

# Straight away

## IFRS bulletin from PwC

### IFRS IC decision on interest and penalties related to income taxes

13 October 2017

#### At a glance

The IFRS Interpretations Committee (IC) issued an agenda decision in September 2017 on interest and penalties related to income taxes.

IFRIC 23 *Uncertainty over income tax treatments* applies to income taxes within the scope of IAS 12 *Income taxes*. It does not address the accounting for interest and penalties. The IC considered whether it should develop guidance. The IC concluded that the benefits of improvements in financial reporting from a project to consider interest and penalties would not outweigh the costs. It therefore decided that it should not develop guidance, and it issued an agenda decision.

The IC observed in the agenda decision that entities do not have an accounting policy choice between applying IAS 12 and applying IAS 37 *Provisions, contingent liabilities and contingent assets* to interest and penalties related to income taxes. If an entity considers that a particular amount payable or receivable for interest and penalties is an income tax, IAS 12 is applied to that amount. If an entity does not apply IAS 12 to an amount payable or receivable for interest and penalties, it applies IAS 37 to that amount.

The IC also observed that:

- an entity discloses its judgement in this respect applying paragraph 122 of IAS 1 *Presentation of financial statements* if it has a significant effect on the amounts recognised in the financial statements, and
- regardless of whether an entity applies IAS 12 or IAS 37 when accounting for interest and penalties related to income taxes, the entity discloses information about those items if material, because both IAS 12 and IAS 37 provide disclosure requirements.

#### Impact

##### *Who might be affected?*

Any entities that receive or pay interest or penalties related to income taxes might be affected by the agenda decision

##### *What is the impact?*

In the absence of specific guidance in IAS 12, some entities might currently make an accounting policy choice to determine whether IAS 12 or IAS 37 is applied to interest and penalties related to income tax where there are uncertain tax positions. These entities will now need to consider the specific nature of the interest and penalties to determine which standard applies. This might lead to recognition, measurement and disclosure differences in some cases and to a change in the way in which interest and penalties related to income taxes are presented in the income statement.

## Straight Away

### *When is the agenda decision effective?*

The agenda decision clarifies the existing guidance and is therefore effective immediately. Entities with a reporting date shortly after the agenda decision should assess whether the agenda decision applies at that date. The views of the relevant securities regulator should be considered as part of that assessment.

### *What should entities do?*

Affected entities should assess their approach to accounting for interest and penalties related to income taxes, and they should consider whether their accounting policies and presentation need to be changed. Any change in accounting policy should be accounted for retrospectively in accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*.

## Insight

Applying IAS 37 rather than IAS 12 might lead to changes in recognition and measurement in some cases and would mean interest and penalties related to income taxes being presented differently in the income statement.

Entities need to decide whether a particular amount payable or receivable for interest and penalties is an income tax. IC agenda decisions in March 2006 and May 2009 noted that IAS 12 defines income taxes as taxes that are based on taxable profits, and the term 'taxable profit' implies a notion of a net rather than a gross amount. Amounts that are not based on taxable profits are not income taxes. For example, interest and penalties might not be separated from income taxes where there is an overall settlement with the tax authority and any interest and penalties cannot be identified separately.

See the September 2017 [IFRIC Update](#) for the full agenda decision.

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