



Project:	Draft IFRIC Interpretation DI/2015/1 <i>Uncertainty over Income Tax Treatments</i>	Meeting:	AASB December 2015 (M149)
Topic:	Consider draft comment letter	Agenda Item:	13.6
Contact(s):	David Ji dji@asb.gov.au (03) 9617 7629	Project Priority:	High
		Decision-Making:	High
		Project Status:	Form tentative views on IFRS IC proposals

Introduction and objective of this paper

- 1 The objective of this paper is to:
 - (a) seek Board member views on the draft AASB submission to Draft IFRIC Interpretation DI/2015/1 *Uncertainty over Income Tax Treatments*. The draft submission is included as Appendix A to this staff paper.
 - (b) agree on the process for finalising the AASB submission.

Link to Draft Interpretation

http://www.aasb.gov.au/admin/file/content105/c9/ED_IFRIC_UncertaintyOverIncomeTaxTreatments.pdf

Draft AASB submission

Comment letters to be received by the AASB

- 2 The IFRS Interpretations Committee ('the Committee') issued Draft IFRIC Interpretation DI/2015/1 *Uncertainty over Income Tax Treatments* in October 2015. Comments to the AASB are requested by **21 December 2015** and to the Committee by **19 January 2016**.
- 3 At the time of writing this staff paper, no submissions have been received on DI/2015/1.

About the draft submission (Appendix A)

- 4 The staff recommendations are reflected in the draft AASB submission attached as Appendix A. The draft submission has been prepared to facilitate the Board's discussion on the positions it expects to take in response to the specific matters for comment in DI/2015/1.

Question 1 to the Board

Do Board members agree with the draft submission? If not, what aspects of the submission would Board members like to be amended or further developed?

Finalising the AASB submission to the IASB

- 5 Staff will update the draft submission to reflect Board member comments following the December 2015 meeting. As there is no further board meeting before the close of the comment period, staff recommend that the AASB submission be finalised out-of-session by the Chair, having regard to any feedback received from constituents.

Question 2 to the Board

Do Board members agree with the staff recommendation for the AASB submission to be finalised out-of-session by the Chair?



Australian Government
**Australian Accounting
Standards Board**

AASB Meeting 2-3 December 2015 (M149)
Agenda Paper 13.6 (Appendix A)

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APPENDIX A: DRAFT COMMENT LETTER

This document is a work in progress and has been prepared by staff of the AASB to facilitate the deliberations of the AASB on Draft IFRIC Interpretation DI/2015/1 for the purpose of forming tentative Board views.

[x] January 2016

Wayne Upton
The Chair
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EX4M 6XH

Dear Wayne

Draft IFRIC Interpretation DI/2015/1 *Uncertainty over Income Tax Treatments*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to submit its comments on the IFRS Interpretations Committee's ('the Committee') Draft IFRIC Interpretation DI/2015/1 *Uncertainty over Income Tax Treatments*. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters. The comment letters received are published on the AASB's website.

The AASB supports the Committee's efforts to address diversity in practice arising from the application of IAS 12 *Income Taxes* to uncertain tax positions and generally agrees with the Committee's proposals in DI/2015/1. However, the AASB considers it would be preferable for all the IAS 12 interpretative and application issues to be addressed comprehensively as part of the IASB Research project to fundamentally review income tax accounting, taking into consideration outcomes from the IASB's work on liabilities and measurement in the Conceptual Framework project and the Research project on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. At a minimum, the AASB considers that a limited review of IAS 12 should be performed, focusing on clarifying the principles underpinning IAS 12, rather than piecemeal amendments addressing specific practice issues.

The AASB's responses to the specific matters for comment in DI/2015/1 are included in the Appendix to this letter.

If you have queries regarding any matters in this submission, please contact David Ji (dji@asb.gov.au).

Yours sincerely,

Kris Peach
Chair and CEO

Draft

APPENDIX

AASB comments on draft IFRIC Interpretation DI/2015/1 *Uncertainty over Income Tax Treatments*

Question 1 – Scope of the draft Interpretation

The draft Interpretation provides guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Such uncertain tax treatments may affect taxable profit (tax loss), tax bases, tax credits or tax rates that are used to recognise and measure current or deferred tax liabilities or assets in accordance with IAS 12 *Income Taxes*.

Do you agree with the proposed scope of the draft Interpretation? If not, why and what alternative do you propose?

The AASB **agrees** with the proposed scope of the draft Interpretation.

Question 2 – When and how the effect of uncertainty over income tax treatments should be included in determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

The draft Interpretation requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment, or group of uncertain tax treatments, that it used or plans to use in its income tax filings.

If the entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.

If the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the draft Interpretation requires the entity to use 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. The method used should be the method that the entity concludes will provide the better prediction of the resolution of uncertainty.

Do you agree with the proposal in the draft Interpretation on when and how the effect of uncertainty should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates? If not, why and what alternative do you propose?

The AASB **agrees** with the proposals.

Question 3 – Whether uncertain tax treatments should be considered collectively

The draft Interpretation requires an entity to use judgement to determine whether each uncertain tax treatment should be considered independently, or whether some uncertain tax treatments should be considered together, in order to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

Do you agree with the proposal in the draft Interpretation on the determination of whether uncertain tax treatments should be considered collectively?

If not, why and what alternative do you propose?

The AASB **agrees** with the proposal.

Question 4 – Assumptions for taxation authorities' examinations and the effect of changes in facts and circumstances

The draft Interpretation requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when making those examinations.

The draft Interpretation also requires an entity to reassess its judgements and estimates if facts and circumstances change. For example, if an entity concludes that new information indicates that it is no longer probable that the taxation authority will accept an uncertain tax treatment, the entity should reflect this change in its accounting. The expiry of the period in which the taxation authority may examine the amounts reported to it would also be an example of a change in circumstances.

Do you agree with the proposal in the draft Interpretation on the assumptions for taxation authorities' examinations and on changes in facts and circumstances? If not, why and what alternative do you propose?

The AASB **agrees** with the proposals, including draft application guidance paragraphs A5 and A6 which clarify that both explicit, and implicit, acceptance by taxation authorities of a tax treatment may affect the entity's conclusions about the acceptability of a tax treatment and estimates of the effect of uncertainty.

Question 5 – Other proposalsDisclosure

The draft Interpretation does not introduce any new disclosure requirements, but highlights the relevance of the existing disclosure requirements in paragraphs 122 and 125–129 of IAS 1 *Presentation of Financial Statements*, paragraph 88 of IAS 12 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Transition

The draft Interpretation requires an entity to apply its requirements by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do that without using hindsight.

Do you agree with the proposals in the draft Interpretation on the disclosure and the transition requirements? If not, why and what alternative do you propose?

Disclosure

The AASB **agrees** with the proposals pertaining to disclosure.

Note to Board members:

Staff agree with the proposal for the Interpretation to highlight the general disclosure requirements in IAS 1 pertaining to key judgements and estimation uncertainty. However, the disclosures may not result in useful information if they are not made at a sufficiently detailed level.

Transition

The AASB **agrees** with the proposed transition provisions. However, the AASB notes that disclosure is not commonly required by other IFRS of the choice of transition method.

Other comments*Illustrative Examples*

The AASB thinks that the drafting in paragraph IE5 should be softened to avoid implying that a similar conclusion should be drawn by another entity with a similar dispersion profile, for example (new text is underlined and deleted text struck through):

- IE5 Entity B observes that the possible outcomes are widely dispersed and ~~notes that~~ considers the most likely amount of CU800 does not provide the better prediction of the resolution of the uncertainty in this instance. Entity B therefore concludes that the expected value (CU650) would provide the better prediction of the resolution of the uncertainty.

Cumulative probability approach

The AASB thinks it is unclear whether paragraph BC23 is implying that the cumulative probability approach cannot be used in existing IFRS that apply a 'best estimate' approach to measurement. The AASB thinks that the Basis for Conclusions should be clear in this regard.

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