



IFRS AT A GLANCE
IFRS 23 *Uncertainty over Income*
Tax Treatments



IFRIC 23 *Uncertainty over Income Tax Treatments*

MEASUREMENT

IFRIC 23 addresses the following issues:

- ▶ Whether an entity should consider 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

SCOPE

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

DEFINITIONS

- ▶ 'Tax treatments' refers to the treatments used by an entity that it plans to use in its income tax filings
- ▶ 'Taxation authority' refers to the body or bodies that decide whether tax treatments are acceptable under tax law. This might include a court
- ▶ An 'uncertain tax treatment' is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law

CONSENSUS

1. UNIT OF ACCOUNT

IFRIC 23 requires an entity to treat uncertain tax treatments separately or together depending on which method better predicts the resolution of the uncertainty.

2. EXAMINATION BY TAX 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.

3. DETERMINATION OF TAX ITEMS

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 depending on which method better predicts the resolution of the uncertainty:

- ▶ An expected value approach; or
- ▶ The most likely approach

4. CHANGES IN FACTS AND CIRCUMSTANCES

The accounting for uncertain tax treatments 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 and treated as a change in accounting estimate. 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.



IFRIC 23 *Uncertainty over Income Tax Treatments*

EXAMPLES

In applying consensus 3:

- ▶ Assume an entity has claimed deductions in its taxation filing related to transfer pricing and concluded it is not probable the taxation authority will accept the deductions claimed. If the entity expects the taxation 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 (i.e. an expected value approach).
- ▶ Assume an entity may have claimed a current tax deduction of 100% of the cost of an intangible asset, but expects the taxation authority to accept only a 10% deduction in each of the next 10 years, the entity would measure its current tax position in the year of purchase based on a current tax deduction equal to only 10% of cost and its deferred tax position would assume a tax base of the asset equal to 90% of cost and not 0% (i.e. the most likely approach).

DISCLOSURE

- ▶ Judgements made in determining taxable profit or loss (paragraph 122 of IAS 1 Presentation of Financial Statements);
- ▶ Information about the assumptions and estimates made (paragraphs 125-129 of IAS 1)
- ▶ Potential effect of an uncertainty tax treatment as a tax-related contingency (paragraph 88 of IAS 12)

TRANSITION

An entity may use either












- ▶ retrospectively by restating comparatives if possible without hind sight; 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.

Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

Alternatively, please visit www.bdo.global where you can find full lists of regional and country contacts.



EUROPE

Anne Catherine Farlay	 France	annecatherine.farlay@bdo.fr
Jens Freiberg	 Germany	jens.freiberg@bdo.de
Teresa Morahan	 Ireland	tmorahan@bdo.ie
Ehud Greenberg	 Israel	ehudg@bdo.co.il
Stefano Bianchi	 Italy	stefano.bianchi@bdo.it
Roald Beumer	 Netherlands	roald.beumer@bdo.nl
Reidar Jensen	 Norway	reidar.jensen@bdo.no
Leonid Sidelkovskiy	 Russia	L.Sidelkovskiy@bdo.ru
David Cabaleiro	 Spain	david.cabaleiro@bdo.es
René Füglistner	 Switzerland	rene.fueglistner@bdo.ch
Moses Serfaty	 United Kingdom	moses.serfaty@bdo.co.uk




SUB SAHARAN AFRICA



Theunis Schoeman	 South Africa	tschoeman@bdo.co.za
------------------	--	--

NORTH AMERICA &







Armand Capisciolto	 Canada	acapisciolto@bdo.ca
Wendy Hambleton	 USA	whambleton@bdo.com


LATIN AMERICA

Marcello Canetti	 Argentina	mcanetti@bdoargentina.com
Victor Ramirez	 Colombia	vramirez@bdo.com.co
Ernesto Bartesaghi	 Uruguay	ebartesaghi@bdo.com.uy

Arshad Gadit	 Bahrain	arshad.gadit@bdo.bh
Antoine Gholam	 Lebanon	agholam@bdo-lb.com

ASIA PACIFIC

Aletta Boshoff	 Australia	aletta.boshoff@bdo.com.au
Hu Jian Fei	 China	hu.jianfei@bdo.com.cn
Fanny Hsiang	 Hong Kong	fannyhsiang@bdo.com.hk
Pradeep Suresh	 India	pradeepsuresh@bdo.in
Khoon Yeow Tan	 Malaysia	tanky@bdo.my
Ng Kian Hui	 Singapore	kianhui@bdo.com.sg



This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BV, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium with its statutory seat in Zaventem.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BV, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2021 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdo.global