



Australian Government

**Australian Accounting
Standards Board**

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Wayne Upton
The Chair
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
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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 the views of Australian constituents through comment letters. Any comment letters received are published on the AASB's website.

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.

However, in this instance, given the narrow-scope nature of the proposed amendments and the likely timing of any amendments resulting from the research project, the AASB supports the Committee's efforts to address the diversity in practice arising from the application of IAS 12 *Income Taxes* to uncertain tax positions and recommends the proposals be finalised.

The AASB generally agrees with the Committee's proposals in DI/2015/1. 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@asab.gov.au).

Yours sincerely,

A handwritten signature in blue ink that reads "K. E. Peach".

Kris Peach
Chair and CEO

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.

Transition

The AASB **agrees** with the proposed transition provisions. However, the AASB notes that it is not necessary for this Interpretation to specify disclosure of the choice of transition method as there is already a requirement in paragraph 28(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to disclose a description of the transitional provisions on initial application of an IFRS.

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 the use of the cumulative-probability approach should be identified clearly as permissible or otherwise under IFRS.