

# IFRIC 23

## Uncertainty over income tax treatments

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# Agenda

1. Introduction
2. Impact of uncertainties
3. Dealing with uncertainties
4. Quiz
5. Key takeaways

1

Introduction

# Introduction

## Dealing with taxes

**Certainty? In this world nothing is certain but death and taxes.**

**(Benjamin Franklin)**

**Until IFRIC 23 came along**

# Introduction

Keeping with the times....

Paying taxes

=

Certainty

Accounting  
for taxes??

# Introduction

## Warm up exercise

1

What are the uncertainties an entity considers to determine its tax liability?

2

Discuss in your table groups and list the uncertainties you have come across in practice.

3

Do not worry about how to apply IAS 12 around uncertainties.

**(Duration: 5 minutes)**

# Introduction

## Examples of uncertainties



**Unclear tax laws**



**Taxable?  
Deductible?**



**Transfer pricing**



**Exempt? Holiday?**



**Status**



**Leases**



**Business  
combinations**

**And many more... !**

# 2

Impact of  
uncertainties



# Impact of uncertainties

Which aspect of accounting for taxes is affected by these uncertainties?

1 Calculate current income tax

2 Determine the tax base

3 Calculate temporary differences

4 Identify exceptions

5 Review deductible TDs and tax losses

6 Determine tax rates

7 Recognise deferred tax

8 Presentation and offsetting

9 Disclosure

# Impact of uncertainties

How was it dealt with before IFRIC 23?

IAS 12 and/or IAS 37 used for tax contingent liabilities/assets.

Various methods for measuring tax provisions – most likely amount, weighted average or maybe others.

Uncertainties evaluated individually or together.



**There was diversity  
in practice!**

# 3

Dealing with  
uncertainties

# Dealing with uncertainties

What does IFRIC 23 cover?

## Scope

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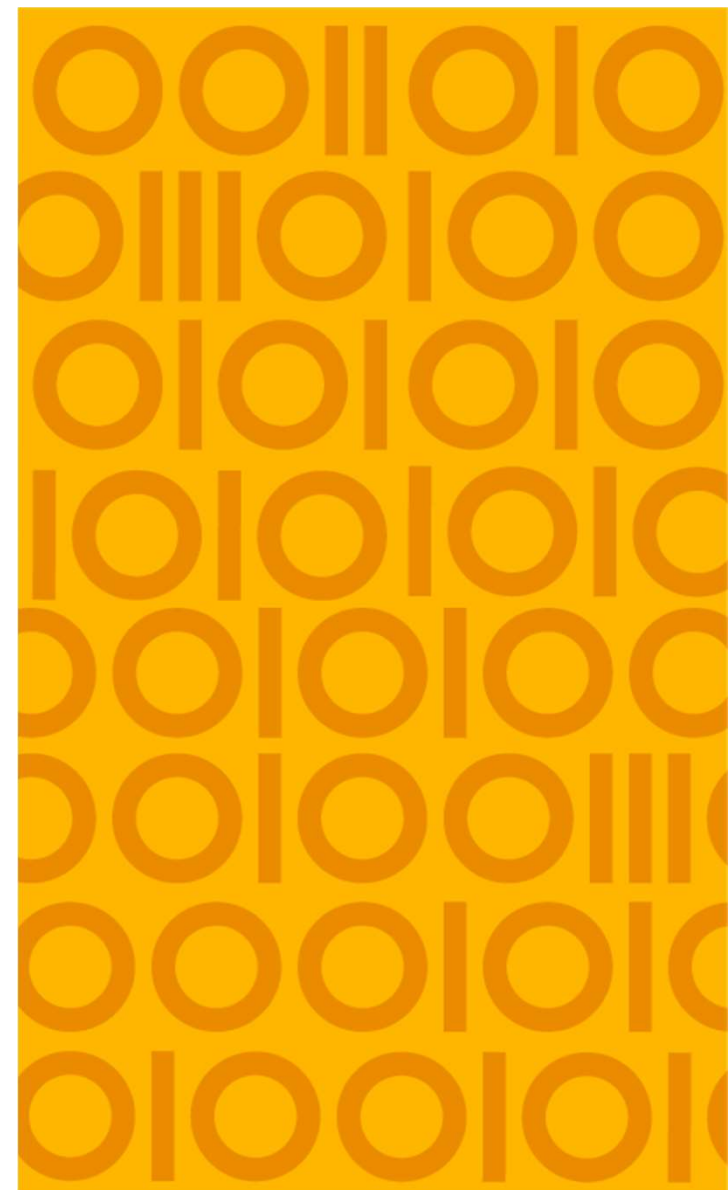
All elements of income tax accounting where there is uncertainty over income tax treatments.

## Does not

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Change any existing requirements in IAS 12.

**Effective from 1 January 2019**



# Dealing with uncertainties

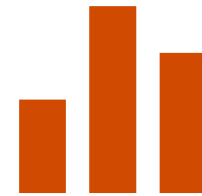
Issues addressed by IFRIC 23



**When to recognise?**



**How to measure?**



**Unit of account?**



**Detection risk?**



**Changes in circumstances**

# Dealing with uncertainties

## Recognition threshold



**Determining when to recognise**



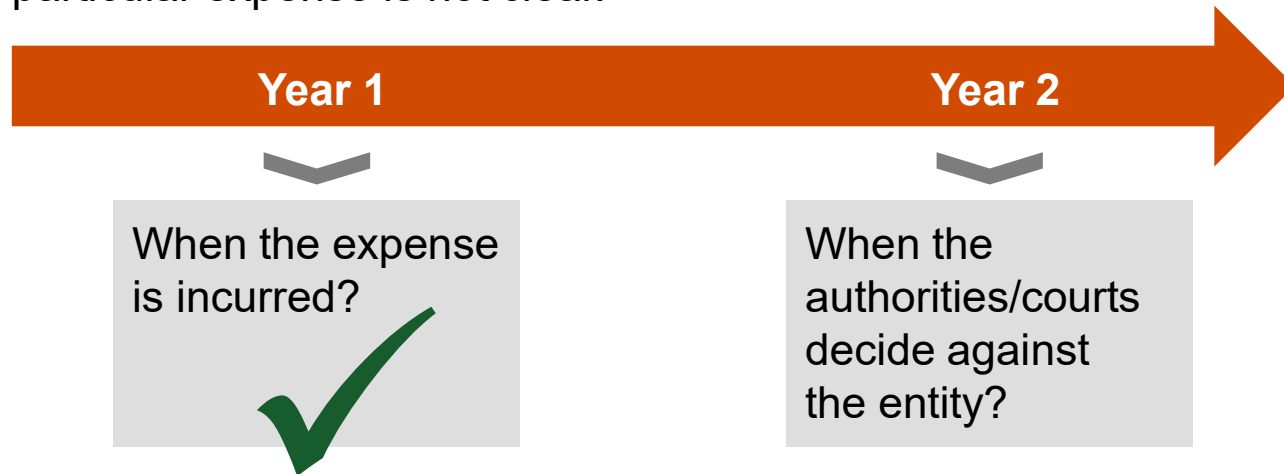
When
How
Unit
Assumptions
Changes

# Dealing with uncertainties

## Exercise

Unpredictable LLC is not certain about whether a deduction will be allowed because the laws about the deductibility of a particular expense is not clear.

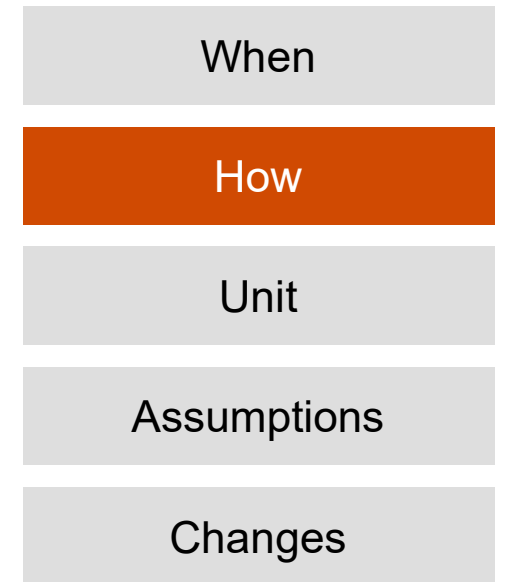
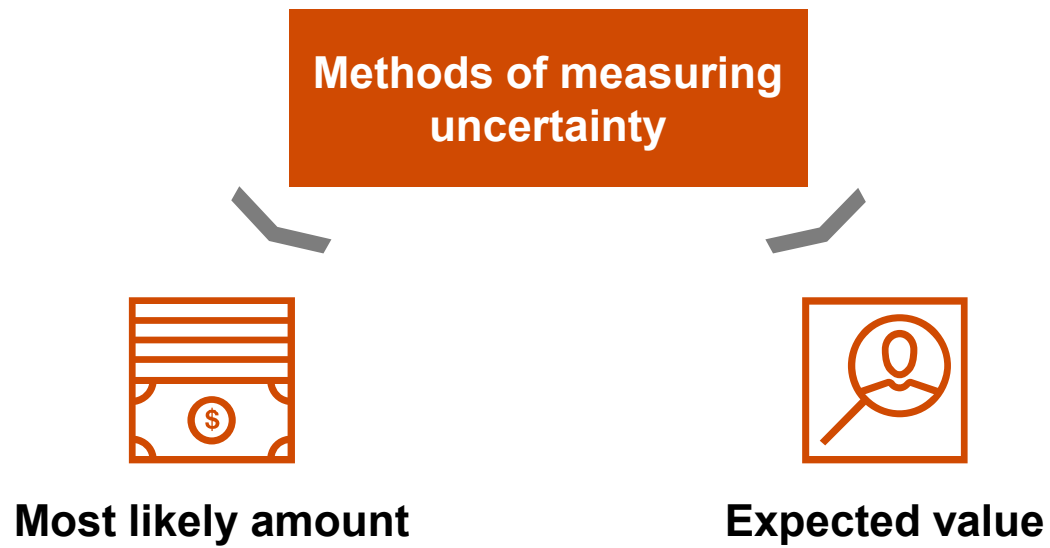
When should Unpredictable consider whether the expense is deductible?



- When
- How
- Unit
- Assumptions
- Changes

# Dealing with uncertainties

## Measurement



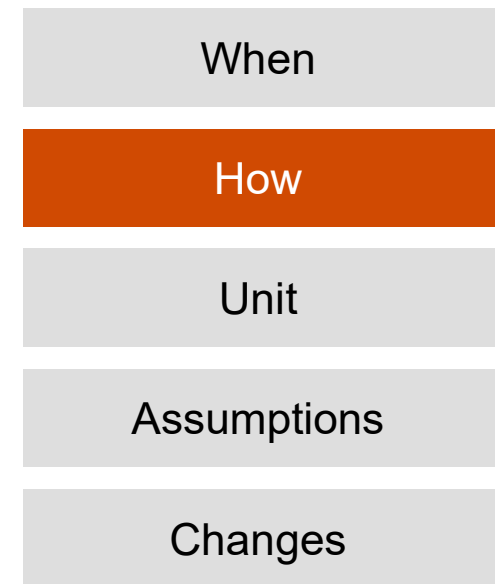


# Dealing with uncertainties

## Measurement



- No, it is not a policy choice
- Use the approach that better predicts the resolution of the uncertainty



# Dealing with uncertainties

## Measurement – Exercise

### Instructions

- Refer Handout 1
- What is the appropriate method of measurement in both cases
- Be prepared to give reasons for your response
- You have **10 minutes**

When

How

Unit

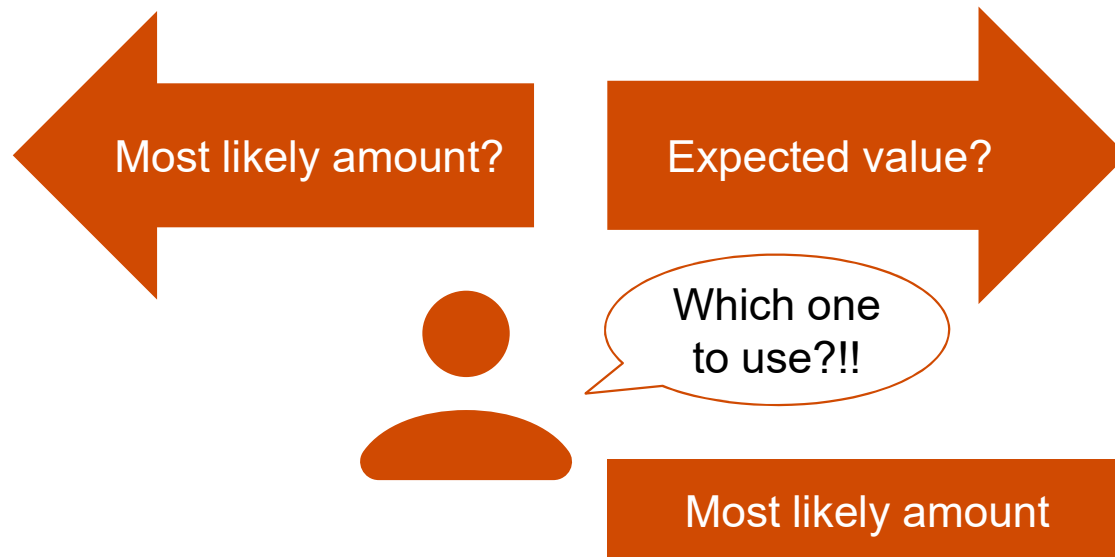
Assumptions

Changes

# Dealing with uncertainties

## Measurement – Debrief

### Case study A



When

How

Unit

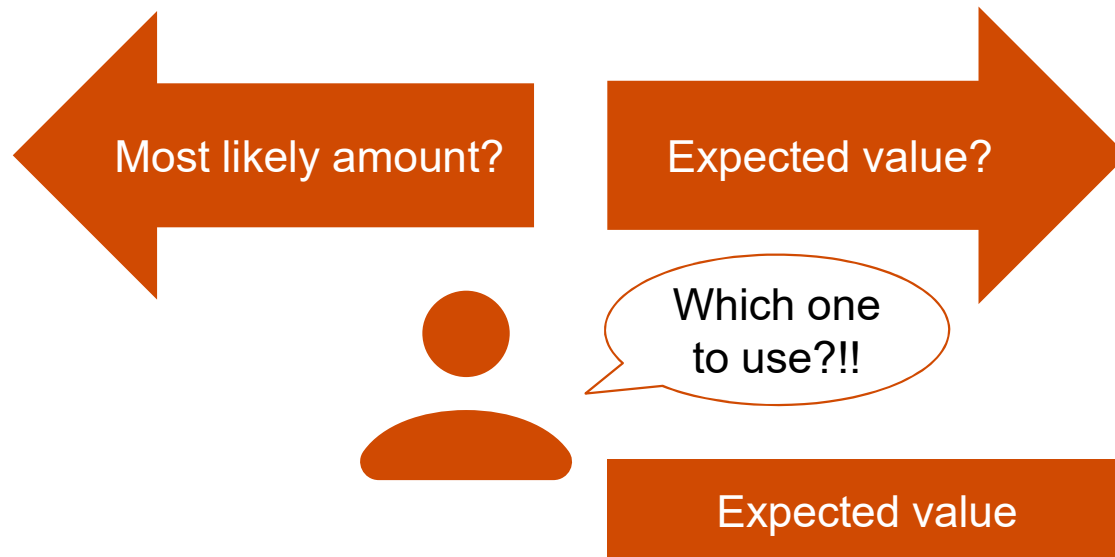
Assumptions

Changes

# Dealing with uncertainties

## Measurement – Debrief

### Case study B



When

How

Unit

Assumptions

Changes

# Dealing with uncertainties

## Measurement – Debrief

### Potential deduction: Expected value method

Potential deduction (£)	Individual probability	Probability weighted calculation (£)
5.00	15%	0.75
3.75	30%	1.13
2.50	20%	0.50
2.00	20%	0.40
1.25	15%	0.19
		<b>2.96</b>

When

How

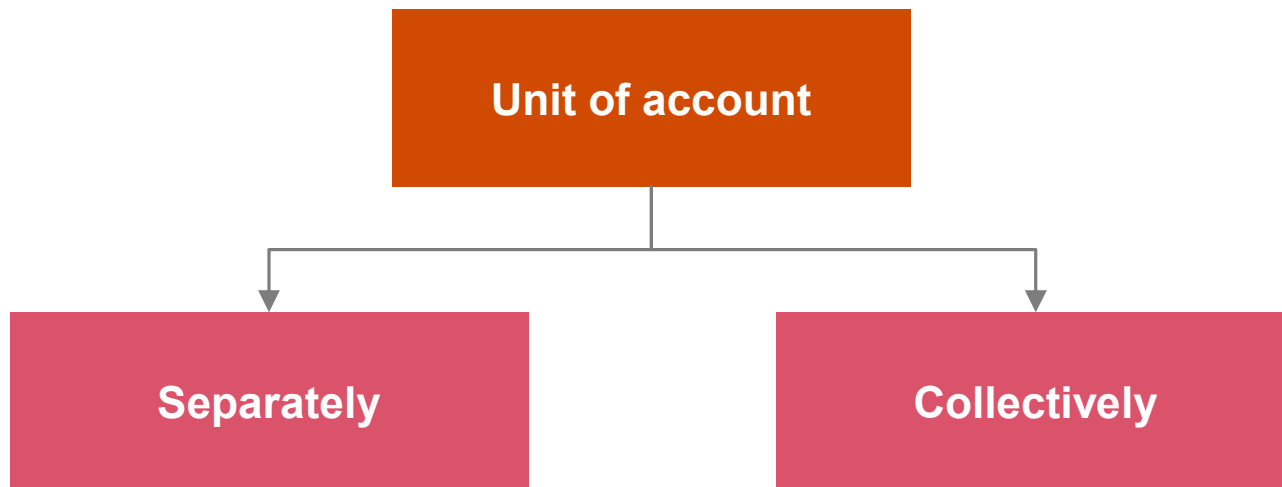
Unit

Assumptions

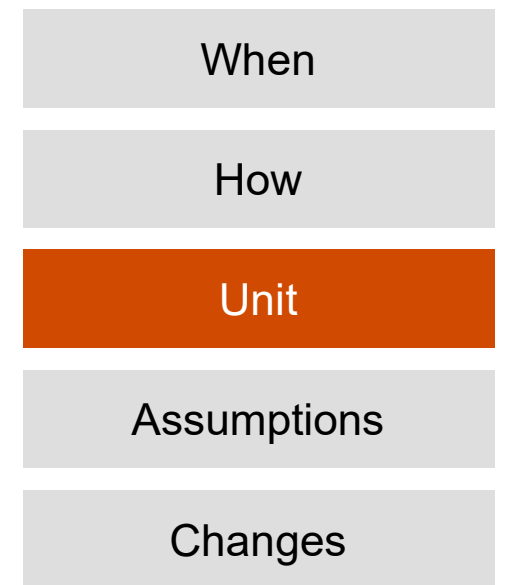
Changes

# Dealing with uncertainties

## Unit of account



The approach that better predicts the resolution of the uncertainty

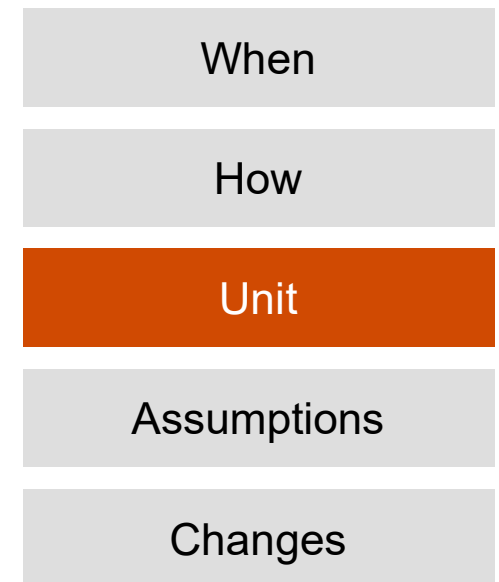


# Dealing with uncertainties

## Unit of account – Exercise

Ambiguity LLC has subsidiaries in various jurisdictions

- Subsidiary A in country X is not sure whether its R&D expenses are all deductible
- Subsidiary B in country Y is disputing transfer pricing adjustments



# Dealing with uncertainties

## Unit of account – Exercise

Fuzzy LLC is a biotech company with extensive research and development operations:

- The R&D operations are primarily in one jurisdiction and receives specific tax incentives, the amount of which are uncertain due to ambiguity in law.
- Fuzzy has approximately 50 different active R&D projects at any point in time.



When

How

Unit

Assumptions

Changes



# Dealing with uncertainties

Unit of account – Factors to be considered

Nature of the uncertainty

- *How the entity prepares and supports tax treatments?*

Approach used by the taxation authority

When

How

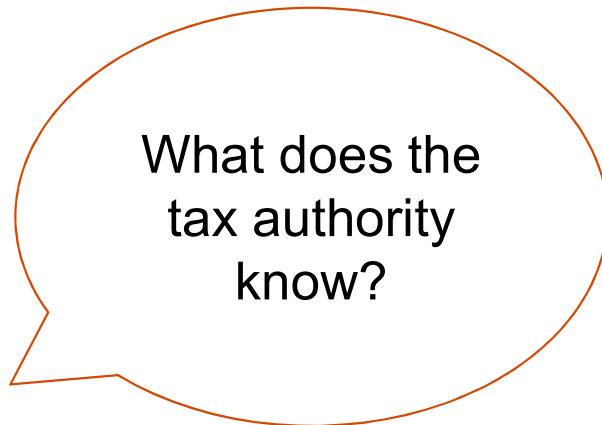
Unit

Assumptions

Changes

# Dealing with uncertainties

Assumptions about the tax authorities' examination



nothing....?  
something...?  
everything....?

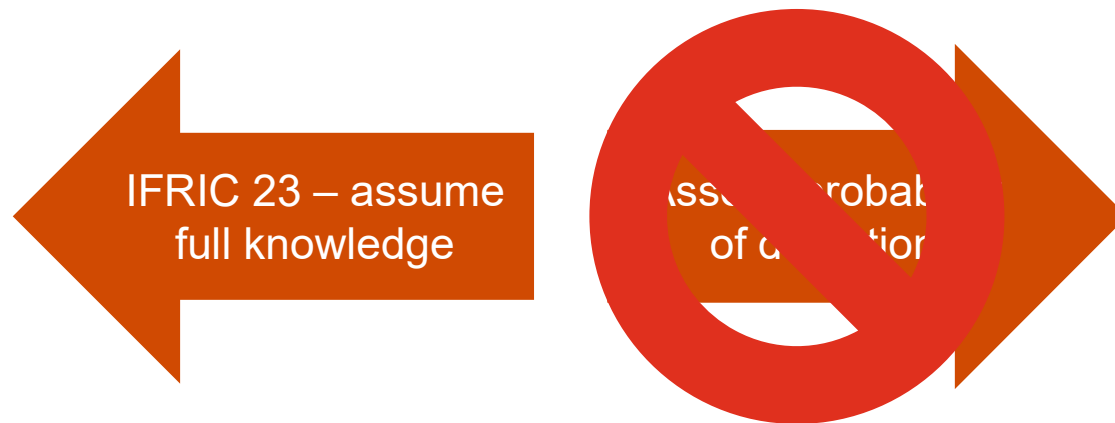
When
How
Unit
<b>Assumptions</b>
Changes

# Dealing with uncertainties

## Assumptions about the tax authorities' examination

Assume that the tax authorities:

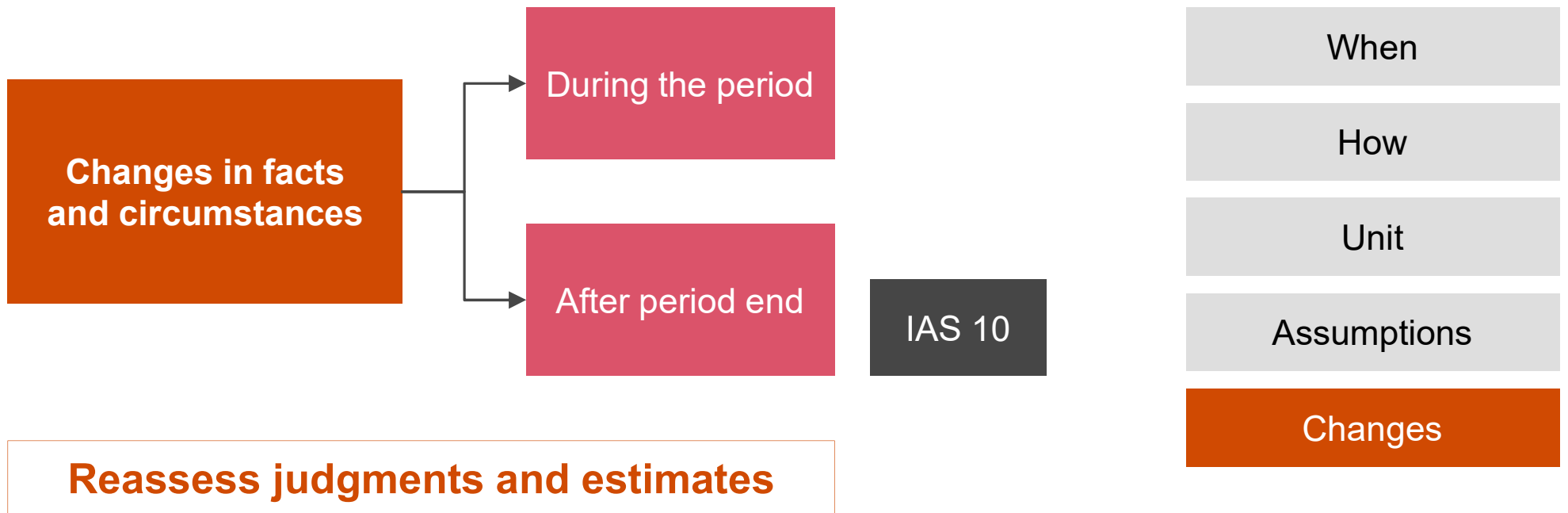
- Will examine amounts it has a right to examine
- Have the full knowledge of all the facts



When
How
Unit
<b>Assumptions</b>
Changes

# Dealing with uncertainties

Changes in facts and circumstances



# Dealing with uncertainties

## Transition

### Transition

- Retrospective OR
- Modified retrospective

**No hindsight!!**

# Dealing with uncertainties

## Disclosure requirements

### No new disclosures prescribed!

#### IAS 1

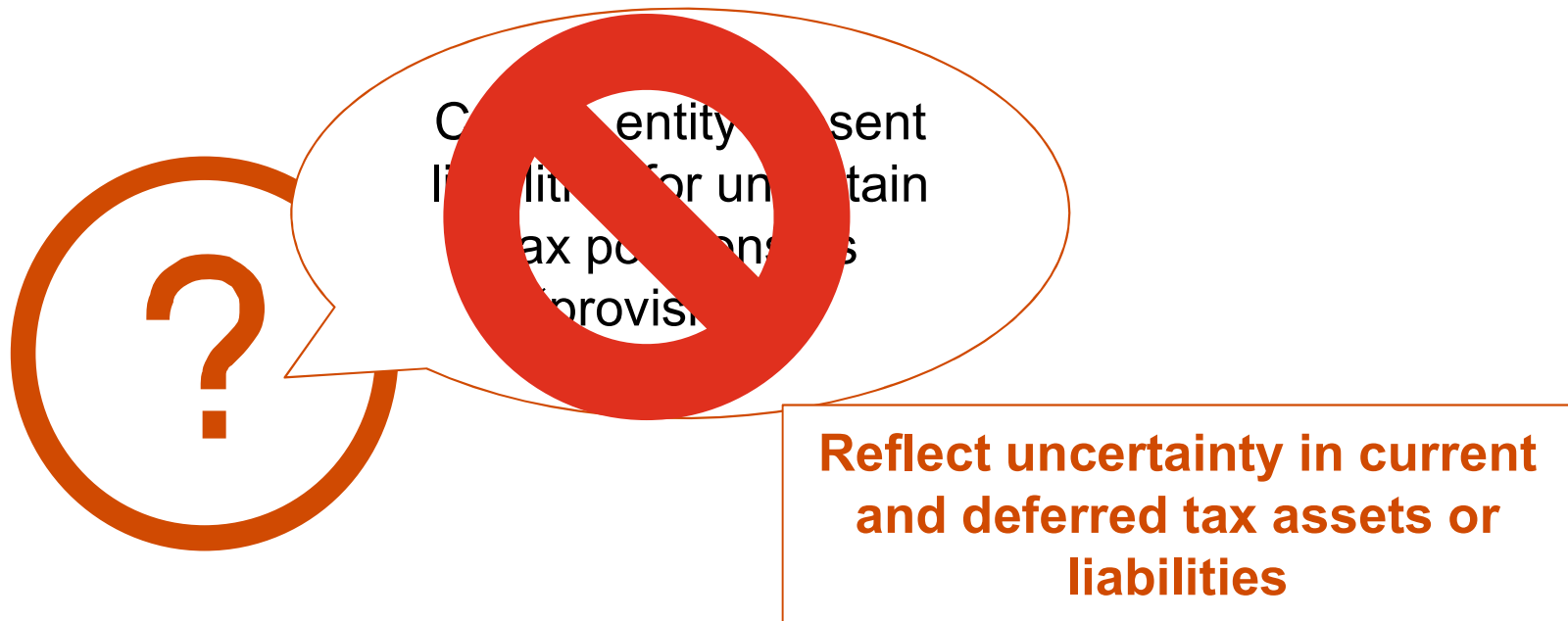
- Judgements made in applying accounting policy.
- Assumptions made and estimates used.

#### IAS 12/IAS 37

- Tax related contingent assets and contingent liabilities (para 88 of IAS 12 refers to IAS 37).

# Dealing with uncertainties

## Presentation





**Submission to the Interpretations Committee**

# Dealing with uncertainties

IC's agenda decision published in September 2017

## Interest and penalties

	 IAS 12	IAS 37	
<b>Recognition and measurement</b>	<ul style="list-style-type: none"><li>• Not separable – could be rolled up in a lump sum settlement.</li></ul>	<ul style="list-style-type: none"><li>• Not based on taxable profits – outside the scope of IAS 12.</li><li>• Substance is that interest is finance cost and a penalty is an operating expense.</li></ul>	
<b>Presentation and disclosure</b>	<ul style="list-style-type: none"><li>• Presented on the tax line.</li></ul>	<ul style="list-style-type: none"><li>• Presented with finance cost and operating expense.</li></ul>	

**Not a policy choice – A judgement is required (see MoA – FAQ 14.61.7)**



# Dealing with uncertainties

## Areas not covered in IFRIC 23

### Business combinations

#### IAS 12

- Covers only deferred taxes in business combinations.
- No reference to measurement of current taxes or current tax uncertainties

#### IFRS 3

- Requires deferred taxes to be covered by IAS 12.
- No specific reference to measurement of current taxes or current tax uncertainties.
- Requires that all assets and liabilities not specifically excepted to be measured at fair value.

**Accounting policy choice – to be disclosed in financial statements and applied consistently**

# Dealing with uncertainties

## Impact of the proposed changes

		<b>Past practice</b>	<b>Changes</b>
↓	Recognition threshold	Probable	No change
↓	Measurement	Policy choice	No longer a policy choice
↓	Unit of account	Policy choice	No longer a policy choice
↓	Changes in facts and circumstances	No specific guidance	Specific guidance

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Quiz

# Quick Quiz

True or False

**1: Uncertain tax treatments  
affect only current tax**

True

False

- Assessments need to be consistent

# Quick Quiz

True or False

**2: An entity has taken an aggressive position in one country but has been conservative in another. The two tax positions are of a similar value. The entity should assess the uncertain tax treatment collectively**

True

False

prediction of outcome

# Quick Quiz

True or False

**3: Expiry of time limit for tax authorities' right to examine/challenge the entity's tax treatment is not a 'change in facts and circumstances'**

True

False

a c

- Tax treatment should be reconsidered

# Quick Quiz

True or False

**4: An unresolved uncertain tax treatment should only be reassessed when there is a change of facts and circumstances**

True

and

False

5

Key takeaways



# Key takeaways

## Uncertainty over income tax treatments

IFRIC 23 addresses how to apply IAS 12 for uncertainty over income tax treatments

No significant impact if similar principles followed for recognition and measurement

Remember the threshold – probable not virtually certain (IAS 12 not IAS 37)

No detection risk

No new disclosures!

Will continue to be area requiring significant judgment

# Questions?

[pwc.com](https://www.pwc.com)

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