



Technical Accounting Alert TA 2019-05

First Time Application - AASB Interpretation 23 'Uncertainty over Income Tax Treatments'

Introduction

The IFRS Interpretations Committee (IFRIC) has published a new Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*, specifying how an entity should reflect uncertainty in accounting for income taxes, which was adopted by the AASB as Interpretation 23 *Uncertainty over Income Tax Treatments*.

AASB 112 *Income Taxes* specifies how to account for current and deferred tax but not how to reflect the effects of uncertainty. Interpretation 23 addresses this previous lack of guidance.

We encourage you to follow the blue shortcuts to access the [Perspective](#) paper prepared Siva Sivanantham, Director in Financial Reporting Advisory in conjunction with CAANZ, or to listen to his [podcast](#) prepared in conjunction with CPA Australia.

Interpretation 23

The table below illustrates the main issues that are addressed by the Interpretation.

Issue	Interpretation
When and how the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates	<ul style="list-style-type: none"> an entity is required to consider whether it is 'probable' that a taxation authority will accept an uncertain tax treatment if it is, the entity would determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings if the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it uses either the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (depending on which method is expected to better predict the resolution of the uncertainty)
The assumptions that an entity should make about the examination of tax treatments by taxation authorities	<ul style="list-style-type: none"> an entity is required to assume that a tax authority will examine amounts it has a right to examine and will have full knowledge of all relevant information when making those examinations
Changes in facts and circumstances	<ul style="list-style-type: none"> the entity is also required to reassess their judgements and estimates if facts and circumstances change (e.g. upon reaching a time limit where the taxation authority is no longer able to challenge an entity's tax treatments) or as a result of new information that affects the judgement or estimate becoming available
Whether uncertain tax treatments should be considered separate	<ul style="list-style-type: none"> the entity would be required to use judgement to determine whether each uncertain tax treatment should be considered separately, or whether some uncertain tax treatments should be considered together. In determining the approach to be followed, the entity shall consider which approach better predicts the resolution of the uncertainty

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Issue	Interpretation
Disclosure	<ul style="list-style-type: none">when addressing uncertainty over income tax treatments, the entity is required to disclose judgements, assumptions and estimates made in accordance with the normal requirements of AASB 101 <i>Presentation of Financial Statements</i>in addition, if an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, it should consider whether to disclose the potential effect of the uncertainty as a tax-related contingency under AASB 112.88

Effective date and transition

Interpretation 23 is effective for annual reporting periods beginning on or after 1 January 2019. Early application is permitted.

On initial application, an entity can elect to apply the interpretation either:

- retrospectively applying AASB 108, if that is possible without the use of hindsight; or
- retrospectively with the cumulative effect of initially applying the interpretation recognised at the date of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate); under this approach, comparative information is not restated.



Grant Thornton Comment

We welcome the publication of this Interpretation as it provides specific guidance in a number of areas where AASB 112 was silent and hence will help reduce diversity in practice. Entities should revisit their current approaches to accounting for tax uncertainties with the guidance in Interpretation 23 and determine the impact.

Further information



If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your local Grant Thornton Australia contact or a member of the Financial Reporting Advising Team at national.assurance.quality@au.gt.com.