

HK(IFRIC) Interpretation 23 – *Uncertainty over Income Tax Treatments*

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Background

The International Financial Reporting Standards Interpretations Committee (the “Interpretations Committee”) observed diversity in practice on the recognition and measurement of a tax liability or asset in circumstances in which there is uncertainty in the application of the tax law. Therefore, to address the issue, the Interpretations Committee issued IFRIC Interpretation 23 – *Uncertainty over Income Tax Treatments* (“IFRIC Int – 23”).

In July 2017, the Council of the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) responses to IFRIC Int – 23, followed the clarification of the Interpretations Committee and issued HK(IFRIC) Interpretation 23 (“HK(IFRIC) Int – 23”) *Uncertainty over Income Tax Treatments*.

Scope

This Interpretation clarifies how to apply the recognition and measurement requirements in Hong Kong Accounting Standard 12 *Income Taxes* (“HKAS 12”) when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in HKAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

What are the clarifications of HK(IFRIC) Int – 23?

Issues	Clarifications	Conclusion
Consideration in respect of uncertain tax treatments	Whether uncertain tax treatments considered separately or together?	The entity should estimates which approach better predicts the resolution of the uncertainties.
Assumptions in respect of examination on tax treatments by taxation authorities	The entity shall assume that the taxation authority has a right to examine and have full knowledge of all related information when making those examinations.	
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 shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment 	Probable	The entity has to determine unused tax losses, unused tax credits and tax rate <u>consistent with</u> the tax treatment used or planned to be used in its income tax filing.
	NOT probable	The entity shall reflect the effect of uncertainty in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rate by using either the most likely amount or the expected value method.
Changes in facts and circumstances on which the judgement or estimate was based as a result of new information	<p>Examples of changes in facts and circumstances include:</p> <ul style="list-style-type: none"> • agreement or disagreement by a taxation authority with tax treatment or similar tax treatment used by the entity or another entity, or the amount received or paid to settle a similar tax treatment; • changes in rules established by a taxation authority; • the expiry of a taxation authority's right to examine or re-examine a tax treatment. <p>The effect of a change in facts and circumstances or of new information as a change in accounting estimate shall be reflected by applying HKAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. An entity shall apply HKAS 10 <i>Events after the Reporting Period</i> to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.</p>	

Effective Date

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Transition

The Interpretations Committee decided not to require the restatement of comparative information when an entity first applies the Interpretation.

However, retrospective application of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is permitted if that is possible without the use of hindsight. The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

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