents, in substance, a reduced rate of income tax. This option should only be considered when the regime results in a stable and consistent rate impact across periods.

8. Abbreviations

Term	Definition
art.	Article
CCITHA	Swiss Cantonal and Communal Income Tax Harmonization Act (SR 642.14)
DTA	Deferred tax asset
DTL	Deferred tax liability
IAS	International Accounting Standards
IFRIC	IFRIC Interpretations are part of the IFRS issued by the International Accounting Standards Board
IFRS	International Financial Reporting Standards
NID	Notional Interest Deduction
par.	Paragraph
R&D	Research & Development
SITA	Swiss Income Tax Act (SR 642.11)

9. Glossary

Term	Definition
Current tax	Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. [IAS 12.5]
Deferred tax asset (DTA)	Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of: a) deductible temporary differences; b) the carryforward of unused tax losses; and c) the carryforward of unused tax credits. [IAS 12.5]
Deferred tax liability (DTL)	Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. [IAS 12.5]
"Goodwill" (tax term)	"goodwill" is marked with quotation marks, since it is considered a tax term and is not understood to be the same as the accounting term under IFRS 3. "goodwill" refers to the general portion of the step-up (as difference between the fair market value ("Verkehrswert") and net tax book value), which is not allocated to a specific asset. This is of no further relevance to the accounting treatment, but the terms might be used in the tax declaration forms.
Goodwill (accounting term)	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. [IFRS 3 Appendix A]
Tax base	The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
Tax loss carried forward	Many tax jurisdictions allow tax losses to be carried forward and used for offsetting against future taxable profits. Refer to IAS 12.34-36 for the guidance on recognizing DTAs for the carryforward of unused tax losses.
Taxable profit (loss)	Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable). [IAS 12.5]

Term	Definition
Temporary difference	Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either: a) taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. [IAS 12.5]