IFRS®

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IFRS® Interpretations Committee Meeting

Project	Uncertainty over Income Tax Treatments		
Paper topic	Analysis of matters raised in comment letters		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (the Interpretations Committee). Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Interpretations Committee or the International Accounting Standards Board (the Board) can make such a determination. Decisions made by the Interpretations Committee are reported in IFRIC® *Update*. The approval of a final Interpretation by the Board is reported in IASB® *Update*.

Introduction

1. In October 2015, the IFRS Interpretations Committee (the Interpretations Committee) published a draft Interpretation *Uncertainty over Income Tax Treatments*[1] (the draft Interpretation). The comment period for the draft Interpretation ended in January 2016.

2. Sixty-one respondents provided feedback on the proposals in the draft Interpretation. The comment letters can be accessed here. Agenda Paper 7 of the July 2016 Interpretations Committee meeting provided a summary of the feedback on the draft Interpretation. For ease of reference, this paper has been reproduced as Agenda Paper 2A for this meeting.

3. This paper analyses the most significant matters raised in the comment letters on the draft Interpretation. All other matters are addressed in Appendix A to this paper.

4. The staff will bring any remaining topics to the Interpretations Committee at a future meeting. Those topics include the effective date of the Interpretation and the due process steps taken in the development of the Interpretation. Once the Interpretations

[1] http://www.ifrs.org/Current-Projects/IASB-Projects/IAS-12-Measurement-income-tax-uncertain-tax-position/Draft-Interpretation-October-2015/Documents/ED_IFRIC_UncertaintyOverIncomeTaxTreatments.pdf

Committee has reached decisions on all aspects, we will commence the balloting process. As a final step, we will ask the Board to ratify the balloted Interpretation.

Overview of comments on the draft Interpretation and structure of this paper

5. Respondents generally supported the main aspects of the Interpretation. Comments indicate that the Interpretation would clarify how to apply the requirements in IAS 12 *Income Taxes* in circumstances when income tax treatments are uncertain.

6. Respondents' general support for the Interpretation included the following:

   (a) the proposed scope of the Interpretation. Most respondents agreed with including both current and deferred tax within its scope.

   (b) whether to consider uncertain tax treatments separately or collectively. Respondents generally agreed that the unit of account for considering tax treatments is a matter of judgement.

   (c) the consideration of examinations by taxation authorities.

   (d) the recognition of the effects of uncertainty on the basis of whether it is probable that a taxation authority will accept an uncertain tax treatment.

   (e) the methods used to reflect the effects of uncertainty.

   (f) the proposed transition requirements.

7. On the basis of comments received as summarised in Agenda Paper 2A, we have analysed the following matters:

   (a) interaction with the revised *Conceptual Framework* (paragraphs 9–11);

   (b) scope of the Interpretation (paragraphs 12–21);

   (c) consensus (paragraphs 22–57);

   (d) transition (paragraphs 58–67);

   (e) first-time adopters (paragraphs 68–74); and

   (f) business combinations (paragraphs 75–81).

8. Appendix A to this paper sets out a summary of other matters raised in comment letters, and outlines the staff's proposed approach to addressing those matters.

Interaction with the revised *Conceptual Framework*

What the draft Interpretation said and feedback received

9. Paragraphs BC17–BC18 of the draft Interpretation refer to IAS 12 and the existing *Conceptual Framework* in explaining the use of a 'probable' threshold for the recognition of uncertainty in the measurement of tax assets and tax liabilities. One respondent noted that the Interpretation does not discuss any implications of the revised recognition criteria proposed in the Exposure Draft *Conceptual Framework for Financial Reporting* (the *Conceptual Framework* ED), published in May 2015.

Staff analysis and recommendation

10. In the Introduction to the *Conceptual Framework* ED, the International Accounting Standards Board (the Board) states:

> "However, the IASB will not automatically change existing Standards as a result of the changes to the *Conceptual Framework*. If an existing Standard works well in practice, the IASB will not propose an amendment to that Standard simply because of an inconsistency with the revised *Conceptual Framework*. Any decision to amend an existing Standard would require the IASB to go through its normal due process for adding a project to its agenda and developing an Exposure Draft and an amendment to that Standard".

11. This Interpretation interprets the requirements in IAS 12, which include a probable threshold for the recognition of deferred tax assets. The revised *Conceptual Framework* will prompt no automatic change to existing Standards. Hence, we do not expect any immediate changes to the requirements in IAS 12. If the Board were to

decide to change the requirements in IAS 12 in the future, then it may be appropriate for the Board to consider whether to change the requirements in this Interpretation at that time. However, we see no reason to specifically consider the revised recognition criteria in the *Conceptual Framework* ED in developing this Interpretation.

Question 1—Interaction with the revised *Conceptual Framework*

Does the Interpretations Committee agree with the staff recommendation not to specifically consider the revised recognition criteria in the *Conceptual Framework* ED in developing this Interpretation, and instead to consider the requirements in IAS 12?

Scope of the Interpretation

Interest and penalties

What the draft Interpretation said and feedback received

12. Paragraph BC9 of the draft Interpretation explained that accounting for interest and penalties is not within its scope because outreach conducted when developing the draft Interpretation identified no evidence of significant diversity in practice.

13. Respondents, however, expressed concerns about the scope of the draft Interpretation:

    (a) many respondents commented that they are aware of diversity in practice in accounting for interest and penalties; and

    (b) a few respondents suggested the scope of the Interpretation should be widened to include interest and penalties linked to uncertain tax treatments. Those respondents said that, in some cases, it can be difficult to distinguish income tax from interest and penalties.

Staff analysis and recommendation

14. Although acknowledging the comments about diversity in practice, we consider interest and penalties to be outside the scope of this Interpretation. The original question submitted to the Interpretations Committee addressed income taxes within

the scope of IAS 12, and questioned how to account for uncertain income tax treatments. Accordingly, this Interpretation interprets the requirements of IAS 12, and IAS 12 is silent on the treatment of interest and penalties.

15. We recommend retaining the scope of the draft Interpretation without any specific reference to interest and penalties, on the grounds that IAS 12 does not address interest and penalties more generally.

16. We suggest amending the discussion in BC9 of the draft Interpretation to remove the reference to the lack of significant diversity in practice. We recommend replacing that discussion with a paragraph explaining that the Interpretation specifically interprets the requirements in paragraphs 46–47 of IAS 12 when income tax treatments are uncertain. The Interpretation does not address items, such as interest and penalties, that IAS 12 does not specifically address.

Uncertain tax treatments other than those related to income tax

What the draft Interpretation said and feedback received

17. The draft Interpretation proposed that the Interpretation would apply only to income taxes within the scope of IAS 12.

18. A few respondents suggested that the Interpretation should apply to all uncertain tax treatments and uncertain levies, not only to uncertain income tax treatments. The commentators said that including all uncertain tax treatments within the scope of the Interpretation would improve the comparability and understandability of information provided in financial statements.

Staff analysis and recommendation

19. As noted in paragraph 14 of this paper, the original question submitted to the Interpretations Committee addressed income taxes within the scope of IAS 12—it did not address other taxes or levies outside the scope of that Standard. Most respondents agreed with the proposed scope of the draft Interpretation.

20. Broadening the scope to include taxes or levies that are not income taxes could raise additional issues that might take some time to resolve. We are aware that stakeholders have raised questions in the past about the scope of IAS 12, and about whether particular taxes or levies constitute income taxes. The Interpretations Committee has also developed the proposals considering the requirements in IAS 12—there is a risk that conflicts within IFRS literature could arise if the scope of the Interpretation is wider than that of IAS 12.

21. Consequently, we recommend that the scope of the Interpretation remains unchanged to include only income taxes within the scope of IAS 12, and that the Basis for Conclusions includes an explanation of the scope.

Question 2—Scope of the Interpretation

Does the Interpretations Committee agree with the staff recommendation:

(i) not to expand the scope of the Interpretation beyond income taxes within the scope of IAS 12; and

(ii) not to specifically address interest and penalties?

Consensus

Right to re-examine

What the draft Interpretation said and feedback received

22. The draft Interpretation proposed that an entity should assume a taxation authority with the right to do so will (re-)examine amounts reported, and have full knowledge of all relevant information when making its examinations.

23. A few respondents suggested that the Interpretation clarify that the period for which an entity assumes a taxation authority's right to examine tax amounts continues until that right expires. They suggested that an entity consider silence as implicit acceptance only after the taxation authority's right has expired.

24. In contrast, a few respondents suggested that an entity considers how probable it is that a taxation authority will re-examine, instead of assuming that will happen. They view the probability assessment as particularly important in the absence of a time limit on the taxation authority's right to examine.

Staff analysis and recommendation

25. The Interpretations Committee decided to propose the assumption that a taxation authority with the right to do so will (re-)examine amounts reported to it, and have full information, in the light of the requirements in paragraphs 46–47 of IAS 12—ie paragraphs 46–47 require an entity to measure tax assets and liabilities based on the tax laws enacted or substantively enacted at the reporting date. US GAAP also requires this approach in the context of uncertain tax treatments.

26. We understand that this assumption may be more difficult to apply, or result in what some might view as inappropriate outcomes, when the taxation authority faces no time limit on its right to examine (ie there is no statute of limitations). For example, in a jurisdiction with no statute of limitations, an entity might recognise uncertainty 20 years after applying a particular tax treatment when it might be doubtful that the taxation authority would ever examine the treatment. Accordingly, we considered whether it might be appropriate to change the proposals to allow an entity to consider the probability that a taxation authority will examine amounts reported to it, instead of assuming that it will do so.

27. However, we recommend no significant changes to this aspect of the proposals. In reaching this conclusion, we considered the following:

    (a) Assuming a taxation authority will examine the reported amounts generally would not result in an entity reflecting uncertainty when it is unlikely to receive or pay amounts relating to that uncertain tax treatment. The threshold for recognising uncertainty is an assessment of whether it is probable that the authority will *accept* an uncertain tax treatment. If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity does not have to reflect uncertainty in the amounts recognised, regardless of whether it assumes the authority will examine the tax treatment. In other words, the recognition of uncertainty is not determined on the basis of whether a taxation authority examines a tax treatment.

(b) Almost all respondents support the examination assumption. This indicates that they do not expect significant difficulties in applying the assumption, and do not disagree with the outcomes that result from its application. We think that the examination assumption works well when there is a statute of limitations.

(c) We acknowledge that the assumption may be challenging to apply in the absence of a statute of limitations. In saying that, we understand that there are relatively few jurisdictions that lack a statute of limitations—having done some research, we are aware of only four: Bahrain, Malawi, Namibia and Swaziland.

28. We recommend retaining the requirement to assume that a taxation authority with the right to do so will (re-)examine amounts reported to it, and have full information. In those jurisdictions with no statute of limitations, there is likely to be a point after which it becomes increasingly probable that the taxation authority would accept the tax treatment, simply because so much time has elapsed. However, we do not recommend adding anything specific within the Interpretation for such circumstances. For example, adding the passage of time as an additional factor to consider, possibly only when there is no statute of limitations, risks complicating the requirements, making it less clear which factors are relevant and in what circumstances. In our view, if an entity has filed a tax position that it concludes is probable of not being accepted, then it is not unreasonable to reflect the uncertainty in its financial statements, if the taxation authority has the right to (re-)examine.

Results of examination by a taxation authority

What the draft Interpretation said and feedback received

29. The draft Interpretation said that the results of taxation authority examinations are new facts and circumstances that might affect an entity's conclusions about uncertain tax treatments. However, the draft Interpretation suggested treating explicit acceptance differently from implicit acceptance. Explicit acceptance of an entity's tax treatment might affect similar tax treatments for other periods, whereas implicit acceptance—for example, silence from a taxation authority about a particular tax treatment having reviewed a tax filing—would not necessarily be a new fact for similar tax treatments in other periods.

30. One respondent stated that the effect of implicit or explicit acceptance by a taxation authority may vary across jurisdictions. The respondent suggested that an entity consider results of taxation authorities' examinations on similar tax treatments in the light of local laws. That respondent also suggested that implicit acceptance alone is insufficient to support a change in accounting if the taxation authority's ability to re-examine tax treatments continues.

31. Another respondent commented that, in practice, it is often impossible for an entity to obtain objective evidence to determine whether a taxation authority's implicit acceptance is the result of a specific view taken by the taxation authority or the result of a failure to detect the issue. Some respondents also questioned the proposal to differentiate between explicit and implicit acceptance. Some respondents said it is unclear how explicit acceptance differs from implicit acceptance, while others said the form of acceptance should not affect the accounting for uncertain tax treatments.

Staff analysis and recommendation

32. The application guidance in paragraphs A3–A6 of the draft Interpretation addressed how an entity would consider the results of examinations by a taxation authority—ie whether to consider those results as a change in facts and circumstances that would

trigger the reassessment of the judgements and estimates required by the Interpretation.

33. We agree with respondents who found the application guidance, and in particular, the application guidance on implicit acceptance, difficult to follow. We recommend changing the structure of this section of the application guidance to focus more generally on changes in facts and circumstances that, depending on the particular circumstances, trigger a reassessment of judgements and estimates. An entity would apply judgement in assessing whether a particular event or factor represents a change in facts and circumstances that triggers reassessment in the context of the relevant applicable tax laws. A particular event or factor might trigger reassessment for one entity in the light of the relevant tax laws but not trigger reassessment for another entity subject to different tax laws.

34. Paragraphs A2–A6 of the draft Interpretation mentioned all of the following as new facts to consider. We suggest retaining those examples, but structuring the section such that these are examples of the events or factors that, depending on the circumstances, an entity might consider as a change in facts or circumstances that triggers reassessment:

    (a) The expiration of a taxation authority's right to examine or re-examine the tax treatment—such a change in facts would remove any uncertainty about the tax treatment.

    (b) Results of examinations by a taxation authority. For example:

        (i) acceptance by a taxation authority of an uncertain tax treatment; or

        (ii) becoming aware that a taxation authority has challenged a similar tax treatment with another entity.

Question 3—Right to re-examine and results of examinations
1. Does the Interpretations Committee agree with the staff recommendation to retain the requirement to assume that a taxation authority with the right to do so will (re-)examine amounts reported to it, and have full information? 2. Does the Interpretations Committee agree with the staff recommendation to change the structure of the application guidance in paragraphs A2–A6 to focus more generally on changes in facts and circumstances, along the lines described in paragraphs 33–34 of this paper? That application guidance would exclude any specific discussion of implicit acceptance by a taxation authority.

Approach to reflect the effect of uncertainty

What the draft Interpretation said and feedback received

35. The draft Interpretation proposed that an entity should consider whether it is ‘probable’ that a taxation authority will accept an uncertain tax treatment. If the entity concludes that acceptance is probable, it determines the tax position consistently with the tax treatment used, or planned to be used, in its income tax filings. If the entity concludes that acceptance is not probable, it reflects the effect of uncertainty in determining the tax position by using either the ‘most likely amount’ method or the ‘expected value’ method.

36. One accounting firm suggested replacing ‘probable’ with ‘expected’. The firm suggested that the outcome of such an approach would be consistent with the general measurement principle in paragraphs 46–47 of IAS 12. The firm added that the Interpretation would need to define ‘expected’.

37. Some members of a group of standard-setters said that an entity should consider the probability of different scenarios in the measurement. They said it would be arbitrary for an entity to give the same consideration to both 51 per cent and 100 per cent probability scenarios.

38. Two respondents suggested that, in addition to the two methods proposed, entities should be allowed to use alternative methods to reflect the effect of uncertainty, such as the 'cumulative probability' approach, or a method based on the tax filing that 'adds a top-level adjustment' to incorporate the probability risk in the measurement. One respondent said that the cumulative probability approach, which is the required approach under US GAAP, would not be difficult for those who already use this method. The other respondent suggested that a top-level adjustment (with appropriate disclosure of the risks) would be easier to apply than the approaches proposed, and would also facilitate control and monitoring of the amount recognised by the entity.

Staff analysis and recommendation

39. The draft Interpretation proposed using the 'probable' threshold only in evaluating whether an entity will pay or recover an amount in relation to uncertainty, and thus in determining whether to recognise the effect of uncertain tax treatments. Accordingly, we think that the draft Interpretation uses the 'probable' threshold as a recognition threshold, which is consistent with its use in IAS 12. Having determined whether to recognise the effect of uncertainty using the probable threshold, an entity then applies the general measurement requirements in paragraphs 46–47 of IAS 12, also applying the more specific measurement requirements within the Interpretation when required to reflect the effect of uncertainty.

40. The probable threshold treats all likelihoods beyond that threshold the same way, ie any likelihood of acceptance by the taxation authority beyond the probable threshold is treated the same way as 100 per cent likelihood of acceptance. In both cases, an entity would not reflect the effect of uncertainty in determining the tax position. The Interpretations Committee discussed this when developing the proposals (see paragraphs BC15–BC18 of the draft Interpretation), and almost all respondents supported the proposed 'probable' threshold. We recommend not changing the approach.

41. Paragraphs BC22–BC23 of the draft Interpretation explain the Interpretations Committee's conclusion that increased complexity was just one reason for not

permitting the use of the cumulative probability approach. The Interpretations Committee also noted that this approach is not used elsewhere in IFRS Standards, and its introduction in this Interpretation might conflict with the measurement principle in paragraph 46 of IAS 12.

42. We think that the suggestions on the methods used to reflect uncertainty provide insufficient reason to either add additional methods or change one or both of the methods proposed in the draft Interpretation. The methods proposed are commonly used elsewhere in the Standards and, thus, are not new. Including untested methods has the potential to be costly to implement and may reduce comparability for users of financial statements.

Question 4—Approach to reflect the effect of uncertainty

1. Does the Interpretations Committee agree with the staff recommendation to retain the probable threshold with regard to the recognition of the effect of uncertain tax treatments?

2. Does the Interpretations Committee agree with the staff recommendation not to permit the use of alternative methods, beyond the two proposed in the draft Interpretation, with regard to reflecting the effect of uncertainty?

Consideration of changes in facts and circumstances

What the draft Interpretation said and feedback received

43. The draft Interpretation proposed that an entity reassess the judgements and estimates required by the Interpretation if facts and circumstances change. This reassessment is performed in the period of the change.

44. Some respondents asked for clarity about this proposal. Respondents asked about the interaction of the proposed requirements with those in IAS 10 *Events after the Reporting Period*, ie whether an entity regards changes in facts and circumstances that occur between the end of the reporting period and the date on which the financial statements are authorised for issue as adjusting or non-adjusting events.

45. Others questioned the meaning of 'period of the change', and whether it is appropriate to always reflect changes in facts and circumstances in the period of the change. For example, if an entity becomes aware that the taxation authority has rejected a similar tax treatment with another entity, one respondent said it is unclear whether the period of the change is the period when the taxation authority took the specific view or when the entity became aware of the taxation authority's view.

46. Respondents also asked whether the Interpretations Committee intended an entity to recognise changes in uncertainty consistently with a change in estimate in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. If so, these respondents suggested that the wording should be more aligned with IAS 8, and entities should distinguish this change in estimate from the correction of an error.

Staff analysis and recommendation

47. We agree that the Interpretation could be better aligned with the requirements in IAS 8 and IAS 10 in this respect.

48. Paragraph 34 of IAS 8 states that 'an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience'. The draft Interpretation said that an entity should reassess judgements and estimates if there is a 'change in facts and circumstances'. We suggest that 'change in facts and circumstances', in effect, aligns with how IAS 8 describes a change in accounting estimate, and is understandable. Other Standards also refer to changes in facts and circumstances in similar situations (for example, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*). Accordingly, we recommend retaining the reference to changes in facts and circumstances within the Interpretation.

49. Paragraphs 36–37 of IAS 8 state the following regarding accounting for the change in an accounting estimate:

> 36 The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

50. We suggest it would be helpful to include a cross-reference to paragraphs 36–37 of IAS 8 within the Interpretation to help clarify the requirement to reflect changes in the period of the change. We see no need to distinguish a change in facts and circumstances from a correction of an error within the Interpretation. IAS 8 includes requirements regarding the correction of an error, and we think that it is clear from those requirements that a change in facts and circumstances would be an event that does not give rise to an error.

51. For changes in facts and circumstances that occur after the reporting period, we recommend clarifying that an entity should apply the requirements in IAS 10 to determine whether the change is an adjusting or non-adjusting event.

Question 5—Consideration of changes in facts and circumstances

1. Does the Committee agree with the staff recommendation to cross-refer to paragraphs 36–37 of IAS 8 to clarify the requirement to reflect changes in the period of the change?

2. Does the Committee agree with the staff recommendation to clarify that an entity should apply the requirements in IAS 10 to determine whether a change in facts and circumstances that occurs after the reporting period is an adjusting or non-adjusting event?

Disclosure

What the draft Interpretation said and feedback received

52. The draft Interpretation did not introduce new disclosure requirements. Instead, the draft Interpretation cross-referred to existing disclosure requirements in IAS 1 *Presentation of Financial Statements* and IAS 12. The draft Interpretation also mentioned that an entity would refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* when determining what disclosures to provide in respect of tax-related contingencies.

53. Almost all respondents agreed with the proposal to introduce no additional disclosure requirements in the draft Interpretation. However, a few respondents suggested that, if the Interpretation proposes no change, the Interpretations Committee should remove the references to the disclosure requirements in other Standards. Those respondents said that the references to paragraphs in Standards, and in particular the reference to IAS 37, have the potential to create confusion about which Standard an entity applies.

54. A few respondents disagreed with the disclosure proposals because, in their view, the proposals provide insufficient details to explain the information an entity should disclose. One respondent asked for additional disclosure of collective assessments, suggesting that, in this case, an entity should disclose the nature of the individual exposures.

Staff analysis and recommendation

55. We agree with those respondents who said that the reference to IAS 37 within the disclosures section of the Interpretation could be confusing. For this reason, we recommend removing the sentence referring to IAS 37 in paragraph 21 of the draft Interpretation. This reference, referring to disclosure requirements about tax-related contingencies, is unnecessary to highlight those requirements. This is because the requirement to disclose tax-related contingencies is in paragraph 88 of IAS 12, and we recommend retaining the reference to that requirement in IAS 12.

56. We also recommend retaining the references to the disclosure requirements in paragraphs 122 and 125–129 of IAS 1. We suggest that those references, as well as the reference to paragraph 88 of IAS 12, are a helpful reminder of disclosure requirements in other Standards that might often be relevant in the context of uncertain tax treatments.

57. The draft Interpretation did not propose any additional disclosure requirements, with which we agree. Nonetheless, to emphasise this, we propose moving the disclosure paragraphs from the Consensus section of the Interpretation to the Application Guidance. Doing so, we suggest, makes it clear that the Interpretation changes no existing requirements and introduces no new requirements. Instead, the Interpretation provides only application guidance on how disclosure requirements in IAS 1 and IAS 12 are applied in the context of uncertain tax treatments.

Question 6—Disclosure

1. Does the Committee agree with the staff recommendation to retain the references to the disclosure requirements in paragraph 122 and paragraphs 125–129 of IAS 1, and paragraph 88 of IAS 12, but to remove the reference to IAS 37 within paragraph 21 of the draft Interpretation?

2. Does the Committee agree with the staff recommendation to move the disclosure paragraphs from the Consensus section of the Interpretation to the Application Guidance?

Transition

What the draft Interpretation said and feedback received

58. The draft Interpretation permitted a choice of two methods of transition:

(a) a full retrospective approach applying IAS 8—if an entity can obtain the information necessary to apply this approach without the use of hindsight; or

(b) a cumulative catch-up approach, which does not require adjustments to comparative information.

59. Respondents generally agreed with the proposed transition requirements. A number of these supportive respondents noted that it would be difficult to apply the Standard retrospectively without the use of hindsight, but supported retaining the option to do so in any event.

60. In contrast, a few respondents suggested deleting the option to apply the Interpretation retrospectively because of the difficulties in doing so. In their view, the small number of entities that may be able to do this without the use of hindsight does not justify the inclusion of an accounting policy choice.

61. A few respondents disagreed with the proposed transition requirements on the grounds that an entity should apply a full retrospective approach applying IAS 8. Two main reasons were given:

(a) a policy choice would reduce the comparability of financial statements; and

(b) the risk of using hindsight would be insufficiently high to justify permitting another transition method.

62. One standard-setter noted that would be unnecessary for the Interpretation to require disclosure of the transition method applied because paragraph 28(b) of IAS 8 already requires such disclosure.

Staff analysis and recommendation

63. The default transition requirements in IAS 8 require retrospective application on transition.

64. As explained in paragraph BC32 of the draft Interpretation, the Interpretations Committee considered that it would often be impossible to apply the Interpretation retrospectively without the use of hindsight. Consequently, the Interpretations Committee proposed that an entity be permitted to apply the cumulative catch-up approach. For the reasons set out in the draft Interpretation, we recommend that the

Interpretation continue to include the cumulative catch-up approach as an alternative on transition.

65. In some cases, relevant information may be available to an entity to apply the Interpretation retrospectively applying IAS 8. In these situations, we recommend retaining the proposal to permit an entity to apply the Interpretation retrospectively if it is able to do so without the use of hindsight.

66. Consequently, we recommend retaining the proposed transition requirements in the draft Interpretation.

67. However, we recommend removing the specific requirement proposed in paragraph B3 of the draft Interpretation to disclose the transition method applied. We agree that this requirement is not needed within the Interpretation because of the requirements already in IAS 8. We also note that that we do not typically include such a requirement within each Standard or Interpretation that permits a choice of transition method.

Question 7—Transition
1. Does the Interpretations Committee agree with the staff recommendation to retain a choice of transition method—retrospective application applying IAS 8 (if that is possible without the use of hindsight) or the cumulative catch up method, which does not require adjustments to comparative information? 2. Does the Interpretations Committee agree with the staff recommendation to remove the proposed disclosure requirement in paragraph B3 of the draft Interpretation?

First-time adopters

What the draft Interpretation said and feedback received

68. The draft Interpretation did not specifically discuss first-time adopters of IFRS Standards. A few respondents suggested extending the transition requirements to first-time adopters. In their view, the risk of using hindsight would be as relevant to first-

time adopters as to existing IFRS preparers. A few respondents also suggested that first-time adopters be provided with an option to present in profit or loss changes in uncertain tax positions after the date of transition. Otherwise, the respondents said it might be difficult to determine whether an entity presents those changes in profit or loss, other comprehensive income or equity.

Staff analysis and recommendation

69. Transition for first-time adopters was discussed by the Interpretations Committee at its meeting in July 2014. At that time, the proposed Interpretation required retrospective application for existing IFRS preparers and, thus, no further discussion took place with regard to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

70. However, after this discussion, the Interpretations Committee decided to permit the cumulative catch-up approach proposed in paragraph B2(a) of the draft Interpretation. This decision was made because of the difficulties in applying the requirements of the Interpretation without using hindsight as noted above. At its January 2015 meeting, the Interpretations Committee discussed extending the transitional relief to first time adopters but decided not to do so (Agenda Paper 2).

71. Paragraph BC27 of IFRS 1 explains that the Board expects first-time adopters to begin planning for transition to IFRS Standards on a timely basis. As a result, first-time adopters are expected to be able to collect most information needed for transition at, or very soon after, the date of transition to IFRS Standards. Accordingly, first-time adopters are not expected to have the same difficulties with hindsight as have existing IFRS preparers.

72. We also note that IFRS 1 does not include any exemptions or exceptions from applying the requirements in IAS 12 for first-time adopters.

73. Consequently, we recommend not providing general transition relief for first-time adopters. In saying that, a first-time adopter may face the same hindsight difficulties as existing IFRS preparers if the first-time adopter's date of transition to IFRSs is

before the date that the Interpretation is issued—for example, a date of transition to IFRSs of 1 January 2017 if the Interpretation is issued in the first half of 2017. This might be the case if the first-time adopter wishes to apply the Interpretation early, upon transition to IFRSs.

74. For this reason, we recommend providing short-term transition relief for first-time adopters so that they are provided with the same transition relief as existing IFRS preparers when faced with the same hindsight difficulties. That transition relief would allow a first-time adopter with a date of transition to IFRSs before the issuance of the Interpretation to apply the cumulative catch-up approach proposed in paragraph B2(a) of the draft Interpretation.

Question 8—First-time adopters
Does the Committee agree with the staff recommendation to provide short-term transition relief for first-time adopters?

Business combinations

What the draft Interpretation said and feedback received

75. The draft Interpretation did not specifically discuss whether the requirements would be applicable in situations in which an entity has acquired uncertain tax treatments as part of a business combination. A few respondents asked for clarity in this respect. Those respondents noted that paragraph 24 of IFRS 3 *Business Combinations* requires an entity to account for deferred tax assets and liabilities that arise as part of a business combination applying IAS 12. However, that paragraph does not refer to current tax assets and liabilities. One respondent also referred to paragraph BC295 of IFRS 3, which acknowledges that IAS 12 is silent in respect of uncertain income taxes.

76. Respondents said there is a lack of clarity about whether an entity measures current tax uncertainties acquired as part of a business combination at fair value or applying

IAS 12 (as for deferred taxes). They also noted that measuring current taxes at fair value in a business combination would allow an entity to factor in non-detection risk. A Day 2 gain or loss could result if an entity measures current taxes at fair value at the acquisition date, and from Day 2 is required to apply the Interpretation, which as proposed does not allow for the consideration of non-detection risk.

Staff analysis and recommendation

77. The Interpretations Committee did not discuss the interaction between the Interpretation and IFRS 3 when developing the draft Interpretation.

78. In this respect, we note that the Interpretation interprets the requirements in paragraphs 46–47 of IAS 12 when tax treatments are uncertain. In addition, paragraphs 24–25 of IFRS 3 require an entity to apply IAS 12 to deferred tax amounts that arise, or are acquired or assumed, as part of a business combination. Accordingly, the Interpretation would apply to deferred tax amounts recognised as part of a business combination when deferred tax treatments are uncertain.

79. IFRS 3 applies to all assets acquired and liabilities assumed in a business combination, although it does not specifically mention current taxes. We think it is beyond the scope of this Interpretation to address the accounting for current taxes acquired or assumed as part of a business combination.

80. If an entity measures uncertain current tax treatments acquired or assumed as part of a business combination at fair value at the acquisition date, we acknowledge that there could be an accounting gain or loss recognised after the acquisition date when the entity applies IAS 12 (and, thus, this Interpretation). However, we are aware that this is not the only instance in which such a post-acquisition accounting gain or loss might arise in relation to a business combination. For example, applying IFRS 3, an entity measures provisions assumed in a business combination at fair value on the acquisition date but subsequently measures them applying IAS 37. Due to the differing measurement requirements in IFRS 3 and IAS 37, there might be a change in the carrying amount of provisions after the acquisition date.

81. We do not see a need to address this issue in developing the Interpretation.

Question 9—Business Combinations
Does the Committee agree with the staff recommendation not to address business combinations as part of the Interpretation?

Other matters raised in comment letters

82. The table in Appendix A to this paper sets out a summary of other matters raised in the comment letters and our proposed response to those matters.

Question 10—Other matters raised in comment letters
Does the Committee agree with the staff proposals outlined in Appendix A to this paper?

Appendix A—Other matters raised in comment letters

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
Scope				
1	General Comments	A narrow-scope amendment or *Annual Improvement* would be a better vehicle for addressing this issue rather than an Interpretation.	May 2014 Interpretations Committee Meeting	We recommend proceeding with an Interpretation rather than the more intrusive option of a narrow-scope amendment. The Interpretation does not change the existing requirements in IAS 12, but adds to those requirements to deal with circumstances when income tax treatments are uncertain.
2	General Comments	Some respondents were concerned about the different asset recognition thresholds in IAS 12 ('probable' threshold) and IAS 37 ('virtually certain' threshold), particularly for taxes within the scope of IAS 37 that are similar to income taxes. Some suggested explaining the inconsistency in the Basis for Conclusions, and another respondent suggested that the Board could address the recognition and measurement of uncertainties more broadly in the future.	January 2014, May 2014 and July 2014 Interpretations Committee Meetings	As noted in the main body of this paper, we recommend that the Interpretation address only income taxes within the scope of IAS 12, and not taxes that may be within the scope of IAS 37. The comments raised are not specific to this project on uncertain tax treatments, but apply more generally to the requirements in IAS 12 and IAS 37. We do not propose to address these wider comments as part of this project.

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
Consensus				
3	General Comments	One preparer was of the view that the recovery of economic benefits arising from income tax assets is often uncertain, and it is difficult to assess the probability of the possible outcome. This respondent said that a 'virtually certain' recognition threshold would better reflect the high degree of uncertainty and would ensure that similar issues are treated in a similar way.	November 2014 Interpretations Committee Meetings	This comment is beyond the scope of this project—the respondent appears to disagree with the probable threshold in IAS 12 for the recognition of tax assets. We do not propose to address this wider comment as part of this project.
4	Interaction with the *Conceptual Framework*	One respondent suggested that the Board address the wider issue of symmetric versus asymmetric treatments of uncertainty in the revised *Conceptual Framework* and, thereafter, consider aligning the accounting treatments of the different Standards.	This was not previously discussed by the Interpretations Committee.	This is beyond the scope of this project. Respondents generally support the development of the Interpretation at this time. We therefore do not propose to address the comment as part of this project.
5	Interaction with the *Conceptual Framework*	One respondent suggested that the Interpretation should be deferred until the finalisation of the *Conceptual Framework* on the grounds that the *Conceptual Framework* ED addresses 'probability'.	This was not previously discussed by the Interpretations Committee.	Given the use of the term 'probable' in IAS 12, we think there is no reason to defer using this term in the Interpretation until the completion of the *Conceptual Framework* project. In addition, as noted above, respondents generally support the development of the Interpretation at this time.

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
6	Unit of Account	One preparer said that an entity may need to apply a combination of separate and collective approaches outlined in the draft Interpretation. Therefore, that respondent asked for clarification that the two approaches are not alternatives but can be applied in combination.	November 2014 Interpretations Committee Meeting; April 2015 IASB Meeting	Paragraph 11 of the draft Interpretation states: "An entity shall determine whether each uncertain tax treatment should be considered separately, or whether some uncertain tax treatments should be considered together as a group, based on which approach provides better predictions of the resolution of the uncertainty". The use of the term 'some' when discussing whether to apply a collective approach, by definition, means that both approaches can be applied within an entity's total population of uncertain tax treatments. Therefore we do not propose to amend the draft Interpretation for this comment.
7	Unit of Account	Two respondents commented that the requirements in paragraph 12 of the draft Interpretation are inconsistent with those in paragraph 11, and suggest that they are aligned or that paragraph 12 is deleted. Paragraph 11 requires an approach that 'provides better predictions of the resolution of the uncertainty'; paragraph 12 requires an entity to consider uncertain tax treatments together when doing so 'better reflects the manner in which the entity prepares and supports tax treatments'.	November 2014 Interpretations Committee Meeting; April 2015 IASB Meeting	We think that retaining the examples in paragraph 12 is helpful, as demonstrated by the feedback received on topics 8 and 9. However, we propose to amend paragraph 12 to clarify the link with paragraph 11: "~~For example,~~ When selecting the approach that provides a better prediction of the resolution of the uncertainty, an entity ~~would~~ might consider, for example, ~~uncertain tax treatments together as a group when doing so better reflects~~ the manner in which ~~the entity~~ it prepares and supports tax treatments or ~~when collective assessment is consistent with~~ the approach that the entity expects

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
				the taxation authority to take during an examination~~, or both~~.
8	Unit of Account	Two respondents said that an entity should consider entity-specific factors in determining the unit of account, unless that would conflict with the approach followed by the taxation authority, in which case the taxation authority's approach should be followed.	November 2014 Interpretations Committee Meeting; April 2015 IASB Meeting	Paragraph 11 includes the principle in this respect—ie an entity considers tax treatments collectively or separately on the basis of which approach provides a better prediction of the resolution of the uncertainty. Respondents generally agreed with this approach. We think it would be confusing if we were to add a presumptive overlay to that principle regarding entity-specific factors. Therefore we do not propose to amend the draft Interpretation for this comment.
9	Unit of Account	One respondent said that the Interpretation should specifically state that an entity considers interdependent tax positions together.	November 2014 Interpretations Committee Meeting; April 2015 IASB Meeting	We think that paragraphs 11–12 of the draft Interpretation provide sufficient requirements on the unit of account. In the case of interdependent tax positions, considering the positions together as a group is likely to provide a better prediction of the resolution of uncertainty in most, if not all, cases. We therefore think there is no need to mention interdependent tax positions explicitly.

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
10	Unit of Account	One accounting firm observed that, in some jurisdictions, a taxpayer is able to negotiate a settlement that combines different uncertainties in a way that does not necessarily reflect a strict application of the tax law. They suggested considering whether an entity should be able to take into account this potential negotiation when determining the unit of account and, if so, whether this is consistent with the requirement in IAS 12 to recognise tax treatments based on the tax law.	November 2014 Interpretations Committee Meeting; April 2015 IASB Meeting	If a taxation authority has the ability to negotiate settlements, it would appear to be clear that the taxation authority has the legal authority to do so. Therefore, in our view, taking into account these settlements is consistent with the requirements in IAS 12 to recognise tax treatments based on the tax law. We do not see a need to address this explicitly as part of the Interpretation.
11	Unit of Account	A few respondents stated that an entity should consider uncertain tax treatments collectively, unless there is an overriding reason to consider them independently. In contrast, another respondent suggested that an entity should consider uncertain tax treatments separately, unless the taxation authority takes a collective approach.	November 2014 Interpretations Committee Meeting; April 2015 IASB Meeting	An entity might have several uncertain tax treatments with one or more taxation authorities at any one time. There might be a mix of cases, some of which will be resolved in isolation and others that may be linked with other cases. Accordingly, requiring one treatment may not appropriately reflect each entity's situation. Respondents also generally agreed with the approach proposed in the draft Interpretation—this suggestion would not be line with the proposed approach. We do not propose to amend the draft Interpretation for this comment.

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
12	Unit of Account	Some respondents said that it is difficult to interpret the term 'collectively', and suggested including examples to help explain how and when to consider uncertain tax treatments separately and collectively.	November 2014 Interpretations Committee Meeting; April 2015 IASB Meeting	Paragraph 12 provides factors to consider in determining when to consider tax treatments collectively or separately. An entity's assessment of which approach is a better prediction of the resolution of the uncertainty would be very dependent on the specific applicable tax law. Therefore, we cannot see how to provide examples in this respect in a way that would be helpful and that would not raise more questions than answers.
13	Examination by taxation authorities	Some respondents asked for: (a) clarity about situations in which taxation authorities do not have all relevant information and full knowledge; (b) what is meant by 'results of examination'; and (c) examples to illustrate how to determine when facts and circumstances change.	September 2014 and November 2014 Interpretations Committee Meetings; April 2015 IASB Meeting	(a) We think that in situations in which taxation authorities do not have all relevant knowledge, an entity should still assume full knowledge. We therefore do not propose an amendment to the draft Interpretation in this respect. (b) We acknowledge that examination procedures vary by jurisdiction, and that in some jurisdictions the examination can have multiple phases. However, we cannot provide for every process in every jurisdiction and suggest an entity should apply judgement as to when there is a result of an examination. We do not propose to amend the draft Interpretation in this respect. (c) Our recommendation regarding changes in facts and circumstances in the main body of the paper should help to address the request in this respect.

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
14	Approach to reflect the effect of uncertainty	One preparer mentioned that the proposed approach would be time consuming, and entities would incur costs to upgrade IT systems.	This was not previously discussed by the Interpretations Committee.	In the outreach performed when developing the draft Interpretation, cost of implementation was not highlighted as a major issue. Only one preparer has raised this in its comment letter. We would expect an entity to generally have a record of its considerations in preparing and submitting tax returns to taxation authorities, which would then be useful when applying the Interpretation.
15	Approach to reflect the effect of uncertainty	A few respondents commented on the use of the 'expected value' method. They expressed concerns about the practicality of calculating supportable probability-weighted amounts, and said that the 'most likely amount' will, in the majority of cases, be more helpful for users and more consistent with the principle in paragraph 46 of IAS 12.	September 2014, November 2014 and January 2015 Interpretations Committee Meetings; April 2015 IASB Meeting	Both the expected value and the most likely amount are commonly used in IFRS Standards. We recommend retaining both options because there are situations in which the most likely amount is unlikely to be useful to predict the resolution of the uncertainty, and vice versa for the expected value. We think that the requirements regarding the measurement method to use to reflect uncertainty are operational and understandable because they are consistent with requirements in IFRS 15 *Revenue from Contracts with Customers*.

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
16	Approach to reflect the effect of uncertainty	A few respondents asked for particular clarifications, including: (a) defining the term 'probable' as 'more likely than not', and how to apply 'probable' in practice; and (b) acceptance by a taxation authority means full acceptance and not partial acceptance.	The 'probable' threshold was discussed at the January 2014 and May 2014 Interpretations Committee Meetings. Acceptance by a taxation authority was discussed at the April 2015 IASB Meeting.	(a) The term 'probable' is used in IAS 12 without being defined. We therefore recommend not defining the term in the Interpretation. (b) In our view, if there is a partial acceptance of a tax filing, only the part that is accepted is possibly considered as a change in facts and circumstances that might trigger reassessment of judgements and estimates. We think that this does not require further clarification.
17	Presentation	One accountancy body asked about the possibility of offsetting dissimilar tax assets and tax liabilities when considering uncertain tax treatments collectively.	This was not previously discussed by the Interpretations Committee.	As noted in topic number 23 below, we recommend stating explicitly that this Interpretation interprets IAS 12. Accordingly, the offsetting requirements in paragraphs 71 and 74 of IAS 12 would apply to uncertain tax treatments. We do not propose to amend the draft Interpretation for this comment.
18	Presentation	A few respondents said that the Interpretation should address the presentation of tax liabilities, and in particular how to apply the current/non-current presentation requirements in IAS 1.	This was not previously discussed by the Interpretations Committee.	The Interpretation specifically relates to uncertain tax treatments. Therefore the presentation of current/non-current tax liabilities is not within its scope. We do not propose to address this wider comment as part of the project.

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
19	Presentation	An accounting firm suggested stating explicitly that an entity should not present the effects of uncertainties over income tax treatments as an asset or liability separately from current or deferred tax assets or liabilities.	This was not previously discussed by the Interpretations Committee.	We think that the requirements in IAS 1 are sufficient in this respect—IAS 1 specifies the minimum line items to be presented in the statement of financial position, and in paragraph 55 includes a principle for the presentation of additional line items—ie when presentation is relevant to an understanding of the entity's financial position. We do not propose to amend the draft Interpretation for this comment.
20	Drafting	A few respondents recommended using the term 'best estimate', instead of 'better prediction', when an entity determines whether to use the most likely amount or the expected value for uncertain tax treatments.	September 2014, November 2014 and January 2015 Interpretations Committee Meetings; April 2015 IASB Meeting	The term 'better prediction' was chosen to avoid confusion with existing concepts in IFRS Standards. We think that 'better prediction' is a more neutral and objective term than best estimate, which could be misinterpreted as 'the most likely outcome'.
21	Drafting	Two standard-setters suggested that the Interpretation state clearly that it applies only to items that are within the scope of IAS 12, and not to taxes other than income taxes (for example, duties and value added tax).	November 2014 Interpretations Committee meeting	Paragraph 8 of the draft Interpretation addressed this, but we will consider this comment when drafting the Interpretation.

Topic Number	Topic	Issue	Interpretations Committee previous discussion	Staff proposal
22	Drafting	An accounting firm stated that the draft Interpretation does not provide a clear link to the requirements in IAS 12 that are being interpreted. It therefore suggested stating explicitly that the Interpretation interprets requirements in paragraph 46 and 47 of IAS 12.	September 2014 Interpretations Committee Meeting	We agree and recommend stating explicitly that the Interpretation interprets paragraphs 46–47 of IAS 12 (see topic number 23 below).
23	Drafting	One respondent observed that the application of the requirements in the Interpretation would change practice for some entities. That respondent was concerned that the statement 'This [draft] Interpretation does not change any existing requirements in IAS 12' might imply that any such entities had applied IAS 12 incorrectly in the past.	This was not previously discussed by the Interpretations Committee.	Although we acknowledge this potential interpretation of the sentence, it is not the intended purpose. We propose to amend the sentence along the lines of the following: "This Interpretation does not amend the existing requirements in IAS 12, but adds requirements clarifying how to apply paragraphs 46–47 of IAS 12 in circumstances in which income tax treatments are uncertain."