At a glance
Accounting for uncertain tax treatments - not so uncertain anymore

On 7 June 2017, guidance was issued by the IFRS Interpretations Committee which clarifies how to deal with uncertain tax treatments under IAS 12 'Income taxes'.

When does this guidance apply?
An uncertain tax treatment is any tax treatment applied by a Company where there is uncertainty over whether that treatment will be accepted by a taxation authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. The key takeaways are outlined below.

Scope *The issued guidance applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. It is applied to both current and deferred tax where there is uncertainty over a Company's tax position.*

General tax provisions no longer allowed *A Company needs to decide whether to consider its uncertain tax positions (UTPs) individually or collectively (i.e. unit of account), based on which approach provides better predictions of the resolution of the uncertainties with a taxation authority. For example, if it is anticipated that a certain taxation authority would deal with a number of UTPs related to transfer pricing issues together, the Company might determine to consider all of those issues together.*

Detection risk *An entity is required to assume that a taxation authority which is entitled to examine and challenge tax treatments will examine those UTPs and have full knowledge of all related information. Detection risk is not considered in the recognition and measurement of UTPs.*

Recognition and measurement *There is a two stage test. If it is probable that a taxation authority will accept a particular UTP, there should be no additional liability. However, if it is not probable that a UTP will be sustained in full then the Company must adjust its income tax accounting. The recognition of a UTP is measured using either the most likely amount or the expected value, depending on which is thought to give a better prediction of the resolution of each UTP.*

We help you gain a clear view of tax risks and opportunities so you can create transparent reporting and enhance enterprise risk management.

Do you have questions? Want more information?
We have prepared a publication which gives further insight on the newly issued guidance including a comprehensive overview of suggested phases for implementing the new guidance. In addition, you can get in touch to find out more about how PwC can assist with a (re)assessment of your current income tax accounting.

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