

# Could new accounting rules affect your tax bill?

Recent changes to the accounting and auditing requirements of the Companies Act 1985 will affect all companies in some way - *writes Peter Minchell*

For financial years beginning on or after 1 January 2005, all listed groups within the EU will have to adopt International Accounting Standards (made up of existing International Accounting Standards (IASs) and new International Financial Reporting Standards (IFRSs)). The aim is that all standards issued by 31 March 2004 will have to be complied with for year-ends 31 December 2005 (including comparatives).

"But that won't affect us", I hear you cry, "as we are not a listed group", and in many ways that is right. There will be no obligation for other companies (including small companies) to use International Standards, but the Companies Act will be modified to allow their use if the company chooses to do so. This means that you may effectively have the choice of using either UK Standards or International Standards - potentially two different sets of figures, both showing a true and fair view.

For small companies we have the third option of using the FRSE (Financial Reporting Standard for Small Entities). This means some clients may be able to produce three potentially different sets of



accounts, each of which could be said to show a true and fair view!

Apart from the advantages the FRSE has of simplifying disclosure and omitting much technical detail from the original standards, at times it can even give different accounting profits. This would happen where it has not yet been updated but a new FRS is already in place.

The most interesting (and directly relevant) consequence of all this is that the accounting profit is generally used as the basis for the tax profit and

therefore a company using the FRSE may have different taxable profits from a company using the full standards. This situation should disappear once the FRSE is updated, but meanwhile the choice of presentation may even have an effect on your tax payable, although I suspect that in most cases the potential tax saving will be more than out-weighed by the cost of preparing three separate sets of accounts!

Was it this government that said it wanted to simplify accounting for small businesses?

If you would like to discuss this issue please contact Peter Minchell on **020 7022 0050**.

