
IASB[®] meeting

Date	June 2026
Project	Presentation of Taxes or Other Charges that Are Not Tax Expense or Tax Income Applying IAS 12 <i>Income Taxes</i> (IFRS 18)
Topic	Technical aspects of a potential amendment to IFRS 18
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Introduction

1. As Agenda Paper 12 explains, this paper presents the International Accounting Standards Board (IASB) with our analysis of, and views on, the technical aspects of a potential amendment to IFRS 18 *Presentation and Disclosure in Financial Statements*. The potential amendment would require or allow an entity to classify, in the income taxes category of the statement of profit or loss, non-income 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).

Structure

2. This paper sets out:
 - (a) [background](#) (paragraphs 4–7);
 - (b) [summary of staff views](#) (paragraph 8);
 - (c) [our analysis of the technical aspects of the potential amendments to IFRS 18](#) (paragraphs 9–66).
3. This paper includes no questions.

Background

4. As Agenda Paper 12 explains, at its May 2026 meeting, the IASB 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 non-income tax charges that meet the definition of covered taxes under the OECD's Pillar Two model rules (potential amendment).¹
5. Paragraph 30 of [May Agenda Paper 12D](#)² noted:

If the IASB decides to explore [the potential amendment] we will, at a future meeting, present our analysis of the detailed technical aspects of the potential amendments. These include considering:

- (a) whether and what elements of the definition of covered taxes to incorporate into IFRS 18;
- (b) whether to incorporate the definition of covered taxes in IFRS 18 by (i) making a direct reference to the definition of covered tax in the Pillar Two model rules; or (ii) reproducing relevant elements of the definition and the related commentary in IFRS 18;
- (c) whether an entity should be *required* or *permitted* to classify non-income tax charges that meet the definition of covered taxes in the income taxes category;
- (d) whether to explicitly require disaggregation of non-income tax charges classified in the income taxes category from income taxes (or whether the principles of disaggregation in IFRS 18 are sufficient);

¹ We refer to non-income tax charges that meet the definition of covered taxes under the OECD's Pillar Two model rules as 'other covered taxes' throughout the rest of this paper.

² We refer to the papers discussed at the May 2026 IASB meeting as 'May agenda papers' throughout the rest of this paper.

- (e) whether to introduce additional disclosure requirements for non-income tax charges classified in the income taxes category; and
 - (f) whether and how to rename the income taxes category.
- 6. A few IASB members also asked us to consider whether amendments to other requirements in IFRS 18 would be necessary as a result of the potential amendment.
- 7. This paper presents our analysis and views on the matters in paragraphs 5–6.

Summary of staff views

- 8. If the IASB proceeds with the potential amendment, we think the IASB should:
 - (a) incorporate 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) allow—rather than require—an entity to classify other covered taxes in the income taxes category. An entity should be allowed to make this accounting policy choice separately for each of those other covered taxes.
 - (c) explicitly require 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) require 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.
 - (e) rename to reflect the inclusion of other covered taxes in:
 - (i) the income taxes category;
 - (ii) the subtotal for profit before financing and income taxes; and
 - (iii) the subtotal for profit before income taxes.

- (f) not amend the requirements in IFRS 18 relating to the amounts recognised in other comprehensive income (OCI).
- (g) require an entity to qualitatively describe the effect of other covered taxes that the entity classifies in the income taxes category on each item disclosed in the reconciliation required by paragraph 123(c) of IFRS 18 for management-defined performance measures.
- (h) amend 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 other covered taxes that an entity classifies in the income taxes category.

Staff analysis

9. Our analysis and views in this paper assume that the IASB proceeds with the potential amendment. Agenda Paper 12 considers the effects of the potential amendment and asks the IASB whether to proceed with the potential amendment.
10. This section sets out our analysis of, and views on, the technical aspects of the potential amendment. In particular, it discusses:
 - (a) [how to incorporate the definition of covered taxes in IFRS 18](#), including considering whether and which elements to incorporate (paragraphs 11–24);
 - (b) [whether to require or allow an entity to classify other covered taxes in the income taxes category](#) (paragraphs 25–29);
 - (c) [whether to explicitly require an entity to disaggregate, in the statement of profit or loss, income taxes from other covered taxes](#) (paragraphs 30–38);
 - (d) [whether to require an entity to disclose additional information for other covered taxes](#) (paragraphs 39–44); and
 - (e) [whether to amend other requirements in IFRS 18](#), including considering whether to rename the income taxes category (paragraphs 45–65).

Incorporating the definition of covered taxes in IFRS 18

11. Article 4.2 of the OECD's Pillar Two model rules sets out the definition of covered taxes. The article states:

Covered tax means:

- (a) Taxes recorded in the financial accounts of a Constituent Entity with respect to its income or profits or its share of the income or profits of a Constituent Entity in which it owns an Ownership Interest;
- (b) Taxes on distributed profits, deemed profit distributions, and non-business expenses imposed under an Eligible Distribution Tax System;
- (c) Taxes imposed in lieu of a generally applicable corporate income tax; and
- (d) Taxes levied by reference to retained earnings and corporate equity, including a Tax on multiple components based on income and equity.

12. Furthermore, paragraph 4.2.2 of the Pillar Two model rules states:

Covered Taxes does not include any amount of:

- (a) Top-up Tax accrued by a Parent Entity under a Qualified [Income Inclusion Rule];
- (b) Top-up Tax accrued by a Constituent Entity under a Qualified Domestic Minimum Top-Up Tax;
- (c) Taxes attributable to an adjustment made by a Constituent Entity as a result of the application of a Qualified Under-Taxes Payment Rule;
- (d) A Disqualified Refundable Imputation Tax;

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- (e) Taxes paid by an insurance company in respect of returns to policyholders.
13. The OECD's *Consolidated Commentary to the Global Anti-Base Erosion Model Rules* (commentary):
- (a) provides further information about each element of the definition and the types of taxes that particular element was designed to capture; and
 - (b) further explains types of taxes that 'will generally not fall within the definition of covered taxes'.
14. [May Agenda Paper 12D](#) provides relevant excerpts from the Pillar Two model rules and the commentary in relation to the definition of covered taxes.
15. The IASB could incorporate the definition of covered taxes in IFRS 18 by:
- (a) referring to the definition of covered taxes (paragraphs 16–19); or
 - (b) reproducing relevant elements of the definition and the related commentary (paragraphs 20–23).

Referring to the definition of covered taxes

16. The IASB could refer to the definition of covered taxes. In doing so, the IASB would require or allow an entity to classify other covered taxes³ in the income taxes category.
17. Entities and jurisdictions are generally familiar with the definition of covered taxes. As we noted in the May agenda papers, they have implemented, or are in the process of implementing, the Pillar Two model rules and have determined which non-income tax charges are covered taxes. Making a direct reference to the definition ensures alignment and consistency in how entities and jurisdiction assess whether a particular

³ As Agenda Paper 12 notes, we refer to non-income tax charges that meet the definition of covered taxes under the OECD's Pillar Two model rules as 'other covered taxes'.

tax or charge is a covered tax for the purposes of applying the Pillar Two model rules and classifying it in the statement of profit or loss by applying IFRS 18.

18. Referring to a definition or concept in an external document and requiring an entity to assess that definition or concept in the context of determining the appropriate accounting by applying IFRS Accounting Standards would not be new or unprecedented. Although in a different context, we note for example that in May 2023, the IASB issued *International Tax Reform—Pillar Two Model Rules*, which amended IAS 12. Those amendments specifically addressed—and made direct reference to—the OECD’s Pillar Two model rules. The amendments provide an exception from some recognition and disclosure requirements in IAS 12 for income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules. The potential amendment would require or allow an entity to classify other covered taxes—used in determining income taxes subject to the exception in IAS 12—in the income taxes category.
19. However, doing so would result in reliance on a definition formulated and maintained by an external body. The IASB does not have any influence over the maintenance of the definition and, should the definition be amended, the IASB may need to assess whether any reference it makes to the definition remains appropriate, or whether standard-setting work is needed.

Reproducing relevant elements of the definition and the related commentary

20. The IASB could reproduce in IFRS 18 relevant elements of the definition of covered taxes (and the related commentary). Doing so would reduce the need to continually monitor future changes to the definition.
21. We think elements (a) and (b) of the definition of covered taxes (paragraph 11) are intended to capture income taxes that are within the scope of IAS 12. In particular:

- (a) paragraph 2 of IAS 12 states (emphasis added):

For the purposes of this Standard, income taxes include all domestic and foreign taxes which are *based on taxable profits*. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity.

- (b) paragraph 52A of IAS 12 states (emphasis added):

In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a *dividend to shareholders of the entity*. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a *dividend to shareholders of the entity*. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits.

22. Consequently, for purposes of the potential amendment, it would be unnecessary to reproduce in IFRS 18 elements (a) and (b) of the definition of covered taxes. To capture other covered taxes, the IASB would need to reproduce only elements (c) and (d) of the definition (paragraph 11).
23. Reproducing elements of the definition in IFRS 18 avoids the need for the IASB to monitor any changes to the definition in the Pillar Two model rules. However:
- (a) as paragraphs 11–13 of this paper explain, the definition of covered taxes is complemented by other parts of the Pillar Two model rules and the related commentary. The IASB would also need to incorporate these elements, thereby introducing significant additions to IFRS 18 requirements.
- (b) reproducing elements of the definition could result in application questions about whether a particular tax meets the reproduces elements of the definition in IFRS 18 regardless of whether that tax is a covered tax for applying Pillar

Two model rules. Because the reproduced elements of the definition would be aligned with the wording of the Pillar Two model rules, there is a risk that any discussion and conclusions by the IASB or the IFRS Interpretations Committee on how entities should read and apply those elements could have broader implications beyond financial reporting consequences in IFRS 18.

Staff view

24. Based on our analysis in paragraphs 11–23, we think the IASB should incorporate 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. Although we acknowledge the concern in paragraph 19, the definition of covered taxes is intended to capture income taxes and other taxes that are—for purposes of applying the Pillar Two model rules—functionally equivalent to income taxes (as [May Agenda Paper 12D](#) explains). Consequently, we think that unless the intention of the definition changes, it is unlikely that any changes to the definition would result in a need for the IASB to revisit the reference.

Requiring or allowing classification of other covered taxes in the income taxes category

25. The IASB could either *require* or *allow* an entity to classify other covered taxes in the income taxes category.
26. Requiring entities to make such a classification would:
- (a) *ensure comparability.*

A requirement would result in all other covered taxes being classified in the income taxes category, thereby improving comparability. As [May Agenda Paper 12C](#) reports, comparability (particularly in respect of the presentation of income taxes and particular non-income tax charges) was a key reason underlying stakeholders' disagreement with classifying particular non-income tax charges outside the income taxes category.

- (b) *avoid optionality in classifying items in categories in the statement of profit or loss.*

IFRS 18 requirements (paragraphs 47–68 and B29–B68) do not generally provide entities with an option on classifying particular items into different categories in the statement of profit or loss. Entities classify an item of income or expense in a particular category only if the item meets the requirements relating to the category. A requirement would avoid introducing optionality to an otherwise precise set of requirements.

27. Conversely, allowing entities an accounting policy choice to classify other covered taxes in the income taxes category could limit costs of applying the potential amendment. Not all entities are subject to the Pillar Two model rules and not all jurisdictions have implemented the Pillar Two model rules. Therefore, allowing—rather than requiring—entities an accounting policy choice would limit costs for these entities. It will also allow entities and jurisdictions flexibility in presenting particular other covered taxes outside the income taxes category if they think doing so would be more appropriate.

Staff view

28. Based on our analysis in paragraphs 25–27, we think the IASB should allow—rather than require—an entity to classify other covered taxes in the income taxes category. An entity should be allowed to make this accounting policy choice separately for each of those other covered taxes.
29. Although we accept that allowing entities an accounting policy to classify other covered taxes in the income taxes category would reduce comparability and introduce optionality in the classification requirements in IFRS 18, we think allowing an accounting policy choice is important to limit costs of the potential amendment.

Disaggregating income taxes from other covered taxes

30. As [May Agenda Paper 12C](#) reports, some users specifically suggested requiring an entity to disaggregate income taxes from other covered taxes (either on the statement of profit or loss or in the notes to the financial statements).
31. The IASB could:
- (a) include no specific requirements and, instead, rely on IFRS 18's principles of aggregation and disaggregation; or
 - (b) explicitly require entities to disaggregate income taxes from other covered taxes.

Including no specific requirements

32. The IASB could decide to include no specific requirements for disaggregation because IFRS 18 already sets out principles of aggregation and disaggregation that apply generally (paragraphs 41–43 and B16–B26). In particular, paragraphs 41–42 of IFRS 18 state:

41 ... Unless doing so would override specific aggregation or disaggregation requirements in IFRS Accounting Standards, an entity shall (see paragraphs B16–B23):

- (a) classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics;
- (b) disaggregate items based on characteristics that are not shared;
- (c) aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries (see paragraph 16);

- (d) aggregate or disaggregate items to disclose information in the notes that fulfils the role of the notes in providing material information (see paragraph 17); and
- (e) ensure that aggregation and disaggregation in the financial statements do not obscure material information (see paragraph B3).

42 Applying the principles in paragraph 41, an entity shall disaggregate items whenever the resulting information is material.

...

33. In the absence of specific requirements for disaggregation, IFRS 18's principles of aggregation and disaggregation apply. An entity would disaggregate income taxes from other covered taxes if the entity concludes that they have 'characteristics that are not shared' and the resulting disaggregated information contributes to a useful structured summary in the statement of profit or loss or material information in the notes.

Explicitly requiring disaggregation

34. The IASB could explicitly require an entity to disaggregate income taxes from other covered taxes that an entity classifies in the income taxes category.
35. An explicit requirement would send a clear message that disaggregating income taxes from other covered taxes classified in the income taxes category is generally necessary for the statement of profit or loss to provide a useful structured summary or to provide material information. The term 'covered taxes' is defined to capture income taxes and other taxes that are—for the purposes of applying the Pillar Two model rules—functionally equivalent to income taxes. Without such an explicit requirement, there is a risk of an entity concluding that aggregating income taxes with other covered taxes would be appropriate.

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36. The IASB could require an entity to provide this disaggregation either on the statement of profit or loss or within the notes. We think, if the IASB explicitly requires an entity to disaggregate income taxes from other covered taxes, it should require an entity to do so on the statement of profit or loss. Doing so would help users more clearly and easily distinguish income taxes from other covered taxes.

Staff view

37. Based on our analysis in paragraphs 30–36, we think the IASB should explicitly require 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. We think this sends a clear message that generally such disaggregation would be necessary for the statement of profit or loss to provide a useful structured summary and to provide material information.
38. We considered—but think it is unnecessary—to explicitly require an entity to disaggregate the different types of other covered taxes that might be classified in the income taxes category applying the potential amendment. We think the existing requirements in IFRS 18 on aggregation and disaggregation suffice in this respect.

Additional disclosures for other covered taxes classified in the income taxes category

39. Paragraph 67 of IFRS 18, as currently written, specifies that the income taxes category comprises ‘tax expense or tax income applying IAS 12’. Therefore, the disclosure requirements in IAS 12 applies to all items currently classified in the income taxes category; IFRS 18 requires no additional disclosures for these items.
40. However, the disclosure requirements in IAS 12 would not apply to other covered taxes. For other covered taxes classified in the income taxes category, the IASB could decide:

- (a) not to require any additional disclosures (paragraph 41); or
- (b) to require additional disclosures (paragraphs 42–43)

Not requiring any additional disclosures

41. In favour of not requiring any additional disclosures, it could be argued that the potential amendment would change only the classification of other covered taxes in the statement of profit or loss. The change in classification does not trigger a specific need for additional disclosures about the other covered taxes. Disclosure requirements in the applicable IFRS Accounting Standards continue to apply to the other covered taxes. For example, if an entity applies IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (and/or IFRIC 21 *Levies*) to account for a covered tax, the disclosure requirements in IAS 37 would apply. Therefore, users would continue to receive information on that covered tax—even if that information is not identical to those required by IAS 12.

Requiring additional disclosures

42. In considering whether the IASB should require additional disclosures for other covered taxes that an entity classifies in the income taxes category, we think users would find useful information about the nature and amount of those other covered taxes and the basis for their calculations.
43. Although we acknowledge an entity might already provide this information applying other IFRS Accounting Standards, there could be advantages in explicitly requiring an entity to disclose this information—that is, the nature and amount of the covered tax and its basis for calculations. We think such a requirement would improve the consistency in the information entities disclose about other covered taxes, thereby helping users in understanding and analysing them.

Staff view

44. Based on our analysis in paragraphs 39–43, we think the IASB should require 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. An entity would not need to duplicate information it has already disclosed applying another IFRS Accounting Standard.

Whether to amend other requirements in IFRS 18

45. At its May 2026 meeting, the IASB asked us to consider whether amendments to other requirements would be necessary as a result of the potential amendment. Our analysis focuses on IFRS 18 requirements that refer to ‘income tax’ or ‘income taxes’. They relate to:
- (a) the income taxes category (paragraphs 67 and B65–B69 of IFRS 18);
 - (b) the subtotal for profit or loss before financing and income taxes and the subtotal for profit or loss before income taxes (paragraphs 69, 71 and 118 of IFRS 18);
 - (c) the line item for income tax expense or income (paragraph 75 of IFRS 18);
 - (d) income taxes relating to each item of other comprehensive income (paragraphs 93–94 of IFRS 18);
 - (e) management-defined performance measures (paragraphs 123–124 and B136–B142); and
 - (f) groups of assets and liabilities (paragraphs B63–B64).

*Income taxes category and income taxes-related subtotals and line items***IFRS 18 requirements**

46. With regard to:
- (a) *the income taxes category*—paragraph 67 of IFRS 18 requires an entity to ‘classify in the income taxes category tax expense or tax income that is included in the statement of profit or loss applying IAS 12 *Income Taxes*, and any related foreign exchange differences (see paragraphs B65–B68).’⁴
 - (b) *subtotals*:
 - (i) paragraph 69 of IFRS 18 requires an entity to present in the statement of profit or loss a subtotal for ‘profit or loss before financing and income taxes’, and paragraph 71 specifies what that subtotal comprises.
 - (ii) paragraph 118 of IFRS 18 specifies the subtotal for ‘profit before income taxes’ is not a management-defined performance measure.⁵
 - (c) *line item for income tax expense or income*—paragraph 75 of IFRS 18 requires an entity to present in the statement of profit or loss a line item for ‘income tax expense or income’ (subject to the line item being part of a useful structured summary).

Staff analysis

47. The potential amendment could result in the inclusion of other covered taxes in the income taxes category. Assuming the IASB proceeds with the potential amendment, we think the IASB should rename:
- (a) the income taxes category;
 - (b) the subtotal for profit before financing and income taxes; and
 - (c) the subtotal for profit before income taxes.

⁴ Paragraphs B65–B68 of IFRS 18 set out requirements relating the classification of foreign exchange differences.

⁵ This specification allows an entity to use this subtotal in public communications without having to give the disclosures required for MPMs.

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48. We will consider the appropriate name for the items listed in paragraph 47 as part of drafting process.
49. If the IASB agrees with our recommendation to explicitly require an entity to disaggregate income taxes from other covered taxes classified in the income taxes category (paragraph 37), the IASB would not need to rename the line item for ‘income tax expense or income’ as required by paragraph 75 of IFRS 18.

Income taxes relating to each item of other comprehensive income

IFRS 18 requirements

50. Paragraph 93 of IFRS 18 requires an entity to ‘either present in the statement presenting comprehensive income or disclose in the notes the amount of income taxes relating to each item of other comprehensive income, including reclassification adjustments (see paragraphs 61A and 63 of IAS 12).’ Paragraph 94 of IFRS 18 sets out two alternatives for presenting that amount.

Staff analysis

51. These requirements in IFRS 18 arise from the requirement in paragraph 61A of IAS 12 to recognise in OCI tax that relates to items recognised in OCI. There is no such requirement for non-income tax charges in any IFRS Accounting Standards.
52. We think considering whether to require an entity to recognise in OCI particular non-income tax charges that relates to items in OCI is outside the scope of these amendments. The question is not a direct consequence of requiring or allowing entities to classify particular non-income tax charges in the income taxes category.
53. On the basis that we do not recommend adding a requirement to allocate particular non-income tax charges to items in OCI, we think no amendment is necessary to the requirements in IFRS 18 relating to income tax recognised in OCI—there is no non-income tax charge in OCI to which the requirements could apply.

*Management-defined performance measures***IFRS 18 requirements**

54. Paragraph 123 of IFRS 18 requires disclosure for each management-defined performance measure. In particular (emphasis added):
- (a) paragraph 123(c) requires ‘a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards (see paragraphs B136–B140)’;
 - (b) paragraph 123(d) requires ‘the *income tax effect* (determined by applying paragraph B141) and the effect on non-controlling interests for each item disclosed in the reconciliation required by [paragraph 123](c)’;
 - (c) paragraph 123(e) requires ‘a description of how the entity applies paragraph B141 to determine the *income tax effect* required by [paragraph 123](d)’; and
 - (d) paragraph B141 sets out requirements for calculating the *income tax effects* and paragraph B142 sets out disclosure requirements if an entity uses more than one method to calculate the *income tax effects*.
55. Paragraph 124 of IFRS 18 sets out disclosure requirements for when an entity (among others) ‘changes how it determines the income tax effects of the reconciling items required by paragraph 123(d).’
56. The Basis for Conclusions on IFRS 18 state:
- BC384 The IASB considered feedback that information on earnings per share is important to users of financial statements and that one of the benefits of management-defined performance measure disclosures is the detailed information users could use to calculate a related earnings per share figure. Users need information about the amounts of the adjustments attributable to owners of the parent and the tax effects of those adjustments to

be able to adjust the earnings per share figure. Therefore, the IASB decided to require an entity to disclose separately the amount attributable to non-controlling interests and the effect of income taxes for each reconciling item in the reconciliation required by paragraph 123(c) of IFRS 18.

BC385 The IASB decided to require this disclosure for each reconciling item because it gives users of financial statements information needed to calculate an adjusted earnings per share measure based on only the adjustments they want to consider in their analysis.

Staff analysis

57. If other covered taxes are classified in the income taxes category, a question could arise as to whether to amend paragraphs 123–124 of IFRS 18 (and related paragraphs) to require an entity to also include the effect of other covered taxes for each item disclosed in the reconciliation required by paragraph 123(c) of IFRS 18 (reconciling item).
58. Paragraph BC386 of the Basis for Conclusions on IFRS 18 notes challenges preparers could face in calculating the income tax effects for each reconciling item and feedback from users saying that ‘high-level information about the tax effects of each reconciling item would meet their needs’. After considering this feedback, the IASB allowed entities to use a simplified methodology to calculate the income tax effects.
59. In the light of user feedback in paragraphs BC384–BC385 of the Basis for Conclusions on IFRS 18, we acknowledge information about the effect of other covered taxes for each reconciling item could be useful. However, we think there could be similar challenges in calculating the effect of other covered taxes for each reconciling item. Given the differing nature and basis of calculation for the various types of other covered taxes, it will be difficult to develop a particular simplified methodology that entities can apply to determine the effects of these covered taxes on reconciling items. Considering that users need high-level information about the tax

effects for each reconciling item, we think requiring an entity to qualitatively describe the effect of other covered taxes on each reconciling item would appropriately balance users need for information about the effects of other covered taxes for each reconciling item and the costs of calculating and disclosing that information.

60. Consequently, we think the IASB should require an entity to qualitatively describe the effect of other covered taxes that the entity classifies in the income taxes category on each item disclosed in the reconciliation required by paragraph 123(c) of IFRS 18.

Groups of assets and liabilities

IFRS 18 requirements

61. Paragraphs B63–B64 of IFRS 18 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) that generated income and expenses that an entity classified in different categories immediately before the transaction or other event. These requirements are needed because the IASB did not intend an entity to disaggregate the single amount arising from the group into components that relate to individual asset and liabilities. For example, a gain or loss might arise from the disposal of a subsidiary. The requirements set out how that gain or loss—as a single amount—is classified.
62. In particular (emphasis added):
- (a) paragraph B63(a) requires an entity to classify income or expenses from such a transaction or other event (i) ‘in the investing category if, other than *any income tax assets*, all the assets in the group generated income and expenses that the entity classified in the investing category immediately before the transaction or other event’ and (ii) in the operating category otherwise; and
 - (b) paragraph B64(c) includes an example whereby an entity classifies ‘in the investing category—gains and losses on disposal of a consolidated subsidiary, if the only assets of the subsidiary were investment property that the consolidated reporting entity did not invest in as a main business activity and

related income tax assets. The gains and losses include the reclassification from equity to profit or loss of foreign exchange differences required by paragraph 48 of IAS 21.’

Staff analysis

63. If other covered taxes are classified in the income taxes category, a question could arise as to whether paragraphs B63–B64 should be amended so that the reference to ‘income tax assets’ also include assets arising from other covered taxes that an entity classifies in the income taxes category. Without such an amendment, a gain or loss on disposal of a subsidiary that included only investment properties and related other covered taxes would be classified in the operating category.
64. We think that, in principle, any assets that give rise to income and expenses classified in the income tax category—including other covered taxes classified in the income taxes category by applying the potential amendment—should be excluded from the assessment of whether income and expenses on a group should be classified in the investing or operating category.
65. Consequently, we recommend amending paragraphs B63–B64 of IFRS 18 to also refer to assets arising from other covered taxes that an entity classifies in the income taxes category.

Conclusion

66. Paragraph 8 summarises our conclusions on the technical aspects of the possible amendment to IFRS 18.