

IAS 10: Subsequent Events Relating to Uncertain Tax Positions

Extract, IFRS Discussion Group Report on Meeting – June 13, 2013

Decisions taken by an entity in measuring its income tax assets and liabilities for financial statement purposes when the tax law is unclear are generally referred to as uncertain tax positions.

IAS 12 *Income Taxes* does not provide any detailed guidance regarding the recognition and measurement of uncertain tax positions. Additionally, income tax is excluded from the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. With the lack of guidance in IFRSs, a number of methodologies for accounting for uncertain tax positions exist in practice. Regardless of the approach taken, an entity needs to consider how information obtained after the balance sheet date should be reflected in the recognition and measurement of an uncertain tax position at the balance sheet date in accordance with IAS 10 *Events after the Reporting Period*.

The issue for consideration is to what extent events after the reporting period (i.e., subsequent events) should be considered in the recognition and measurement of uncertain tax positions.

Fact Pattern:

- An entity filed its tax return in 20X1 based on a tax filing position and determined that an aspect of the filing position (such as the deductibility of a particular expense) is uncertain under the relevant tax law.
- The entity determined that there was a risk that the taxing authorities will not allow the deduction and a liability should be recorded in relation to the potential need to remit additional taxes to the relevant taxing authority.
- The entity recorded a liability of \$100, in relation to 50 percent of a deduction of \$800, which the entity thinks would not be sustained, at the substantively enacted tax rate of 25 percent.
- The entity is now preparing its December 31, 20X7 annual financial statements with a date of authorization of March 15, 20X8:
 - *Case 1:* In June of 20X7, the taxing authorities commence their examination of the position in question. The entity has not changed its previous assessment of the probability of sustaining the deduction and continues to think that 50 percent of the deduction will be denied. However, in January of 20X8, the entity receives a Notice of Reassessment denying the entire deduction of \$800. The entity determines in January of 20X8 that it will pay the reassessed taxes of \$200.¹

¹ Interest is ignored for simplicity.

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- *Case 2:* In June of 20X7, the taxing authorities commence their examination of the tax return. The entity thinks that the position in question is specifically considered as part of the examination. The entity has not changed its previous assessment of the probability of sustaining the deduction and continues to think that 50 percent of the deduction will be denied. However, in January of 20X8, the taxing authorities complete their examination and verify that there will not be a reassessment of the 20X1 taxation year.
 - *Case 3:* In February of 20X8, the tax position becomes statute-barred.

The Group considered the extent that the events after the reporting period (i.e., subsequent events) in each of the three cases should be reflected in the recognition and measurement of the uncertain tax position at the balance sheet date.

View A – No subsequent events should be reflected.

View B – All subsequent events should be reflected.

View C – All subsequent events should be reflected, with the exception of an uncertain tax position being resolved solely as a result of the passage of time.

The Group's Discussion

Most Group members who expressed a view supported View C, with some caveats. Several Group members observed that View A is unacceptable under IFRSs while others noted that some apply U.S. GAAP by analogy to support View A in practice. Group members observed that this argument is not valid because the U.S. GAAP accounting treatment is an exception that does not exist in IFRSs and conflicts with IFRSs. Other Group members observed that View B may be difficult to preclude and all three views are present to some extent in practice.

Although some diversity appears to exist in practice, the Group decided not to recommend that the issue be brought forward noting that the issue is intertwined with the broader issue regarding whether uncertain tax positions are within the scope of IAS 12 or IAS 37, for which the IASB is aware of the need for guidance.