What's News in Tax

Analysis that matters from Washington National Tax

Accounting for Uncertainty in Income Taxes under IFRS and U.S. GAAP

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The International Accounting Standards Board ("IASB") recently issued IFRIC[1] 23, *Uncertainty over Income Tax Treatments* (also referred to as the "Interpretation"), to clarify the application of recognition and measurement requirements in IAS[2] 12, *Income Taxes*, when there is uncertainty over income tax treatments. Companies may need to reassess current practice in recognizing and measuring uncertain tax treatments in financial statements prepared in accordance with IFRS.[3] For companies reporting financial information under both IFRS and U.S. GAAP[4] and for preparers with a history and knowledge of the U.S. GAAP guidance in this area, understanding the differences in the requirements between the two bases of accounting may be an important distinction. This article is intended to share certain observations with respect to the requirements and compare the guidance under IFRS to the guidance under U.S. GAAP.

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1 IFRIC 23 was developed by the IFRS Interpretations Committee.

2 International Accounting Standard.

3 International Financial Reporting Standards.

4 Generally Accepted Accounting Principles.

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Background

Unlike U.S. GAAP, until recently IAS 12 did not provide specific guidance on how to account for income tax treatments that may be uncertain and have yet to be accepted by tax authorities. The IFRS Interpretations Committee (the "Committee") observed diversity in practice in accounting for such uncertainty. To address this diversity, the Committee published a draft interpretation, *Uncertainty over Income Tax Treatments*, in October 2015 and issued a slightly modified version in its final form as IFRIC 23 in June 2017.

Scope

The guidance in IFRIC 23 applies only to tax treatments within the scope of IAS 12 (in other words, tax treatments that relate to income tax positions) and does not apply to non-income based taxes or levies as the Committee was concerned that a broader scope may create conflicts within existing IFRS standards. The guidance applies to income tax treatments when there is uncertainty as to whether the relevant tax authority will accept them under tax law.[5]

The Interpretation, similar to IAS 12, does not address the accounting for interest and penalties associated with an underpayment of income taxes. However, the Committee noted in the *Basis for Conclusions* that if interest and penalties are considered income taxes, then they are accounted for under IAS 12 and if such interest and penalties relate to an uncertain tax treatment, then they fall in the scope of the Interpretation.[6]

The Committee subsequently considered whether to add a project on interest and penalties to its standard-setting agenda, but decided not to add such a project. During deliberations on whether to add such a project, the Committee discussed whether interest and penalties are classified with income taxes and accounted for under IAS 12 or classified and accounted for under other standards. In the agenda decision explaining the decision to not take on a project, the Committee noted it is not an accounting policy choice; instead, the classification, recognition, and measurement is based on the substance of the amount incurred. If an amount was based on taxable profit and therefore meets the definition of an income tax, it should be classified with income taxes or if it was based on another measure, such as compensation for the time value of money, it should be classified outside of income taxes. Entities should assess whether current accounting policy and disclosures are consistent with the agenda decision, whether a change in accounting policy is needed, and consider disclosing significant judgments made in determining whether the amounts of interest and penalties meet the definition of an income tax.

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[5] IFRIC 23.3(c).

[6] IFRIC 23.BC.9.

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IFRIC 23 Accounting Guidance

IFRIC 23 provides guidance on a number of factors to consider when accounting for uncertainty in income tax treatments including whether to consider uncertain tax treatments separately or together, examinations by tax authorities, recognizing and measuring the effect of tax uncertainties and reflecting changes in facts and circumstances.

Considering uncertain tax treatments separately or together

In determining whether to assess uncertain tax treatments individually or together with other uncertain tax treatments, an entity should consider the approach that better predicts the expected resolution of the uncertainty.

Examination by tax authorities

In analyzing an uncertain tax treatment, an entity should assume that a tax authority with the right to examine the tax treatments will examine the tax treatment and have full knowledge of the related information.

Recognizing and measuring the effect of tax uncertainties

To determine how to reflect the effect of tax uncertainty, an entity needs to consider if it is probable that the tax authority would accept the entity's treatment.[7] If it is probable that the tax authority will accept an uncertain tax treatment as reported or expected to be reported in an entity's tax return, then the entity recognizes and measures current and deferred tax in the financial statements consistently with the treatment in the tax return. Conversely, if it is not probable that the tax authority will accept the entity's tax treatment, then the uncertainty is reflected in the measurement of current and deferred taxes in the financial statements.

To reflect the effects of uncertain tax treatments, an entity uses either the most likely amount or the expected value method, whichever provides a better prediction of the resolution. The most likely amount is generally considered the single most likely amount in a range of possible amounts and may be an appropriate estimate of the amount if there are only two possible outcomes. The expected value is generally considered the sum of probability weighted amounts in a range of possible outcomes.[8]

Considering changes in facts and circumstances

If facts and circumstances change or if new information becomes available, an entity should reassess the judgment or estimate used to determine the accounting for its uncertain tax treatments. In

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[7] Although an entity is required to consider the probability the tax authority would accept an entity's treatment, 'probable' is not defined in IAS 12. In our experience, entities often use a working definition of 'more likely than not,' which is consistent with the definition of 'probable' in other standards, such as IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and IFRS 15, *Revenue from Contracts with Customers*.

[8] The most likely amount and expected value are terms consistent throughout other areas in IFRS, as well the Accounting Standards Codification ("ASC").

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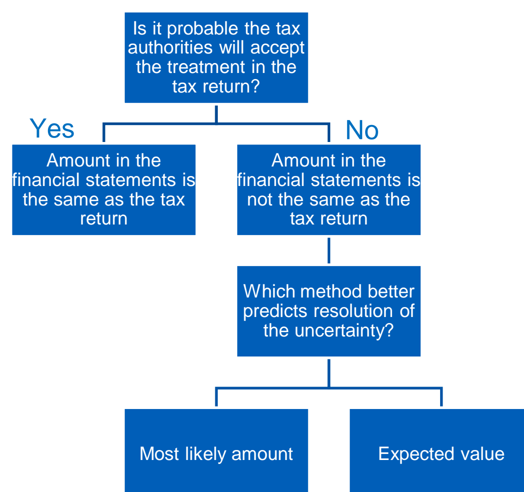
determining whether a change in facts and circumstances that occurred after the reporting date should be accounted for as an adjusting or a non-adjusting event, an entity applies the requirements in IAS 10, *Events after the Reporting Period*.

Summary of IFRIC 23 Guidance

The recognition and measurement guidance provided in IFRIC 23 can be summarized with the following chart:



Disclosure Requirements

No new disclosure requirements have been introduced with IFRIC 23; however, existing disclosure requirements were highlighted.

Effective Date and Transition

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. If an entity adopts the guidance in a period prior to the effective date, then it is required to disclose this fact. Further, the date of initial application is considered to be the beginning of the annual reporting period in which an entity first applies the Interpretation.

The Interpretation is applied either on a full retrospective basis, if possible without using hindsight, or retrospectively with a cumulative effect adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) for the reporting period in which an entity initially applies the Interpretation. Further, the Committee observed that if an entity is transitioning to IFRS and the date of transition is prior to the date the Interpretation is issued, the first time adopter may have difficulties to not use hindsight, similar to the existing users of IFRS. As such, first time adopters whose date of

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transition to IFRS is prior to July 1, 2017, are not required to present comparative information that reflects the Interpretation in the first IFRS financial statements.[9]

Comparison to Accounting for Uncertainty in Income Taxes under U.S. GAAP

While at first glance, establishing a recognition and measurement threshold under IAS 12 may appear consistent with the treatment under ASC 740, *Income Taxes*, there are distinct differences between the standards that may result in a different outcome.

Scope

Issue	U.S. GAAP	IFRS
Scope—Overall	Applies to tax positions within the scope of ASC 740	Like U.S. GAAP, IFRIC 23 applies to tax treatments within the scope of IAS 12

ASC 740 applies to all domestic federal income taxes and foreign, state and local taxes based on income. Similar to U.S. GAAP, the guidance in IFRIC 23 applies only to tax treatments within the scope of IAS 12 (those that relate to income taxes) and does not apply to non-income based taxes or levies. Both standards apply to tax positions taken or expected to be taken by an entity in relation to current and deferred taxes.

Issue	U.S. GAAP	IFRS
Scope—Business Combinations	The requirement to apply the ASC 740 recognition and measurement criteria to any uncertainties of an acquiree that exist at the acquisition date includes both current and deferred taxes	Like U.S. GAAP, the requirement to apply the IAS 12 recognition and measurement guidance by an acquirer is applied to deferred taxes. Unlike U.S. GAAP, no explicit guidance addresses the recognition and measurement of current taxes acquired in a business combination

ASC 740 applies to the recognition and measurement of uncertainties in acquired tax positions. The tax bases used in the calculation of deferred tax assets and liabilities as well as amounts due to or receivable from tax authorities related to prior tax positions at the date of a business combination are calculated in accordance with ASC 740.[10] The accounting for business combinations under IFRS is

[9] IFRIC 23.BC.26.

[10] ASC paragraph 805-740-25-5.

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generally addressed in IFRS 3, *Business Combinations*. However, the Committee noted that deferred taxes arising from assets acquired and liabilities assumed in a business combination are accounted for under IAS 12, and therefore the Interpretation applies when there is uncertainty in relation to such deferred taxes. Unlike U.S. GAAP, IFRS does not address the treatment of current taxes acquired in a business combination.

Unit of Account

Issue	U.S. GAAP	IFRS
Unit of Account	The determination of what constitutes an individual tax position is a matter of judgment. Once determined, each tax position shall be evaluated without consideration of the possibility of offset or aggregation with other positions	Unlike U.S. GAAP, each uncertain tax treatment is considered either separately or together with other uncertain tax treatments depending on the approach that better reflects the resolution of the uncertainty

Under either standard, the determination of the appropriate approach requires judgment and the application may be rather complex. ASC 740 requires an entity to consider the manner in which the entity prepares and supports its income tax return and the approach the entity anticipates the tax authority will take during an examination; however, each position is evaluated independently without the possibility of offset or aggregation. Under the Interpretation, a position may be assessed individually or with other uncertain tax treatments depending upon how the treatments are expected to be resolved. There may be certain instances in which tax positions are aggregated in accordance with the Interpretation, but represent separate units of account under ASC 740 resulting in potential differences between the standards.

Detection Risk

Issue	U.S. GAAP	IFRS
Detection Risk	It shall be presumed that tax positions will be examined by the relevant tax authority that has full knowledge of all relevant information	Like U.S. GAAP, an entity assumes that a tax authority with the right to examine tax treatments will examine them and have full knowledge of related information

Detection risk is not considered under either standard; in other words, an entity must assume that a tax authority has full knowledge of all related information. There is no exception to this assumption for tax jurisdictions that have no statute of limitations.

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Recognition

Issue	U.S. GAAP	IFRS
Recognition	If it is more likely than not, based on the technical merits, that a tax position will be sustained upon examination, the financial statement effects of that tax position should be recognized. The appropriate measurement of the tax position in the financial statements is determined separately.	Unlike U.S. GAAP, if it is probable that the tax treatment will be sustained upon examination, then the amount recognized in the financial statements is the same as in the tax return

Under ASC 740, an entity recognizes the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that some level of tax benefit related to the position will be sustained upon examination if the taxpayer takes the dispute to the court of last resort. While the tax law and widely understood administrative practices of the tax authority are taken into account in assessing the recognition threshold, the possibility of negotiation with the tax authority is not considered. Unlike U.S. GAAP, IFRS considers whether it is probable that the tax authority will accept the tax treatment for the entire unit of account as reported in the income tax return. Additionally, once the recognition threshold has met been under IFRS, the entire benefit taken on the tax return is reflected in an entity's financial statements, whereas under U.S. GAAP, an entity will consider the appropriate measurement of the tax position when the recognition criteria is met.

Measurement

Issue	U.S. GAAP	IFRS
Measurement (if the recognition requirement *is* met)	If it is more likely than not that some level of tax benefit related to a tax position will be sustained upon examination, the amount recognized in the financial statements is measured as the largest amount of tax benefit greater than 50 percent likely of being realized upon settlement	Unlike U.S. GAAP, if it is probable that the tax treatment will be sustained upon examination, then the amount recognized in the financial statements is the same as in the tax return
Measurement (if the recognition requirement *is not* met)	If it is not more likely than not that a tax position will be sustained upon examination, an unrecognized tax benefit is established for the entire tax benefit	Unlike U.S. GAAP, if it is not probable that the tax treatment will be sustained upon examination, amounts in the financial statements should reflect the uncertainty based on either the most likely amount or the expected value, whichever method better predicts the resolution of the uncertainty

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Under ASC 740, a tax position that meets the more likely than not recognition threshold is measured at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement.[11] This measurement is determined by considering the probabilities of the amounts that could be realized upon settlement. No benefit associated with a tax position is recognized if it does not meet the recognition threshold.

Unlike U.S. GAAP, once the recognition threshold is met under IFRS, the amount reflected in the financial statements will be the same as that reflected in the entity's income tax filing. On the other hand, if the recognition threshold is not met under IFRS, then the effect of the uncertainty is reflected in measuring current and deferred taxes.

To reflect the effects of uncertain tax treatments under IFRS, an entity uses either the most likely amount or the expected value method.[12] It is anticipated that the most likely amount will generally provide the better prediction of a resolution in cases in which the outcomes are binary or concentrated on a single value whereas the expected value may better predict the resolution in cases when there are a number of potential outcomes. The decision to use the most likely amount or the expected value is not an accounting policy choice; instead, it is based on a judgment as to which methodology the entity expects to better predict the resolution of the uncertainty.

The Committee considered whether to permit or require the use of an additional measurement methodology, such as that applied under U.S. GAAP (a cumulative probability approach). The Committee decided not to introduce this additional method because it would complicate the judgments that need to be made in applying the Interpretation. Further, it was noted that both the expected value and the most likely amount approaches are used elsewhere in IFRS whereas the cumulative probability approach is not otherwise used and utilization of such approach may reduce comparability.[13]

Change in Facts and Circumstances

Issue	U.S. GAAP	IFRS
Changes in Facts or Circumstances	New information about the recognition and measurement of a tax position should trigger a reevaluation in the period in which the new information arises	Like U.S. GAAP, changes in facts and circumstances or new information will generally result in reassessment of the judgment or estimate used

Under both accounting standards, an entity should reevaluate the judgment or estimate used when there is a change in facts and circumstances or new information. Examples of changes in facts and circumstances or new information may include, but are not limited to, changes in tax law, interactions

[11] The U.S. GAAP measurement attribute is essentially a statistical median.

[12] The most likely and the expected value amounts are essentially the statistical mode and statistical mean, respectively.

[13] IFRIC 23.BC18.

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with the tax authority, developments or recent rulings by the tax authority or the courts, and expiration of the statute of limitations for a tax authority to examine a tax treatment. Additionally, the mere fact that an examination has occurred but the tax authority had not reviewed the uncertain tax treatments, is generally unlikely to constitute a change in facts and circumstances that would affect the accounting for the related tax position.

Subsequent Events

Issue	U.S. GAAP	IFRS
Subsequent Events	Only information available at the reporting date is considered in the recognition and measurement analyses, which is an exception to the general subsequent events guidance within U.S. GAAP	Unlike U.S. GAAP, no exception to the IFRS subsequent events guidance in IAS 10 exists; as such, all information available through the date the financial statements are issued should be considered

Recognition and measurement of a tax position under ASC 740 is based on information available at the reporting date and is different from how other subsequent events are accounted for under ASC 855, *Subsequent Events*. An entity should consider making appropriate disclosures in the notes to the financial statements if subsequent events have a material impact, but are not reflected within the financial statements. Unlike U.S. GAAP, under IFRS there is no separate guidance for income taxes. Consequently, an entity applies the requirements of IAS 10, *Events after the Reporting Period*, which may result in an adjustment to the financial statements if conditions existed at the reporting date.

Interest and Penalties

Issue	U.S. GAAP	IFRS
Recognition and Measurement of Interest and Penalties	ASC 740 provides interest on an underpayment of income taxes shall be recognized when interest would begin accruing under the provisions of the tax law and that penalties shall be recognized when a tax position does not meet the minimum statutory threshold to avoid payment of penalties, but it does not provide detailed guidance on how to consider uncertainty in the amount of interest and penalties to accrue	Unlike U.S. GAAP, when accounting for interest and penalties, if the interest and penalties are considered to be an income tax, then the Committee observed any uncertainty associated with that amount is within the scope of IAS 12. Conversely, if IAS 12 is not applied, then IAS 37 would be applied to that amount

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Under U.S. GAAP, interest and penalties on an underpayment of income taxes are recognized under ASC 740; however detailed guidance is not provided on how to consider uncertainty in the amount of interest and penalties. In practice, some of the principles in accounting for uncertainty in income taxes are also applied to recognizing and measuring interest and penalties, whether the amounts are classified as income taxes or otherwise. For interest income on overpayments of income taxes, the SEC staff has indicated it will accept accruing interest income as either a gain contingency recognized when resolved or accruing over time. Unlike U.S. GAAP, the Committee observed that the accounting for interest and penalties is not a policy choice and if interest and penalties are considered income taxes, then any uncertainties associated with interest and penalties are accounted for under IAS 12. Conversely, it was noted that if IAS 12 is not applicable, then IAS 37 is applied to those amounts; however, the Committee did not provide any further guidance on the accounting for interest and penalties.

Issue	U.S. GAAP	IFRS
Classification of Interest and Penalties	An accounting policy choice is provided to classify interest and penalties as either income taxes or as a component of pretax income (loss)	Unlike U.S. GAAP, no specific guidance is provided

Under ASC 740, an entity is allowed to make an accounting policy election to classify interest recognized as either income taxes or interest expense, and an accounting policy election to classify penalties as either income taxes or as an expense component of pretax income (loss). Unlike U.S. GAAP, IFRS does not provide explicit guidance on the classification of interest and penalties; however, the Committee noted the classification is not a policy choice and is assessed based upon whether any amounts accrued for interest and penalties are determined on a net profit measure for which they would then be characterized as income taxes.

Presentation and Disclosure

Issue	U.S. GAAP	IFRS
Balance Sheet Classification	Income taxes payable for unrecognized tax benefits are classified as current if cash payment is expected within 12 months; if not, the amount is classified as noncurrent Deferred taxes are classified as noncurrent (post ASU 2015-17 adoption)	Unlike U.S. GAAP, current income taxes payable are classified as current unless an unconditional right to defer payment for a period greater than 12 months exists Like U.S. GAAP, deferred taxes are classified as noncurrent

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Both accounting standards require that uncertainty in income taxes be reflected as part of the income tax accounts. An entity cannot record a separate provision for tax uncertainty.

Under U.S. GAAP, liabilities for income taxes payable resulting from unrecognized tax benefits on positions taken or expected to be taken in the tax return should be classified based on the timing of expected cash payment. If the entity expects cash payment within one year (or the operating cycle if longer), the liability is classified as current; if not, the liability is classified as noncurrent. Unlike U.S. GAAP, under existing guidance in IAS 1, *Presentation of Financial Statements*, income taxes payable are classified as current unless the entity has an unconditional right to defer settlement for at least 12 months after the reporting date. As a result, it is common for any difference between the income taxes payable reported in the financial statements and the amount to be paid with the tax return as filed to be classified as current within a classified balance sheet, unless the unconditional right to defer payment exists.

Subsequent to the adoption of ASU 2015-17 deferred taxes are classified as noncurrent under both sets of accounting standards.

ASC 740 requires that unrecognized tax benefits are presented as an increase in income taxes payable, a reduction of an amount refundable, or an adjustment to deferred taxes. An unrecognized tax benefit would reduce a deferred tax asset for an operating loss or tax credit carryforward if the tax law requires the entity to use the benefit of the carryforward to satisfy the obligation, or if the tax law allows and the entity intends to satisfy the obligation in such manner. Otherwise, the unrecognized tax benefit is presented in the financial statement as a liability. Like U.S. GAAP, the IFRS guidance on uncertain tax treatments applies to both current taxes and deferred taxes.

Issue	U.S. GAAP	IFRS
Disclosure	Specific disclosures are required with an emphasis on the amounts of unrecognized tax benefits recorded. These include a tabular rollforward, the amount of unrecognized tax benefits that, if recognized, would affect the effective rate, interest, and penalty items, the amount of unrecognized tax benefits that are reasonably possible to change within the next 12 months and a description of open tax years by major jurisdiction	Unlike U.S. GAAP, no specific disclosures are required, but broader requirements around significant judgments, assumptions or estimates that apply whether the uncertainty is reflected in the accounting or not are highlighted as being required to be disclosed in accordance with IAS 1 and additional disclosures about tax-related contingencies when no uncertainty is currently reflected in the financial statements is required in accordance with IAS 12. Additionally, IAS 12 and IAS 37 have disclosure requirements that would include material amounts of interest or penalties

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U.S. GAAP has specific disclosure requirements for unrecognized tax benefits, including a tabular rollforward, the amount that if recognized would affect the effective tax rate, classification of interest and penalties, the amount of interest and penalties recognized, amounts that are reasonably possible to significantly change in the next 12 months, and a description of open tax years by major jurisdiction.

In contrast, IFRS does not have specific disclosure requirements on uncertain tax treatments. Under IFRS, when there is uncertainty over income tax treatments, an entity needs to determine if it should provide disclosures about significant judgments, assumptions, or estimates used in determining current and deferred tax balances recognized in the financial statements or anticipated to have a significant impact within the next financial year.

Further, if an entity concludes that it is probable that a tax authority will accept an uncertain tax treatment, then it determines whether it needs to disclose the potential effect of the uncertainty as a tax-related contingency.[14] Disclosures associated with tax-related contingent liabilities require an estimate of the financial effect, an indication of the uncertainties relating to the amount or time of any outflow and the possibility of reimbursement. Additionally, interest and penalties may be disclosed under either the IAS 12 requirement for an entity to disclose the major components of income tax expense or the IAS 37 requirement to reconcile the beginning and ending carrying amount of provisions.

Examples

Example 1: Use of the Expected Value Method

Company A's income tax filing in Country X includes deductions of $1,500 related to intercompany services which only affect taxable profit for the current period. Company A assesses the tax treatment of deductions related to intercompany services in Country X separately from other uncertain tax treatments as it is noted that such approach better predicts the resolution of the uncertainty. Assuming the Country X tax authorities have full knowledge of all related information and will examine the tax treatment of deductions related to intercompany services, Company A concludes it is not probable that the tax treatment as filed on its income tax return will be accepted.

See table on the next page

[14] IAS 12.88.

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Company A estimates the probabilities of possible additional taxable income, as follows:

	Estimated additional amount ($)	Probability	Estimate of expected value ($)
Outcome 1	-	10%	-
Outcome 2	500	10%	50
Outcome 3	800	25%	200
Outcome 4	1,200	25%	300
Outcome 5	1,500	30%	450
Total		100%	1,000

Based upon the probabilities of possible outcomes, Outcome 5 of $1,500 represents the most likely outcome; however, Company A notes that there is a range of possible outcomes. As a result, Company A concludes the expected value of $1,000 better predicts the resolution of the uncertainty and recognizes and measures its current tax liability including $1,000 of additional taxable income to reflect the effect of the uncertainty in its IFRS financial statements.

Assuming that this was a single tax position, although Company A may not be able to conclude it was more likely than not it would receive the entire benefit of the tax position, Company A was more likely than not to realize some level of tax benefit for the position. Accordingly, under ASC 740 Company A would conclude the recognition test was met and would require an unrecognized tax benefit under measurement based upon $1,200 of additional taxable income as $300 of deductions represents the largest amount of tax benefit greater than 50 percent likely of being realized. As a result, a difference between the measurement of the reserve amount in accordance with IFRS and U.S. GAAP would exist.

Example 2: Use of the Most Likely Amount Method

Company B incurs a series costs totaling $500 to repair equipment. The entire amount is expensed in the current period for financial reporting purposes. The tax law permits the costs of the repairs to be deductible for income tax purposes; however, there is uncertainty as to whether the costs are deductible in the year incurred or over a ten year period. Based on its expected resolution of the uncertainty, Company B considers all uncertain tax treatments related to equipment repairs together for IFRS. A deduction of $500 in calculating taxable profit in Year 1 is reported by Company B in its income tax filing, but Company B believes it is probable that the taxation authority would require the tax deductions to be deducted over ten years. In this case, the most likely amount better predicts the resolution of the uncertainty as the outcome is likely binary (immediately expensed or taken over ten years).

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Consequently, in accordance with IFRIC 23, Company B's IFRS financial statements would reflect $50 of tax deductions in measuring its current tax liability. This also results in the reporting of a deductible temporary difference of $450 based upon the difference between the financial reporting carrying amount of zero and the most likely amount of the tax base of $450.

Given the above fact pattern, and assuming the costs represent a single unit of account, since it is more likely than not that a benefit will be sustained in either the current year or a future year, we would expect Company B to conclude the recognition test has been met under ASC 740 and the tax position should be measured. Company B would conclude a tax deduction of $50 would represent the largest amount of tax benefit that is greater than 50 percent likely of being realized. Accordingly, it is likely that the same outcome would result if ASC 740 were applied, resulting in no difference associated with the amounts recognized and measured under IFRS and U.S. GAAP.

Example 3: Recognition Threshold Is Not Met

Company C's income tax filing includes the tax benefit of $100 of research credits for a unique emerging area of investment. Company C assesses the tax treatment of the research credits separately from other uncertain tax treatments as it is noted that such approach better predicts the resolution of the uncertainty. Although Company C believes it has substantial authority for claiming the credits, Company C's advisors cannot reach a more likely than not conclusion that it would sustain the benefit of the credits in a dispute with the tax authority if the dispute were taken to the court of last resort and Company C concludes it is not probable that the credits will be sustained. However, due to the nature of the credits relating to an area in which the government is encouraging investment and the hazards of litigation, Company C believes it is possible the tax authority would be willing to reach a negotiated settlement on the matter.

Company C estimates the probabilities of possible loss of credits, as follows:

	Estimated loss of credits ($)	Probability	Estimate of expected value ($)
Outcome 1	-	40%	-
Outcome 2	60	20%	12
Outcome 3	70	30%	21
Outcome 4	100	10%	10
Total		100%	43

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Since it is not probable that the benefit Company C plans to use in its tax filings will be sustained, Company C reflects the uncertainty in the measurement of its current tax liability. Company C notes that there is a range of possible outcomes; as a result, Company C concludes the expected value of $43 better predicts the resolution of the uncertainty and recognizes and measures its current tax liability including $43 of additional tax to reflect the effect of the uncertainty in its IFRS financial statements.

For its U.S. GAAP financial statements, Company C would conclude the recognition test has not been met and would record a liability assuming a disallowance of the entire credit. Accordingly, Company C would reflect an unrecognized tax benefit of $100 in its U.S. GAAP financial statements and a difference between the reserve amount in accordance with IFRS and U.S. GAAP would exist.

Conclusion

IFRIC 23 provides additional clarification on the accounting for uncertainty in income tax treatments under IFRS, including the assumption that tax authorities will have full knowledge of all related information in assessing the tax treatment and requirements on recognition and measurement. Although some similarities may exist between IFRS and U.S. GAAP, there are distinct differences between the standards that may result in different outcomes in the accounting for uncertainty in income taxes. Companies that are subject to IFRS should carefully reassess existing accounting policies and controls over the uncertainty in income tax treatments to ensure the new requirements under IFRIC 23 are adequately reflected within the financial statements upon adoption.

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