Staff paper

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Project	**Presentation of Taxes or Other Charges that Are Not Tax Expense or Tax Income Applying IAS 12 *Income Taxes* (IFRS 18)**
Topic	**Possible approaches**
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Introduction

1. As explained in Agenda Paper 12A, this paper presents our analysis of two approaches we explored for requiring an entity to classify specific tax charges—in addition to income taxes—in the income taxes category of the statement of profit or loss (income taxes category).

Structure of the paper

2. This paper includes:

   (a) staff analysis (paragraphs 4–27); and

   (b) staff recommendation (paragraphs 28–30).

3. Appendix A reproduces our analysis of not proposing standard-setting at this stage, discussed at the IASB's May 2026 meeting.

Staff analysis

4. This section presents our analysis of two approaches we explored. Specifically, requiring entities to classify, in the income taxes category:

   (a) tax charges imposed as a direct substitute for income taxes (Approach A); or

   (b) narrowly-specified tax charges (Approach B).[1]

5. The IASB might also decide, after considering the two approaches discussed in this paper, not to amend IFRS 18 *Presentation and Disclosure in Financial Statements*. In that case, the income taxes category would continue to include only tax expense or tax income included in the statement of profit or loss applying IAS 12 *Income Taxes* and any related foreign exchange differences.

6. Paragraphs 22–27 discuss the advantages and disadvantages of each approach.

Approach A—Tax charges imposed as a direct substitute for income taxes

Principle for classification

7. The IASB could require entities to classify, in the income taxes category, tax charges imposed by a government as a direct substitute for income taxes (Approach A).

8. Approach A would capture only those tax charges that directly substitute an income tax to which an entity would otherwise be subject—that is, the particular tax charge and the income tax must be mutually exclusive. Because, in those cases, a particular tax charge is directly substituting an income tax, we think it would be appropriate to classify that tax charge in the same category the income tax would have been classified—that is, the income taxes category.

[1] Our analysis assumes that, consistent with the requirements in paragraph 67 of IFRS 18, an entity would also be required to classify any foreign exchange differences related to other tax charges in the income taxes category.

9. Approach A would apply in situations in which:

    (a) entities are allowed a choice between being taxed either on their taxable profits (an income tax) or on an alternative basis (a non-income tax charge). For example, we understand that some shipping entities in the UK can elect to be taxed based on the net tonnage of their fleet, rather than on their profits (such taxes are usually referred to as 'tonnage taxes').

    (b) entities that would otherwise be taxed on their taxable profits (an income tax) are instead taxed on an alternative basis (a non-income tax charge) under specified situations or conditions. For example, entities operating in Saudi Arabia, as discussed in previous papers, are required to pay either an income tax or a non-income tax charge (zakat) depending on their ownership structure (that is, depending on whether they are owned by national or foreign investors).

10. Income taxes—or tax charges imposed as their direct substitute—often represent a large portion of an entity's expenses in a period. In the situations described in paragraph 9, entities will either choose to be taxed on the basis most economically advantageous to them or will be taxed on a basis determined by the legislation. In either case, absent an amendment to IFRS 18, some of those entities would classify their tax in the income taxes category (if they pay income taxes) and others would generally classify their tax in the operating category (if they pay the tax charge directly substituting an income tax).

11. In our view, it would be more useful for users of financial statements, in the situations described in paragraph 9, to analyse an entity's operating profit—and compare it with that of the other entities—separately from the effects of how that entity is being taxed (that is, either through income taxes or through tax charges directly substituting income taxes). This view is consistent with feedback from our limited outreach with

users.[2] Therefore, we think Approach A would result in a principle-based solution that increases the usefulness of information in financial statements.

Criteria for classification

12. We had previously explored an approach similar to Approach A—that is, allowing classification, in the income taxes category, of tax charges that are paid 'in lieu of' income taxes.[3] When we explored that approach, we were concerned that it could give rise to interpretative questions—such as the meaning of 'in lieu of' and whether particular tax charges would qualify for classification. We think these concerns could be mitigated by narrowly defining the tax charges that would qualify for classification in the income taxes category.

13. The IASB could achieve the objective in paragraph 12 if it requires classification only when legislation specifies that an entity pays *either* an income tax *or* a specified tax charge. For example, the IASB could require classification of the specified tax charge in the income taxes category only when legislation:

    (a) specifies that the entity has a choice between paying an income tax or the specified tax charge; or

    (b) specifies situations or conditions under which the entity pays either an income tax or the specified tax charge.

14. Applying the criteria in paragraph 13 would result in an entity classifying the specified tax charge in the income taxes category only if its operations (or a part thereof) are not subject to income taxes and the entity is instead required to pay the specified tax charge.

15. The following tax charges *would meet* the classification criteria in paragraph 13:

[2] See paragraphs 18–34 of Agenda Paper 12C for the IASB's May 2026 meeting for further information.

[3] See paragraphs 13–14 of Agenda Paper 12D for the IASB's May 2026 meeting for further information.

(a) tonnage taxes, if an entity has a choice of being taxed based on the net tonnage of its operated ships instead of on its taxable profits.

(b) hybrid taxes, if an entity pays taxes on its taxable profits, but is nonetheless subject to a minimum amount of tax calculated based on a non-profit measure. (This applies only if the entity has determined that the hybrid tax, or a portion thereof, is not an income tax in the scope of IAS 12.)

(c) zakat, if an entity is required to pay either zakat or an income tax based on its ownership structure (for example, based on whether it is owned by national or foreign investors).

16. The following tax charges *would not meet* the classification criteria in paragraph 13:

(a) industry-specific levies, if an entity operating in a particular industry is subject to levies in addition to an income tax;

(b) non-mandatory contributions paid in addition to an income tax, such as zakat contributions in Malaysia; and

(c) tax charges imposed in jurisdictions without an income tax regime.

17. An entity would assess whether particular tax charges imposed by a government are a direct substitute for income taxes at the level on which those taxes are imposed, such as for different parts of its operations, different jurisdictions or different legal entities within a group. For example, an entity subject to an income tax for some parts of its operations may nonetheless be required to pay a tax charge as a direct substitute for an income tax for other parts of its operations.

Other considerations

18. Approach A aims only to address a narrow set of circumstances in which legislation requires or allows a non-income tax charge to directly substitute an income tax to which an entity would otherwise be subject. It does not aim to require classification, in the income taxes category, of tax charges that some might see as being 'economically similar' to income taxes, nor does it aim to revisit the conceptual basis

for requiring an income taxes category in the statement of profit or loss. We think doing so would go beyond the scope of this project.

Approach B—Narrowly-specified non-income tax charges

19. As explained in Agenda Paper 12C for the IASB's May 2026 meeting, respondents to the tentative agenda decision published by the IFRS Interpretations Committee (Committee) expressed concerns about the outcome of the tentative agenda decision only in relation to zakat in Saudi Arabia (SA zakat).

20. Therefore, the IASB could require entities to classify, in the income taxes category, tax charges that meet narrowly-specified characteristics derived from SA zakat (Approach B). Specifically, the IASB could require classification of a tax charge in the income taxes category only when that tax charge:

    (a) is an integral part of the overall system of corporate taxation in the jurisdiction;

    (b) is calculated based on a measure of the entity's net assets, or based partly on such a measure and partly on the entity's profit for the period; and

    (c) is imposed by a government as an alternative to income taxes depending on the entity's ownership structure—for example, whether an entity is owned by national or foreign investors.

21. This approach could offer a more targeted solution by focusing only on the tax charge about which stakeholders expressed concerns (that is, SA zakat).

Which approach should the IASB propose?

22. We explore below the advantages and disadvantages of the two approaches discussed in paragraphs 7–21 above, as well as those of not amending IFRS Accounting Standards.

Approach A—Tax charges imposed as a direct substitute for income taxes

23. Approach A offers a principle-based solution for requiring an entity to classify specified tax charges in the income taxes category. If the IASB agrees with its underlying principle, Approach A could improve financial reporting beyond simply addressing concerns identified by the Committee's discussion. However, because Approach A is a more principle-based solution, it would apply to charges for which we have not heard classification concerns under IFRS 18. Therefore, this approach also carries a greater risk of possible unintended consequences.

24. Furthermore, although we have designed the classification criteria and the related explanations (see paragraphs 12–17) to be as clear and easy to apply as possible, we have not had the opportunity to test these criteria with stakeholders. Therefore, given the variety of taxes imposed in various jurisdictions, there is a risk that Approach A might, in some cases, be difficult to apply or give rise to interpretative questions. If feedback on an exposure draft that includes this approach reveals significant challenges in applying it, there is a risk the IASB might not be able to finalise amendments to IFRS 18 to address the concerns raised on a timely basis.

Approach B—Narrowly-specified tax charges

25. Approach B more narrowly addresses the concerns raised and, therefore, carries a lower risk of possible unintended consequences than Approach A. Because Approach B is more narrowly-defined, it presents a lower risk of the IASB not being able to finalise amendments to IFRS 18 on a timely basis.

26. However, this approach could be seen as being too rules-based and lacking a clear principle or conceptual basis for allowing classification in the income taxes category of only the tax charges it specifies. For example, stakeholders might question why other similar tax charges should not also be classified in the income taxes category. Furthermore, some of the classification criteria of Approach B (see paragraph 20) might also give rise to interpretative questions.

Not amending IFRS Accounting Standards

27. The IASB could decide not to amend IFRS Accounting Standards at this stage. The IASB considered this alternative at its May 2026 meeting. Appendix A reproduces our analysis of this alternative, including requirements in IFRS 18 that an entity may apply to provide additional information about tax charges that are not income taxes and their effect on its financial performance (for example, providing additional subtotals or disclosing management-defined performance measures).

Staff recommendation

28. Based on our analysis, we recommend, on balance, proposing amendments to IFRS 18 in accordance with Approach A. That is, we recommend that IASB propose:

    (a) requiring an entity to classify, in the income taxes category, tax charges imposed by a government as a direct substitute for income taxes; and

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

29. Approach A offers a more principle-based solution that could improve financial reporting beyond the specific concerns identified by the Committee. Although we acknowledge the risks identified in paragraphs 23–24, we think feedback on the proposed amendments would allow the IASB, if necessary, to refine the classification principle or clarify its application.

30. The IASB could also explain, in the basis for conclusions of the exposure draft containing the proposed amendments, that it considered an alternative approach that would more narrowly specify the tax charges to be classified in the income taxes category (Approach B). That would allow stakeholders to provide feedback on that alternative approach.

Appendix A—Not proposing standard-setting

This appendix reproduces paragraphs 6–11 of Agenda Paper 12D for the IASB's May 2026 meeting.

A1. As noted by a few Committee members, the IASB could not amend IFRS Accounting Standards. If the IASB chooses this alternative, we also suggest the IASB consider not objecting to the agenda decision or the updates to the two related agenda decisions.

A2. Applying IFRS 18—and as reinforced by agenda decision (see Agenda Paper 12A)—the entity cannot classify a non-income tax charge in the income taxes category. We understand an entity would generally classify non-income tax charges (like SA zakat) in the operating category.

A3. If an entity views the outcome of applying the requirements in IFRS 18 to particular non-income tax charges as not providing useful information, the entity would be required, or able, to provide additional information to users of financial statements (users) by considering other IFRS 18 requirements—for example, those relating to:

(a) aggregation or disaggregation (paragraphs 41–43 and B16–B28), particularly disaggregation of items based on dissimilar characteristics in the primary financial statements and in the notes to the financial statements (paragraph B17 of IFRS 18)—applying these requirements, an entity might be required/ able to for example, disaggregate and present SA Zakat as a separate line item;

(b) presentation of 'additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary' (paragraphs 24 and B9 of IFRS 18)—applying these requirements, an entity might be required/ able to present, for example, an additional sub-total showing operating profit before SA zakat; and

(c) identification and disclosure of management-defined performance measures (MPMs) (paragraphs 117–125 and B113–142 of IFRS 18).

A4. This alternative would avoid disrupting entities' ongoing implementation of IFRS 18, particularly given IFRS 18's imminent effective date of 1 January 2027. While feedback from users (see Agenda Paper 12B [of the IASB's May 2026 meeting]) suggests that classifying non-income tax charges that are similar to income taxes (like SA zakat) outside of the income taxes category might not provide the most useful information, entities could still provide users with information about those charges through the use of additional line items, disaggregation and MPMs.

A5. However:

(a) as Agenda Paper 12C [of the IASB's May 2026 meeting] summarises, the IASB has already heard significant concerns from respondents to the tentative agenda decision about the outcome of applying IFRS 18 to particular non-income tax charges. Feedback from users also confirms that the application of the requirements in IFRS 18 to non-income tax charges might not produce the most useful information. Deciding not to amend IFRS 18 at this stage would leave those concerns unresolved.

(b) there could be costs for preparers in providing the information discussed in paragraph A3 of this paper and for users that currently consider some non-income tax charges together with income taxes to make appropriate adjustments.

(c) stakeholders, including users we spoke with, expressed a preference for amending IFRS 18 to address this matter, while suggesting that the use of additional line items, disaggregation and MPMs would help but not sufficiently address their concerns.

A6. If the IASB decides not to amend IFRS 18, it could monitor the implementation of IFRS 18, particularly in relation to the classification of non-income tax charges. If issues arise in this regard, the IASB could consider them more holistically through, for example, IFRS 18's post-implementation review.[4]

[4] Paragraph 6.57 of the IFRS Foundation *Due Process Handbook* states '[a] board is required to conduct a post-implementation review of every new Standard or major amendment to a Standard'. Furthermore, paragraph 6.58 states '…It is expected that a post-implementation review normally begins within five years of the effective date of the new requirements. …"