IFRIC 23
Uncertainty over income tax treatments

REFERENCES

IAS 1	Presentation of Financial Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting Period
IAS 12	Income Taxes

ISSUE

IFRIC 23 clarifies the requirements on how entities must recognise and measure current and deferred tax assets and liabilities when there is uncertainty about how to determine income tax bases or tax rates.
This would be the case, for example, when a final position can only be determined upon the outcome of litigation (tax audit, case law precedents to be set) or non-contentious proceedings (request for an advance ruling).

POSITION ADOPTED

Entities must first determine whether they will consider uncertain tax treatments separately or together.

Then they must successively:

- justify how they prepare income tax filings and support tax treatments;
- analyse how the taxation authorities will make an examination and resolve issues that might arise.

This determination must be based on the principle that the tax authorities have the right to analyse and to challenge any of the assumptions made by an entity to determine the amount of tax bases, unused tax losses, tax credits and tax rates.

In addition, entities must consider how probable it is that the tax authorities will or will not accept the tax treatment they use to determine their tax status.
If an entity concludes that it is probable that the tax authorities will accept its

choices and estimates, it reports tax assets and liabilities based on the determination it has made.

Conversely, if an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, it must reflect this uncertainty using one of the two following methods:

- the most likely amount: the single most likely amount in a range of possible outcomes (this method is recommended if the possible outcomes are binary or are concentrated on one value);
- the expected value: the sum of the probability-weighted amounts in a range of possible outcomes (this method is better when there is a range of possible outcomes or when they are neither binary nor concentrated on one value).

When uncertain tax treatment affects both current tax and deferred tax, entities must make consistent judgements and estimates for both of these tax categories.

Entities must take into account changes in the facts and circumstances in order to reassess the positions initially taken for the purpose of future statements.

The Notes to the financial statements must contain a description of the tax treatment used by the entity and the assumptions and estimates made in determining taxable profit (tax loss), unused tax losses, unused tax credits and tax rates. They must also disclose the potential effect of the uncertainty as a tax-related contingency.

This Interpretation took effect for annual reporting periods beginning on or after 1 January 2019 (although early application was permitted).

On initial application of IFRIC 23, entities may opt for either a retrospective approach (applying IAS 8, if that is possible without the use of hindsight) or retrospectively by reporting the cumulative effect of initially applying the Interpretation as an adjustment to equity, without restating comparative information.