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Presenting uncertain tax positions in financial statements

IFRIC 23, an interpretation which deals with the treatment of uncertain tax positions, applies to financial years that commence on or after 1 January 2019. Many entities will therefore be required to consider it during the next few months. The IFRIC recently published an agenda decision relating to the presentation of such uncertain tax treatments. This article briefly reviews IFRIC 23 and the agenda decision.

Entities that prepare financial statements in accordance with IFRS will be required to consider the application of IFRIC 23 *Uncertainty over Income Tax Treatments* ('IFRIC 23'), which applies for financial years commencing on or after 1 January 2019, in coming months.

The IFRS Interpretations Committee ('IFRIC') recently published an agenda decision with further guidance on how tax uncertainties recognised in terms of IFRIC 23 should be presented.

This article reviews IFRIC 23 and the recent agenda decision.

Accounting for tax uncertainties

The application of tax law to a specific transaction or circumstance may be unclear. Whether the tax treatment followed by an entity, as reflected in the amount accounted for as its tax liability, is ultimately accepted may only be known once the tax authority has examined the treatment or a court has ruled on it in a dispute.

IFRIC 23 defines an uncertain tax treatment as a tax treatment by an entity in its tax returns where it is uncertain whether the relevant taxation authority will accept it. This includes tax treatments already in dispute as well as uncertain position not yet in dispute.

The accounting treatment of an uncertain tax treatment depends on the entity's assessment of the probability that the tax authorities will accept the entity's treatment (or intended treatment). If it concludes that it is *probable* that the tax authority will accept the position, the tax recognised in the financial statements must be determined consistently with such tax treatment. If, however, the entity concludes that it is *not probable* that the tax authority will accept the uncertain tax treatment, the entity is required to reflect the predicted outcome of the resolution of the uncertainty in the tax position recognised in the financial statements.

An entity is required to reassess its judgements and estimates in relation to uncertain tax treatments as new information arises or facts and circumstances change. This includes:

- Agreement or disagreement by the tax authority with similar tax treatments by the entity or another entity,
- Changes in rules established by the tax authority, or
- Expiry of the tax authority's tax to examine a tax treatment.

If an uncertain tax treatment exists, an entity should disclose judgements made and information or assumptions used to determine its tax liability for financial reporting purposes.

Presentation of uncertain tax assets or liabilities

The IFRIC considered a request to provide guidance whether uncertain tax treatments should be presented as current or deferred tax liabilities (or assets) or in a different line item, for example, as provisions. Some respondents in the IFRIC's initial outreach suggested that presentation as part of an entity's tax liability, rather than as a provision, may draw attention to the position or be viewed as an acknowledgement of a tax debt or evidence of intent that could count against the entity in a dispute.

The IFRIC holds the view that IFRIC 23 requires tax uncertainty to be reflected in an entity's current tax or deferred tax. As a result, uncertain tax liabilities or assets form part of current or deferred tax, as defined in IAS 12 *Income Taxes* ('IAS 12'). IAS 1 Presentation of Financial Statements ('IAS 1'), in turn, specifically requires that current and deferred tax must be presented as line items in the financial statements. The IFRIC therefore concluded that the uncertain tax treatments should be presented as part of these line items, rather in another line item, such as provisions.

IAS 1 allows disaggregation of line items if this presents relevant information to users. An entity may therefore disaggregate current or deferred taxes to distinguish between uncertain tax liabilities and other tax liabilities. This disaggregation does not mean that these items can be presented elsewhere in the financial statement, for example, as part of the provision line items.