IFRIC 23 – Uncertainty over tax treatments

June 2017

IFRIC 23 *Uncertainty over tax treatments* issued in June 2017 provides clarification on the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. IFRIC 23 is applicable for annual periods beginning on or after 1 January 2019 but earlier adoption is permitted.

What is the interpretation about?

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by the relevant tax authority and 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.

What are the requirements?

- Uncertainties should be assessed individually or collectively depending on which approach provides the best prediction of the resolution of the uncertainty.
- An entity should assume that the tax authority will examine all the information and that it will have full knowledge of all related information when making those examinations.
- The entity must consider whether it is probable or not that a tax authority will accept an uncertain tax treatment or group of uncertain tax treatments.
- When it is not probable that the authority will accept the uncertain tax treatment, the effect of the uncertainty must be factored into the related taxable profit (tax loss), unused tax losses, unused tax credit or tax rate by using the most likely amount or the expected value (whichever better predicts the resolution of the uncertainty).
- The following decision tree can be used:

Is it probable that a taxation authority will accept an uncertain tax treatment?

YES

Determine taxable profit (tax loss) etc. consistently with the tax treatment used or planned to be used in the entity's income tax filings

NO

Reflect the effect of uncertainty in determining taxable profit (tax loss), etc., following the method the entity expects to better predict the resolution of the uncertainty

The most likely amount method

The expected value method

- Judgements or accounting estimates will be revised, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, if the facts and circumstances on which they were based change or new information becomes available. In determining when to apply the effects of a change that occurs after the reporting period an entity applies IAS 10 *Events after the Reporting Period*.

Impact of the Interpretation

- IAS 12 Income taxes must be applied to account for an uncertain tax treatment.
- Entities 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.
- The entity must reassess its judgements and estimates whenever there is a change in circumstances.
- Depending on the entity's current practice it may need to increase the tax liability or recognise an asset and the timing of derecognition may also change.
- If it is probable that the tax authority will accept an uncertain tax treatment then the tax amounts in the financial statements are consistent with the tax return (no uncertainty is reflected in measurement current or deferred taxes).
- Uncertain tax treatments are reflected in the measurement of current and deferred tax (no separate provision is recorded for uncertain tax treatments).
- The challenge is to estimate the income tax due with respect to tax inspections when tax authorities examine different types of taxes together and issue an assessment with a single amount due.
- Where interest and penalties on taxes are recognised in terms of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* then IFRIC 23 should not be applied (regardless whether there is an uncertainty) but when IAS 12 is applied to these amounts an there is an uncertainty then IFRIC 23 also applies.
- The existing disclosure requirements are still applicable namely:
  - Judgements made
  - Assumptions and other estimates used
  - The potential impact of uncertainties that are not reflected

IFRIC 23 must be applied retrospectively. An entity can either:

- **Restate the comparatives using IAS 8 if this is possible without the use of hindsight**
- **Adjust the equity on initial application without adjusting comparative.**