KPMG

Income tax exposures

IFRIC 23 clarifies the accounting treatment

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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?

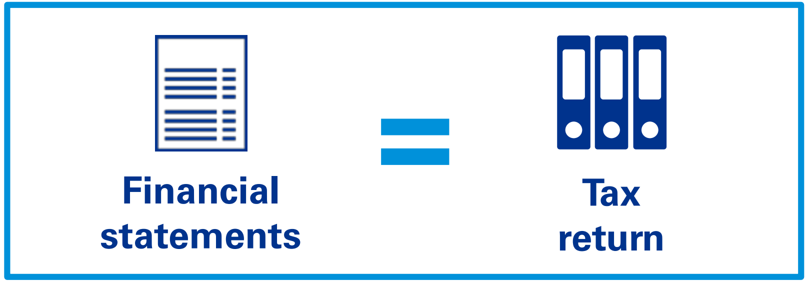
Tax is a sensitive topic, triggering debate about tax transparency both within and beyond the board room

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…



If no, then…

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

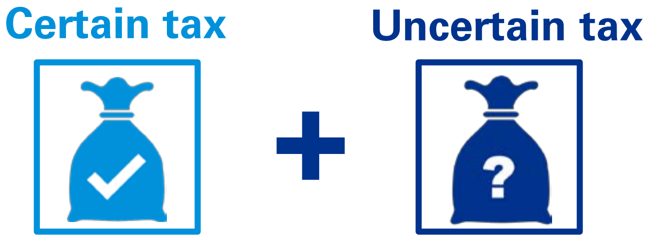
The expected value

… whichever provides a better prediction

How do you recognise uncertainty?

Uncertainty is reflected in the overall measurement of tax

Separate provision is not allowed



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

1 January 2018

Start of comparative period

1 January 2019

Start of year of initial application

Next steps

Read the interpretation

Talk to your usual KPMG contact

Find out more at kpmg.com/ifrs

kpmg.com/socialmedia