



Income tax exposures

IFRIC 23 clarifies the accounting treatment

June 2017

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Reflecting tax uncertainty in financial statements

“IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

Although the filing deadlines for your tax return and financial statements may be months apart, IFRIC 23 may require more rigour in finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised.”



Sanel Tomlinson,
KPMG's global IFRS
income taxes leader

What's the issue?

Tax is a sensitive topic, triggering debate about tax transparency both within and beyond the board room

So how will you need to reflect uncertainty in accounting for income tax under IFRIC 23?



What's the key test?

Ask yourself: Is it probable that the tax authority would accept the treatment?



If yes, then...



Financial statements



Tax return



If no, then...



Financial statements



Tax return

Assume that the tax authority would have full knowledge of all relevant information

How do you measure uncertainty?

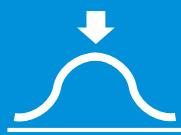
If it's not probable that the tax authority would accept the treatment...

Reflect the uncertainty using...



The most likely amount

or



The expected value

... whichever provides a better prediction

How do you recognise uncertainty?

Uncertainty is reflected in the overall measurement of tax



Separate provision is not allowed



Income tax



Certain tax



Uncertain tax



What happens subsequently?

Update the amount in the financial statements if circumstances change or new information becomes available



Examination or action by the tax authority



Changes in tax rules



Time limit for tax inspections

What's the accounting impact?

Depending on your current accounting and jurisdiction...

You may need to increase your tax liability or recognise an asset

Timing of derecognition may also change



What are the challenges?

A tax inspection report may not break down amounts due if various taxes are assessed together

Estimating the amount of income tax may be more complex



What do you need to disclose?

Companies need to provide disclosures, under existing disclosure requirements, about...

Judgements made

Assumptions and other estimates used

Potential impact of uncertainties not reflected



Effective date and transition

Companies can apply IFRIC 23 either...

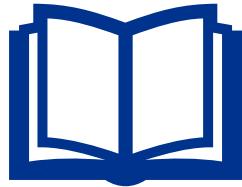
Retrospectively under IAS 8, if possible without hindsight

or

By adjusting equity on initial application, without adjusting comparatives



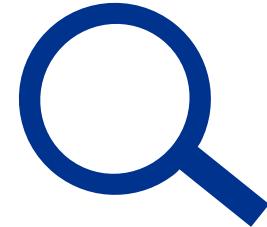
Next steps



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interpretation**



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