IFRS Accounting

Staff paper

Agenda reference: 12A

IASB® meeting

Date	**July 2026**
Project	**Presentation of Taxes or Other Charges that Are Not Tax Expense or Tax Income Applying IAS 12 *Income Taxes* (IFRS 18)**
Topic	**Cover paper**
Contacts	Gustavo Olinda (golinda@ifrs.org) Anne McGeachin (amcgeachin@ifrs.org) Stefano Tampubolon (stampubolon@ifrs.org)

Introduction

1. At its June 2026 meeting, the International Accounting Standards Board (IASB) discussed a potential amendment to IFRS 18 *Presentation and Disclosure in Financial Statements*. The potential amendment would permit an entity to classify, in the income taxes category of the statement of profit or loss (income taxes category), non-income tax charges that meet the definition of 'covered taxes' under the Organisation for Economic Co-operation and Development's Pillar Two model rules.

2. At that meeting, the IASB decided instead to explore alternative approaches for amending IFRS 18 to require an entity to classify specific tax charges in the income taxes category. The purpose of this meeting is to discuss:

   (a) two approaches we explored to achieve that objective; and

   (b) other related amendments to the requirements in IFRS 18.

Papers for this meeting

3. This paper includes the background for this project, a summary of staff recommendations and next steps.

4. In addition to this cover paper, there are two papers for this meeting:

   (a) *Agenda Paper 12B—Possible approaches*: this paper presents our analysis of the two approaches we explored for requiring entities to classify specific tax charges in the income taxes category; and

   (b) *Agenda Paper 12C—Other related amendments to IFRS 18:* this paper presents our analysis of whether to add specific disaggregation and disclosure requirements and amend other requirements in IFRS 18 if the IASB decides to propose the amendments discussed in Agenda Paper 12B.

Background

Prior discussions

5. At its November 2025 meeting, the IFRS Interpretations Committee (Committee) decided to publish Tentative Agenda Decision *Presentation of Taxes or Other Charges that are Not Income Taxes within the Scope of IAS 12* Income Taxes (IFRS 18) and to propose updates to two related agenda decisions.

6. Many respondents to the Tentative Agenda Decision raised concerns about the outcome of applying IFRS 18 requirements to zakat in the Saudi Arabian context. These respondents disagreed with classifying Saudi Arabian zakat outside of the income taxes category of the statement of profit or loss.

7. At its March 2026 meeting, the Committee decided to finalise Agenda Decision *Presentation of Taxes or Other Charges that Are Not Tax Expense or Tax Income Applying IAS 12* Income Taxes (IFRS 18) and the updates to the two related agenda decisions. Notwithstanding those decisions, the Committee:

(a) acknowledged the concerns raised (see paragraph 6) and discussed possible courses of action the IASB could take to respond to them;

(b) suggested performing targeted outreach to users of financial statements to better understand those concerns; and

(c) decided to report those concerns to the IASB.

8. At its May 2026 meeting, the IASB considered stakeholders' concerns, the Committee's discussions of those concerns and feedback from users of financial statements. In the light of its discussions, the IASB:

(a) decided to explore amending IFRS 18 to require or allow an entity to classify in the income taxes category of the statement of profit or loss other tax charges that meet the definition of 'covered taxes' under the Pillar Two model rules of the Organisation for Economic Co-operation and Development (OECD); and

(b) deferred a decision on whether it objects to the Agenda Decision and the updates to the two related agenda decisions.

9. Paragraphs 6–19 of Agenda Paper 12 for the June 2026 IASB meeting provide further details on the background to the matter, including a summary of prior discussions of the matter by the Committee and by the IASB in May 2026.

The IASB's June 2026 discussions

10. At its June 2026 meeting, the IASB discussed a potential amendment to IFRS 18 to address the concerns summarised in paragraph 6 (June potential amendment). The June potential amendment would allow an entity to classify, in the income taxes category, other tax charges that meet the definition of 'covered taxes' under the OECD's Pillar Two model rules.

11. As Agenda Paper 12A for that meeting explained, the June potential amendment proposed:

(a) incorporating the definition of covered taxes in the Pillar Two model rules into IFRS 18 by referring to—rather than by reproducing—that definition in IFRS 18.

(b) allowing—rather than requiring—an entity to classify other covered taxes in the income taxes category. An entity would have been allowed to make this accounting policy choice separately for each of those covered taxes.

(c) explicitly requiring an entity to disaggregate, in the statement of profit or loss, income taxes from other covered taxes that the entity classifies in the income taxes category.

(d) requiring an entity to disclose the nature and amount of other covered taxes that the entity classifies in the income taxes category and the bases for calculation of those other covered taxes.

12. At that meeting, five IASB members indicated an intention to vote against the publication of an exposure draft proposing the June potential amendment. Because there would not be a supermajority of IASB members in favour of publishing that exposure draft, the IASB decided to explore alternative approaches for requiring an entity to classify specific tax charges in the income taxes category.

Summary of recommendations

13. Based on our analysis in Agenda Paper 12B, we recommend that the IASB propose amending IFRS 18:

(a) to require an entity to classify, in the income taxes category of the statement of profit or loss, tax charges imposed by a government as a direct substitute for income taxes; and

(b) to require this classification only when legislation specifies that an entity pays either an income tax or a specified tax charge.

14. Based on our analysis in Agenda Paper 12C, if the IASB agrees with our recommendation in paragraph 13, we also recommend:

  (a) requiring an entity that classifies tax charges other than income taxes in the income taxes category:

    (i) to disaggregate, in the statement of profit or loss, income taxes from those other tax charges;

    (ii) to disclose the nature and amount of those other tax charges and the bases for their calculation;

    (iii) not to label the 'subtotal for profit before financing and income taxes' (as required by paragraph 69 of IFRS 18) and the 'subtotal for profit before income taxes' (as described in paragraph 118 of IFRS 18) in a way that implies those subtotals do not include those other tax charges; and

    (iv) applying paragraph 43 of IFRS 18, to label the subtotals in a way that faithfully represents the amounts included in those subtotals.

  (b) not amending the requirements in IFRS 18 relating to income tax recognised in other comprehensive income (OCI).

  (c) with respect to management-defined performance measures:

    (i) requiring an entity to disclose the effect on other tax charges classified in the income taxes category for each item disclosed in the reconciliation required by paragraph 123(c) of IFRS 18; and

    (ii) similar to the requirements in paragraph B141 of IFRS 18, allowing an entity to use any reasonable method to determine the effect on the other tax charges for the reconciling items.

  (d) amending paragraphs B63–B64 of IFRS 18—which set out requirements for classifying income or expenses from a transaction or other event for a group of assets (or a group of assets and liabilities)—to also refer to assets arising from tax charges other than income taxes that an entity classifies in the income taxes category.

Questions for the IASB

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1. Does the IASB agree with our recommendation to amend IFRS 18 as set out in paragraph 13? 2. If the IASB agrees with our recommendation in question 1, does the IASB agree with our recommendation to make other amendments to IFRS 18 as set out in paragraph 14?

Next steps

15. If the IASB agrees with our recommendations and decides to propose amending IFRS 18 as set out above, we will bring a paper to a future IASB meeting discussing the following remaining aspects of the proposed amendments:

    (a) assessment of any amendments needed to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*;

    (b) transition and effective date; and

    (c) compliance with applicable due process requirements for the proposed amendments.

16. We think it would be feasible:

    (a) to publish an exposure draft in Q4 2026;

    (b) to complete consultation on the exposure draft by mid-Q2 2027; and

    (c) subject to feedback and the extent of analysis and redeliberations needed, to possibly be in a position to issue any final amendments in Q4 2027.

17. However, if the IASB decides instead not to amend IFRS 18, we will bring a paper to a future IASB meeting to ask if the IASB objects to:

(a) the Agenda Decision *Presentation of Taxes and Other Charges that Are Not Tax Expense or Tax Income Applying IAS 12* Income Taxes (IFRS 18); and

(b) the updates to the Agenda Decisions *Presentation of non-income tax payments* (IAS 1 and IAS 12) and *Classification of tonnage taxes* (IAS 12).