



# IFRS Alert

## IASB issues IFRIC 23 'Uncertainty over Income Tax Treatments' Issue 2017-03

### Executive summary

The IFRS Interpretations Committee (IFRIC) has published a new Interpretation IFRIC 23 'Uncertainty over Income Tax Treatments', specifying how entities should reflect uncertainty in accounting for income taxes.

IAS 12 'Income Taxes' specifies how to account for current and deferred tax but not how to reflect the effects of uncertainty. IFRIC 23 addresses this previous lack of guidance.

### Background

IFRIC 23 addresses uncertainty over how tax treatments should affect the accounting for income taxes. IFRIC had observed that there was diversity in practice for various issues on the recognition and measurement of a tax liability or asset in circumstances where there is uncertainty in the application of the tax law in concern. The table illustrates the main issues that are addressed by the Interpretation.

#### Main issues addressed by IFRIC 23

Issue	Proposal
When and how the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates	<ul style="list-style-type: none"> <li>an entity is required to consider whether it is probable that a taxation authority will accept an uncertain tax treatment</li> <li>if it is, the entity would determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings</li> <li>if the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it uses either the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (depending on which method is expected to better predict the resolution of the uncertainty).</li> </ul>
The assumptions that an entity should make about the examination of tax treatments by taxation authorities	<ul style="list-style-type: none"> <li>an entity is required to assume that a tax authority will examine amounts it has a right to examine and will have full knowledge of all relevant information when making those examinations</li> </ul>
Changes in facts and circumstances	<ul style="list-style-type: none"> <li>entities are also required to reassess their judgements and estimates if facts and circumstances change (eg upon reaching a time limit where the taxation authority is no longer able to challenge an entity's tax treatments) or as a result of new information that affects the judgement or estimate becoming available.</li> </ul>

continued overleaf



## Main issues addressed by IFRIC 23

Issue	Proposal
Whether uncertain tax treatments should be considered separately	<ul style="list-style-type: none"> <li>entities would be required to use judgement to determine whether each uncertain tax treatment should be considered separately, or whether some uncertain tax treatments should be considered together. In determining the approach to be followed, entities shall consider which approach better predicts the resolution of the uncertainty.</li> </ul>
Disclosure	<ul style="list-style-type: none"> <li>when addressing uncertainty over income tax treatments, entities are required to disclose judgements, assumptions and estimates made in accordance with the normal requirements of IAS 1 'Presentation of Financial Statements'</li> <li>in addition, if an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, it should consider whether to disclose the potential effect of the uncertainty as a tax-related contingency under IAS 12.88.</li> </ul>
Transition	<ul style="list-style-type: none"> <li>entities shall apply IFRIC 23 retrospectively by applying IAS 8, if that is possible without the use of hindsight; or</li> <li>retrospectively with the cumulative effect of initially applying the effect of the changes being recognised in the opening balance of retained earnings (or another component of equity) in the period of first application, without adjusting comparative information.</li> </ul>



## Grant Thornton International Ltd comment

We welcome the publication of this Interpretation. Although it can be argued that IAS 12 already provided sufficient guidance on how to account for income taxes when uncertainty exists over tax treatments, we agree that diversity had arisen in practice in this area and that IFRIC 23 will help reduce this.

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