Issue 127 / June 2017

IFRS Developments

IFRIC 23 - Uncertainty over income tax treatments

What you need to know

- The IFRS Interpretation Committee (IFRS IC) observed that entities apply diverse reporting methods when the application of tax law is uncertain.
- The IFRS IC developed IFRIC 23 to address how to reflect uncertainty in accounting for income taxes.
- The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.
- The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Highlights

On 7 June 2017, the International Accounting Standards Board (IASB or the Board) issued IFRIC Interpretation 23 – *Uncertainty over Income Tax Treatments* (the Interpretation). The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

Scope

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

Does an entity consider uncertain tax treatments separately?

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

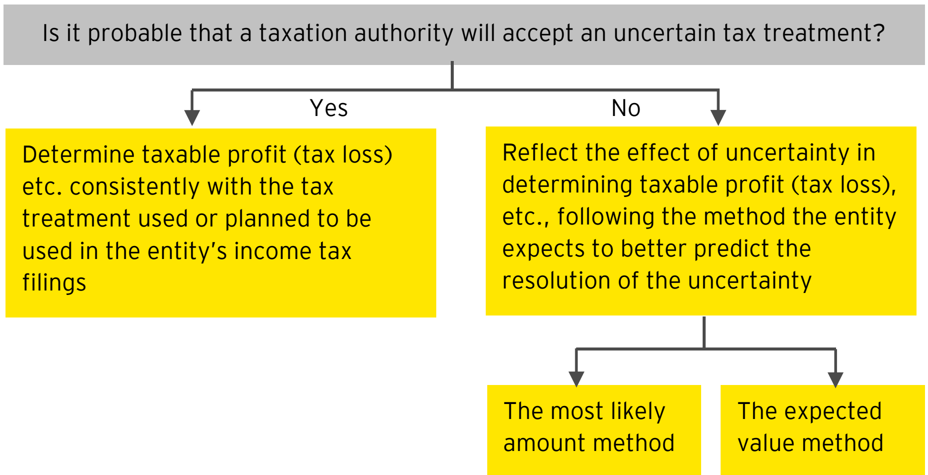
Building a better working world

Assumptions about the examination of tax treatments by taxation authorities

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

Determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

In determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity must consider the probability that a taxation authority will accept an uncertain tax treatment. The requirements in the Interpretation, in this respect, are set out in the diagram below:



How an entity considers changes in facts and circumstances

An entity should reassess any judgements and estimates made if the facts and circumstances change or new information becomes available. The effect of a change in facts and circumstances, or the emergence of new information, should be reflected as a change in accounting estimates as per IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. An entity should apply IAS 10 *Events after the Reporting Period* to determine whether a change that occurs after a reporting period is an adjusting or non-adjusting event.

Disclosure

The Interpretation does not add any new disclosure requirements. However, it highlights the existing requirements:

- Judgements, information about the assumptions made and other estimates are disclosed as per paragraphs 122 and 125-129 of IAS 1 *Presentation of Financial Statements*
- When it is probable that the taxation authority will accept an uncertain tax treatment, paragraph 88 of IAS 12 should be applied to determine the disclosure of a tax-related contingency

Effective date and transition

The Interpretation is applicable for annual reporting periods beginning on or after 1 January 2019; it provides a choice of two transition approaches:

- The Interpretation may be applied retrospectively using IAS 8, only if the application is possible without the use of hindsight

  Or

- The Interpretation may be applied retrospectively with the cumulative effect of the initial application recognised as an adjustment to equity on the date of initial application. In this approach, comparative information is not restated. The date of initial application is the beginning of the annual reporting period in which an entity first applies this Interpretation

How we see it

We believe that the Interpretation provides a helpful clarification on how the requirements of IAS 12 should be applied when there is uncertainty over income tax treatments. The application of the Interpretation requires an entity to make certain additional assumptions, estimates and significant judgements.

Next steps

Applying the Interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments.

Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information, on a timely basis, that is necessary to apply the requirements in the Interpretation and make the required disclosures.

EYG No. 03656-173Gbl

ED None