

IFRS Developments

Presentation of liabilities or assets related to uncertain tax treatments

What you need to know

- ▶ The IFRS IC issued an agenda decision in September 2019 concluding that in applying IAS 1 an entity is required to present:
 - ▶ Uncertain tax liabilities as current tax liabilities or deferred tax liabilities; and
 - ▶ Uncertain tax assets as current tax assets or deferred tax assets.
- ▶ In the statement of profit or loss, the impact of uncertain tax treatments that meet the definition of income taxes should be presented in the line item 'tax expense'.
- ▶ The agenda decision does not have an effective date, but entities are entitled to 'sufficient time to implement changes in accounting policy that result from an agenda decision', which is generally interpreted as a matter of months rather than years.

Highlights

Neither IAS 12 *Income Taxes* nor IFRIC 23 *Uncertainty over Income Tax Treatments* (the Interpretation) contain explicit requirements on the presentation of uncertain tax liabilities or assets in the statement of financial position. This has led to diversity in practice. Some entities present uncertain tax liabilities as current (or deferred) tax liabilities and others include these balances within another line item such as provisions. In September 2019, in response to a request for clarification on this matter, the IFRS Interpretations Committee (the IFRS IC or the Committee) published an agenda decision. The Committee concluded that an entity is required to present uncertain tax liabilities as current tax liabilities or deferred tax liabilities; and uncertain tax assets as current tax assets or deferred tax assets. Based on an earlier agenda decision, the impact of uncertain tax treatments that meet the definition of income taxes should be presented in the statement of profit or loss in the line item 'tax expense'.

Background

On 7 June 2017, the International Accounting Standards Board (IASB) issued IFRIC 23, which clarifies the application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

The Interpretation specifically addresses the following:

- ▶ Whether an entity considers uncertain tax treatments separately
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities

- ▶ How an entity considers uncertainty in relation to taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- ▶ How an entity considers changes in facts and circumstances

The Interpretation does not add any new disclosure requirements, but highlights certain existing requirements:

- ▶ Judgements, information about the assumptions made and other estimates should be disclosed as per paragraphs 122 and 125-129 of IAS 1 *Presentation of Financial Statements*
- ▶ When it is probable that the taxation authority will accept an uncertain tax treatment, paragraph 88 of IAS 12 should be applied to determine the disclosure of a tax-related contingency

In June 2019, the Committee discussed a submission about the presentation of liabilities or assets related to uncertain tax treatments. The submitter asked whether, in its statement of financial position, an entity should present a liability related to uncertain tax treatments as a current (or deferred) tax liability or as a provision. A similar question could arise regarding assets related to uncertain tax treatments. The Committee issued its agenda decision in September 2019.

Definitions in IAS 12 of current tax and deferred tax liabilities or assets

The Committee noted that when there is uncertainty over income tax treatments, paragraph 4 of IFRIC 23 requires an entity to 'recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying IFRIC 23'. Paragraph 5 of IAS 12 *Income Taxes* defines:

- ▶ Current tax as the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period
- ▶ Deferred tax liabilities (or assets) as the amounts of income taxes payable (recoverable) in future periods in respect of taxable (deductible) temporary differences and, in the case of deferred tax assets, the carryforward of unused tax losses and credits

Consequently, the Committee observed that uncertain tax liabilities or assets recognised applying IFRIC 23 are liabilities (or assets) for current tax as defined in IAS 12, or deferred tax liabilities or assets as defined in IAS 12.

Presentation of uncertain tax liabilities (or assets)

The Committee observed that IAS 12 and IFRIC 23 do not contain requirements on the presentation of uncertain tax liabilities or assets. Therefore, the general presentation requirements in IAS 1 *Presentation of Financial Statements* apply. Paragraph 54 of IAS 1 states that 'the statement of financial position shall include line items that present: ... (n) liabilities and assets for current tax, as defined in IAS 12; (o) deferred tax liabilities and deferred tax assets, as defined in IAS 12...'.

Paragraph 57 of IAS 1 states that paragraph 54 'lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position'. Paragraph 29 of IAS 1 requires an entity to 'present separately items of a dissimilar nature or function unless they are immaterial'.

Accordingly, the Committee concluded that, applying IAS 1, an entity is required to present uncertain tax liabilities as current tax liabilities (paragraph 54(n)) or deferred tax liabilities (paragraph 54(o)); and uncertain tax assets as current tax assets (paragraph 54(n)) or deferred tax assets (paragraph 54(o)).

The Committee concluded that, therefore, the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of uncertain tax liabilities and assets. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

Presentation in the statement of profit or loss

This agenda decision does not address the presentation of uncertain tax treatments in the statement of profit or loss. However, the Committee had already published an agenda decision in July 2012 on the presentation of payments on non-income taxes. In that context, the Committee ‘... observed that the line item of “tax expense” that is required by paragraph 82(d) of IAS 1 ... is intended to require an entity to present taxes that meet the definition of income taxes under IAS 12. The Committee also noted that it is the basis of calculation determined by the relevant tax rules that determines whether a tax meets the definition of an income tax. Neither the manner of settlement of a tax liability nor the factors relating to recipients of the tax is a determinant of whether an item meets that definition.’ Hence, we believe that the Committee has already established that the impact on profit or loss of uncertain tax treatments that fall within the scope of IAS 12 should be presented in the line item ‘tax expense’.

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EYG No. 004492-19Gb1

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Next steps

- ▶ Entities with uncertain tax treatments need to consider the agenda decision and evaluate whether their current accounting policies need to be revised. Any changes in accounting policies need to be accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- ▶ The agenda decision does not have an effective date, but entities are entitled to ‘sufficient time to implement changes in accounting policy that result from an agenda decision’, which is generally interpreted as a matter of months rather than years.
- ▶ Refer to our publication, *Applying IFRS - Uncertainty over income tax treatments* for a further discussion on accounting for uncertain tax treatments.