



# Income tax exposures

IFRIC 23 clarifies the accounting treatment

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[kpmg.com/ifrs](http://kpmg.com/ifrs)



# 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?

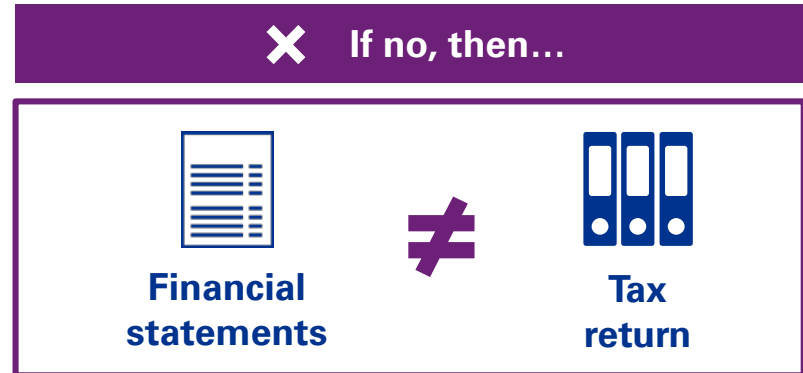
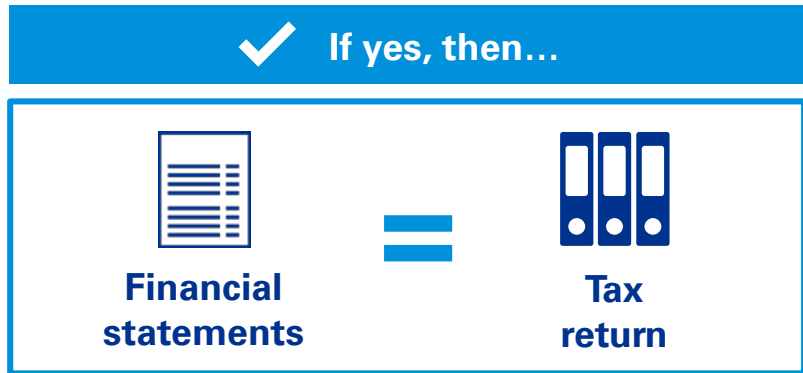
**Tax is a sensitive topic, triggering debate about tax transparency both within and beyond the board room**

**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?



Assume that the tax authority would have full knowledge of all relevant information

# How do you measure uncertainty?

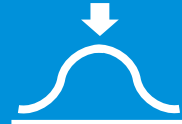
If it's **not probable** that the tax authority would accept the treatment...

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**



**Income tax**



**Separate provision is not allowed**



**Certain tax**



**Uncertain tax**



# 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](https://kpmg.com/ifrs)**



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