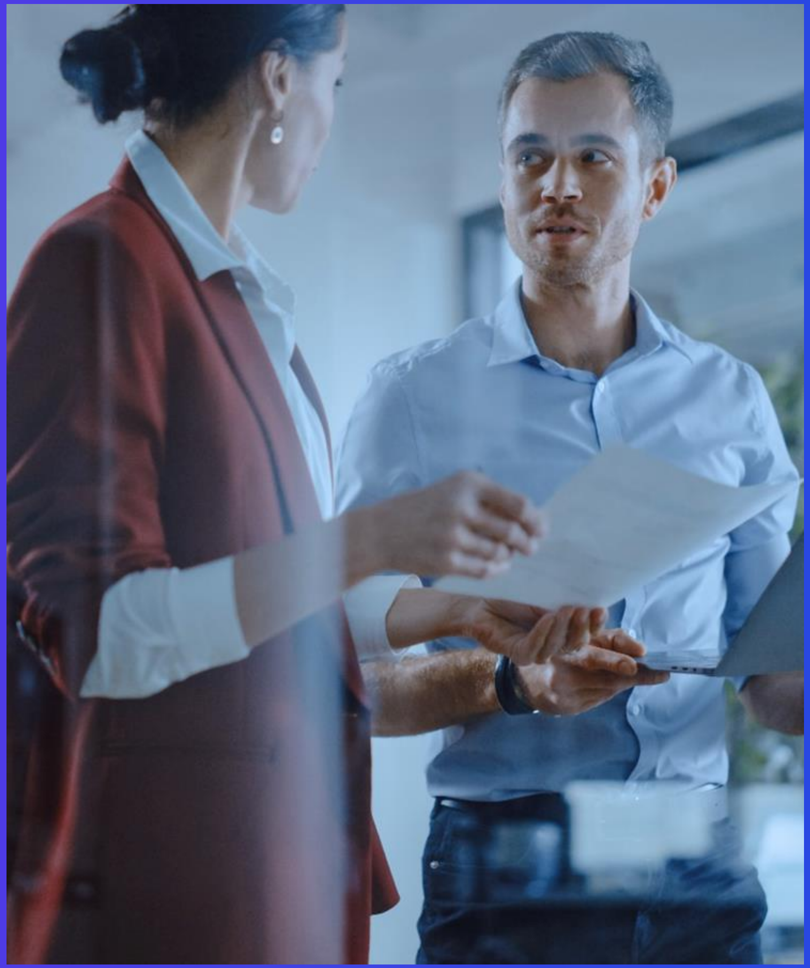
# Webcast Actualia

# IFRS Tax Accounting



Tuesday December 13th 2022

# Agenda



01

# Recognition of deferred tax assets related to tax losses

# Threshold for recognition

IAS 12 requires deferred tax assets to be recognized to the extent that it is **probable** that sufficient future taxable profit will be available

The element **probable** is not defined in IAS 12

In practice, a working definition of 'more likely than not', which is consistent with the definition of **probable** in other standards is used

# Sources of taxable profits

**Recognize to the extent that it is probable that taxable profits are available against which they can be utilized**

**Future reversals of existing taxable temporary differences**

**Future taxable income based on profit forecast**

**Tax planning strategies**

# Sources of taxable profits

Unrecognized DTA

Recognized DTA

Deductible temporary differences and unused tax losses

Future taxable profits (IAS 12.29)

Taxable temporary differences (IAS 12.28)

Qualifying DTL

**Mandatory, no accounting policy choice**

# Existence of taxable temporary differences

Limitation of the qualifying DTL in accordance with IAS 12.27A

## Future reversals of existing taxable temporary difference relating to:

The same taxation authority

The same taxable company

Expected to reverse in the same period

# Recap Dutch loss utilization rules

## Main characteristics

01 Effective since 1 January 2022.

02 Tax losses up to EUR 1 million can be fully offset (threshold).

03 Tax losses that exceed the EUR 1 million threshold can only be offset for 50%.

04 Indefinite loss carry forward.

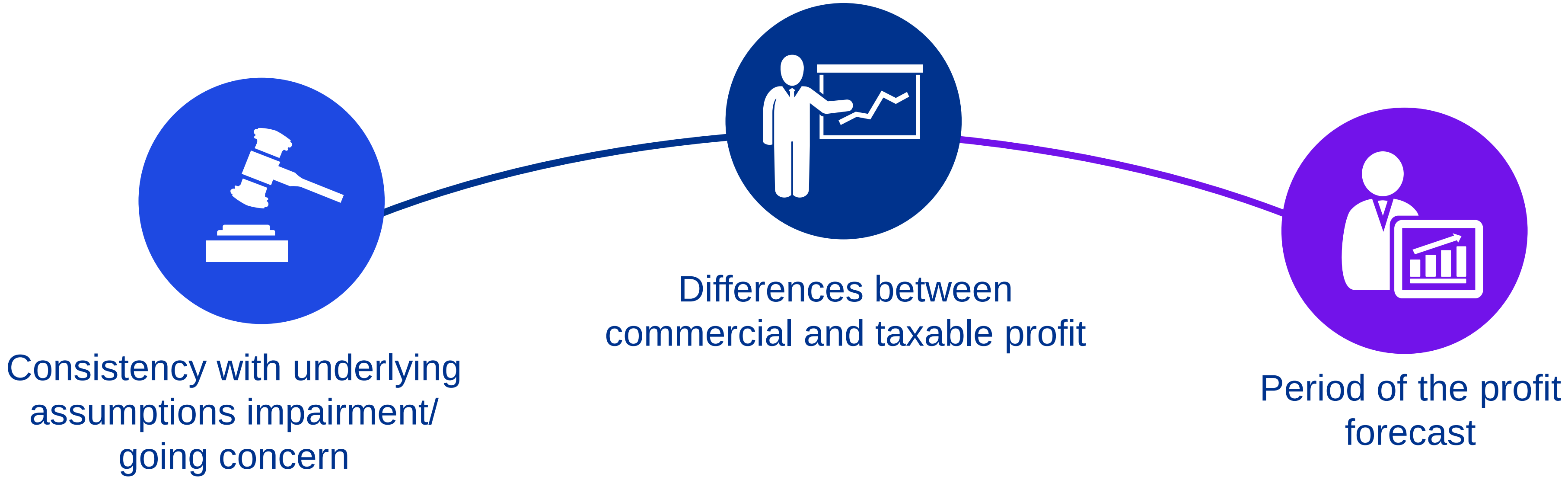
## Tax accounting considerations

01 Additional DTAs may have to be recognized for tax losses that have not been recognized yet, as a result of indefinite loss carry forward.

02 Expected reversal of qualifying DTLs can potentially only be used for 50% as source of taxable profit, which may limit recognition of DTAs.

03 As a result of the 50% limit to offset losses (for profits in excess of EUR 1 million) it takes longer to utilize the tax losses and may therefore limit recognition of DTAs.

# Forecast of future taxable profits



# Period of the forecast

Year 1-5

Year 6-10

## No guidance on length of forecast

Consistent with budget cycle

Reasonable, realistic and achievable

Tax losses with no expiry date may be more likely to be offset by future profits,

they alone do not provide evidence that 'sufficient taxable profits are probable' to enable DTAs to be recognized!

# Sources for guidance – taxable profit forecast

IAS 12 provides limited guidance with respect to the future taxable profit forecast

ESMA published a statement with extensive considerations July 2019

Big four publications such as KPMG's Insights into IFRS provide additional guidance and examples

# ESMA statement

Includes considerations on recognition of deferred tax assets arising from the carryforward of unused tax losses

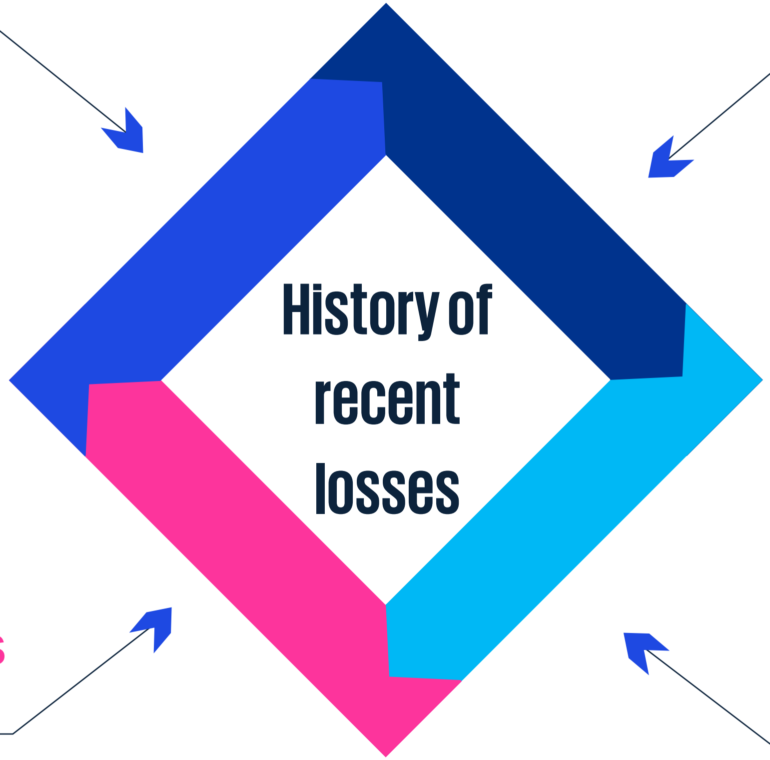
List of examples of positive evidence, which may support an assertion that it is probable that taxable profits will be available

List of examples of negative evidence, which may indicate that it is not probable that future taxable profits will be available.

# Examples of positive and negative evidence relevant to assessing the probability of future taxable profits

| Positive evidence + | Negative evidence - |
|---|---|
| Losses occurred due to identifiable one-time/non-recurring event | A recent history of operating losses for tax purposes |
| A strong earnings history exclusive of a non-recurring loss | Start-up business |
| New business opportunities, e.g. new patents | History of significant variances of actual outcomes against business plans |
| Restructuring or disposal which clearly eliminates the loss sources | Losses of major customers and/or significant contracts. |
| Convincing tax planning strategies | Uncertainty regarding going concern |
| Firm sales backlog or new contracts | History of restructuring without returning to profitability, or emerging from a bankruptcy |
| Business acquisitions generating sustainable profit margins in the relevant taxable entity sufficient to enable the utilisation of tax losses | Losses expected in early future years |
| | History of unused tax losses and/or credits expiring |
| | The losses relate to core activities and thus may recur |

# History of recent losses




Consider if a history of recent losses is applicable

Recognize DTA based on sufficient taxable temporary differences

Recognize DTA based on convincing evidence

Apply additional guidance of IAS 12.35

# Disclosure in financial statements

Disclosure requirements IAS 12.82 and 82A

- Indication of the taxable entity, location and applicable tax rules;
- Indication of the evidence (both positive and negative) considered;
- Period(s) over which the DTAs are expected to be used; and
- Critical judgements used in the recognition of DTAs and related uncertainties

- Explanation and impact assessment on the recovery of DTAs of any significant changes in key DTA assumptions;
- Significant unrecognized DTAs; and
- Sensitivity analysis on assumptions used if relevant

**Disclosures related to DTAs should be issuer-specific and not boilerplate!**

# Key points to remember

- **Qualifying DTLs are one of three sources of future taxable profit.**
- **Profit forecasts should be consistent with other estimates as well as reasonable, realistic and achievable.**
- **Disclosures related to DTAs should be company specific and not boilerplate, as well as complete.**

02

# Tax plan 2023 and tax accounting implications

# Tax plan 2023 and its potential tax accounting implications (Status: proposed)

## Tax plan 2023

**Increase of the CIT rate for the first tax bracket**

**(from 15% to 19%)**

**Reduction of the first tax bracket**

**(taxable income from EUR 395k to EUR 200k)**

IAS 12.47
(substantively) enacted

03

# Tax accounting under Pillar Two

# Pillar Two - applicable for companies with revenues >750 million

## What

Global minimum effective tax of 15% in each jurisdiction

## How

Top-up tax payable at parent level

## When

Current expectation 2024

# Effective tax rate – Pillar Two starting point

## Financial statements

$$\frac{\text{Income tax expense (Current + deferred tax)}}{\text{Profit before Tax}} = \text{Effective Tax Rate}$$

**Income tax expense**
*Current + deferred tax*

**Profit before Tax**

Effective Tax Rate

## GloBe Rules

**Covered Taxes**
*On a jurisdictional basis*

**Net GloBE Income**
*On a jurisdictional basis*

**Effective Tax Rate**
*On a jurisdictional basis*

**Accounting and reporting role increases in tax calculations!**

# IFRS November 2022 meeting – IASB board decision

The IASB tentatively decided to amend IAS 12 to require an entity to **disclose**:

I. That it has applied the introduced temporary exception from accounting for deferred taxes associated with top up tax; and

II. its current tax expense related to Pillar Two top-up tax (when enacted).

I. Whether it is in scope of the Pillar Two rules and it expects to be ‘‘low-tax’ based on GloBE rules or its current effective tax rate

II. Based on preparation work performed whether it may be exposed to top-up tax

Require entities to apply the proposed amendments to IAS 12

I. Immediately upon their issuance; and

# KPMG illustrative financial statements – example disclosure Global minimum tax

## Global minimum tax

To address concerns about uneven profit distribution and tax contributions of large multinational corporations, various agreements have been reached at the global level, including an agreement by over 135 jurisdictions to introduce a global minimum tax rate Of 15%. In December 2021 , the Organisation for Economic Co-operation and Development (OECD) released a draft legislative framework, followed by detailed guidance released in March 2022, that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws. Once changes to the tax laws in any jurisdiction in which the Group operates are enacted or substantively enacted, the **Group may be subject to the top-up tax.** At the date when the financial statements were authorized for issue, none of the jurisdictions in which the Group operates had enacted or substantively enacted the tax legislation related to the top-up tax. **The Group may be potentially subject to the top-up tax because it has a subsidiary in [*Country FI* where the statutory tax rate is 10% and a subsidiary in [*Country GI* that receives government support through additional tax deductions reducing its effective tax rate to below 15%**. Management is closely monitoring the progress of the legislative process in each jurisdiction the Group operates in. **At 31 December 2022, the Group did not have sufficient information to determine the potential quantitative impact**.

**Company being in scope**

**Operates in low taxed jurisdictions**

**Potential qualitative impacts**

# Key points to remember

- **Pillar Two introduces a global minimum effective tax rate for companies with revenues exceeding EUR 750 million.**
- **Effective tax rate based on accounting rules is used as a starting point, role of accounting and reporting in tax calculations increases.**
- **IASB board introduced a temporary exception from accounting for deferred taxes associated with top-up tax and requires disclosures.**

04

# Uncertain tax positions - IFRIC 23

# Why is IFRIC 23 important?



IFRIC 23 is effective for annual periods beginning on or after 1 January 2019.

Previous lack of guidance in IAS 12 resulted in diversity in practice.

Tax law is complex and subject to interpretation — entities need to evaluate tax uncertainties in applying IAS 12.

IFRIC 23 determines if, when and how a tax uncertainty should be reflected in the financial statements.

# Uncertainty over income tax treatments – introduction

***Uncertain tax treatment***

*A tax treatment for which there is uncertainty over whether it would be accepted by the relevant tax authority under tax law.*

***Tax authority***

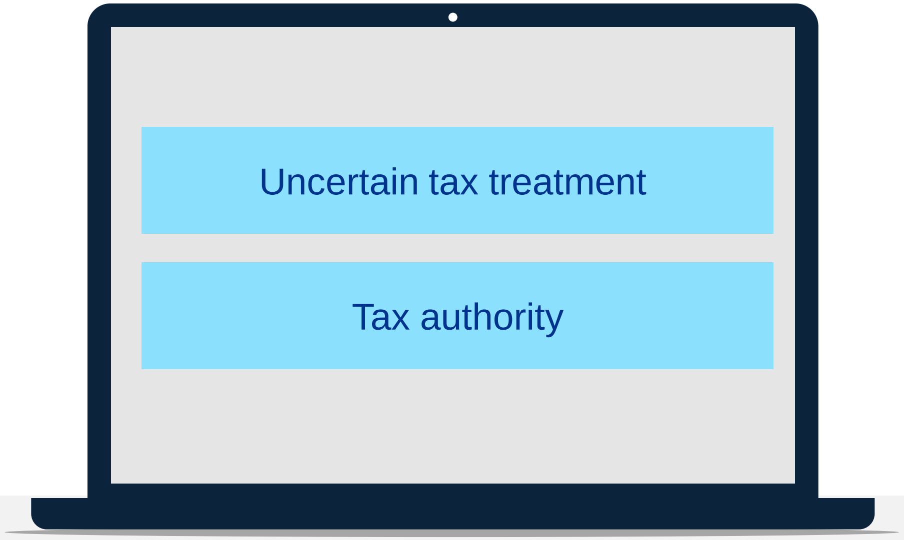
All bodies that decide whether tax treatments are acceptable under tax law, including courts.

# Areas of uncertainty

**Tax law may be complex and unclear and may result in uncertainty about:**

- Income subject to tax
- Tax deductions
- Unused tax losses or credits
- Tax base of assets and liabilities

**This could impact current and/or deferred taxes in the financial statements.**



# When may an uncertain tax treatment exist?

**Some tax uncertainties may be known, but some may be challenging to identify.**


## Be alert to ...

# Uncertainty over income tax treatments - Determine tax positions

**Uncertain tax positions**

01 Recognition

02 Measurement

How likely is it that the tax treatment will be accepted?

| Probable | Not probable |
|---|---|
| Measurement in line with income tax filings (i.e., no uncertain tax treatments) | Measure tax amounts using the method that provides better prediction of resolution<br><br>Most likely amount<br>or<br>Expected value |

# How to measure and present

**If it is *not* probable that the tax authority would accept the treatment, the effect of the tax uncertainty is reflected in *measuring* the current or deferred tax using:**

- The most likely amount; if outcomes are binary or concentrated on one value.

Or

- The expected value; if there is a possible range of outcomes that are neither binary nor concentrated on one value.

***Reflect the uncertainty using…***

***The most likely amount***

***or***

***The expected value***

***… whichever provides a better prediction***

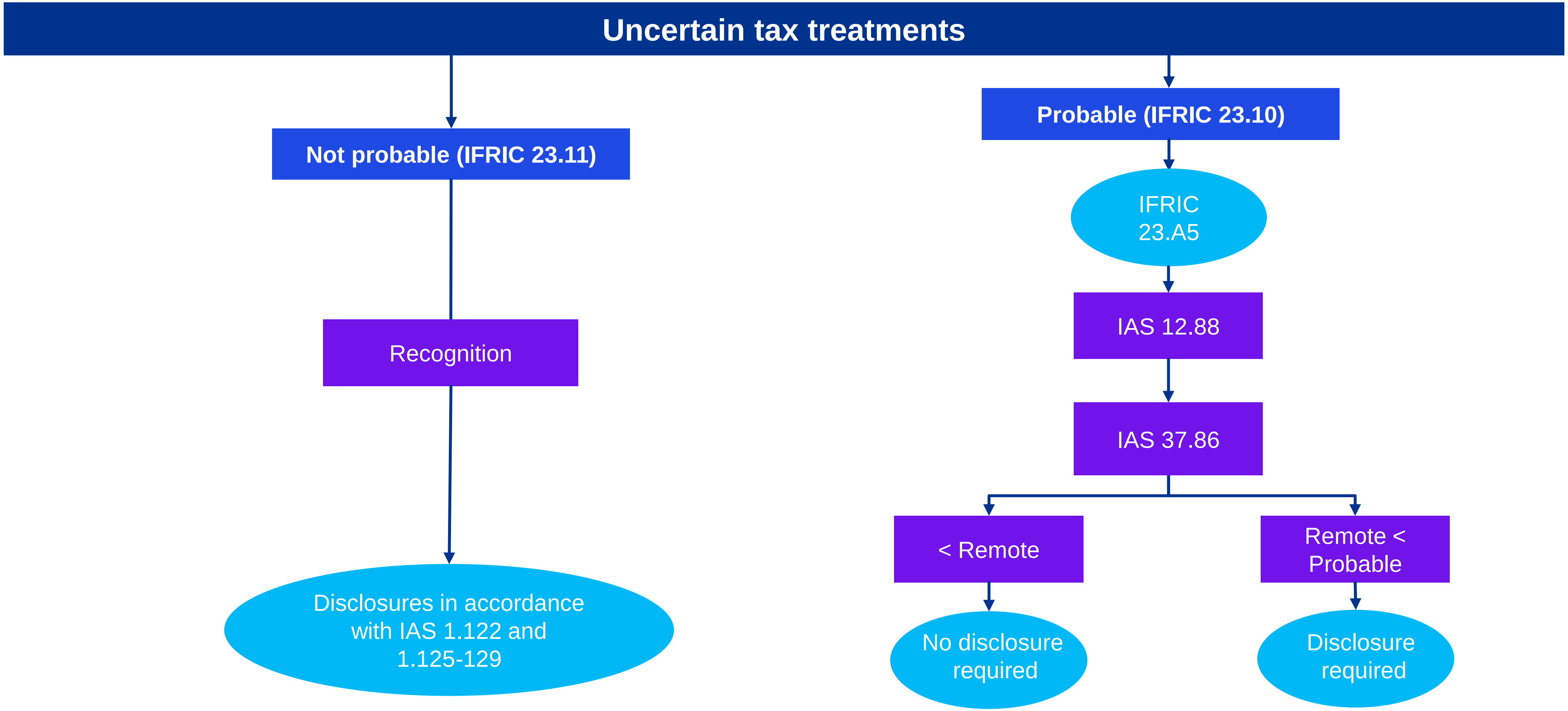
# Interest and penalties

**Do interest and penalties meet the definition of an ‘’income tax’’?**

| **✔ If yes, then…** | **✘ If no, then…** |
| --- | --- |
| **IAS 12 is applied** | **IAS 37 is applied** |

- The IFRIC observed that entities do not have an accounting policy choice between IAS 12 and IAS 37.
- An entity needs to apply judgement based on specific facts and circumstances.

# Uncertain tax treatments – Recognition & disclosure



# Key points to remember

- **IAS 12 applies to all uncertain tax treatments – if it is not probable that a tax authority would accept a tax treatment, then uncertainty is reflected in the measurement of current and deferred tax.**
- **Detection risk is not considered.**
- **Consider which method better predicts the resolution of the tax uncertainty: (i) Most likely amount or (ii) expected value method.**


Thank you

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