

**Exposure Draft**

**Appendix C, *Uncertainty over Income Tax Treatments to Ind AS*  
*12, Income Taxes***

**(Last date for the comments: 19<sup>th</sup> February, 2018)**



***Issued by***

**Accounting Standards Board**

**The Institute of Chartered Accountants of India**

## Exposure Draft

### **Appendix C, *Uncertainty over Income Tax Treatments to Ind AS 12, Income Taxes***

Following is the Exposure Draft of Appendix C, *Uncertainty over Income Tax Treatments* of Ind AS 12, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

#### **How to Comment**

Comments should be submitted using one of the following methods, so as to receive not later than **19<sup>th</sup> February, 2018**:

- 1 Electronically: Click on the below mentioned option to submit a comment letter or visit at the following link (Preferred method):  
<http://www.icai.org/comments/asb/>
- 2 Email: Comments can be sent at [commentsasb@icai.in](mailto:commentsasb@icai.in)
- 3 Postal: Secretary, Accounting Standards Board,  
The Institute of Chartered Accountants of India,  
ICAI Bhawan, Post Box No. 7100,  
Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to [asb@icai.in](mailto:asb@icai.in).

## **Appendix C, *Uncertainty over Income Tax Treatments to Ind AS 12, Income Taxes***

### **Background**

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- 1 Ind AS 12, *Income Taxes*, specifies requirements for current and deferred tax assets and liabilities. An entity applies the requirements in Ind AS 12 based on applicable tax laws.
- 2 It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect an entity's accounting for a current or deferred tax asset or liability.
- 3 In this Appendix:
  - (a) 'Tax treatments' refers to the treatments used by an entity or that it plans to use in its income tax filings.
  - (b) 'Taxation authority' refers to the body or bodies that decide whether tax treatments are acceptable under tax law. This might include a court.
  - (c) 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. For example, an entity's decision not to submit any income tax filing in a tax jurisdiction, or not to include particular income in taxable profit, is an uncertain tax treatment if its acceptability is uncertain under tax law.

### **Scope**

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- 4 This Appendix clarifies how to apply the recognition and measurement requirements in Ind AS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in Ind AS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Appendix.

### **Issues**

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- 5 When there is uncertainty over income tax treatments, this Appendix addresses:
  - (a) whether an entity considers uncertain tax treatments separately;
  - (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and  
How an entity considers changes in facts and circumstances.

### **Accounting Principles**

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### **Whether an entity considers uncertain tax treatments separately**

- 6 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. In determining the approach that better predicts the resolution of the uncertainty, an entity might consider, for example, (a) how it prepares its income tax filings and supports tax treatments; or (b) how the entity expects the taxation authority to make its examination and resolve issues that might arise from that examination.
- 7 If, applying paragraph 6, an entity considers more than one uncertain tax treatment together, the entity shall read references to an ‘uncertain tax treatment’ in this Appendix as referring to the group of uncertain tax treatments considered together.

### **Examination by taxation authorities**

- 8 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, 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 taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates**

- 9 An entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.
- 10 If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.
- 11 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 taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. 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:
- (a) The most likely amount—the single most likely amount in a range of possible outcomes. The most likely amount may better predict the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one value.
  - (b) The expected value—the sum of the probability-weighted amounts in a range of possible outcomes. The expected value may better predict the resolution of the uncertainty if there is a range of possible outcomes that are neither binary nor concentrated on one value.
- 12 If an uncertain tax treatment affects current tax and deferred tax (for example, if it affects both taxable profit used to determine current tax and tax bases used to determine deferred tax), an entity shall make consistent judgements and estimates for both current tax and

deferred tax.

### **Changes in facts and circumstances**

- 13 An entity shall reassess a judgement or estimate required by this Appendix 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. For example, a change in facts and circumstances might change an entity's conclusions about the acceptability of a tax treatment or the entity's estimate of the effect of uncertainty, or both. Paragraphs A1–A3 set out guidance on changes in facts and circumstances.
- 14 An entity shall reflect the effect of a change in facts and circumstances or of new information as a change in accounting estimate applying Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. An entity shall apply Ind AS 10, *Events after the Reporting Period*, to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.

## Application Guidance

*This Application Guidance is an integral part of Appendix C and has the same authority as the other parts of Appendix C.*

### Changes in facts and circumstances (paragraph 13)

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- A1 In applying paragraph 13 of this Appendix, an entity shall assess the relevance and effect of a change in facts and circumstances or of new information in the context of applicable tax laws. For example, a particular event might result in the reassessment of a judgement or estimate made for one tax treatment but not another, if those tax treatments are subject to different tax laws.
- A2 Examples of changes in facts and circumstances or new information that, depending on the circumstances, can result in the reassessment of a judgement or estimate required by this Appendix include, but are not limited to, the following:
- (a) Examinations or actions by a taxation authority. For example:
    - (i) agreement or disagreement by the taxation authority with the tax treatment or a similar tax treatment used by the entity;
    - (ii) information that the taxation authority has agreed or disagreed with a similar tax treatment used by another entity; and
    - (iii) Information about the amount received or paid to settle a similar tax treatment.
  - (b) Changes in rules established by a taxation authority.
  - (c) The expiry of a taxation authority's right to examine or re-examine a tax treatment.
- A3 The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by this Appendix.

### Disclosure

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- A4 When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:
- (a) judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 122 of Ind AS 1, *Presentation of Financial Statements*; and
  - (b) Information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 125–129 of Ind AS 1.
- A5 If an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, the entity shall determine whether to disclose the potential effect of the uncertainty as a tax-related contingency applying paragraph 88 of Ind AS 12.

## **Effective date and transition**

*This Section is an integral part of Appendix C and has the same authority as the other parts of the Appendix C.*

### **Effective date**

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- B1 An entity shall apply this Appendix for annual reporting periods beginning on or after April 1, 2019<sup>1</sup>. Earlier application is permitted. If an entity applies this Appendix for an earlier period, it shall disclose that fact.

### **Transition**

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- B2 On initial application, an entity shall apply this Appendix either:
- (a) Retrospectively applying Ind AS 8, if that is possible without the use of hindsight; or
  - (b) Retrospectively with the cumulative effect of initially applying the Appendix recognised at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the Appendix 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 this Appendix.

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<sup>1</sup> Since this Appendix to Ind AS 12 will be notified by the Ministry of Corporate Affairs (MCA), the effective date as mentioned in paragraph B1, is subject to the notification of MCA with the same effective date.

## Consequential Amendments

An entity shall apply these amendments when it applies Appendix C to Ind AS 12.

### ***Amendment to Ind AS 101, First-time Adoption of Indian Accounting Standards***

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Paragraph 39AF is added.
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39AF Appendix C Uncertainty over Income Tax Treatments to Ind AS 12 added paragraph E8. An entity shall apply that amendment when it applies Appendix C to Ind AS 12.

In Appendix E, paragraph E8 and related heading are added.
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E1-E7 [Refer Appendix 1]

### ***Uncertainty over income tax treatments***

E8 A first-time adopter whose date of transition to Ind ASs is before the date of notification of this Appendix may elect not to reflect the application of the Appendix C, Uncertainty over Income Tax Treatments, to Ind AS 12, *Income Taxes*, in comparative information in its first Ind AS financial statements. An entity that makes that election shall recognise the cumulative effect of applying Appendix C to Ind AS 12 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of its first Ind AS reporting period.

In Appendix 1, paragraph 9 is amended.
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9 Paragraphs E1-E7 of Appendix E of IFRS 1 provides ~~an~~ 'Short-term exemptions from IFRSs', however Ind AS 101 does not provide the ~~above-aforsaid~~ short-term exemptions. In order to maintain consistency with ~~Appendix Paragraph~~ numbers of IFRS 1, ~~the same are~~ the Appendix E is retained in Ind AS 101.