

STAFF PAPER

May 2017

IASB Meeting

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| Project | Uncertainty over Income Tax Treatments | | |
| Paper topic | Ratification of the IFRIC [®] Interpretation | | |
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB[®] *Update*.

Purpose of the paper

1. The purpose of this paper is to ask the International Accounting Standards Board (the Board) to ratify the IFRIC Interpretation *Uncertainty over Income Tax Treatments* (the Interpretation).
2. Paragraphs 7.23–7.26 of the *Due Process Handbook* set out the requirements for the ratification of an Interpretation. In summary:
 - (a) after the Interpretation has been balloted by the IFRS Interpretations Committee (the Committee), it is submitted to the Board for ratification.
 - (b) ratification by the Board must take place in a public meeting and requires a supermajority (ie nine members in favour).
 - (c) a Board member may dissent from ratification of the Interpretation. If that is the case, the dissent and the reasons for doing so are stated in the approvals section of the Interpretation.

Papers for this meeting

3. The following papers are presented for discussion at this meeting:
 - (a) Agenda Paper 12A – Ratification of the IFRIC Interpretation (this paper);
 - (b) Agenda Paper 12A(i) – Post-ballot draft: IFRIC Interpretation *Uncertainty over Income Tax Treatments*; and
 - (c) Agenda Paper 12A(ii) – Uncertainty over Income Tax Treatments—Due Process (discussed at the November 2016 Committee meeting).

Background

4. The Committee received a question asking when it is appropriate for entities to recognise a current tax asset if tax laws require entities to make payments in respect of a disputed tax treatment. In the circumstance the question described, the entity intended to appeal a tax charge resulting from a tax examination. IAS 12 *Income Taxes* includes requirements on recognition and measurement of tax assets and liabilities, but does not specifically address how to reflect uncertainty. The Committee observed that entities apply diverse reporting methods when the application of tax law is uncertain. Accordingly, the Committee decided to develop an Interpretation to address how to reflect uncertainty in accounting for income taxes.
5. The Committee set out its proposals in this respect in the draft Interpretation *Uncertainty over Income Tax Treatments* published in October 2015. The comment period ended in January 2016; the Committee received 61 comment letters.
6. At its meeting in July 2016, the Committee discussed the feedback received and reached agreement on all technical matters.

Summary of the Committee’s redeliberations

7. Overall, respondents supported the proposals in the draft Interpretation. There have been no substantive changes made to those proposals during redeliberations.

8. We wish to bring the following matter discussed by the Committee to the Board’s attention, which was not proposed in the draft Interpretation.

9. The Committee decided to provide transition relief for first-time adopters with a date of transition to IFRSs before the date that the Interpretation is issued. This addresses feedback from respondents that such first-time adopters may face the same hindsight difficulties as entities that already apply IFRS Standards. The Interpretation therefore includes a consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Applying this relief, a first-time adopter is not required to reflect the application of the Interpretation in comparative information in its first IFRS financial statements. Instead, the first-time adopter would recognise the cumulative effect of applying the Interpretation as an adjustment to the opening balance of retained earnings (or other components of equity, as appropriate) at the beginning of its first IFRS reporting period.

Due process

10. At its meeting in November 2016, the Committee reviewed the due process steps undertaken. The Committee concluded that the due process requirements had been met and that it had undertaken sufficient consultation and analysis to begin the balloting process. A copy of the paper discussed by the Committee at its November 2016 meeting is reproduced as Agenda Paper 12A(ii) for this meeting.

11. In accordance with the *Due Process Handbook*, balloting of the Interpretation took place in April 2017. No member of the Committee objected to the Interpretation.

Question

Does the Board agree to ratify the Interpretation *Uncertainty over Income Tax Treatments*, as set out at Agenda Paper 12A(i)?