中汇 ZHONGHUI

HKFRS Update

HK (IFRIC) 23
Uncertainty over Income Tax Treatments

Introduction

HKAS 12 "Income Taxes" specifies requirements for current and deferred tax assets and liabilities. An entity applies the requirements in HKAS 12 based on applicable tax laws. An uncertain tax treatment is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. HK (IFRIC) 23 clarifies how to apply the recognition and measurement requirements in HKAS 12 when there is uncertainty over income tax treatments.

Effective Date and Transitional Provisions

An entity shall apply HK (IFRIC) 23 for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

On initial application, an entity shall apply HK (IFRIC) 23 either:

- retrospectively if that is possible without the use of hindsight; or
- retrospectively with the cumulative effect of initially applying HK (IFRIC) 23 recognised at the date of initial application as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The date of initial application is the beginning of the annual reporting period in which an entity first applies HK (IFRIC) 23. Comparative information shall not be restated.

Conclusions

Whether an entity considers uncertain tax treatments separately

An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.

Examination by taxation authorities

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (collectively "Tax Amounts"), an entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

Determination of Tax Amounts

If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the Tax Amounts consistently with the tax treatment used or planned to be used in its income tax filings.

If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related Tax Amounts. An entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty:

- the most likely amount (single most likely amount in a range of possible outcomes).
- the expected value (sum of the probability-weighted amounts in a range of possible outcomes).

Changes in facts and circumstances

An entity shall reassess a judgement or estimate required if the facts and circumstances on which the judgement or estimate was based change or as a result of new information that affects the judgement or estimate. An entity shall reflect the effect of such a change as a change in accounting estimate.

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