IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2017/08

STATUS
Final

EFFECTIVE DATE
Periods beginning on or after 1 January 2019.

ACCOUNTING IMPACT
Potentially impacts the measurement and disclosure of income tax assets and liabilities

Background

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*.

The Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments, addressing four specific issues

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

This IFRB summarises the requirements of IFRIC 23.

Consensus

Whether an entity considers uncertain tax treatments separately

IFRIC 23 requires an entity to treat uncertain tax treatments separately or together depending on which method better predicts the resolution of the uncertainty. Factors which an entity might consider in determining the most appropriate approach include:

- How it prepares its income tax filings; and
- How it is expected the taxation authority will investigate and resolve issues.

Examination by taxation authorities

When measuring current and deferred income tax assets and liabilities IFRIC 23 requires an entity to assume that a taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations.

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

IFRIC 23 requires an entity to make an assessment of whether it is probable a taxation authority will accept an uncertain tax treatment. If it is probable the treatment will be accepted then taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rate should be consistent with the treatment used or planned to be used in its income tax filings. If it is not probable the position will be accepted, then an entity reflects that uncertainty in one of two ways:

- An expected value approach. For example, an entity might have claimed deductions in its taxation filing related to transfer pricing and conclude it is not probable the taxation authority will accept the deductions claimed. If the entity expects the taxations authority's decision on one transfer pricing matter would affect, or be affected by, the other transfer pricing matters, then it would calculate a probability-weighted average of the possible outcomes arising from an investigation by the tax authorities in measuring income tax assets and liabilities.
- The most likely approach. For example, an entity may have acquired an intangible asset for CU 100 for which it is certain it will obtain a tax deductions, but for which the timing of the deductibility could be either 100% of cost in the year of purchase, or 20% of cost in each of the next 5 years. If the entity has claimed a current tax deduction of 100%, but expects the taxation authority to accept only a 20% deduction in each of the next 5 years, the entity would measures its current tax position in the year of purchase based on a current tax deduction equal to only 20% of cost. Its deferred tax position would assume a tax base of the asset equal to 80% of cost and not 0%.

Changes in facts and circumstances

The accounting for uncertain tax treatments set out in IFRIC 23 requires an entity to make estimates and judgements about whether the relevant taxation authority will accept the position taken by the entity in its tax filings. IFRIC 23 requires those estimates and judgements to be reassessed if the facts and circumstances on which those estimates and judgements are based change, or as a result of new information that affects the estimates and judgements. The effects of such changes should be reflected by applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In addition IAS 10 *Events after the Reporting Date* should be applied to determine whether such a change that occurs after the reporting period is an adjusting or non-adjusting event.

Disclosure

When there is uncertainty over income tax treatments, IFRIC 23 requires disclosure of:

- Judgements made in determining taxable profit or loss in accordance with paragraph 122 of IAS 1 *Presentation of Financial* Statements;
- Information about the assumptions and estimates made in accordance with paragraphs 125-129 of IAS 1; and

In addition, if it is probable that a taxation authority will accept an uncertain tax treatment, IFRIC 23 requires an entity to consider whether there is a need to disclose the potential effect of that uncertainty as a tax-related contingency in accordance with paragraph 88 of IAS 12 *Income Taxes*.

Transition

On initial application, an entity may apply IFRIC 23:

- retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- retrospectively with the cumulative effect recognised by adjusting the opening balance of retained earnings on the date of initial application (i.e. the start of the accounting period in which IFRIC 23 is first applied). In this case comparatives would not be restated.

Effective date

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, although for those entities for which it is relevant, it should be noted that IFRIC 23 has yet to be endorsed for application in the European Union. The endorsement process is expected t be completed during 2018

www.bdo.global