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# Accounting for uncertain tax treatments

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## Draft IFRIC aims to reduce diversity and enhance transparency

### Highlights

- What's the issue? – How to reflect uncertainty in accounting for income tax
- The proposed approach – Focus on tax authorities and users
- How the proposals may impact you – Depends on your current practice
- Next steps

**Tax is a sensitive topic, attracting a lot of attention and triggering much debate about tax transparency both within and beyond the boardroom.**

### Reflecting tax uncertainty in financial statements

Interpreting grey areas in tax law can be complex. Proposals issued by the IFRS Interpretations Committee seek to bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities.

View our SlideShare presentation for a high-level visual summary of the proposals. If you're unable to view the presentation online, you can download a PDF version.

### The proposed approach

It is sometimes unclear how tax law applies to a particular transaction or circumstance. So how do you decide what to put in your financial statements if you're uncertain about a tax treatment that you've chosen in your tax return?

The key test is whether it's probable that the tax authority will accept the company's chosen tax treatment.

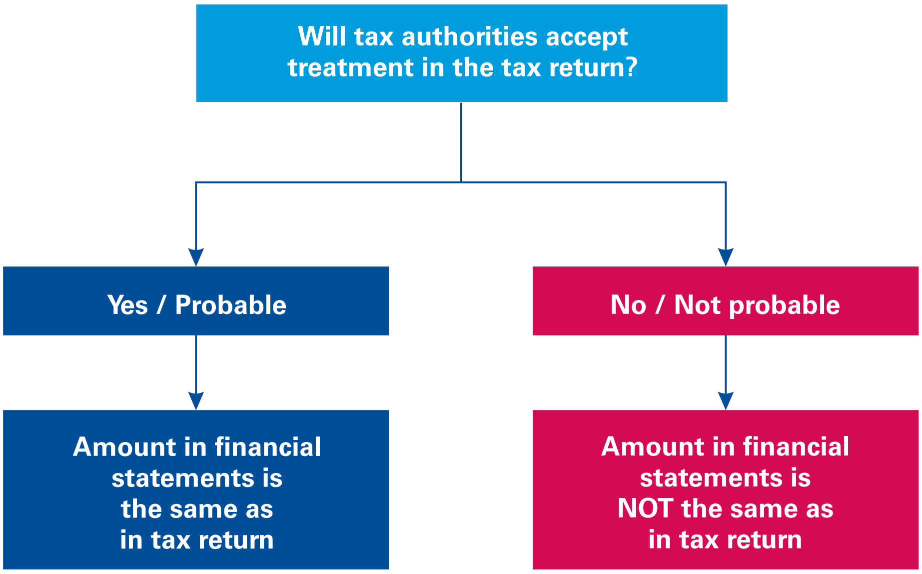
Consider a manufacturer that engages a consultant to improve the efficiency of its production process. The manufacturer believes that deducting the full expense from profit up-front would be consistent with the principles of its local tax law, and therefore applies that treatment in its tax return; however, it is not sure whether the tax authorities will agree.

Does the manufacturer apply the same treatment in its financial statements? In reaching a decision, it considers whether it is probable that the tax authority will accept the treatment in the tax return.

**"While we welcome the greater clarity and transparency, this is a sensitive issue that has generated much controversy. We urge you to read the proposals and participate in the debate."**

- If yes, then the manufacturer would record the same amount in the financial statements and consider a disclosure about uncertainty.
- If no, then the amount recorded in the financial statements would be different because it would reflect the uncertainty.

Key to the proposals is the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. This is an area where the proposals bring clarity.




The uncertainty would be reflected using the measure that provides a better prediction of how the uncertainty will be resolved – either:

- the most likely amount; or
- the expected value.

The proposals also provide specific guidance for when and how to subsequently update the uncertain tax in the accounts if circumstances change – e.g. when a tax authority's right to challenge a treatment expires, or when a clarification is issued.

## What's the impact?

The impact would depend on your current practice. You may need to increase your tax liability or recognise an asset, and the timing of derecognition may also change.

The proposals highlight the existing disclosure requirements about:

- judgements made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

Although no new disclosures are proposed, users may expect more meaningful disclosures.

The proposals may also affect how you deal with tax inspections. For example, if a tax authority examines different taxes in combination and issues a report with a single amount due, then it may be challenging to estimate the income tax due.

## Next steps

You may want to discuss the proposals with your advisers and tax specialists.

Read our SlideShare presentation and comment letter.

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