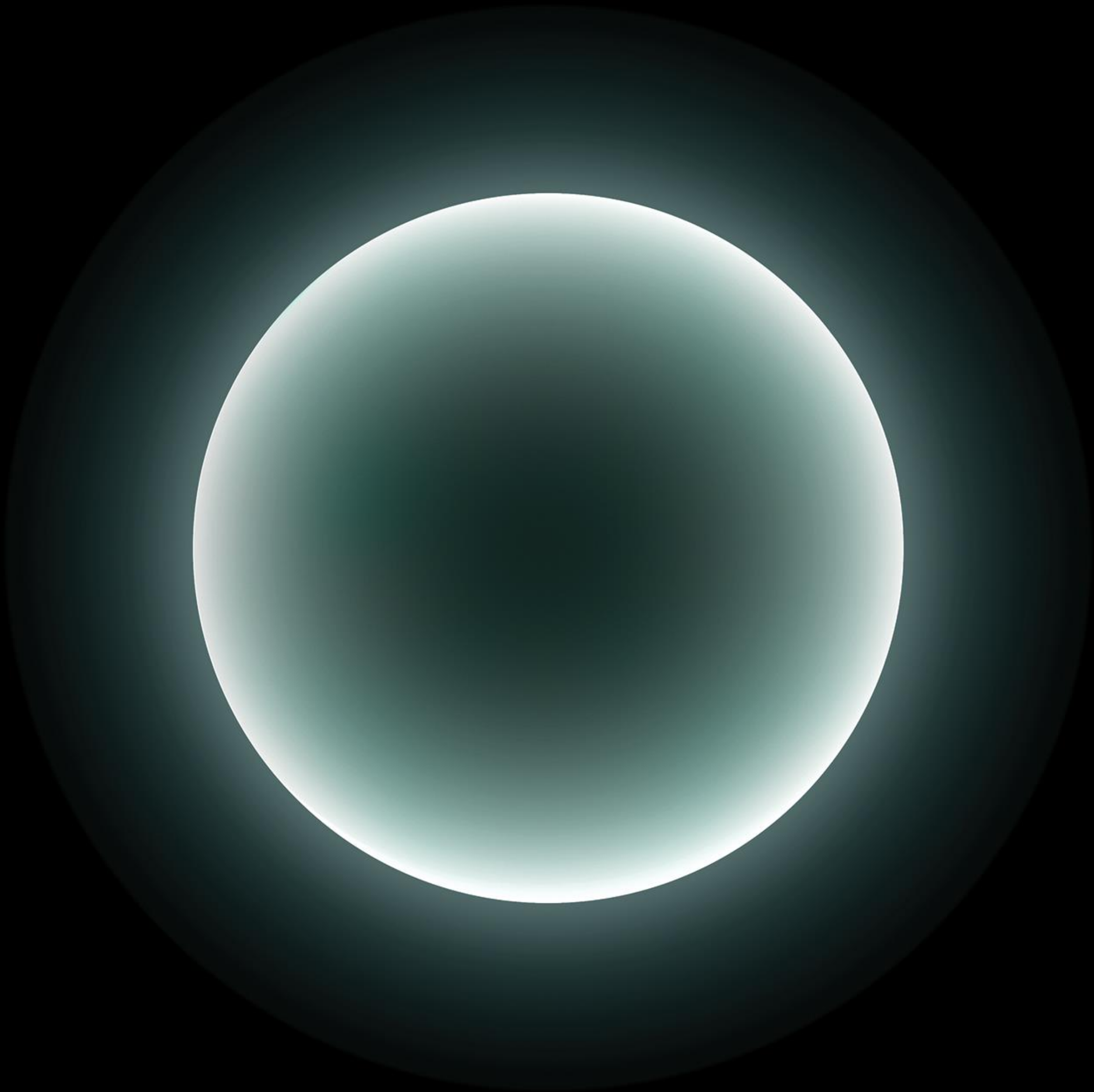

IASB issues IFRIC 23 Uncertainty over Income Tax Treatments

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Audit & Assurance

Issues

A question has arisen in practice as to how uncertainty about the acceptability by a tax authority of a particular tax treatment used by an entity in its income tax filings ('uncertain tax treatment') should be reflected in the financial statements.

This Interpretation sets out how to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (collectively referred to as 'accounting tax position' in this document) in such instances.

Consensus

The Interpretation requires that an entity first determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments, depending on which approach gives a better prediction of the resolution of the uncertainty.

The entity then assesses whether, and how, an uncertain tax treatment affects the determination of an entity's accounting tax position:

1. Is it probable that the tax authority will accept the tax treatment used or planned to be used by an entity in its income tax filings?

Yes

2a. Determine the accounting tax position consistently with the tax treatment used or planned to be used in the entity's income tax filings.

No

2b. Reflect the effect of uncertainty in determining the related accounting tax position. The effect of uncertainty should be estimated using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty.

In determining whether the tax authority will accept the entity's tax treatment, and if not, the effect of the uncertainty on the entity's accounting tax position, the entity should assume that the tax authority will examine amounts that it has a right to examine and have full knowledge of all relevant information when making those examinations. There is no exception for circumstances in which there is no time limit on the tax authority's right to examine income tax filings.

Observation

The Interpretation does not provide any further guidance on assessing whether it is probable that the tax authority will accept the entity's tax treatment. This could be an area where an entity will have to apply judgement or that could give rise to estimation uncertainty. In such cases, the entity should disclose the relevant information in accordance with IAS 1.122 and 125-129 regarding significant judgements and assumptions used in preparing financial statements.

The Interpretation requires an entity to use consistent judgements and estimates for both current tax and deferred tax, and to reassess the judgements made and estimates used in light of any changes in relevant facts and circumstances. Such changes are accounted for as a change in estimate.

The Interpretation also includes two examples to illustrate the application of the requirements.

Observation

The Interpretation does not specifically address interest and penalties associated with uncertain tax treatments. Whether interest and penalties are within the scope of the Interpretation depends on whether they are income taxes within the scope of IAS 12, which is a separate assessment not addressed by the Interpretation.

Similarly, the Interpretation does not specifically address tax assets and liabilities acquired or assumed in a business combination. However, IFRS 3.24 requires an entity to apply IAS 12 to account for deferred tax assets and liabilities assumed in a business combination. Hence, the Interpretation applies to such assets and liabilities arising from the assets acquired and liabilities when there is uncertainty over income tax treatments that affect deferred tax.

Effective date and transition

The Interpretation applies to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Entities can apply the Interpretation using either of the following approaches:

- Full retrospective approach: this approach can be used only if it is possible without the use of hindsight. The application of the new Interpretation will be accounted for in accordance with IAS 8, which means comparative information will have to be restated; or
- Modified retrospective approach: no restatement of comparative information is required or permitted under this approach. The cumulative effect of initially applying the Interpretation will be recognised in opening equity at the date of initial application, being the beginning of the annual reporting period in which an entity first applies the Interpretation

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