

IAS 1 *Presentation of Financial Statements* (July 2012)

IAS 1 *Presentation of Financial Statements* and IAS 12 *Income Taxes*—Presentation of payments on non-income taxes

The IFRS Interpretations Committee received a request seeking clarification of whether production-based royalty payments payable to one taxation authority that are claimed as an allowance against taxable profit for the computation of income tax payable to another taxation authority should be presented as an operating expense or a tax expense in the statement of comprehensive income. As the basis for this request, the submitter assumed that the production-based royalty payments are, in themselves, outside the scope of IAS 12 *Income Taxes* while the income tax payable to the other taxation authority is within the scope of IAS 12. On the basis of this assumption, the submitter asks the Committee to clarify whether the production-based royalty payments can be viewed as prepayment of the income tax payable. The Committee used the same assumption when discussing the issue.

The Committee observed that the line item of 'tax expense' that is required by paragraph 82(d) of IAS 1 *Presentation of Financial Statements* is intended to require an entity to present taxes that meet the definition of income taxes under IAS 12. The Committee also noted that it is the basis of calculation determined by the relevant tax rules that determines whether a tax meets the definition of an income tax. Neither the manner of settlement of a tax liability nor the factors relating to recipients of the tax is a determinant of whether an item meets that definition. The Committee further noted that the production-based royalty payments should not be treated differently from other expenses that are outside the scope of IAS 12, all of which may reduce income tax payable. Accordingly, the Committee observed that it is inappropriate to consider the royalty payments to be prepayment of the income tax payables. Because the production-based royalties are not income taxes, the royalty payments should not be presented as an income tax expense in the statement of comprehensive income. The Committee considered that, in the light of its analysis of the existing requirements of IAS 1 and IAS 12, an interpretation was not necessary and consequently decided not to add this issue to its agenda.