

# IFRS 3 and IAS 12: Uncertain Tax Positions Acquired in a Business Combination

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## Extract, IFRS Discussion Group Report on Meeting – September 10, 2015

The Group had previously discussed the issue of "[Uncertain Tax Positions Acquired in a Business Combination](#)" at its meeting on April 19, 2012.

The issue was whether to recognize and measure the uncertain tax position in accordance with the general recognition and measurement principles in IFRS 3 *Business Combinations* (i.e., at fair value) (View A) or in accordance with IAS 12 *Income Taxes* by virtue of applying the exception in paragraphs 24 and 25 of IFRS 3 (View B). At that time, some Group members supported each view while other Group members supported both views on the basis that an accounting policy choice exists.

Subsequent to the Group's discussion, the IFRS Interpretations Committee considered an issue with respect to the accounting treatment for uncertain tax positions relating to current tax. The IFRS Interpretations Committee discussed whether uncertain tax positions should be recognized in accordance with IAS 12 or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. At its [July 2014 meeting](#), the IFRS Interpretations Committee's agenda decision indicated that uncertain tax positions relating to current tax are to be recognized under IAS 12 and not IAS 37.

***Question: Does the IFRS Interpretations Committee July 2014 agenda decision affect the views expressed by the Group at its April 19, 2012 meeting?***

View A of the April 2012 meeting report indicates that uncertain tax positions should be measured at their acquisition date fair values and paragraph 56 of IFRS 3 should be applied to subsequent measurement.

*View A1 – Yes, the IFRS Interpretations Committee July 2014 agenda decision affects View A and clarifies that uncertain tax positions are to be recognized under IAS 12 and not IAS 37.*

Under this view, it is not appropriate to apply paragraph 56 of IFRS 3 to subsequent measurement because this guidance is applicable only to amounts in the scope of IAS 37.

*View A2 – No, the IFRS Interpretations Committee July 2014 agenda decision does not affect View A. It is still appropriate to apply the guidance in paragraph 56 of IFRS 3 by analogy.*

Paragraph 46 of IAS 12 states:

"Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period."

Given the uncertainty related to the amount and timing of the outflows and inflows of resources for uncertain tax positions and the lack of a more detailed measurement guidance in IAS 12, under this view, entities may look to the guidance in IAS 37 to help determine the "amount expected to be paid" under IAS 12.

Further, paragraphs 22 and 23 of IFRS 3 requires a lower threshold for recognition of contingent liabilities assumed in a business combination (i.e., contingent liabilities are recognized at fair value even if not probable). Since paragraph 56 of IFRS 3 addresses subsequent measurement and requires that a contingent liability be measured at the higher of the amount that would be recognized under IAS 37 and the amount recognized in the business combination, this approach would avoid any potential day one remeasurement issues. The same day one remeasurement issue could arise with an uncertain tax position. Applying the guidance in paragraph 56 of IFRS 3 by analogy to uncertain tax positions remains a reasonable approach.

*View B – No, the IFRS Interpretations Committee July 2014 agenda decision does not affect the view that uncertain tax positions are subject to the IAS 12 recognition and measurement exception in IFRS 3.*

View B of the April 2012 meeting report indicates that uncertain tax positions do meet the scope exception of paragraphs 24 and 25 of IFRS 3. The wording in paragraph IN9 of IFRS 3 implies that all assets and liabilities falling within the scope of IAS 12 are to be measured under IAS 12 and not at fair value. Therefore, this view is not affected by the IFRS Interpretations Committee July 2014 agenda decision.

#### *The Group's Discussion*

One Group member expressed a view that the intent of IFRS 3 was to exempt assets and liabilities falling within the scope of IAS 12. However, paragraphs 24 and 25 of IFRS 3 are not worded clearly to convey that effect. The IFRS Interpretations Committee's discussion on uncertain tax positions is a piece of circumstantial evidence and does not apply in the context of a business combination. Therefore, it would seem that the IFRS Interpretations Committee July 2014 agenda decision should not change the initial views held.

Another Group member noted that the IFRS Interpretations Committee July 2014 agenda decision only concludes that uncertain tax positions should be recognized under IAS 12. The Interpretations Committee is still working on a draft interpretation to address the measurement aspect and considering guidance in IAS 37. Hence, it would still be difficult to preclude the view that paragraph 56 of IFRS 3 can be applied by analogy such that the amount would be recognized in accordance with IAS 37.

Another Group member noted that the IFRS Interpretations Committee July 2014 agenda decision may not have a significant effect in practice because if the exception paragraphs of 24 and 25 of IFRS 3 were applied, this would result in recognizing and measuring uncertain tax positions according to IAS 12. However, given the difficulty to attain precision in measuring uncertain tax positions that arise either through the normal course of business or through acquiring in a business combination, a proxy amount for fair value is used. Since paragraph 46 of IAS 12 requires that current tax liabilities (assets) should be measured at the amount expected to be paid to authorities, entities might look to guidance in IAS 37 to help determine "the amount expected to be paid" in the absence of clear measurement principles in IAS 12.

Overall, Group members who expressed a view noted that it is too early to change any previous decisions made in accounting for uncertain tax positions acquired in a business combination based on the IFRS Interpretations Committee July 2014 agenda decision.

The Group considered whether to raise this issue to the IFRS Interpretations Committee given a draft interpretation on uncertainty in income taxes is expected to be published soon. However, a few Group members observed that this issue is about uncertain tax positions acquired in the context of a business combination and, thus, it is likely that the requirements in IFRS 3 need to be amended to provide clarity over what standard applies as opposed to interpreting IAS 12. The Group confirmed that this is still a prevalent issue in practice and recommended that the AcSB consider this issue, along with the other IFRS 3 issues that the Group discussed before, on what further actions can be taken.

(For a full understanding of the discussions and views expressed, listen to the [audio clip](#)).