IFRIC 23: Uncertainty over income tax treatment

IFRIC 23 clarifies the accounting for income tax when it is unclear whether a taxing authority accepts the tax treatment. Action is required; implementation as of January 1, 2019

Background

In 2017, the International Accounting Standards Board's Interpretations Committee issued IFRIC Interpretation 23 (hereinafter: 'Interpretation') entitled 'Uncertainty over Income Tax Treatments'. Implementation date (annual periods beginning on or after January 1, 2019) is approaching fast. The Interpretation provides guidance on how to account for uncertainty over income tax treatments under IAS 12. The new Interpretation may impact the existing positions with respect to uncertain tax treatments, the accounting policy, financial statements disclosure and data gathering processes.

Highlights IFRIC 23

- Interpretation requires an entity to determine whether uncertain tax treatments are assessed separately or as a group;
- Assumption that a taxation authority will examine the position as if it has a right to examine and have full knowledge of all relevant information when making those examinations (no detection risk);
- If an entity concludes that it is not probable that a taxation authority will accept an uncertain tax treatment, the entity should reflect the effect of uncertainty in determining its accounting tax position;
- Reassessment in the event of change in facts and circumstances on a yearly basis.

Also interest and penalties should be considered in relation to uncertain tax treatments. Entities do not have an accounting policy choice between applying IAS 12 and applying IAS 37

Implications

In the past, very little guidance was provided in IAS 12 on uncertain tax treatments. The Interpretation provides new guidance on how to account for uncertain tax treatments. Your Company's current uncertain tax treatment policy may be inconsistent with the Interpretation and it is likely to impact your tax reporting data gathering process and financial statement disclosure.

In order to be compliant and to be able to substantiate your Company's policy and process towards the auditor, we suggest to re-assess your policy and to establish a company-wide policy that is in line with the Interpretation.

ETR Neutral application

Depending on the implementation approach there is an opportunity to recognize any impact of initially applying the Interpretation in opening equity. This would facilitate an ETR neutral transition to the new Interpretation in the financial statements. Any subsequent addition/ release of the provision in later years will however impact the annual ETR in your financial statement disclosure.

Benefit approach requires substantiation

The Interpretation will have an impact on the amount of work to be completed in substantiating uncertain tax treatments. This as a result of a conceptual change from a 'liability approach' towards a 'benefit approach'. In this respect the new Interpretation is comparable to US GAAP which also requires a more extensive exercise in documenting uncertainties in tax.

Tax reporting process

Interpretation may also require a change to your existing policy with respect to uncertain tax treatments and/or an update of your current tax reporting process. For example, a reassessment of the process to gather and assess uncertain tax treatments to be reported. Further it is required to document uncertain tax treatments in accordance with the new Interpretation in order to substantiate uncertain positions towards the auditor.

Other impact

The Interpretation may also trigger discussion with your auditor in relation to:

- Prepayments made to tax authorities in relation to uncertain tax treatments;
- Transfer pricing discussions with taxation authorities and the impact on the total tax liability across countries that are potentially impacted;
- The disclosure requirements under IAS 12 for uncertain tax treatments;
- Interest and penalties.

Action required

The implementation of the Interpretation requires an assessment of your current policy in relation to uncertain tax treatments in order to avoid scrutiny of the auditor. This would also involve a review of your current tax reporting process. Finally, in order to facilitate an ETR neutral implementation an assessment is required of existing uncertain tax treatments.

ETR neutral implementation requires an assessment of existing uncertain tax treatments

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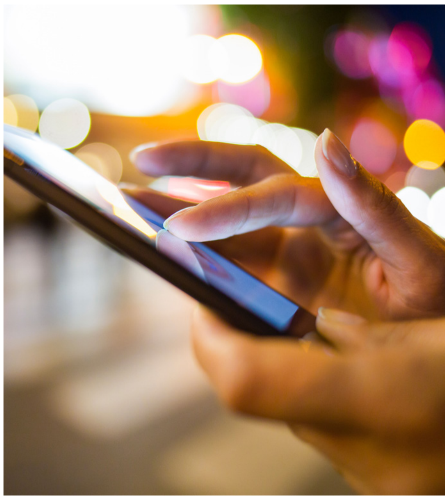

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