

ISSUES	SCOPE
<p>NZ IFRIC 23 addresses the following issues:</p> <ul style="list-style-type: none"> <li>▶ Whether an entity should consider uncertain tax treatments separately;</li> <li>▶ The assumptions an entity should make about the examination of tax treatments by taxation authorities;</li> <li>▶ How an entity determines taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates; and</li> <li>▶ How an entity considers changes in facts and circumstances</li> </ul>	<p>NZ IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 <i>Income Taxes</i> when there is uncertainty over income tax treatments.</p>
DEFINITIONS	
<ul style="list-style-type: none"> <li>▶ 'Tax treatments' refers to the treatments used by an entity that it plans to use in its income tax filings</li> <li>▶ 'Taxation authority' refers to the body or bodies that decide whether tax treatments are acceptable under tax law. This might include a court</li> <li>▶ 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</li> </ul>	

## CONSENSUS

1. UNIT OF ACCOUNT	2. EXAMINATION BY TAX AUTHORITIES
<p>NZ IFRIC 23 requires an entity to treat uncertain tax treatments separately or together depending on which method better predicts the resolution of the uncertainty.</p>	<p>When measuring current and deferred income tax assets and liabilities NZ IFRIC 23 requires an entity to assume that a taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations.</p>
3. DETERMINATION OF TAX ITEMS	4. CHANGES IN FACTS AND CIRCUMSTANCES
<p>NZ IFRIC 23 requires an entity to make an assessment of whether it is probable a taxation authority will accept an uncertain tax treatment. If it is probable the treatment will be accepted then taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rate should be consistent with the treatment used or planned to be used in its income tax filings. If it is not probable the position will be accepted, then an entity reflects that uncertainty in one of two ways depending on which method better predicts the resolution of the uncertainty:</p> <ul style="list-style-type: none"> <li>▶ An expected value approach; or</li> <li>▶ The most likely approach</li> </ul>	<p>The accounting for uncertain tax treatments requires an entity to make estimates and judgements about whether the relevant taxation authority will accept the position taken by the entity in its tax filings. NZ IFRIC 23 requires those estimates and judgements to be reassessed if the facts and circumstances on which those estimates and judgements are based change, or as a result of new information that affects the estimates and judgements. The effects of such changes should be reflected by applying NZ IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> and treated as a change in accounting estimate. In addition NZ IAS 10 <i>Events after the Reporting Date</i> should be applied to determine whether such a change that occurs after the reporting period is an adjusting or non-adjusting event.</p>

## EXAMPLES

<p>In applying consensus 3:</p> <ul style="list-style-type: none"> <li>▶ Assume an entity has claimed deductions in its taxation filing related to transfer pricing and concluded it is not probable the taxation authority will accept the deductions claimed. If the entity expects the taxation authority's decision on one transfer pricing matter would affect, or be affected by, the other transfer pricing matters, then it would calculate a probability-weighted average of the possible outcomes arising from an investigation by the tax authorities in measuring income tax assets and liabilities (i.e. an expected value approach).</li> <li>▶ Assume an entity may have claimed a current tax deduction of 100% of the cost of an intangible asset but expects the taxation authority to accept only a 10% deduction in each of the next 10 years, the entity would measure its current tax position in the year of purchase based on a current tax deduction equal to only 10% of cost and its deferred tax position would assume a tax base of the asset equal to 90% of cost and not 0% (i.e. the most likely approach).</li> </ul>
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DISCLOSURE	TRANSITION	TIER 2 NZ IFRS RDR REPORTERS
<ul style="list-style-type: none"> <li>▶ Judgements made in determining taxable profit or loss (paragraph 122 of NZ IAS 1 <i>Presentation of Financial Statements</i>;</li> <li>▶ Information about the assumptions and estimates made (paragraphs 125-129 of NZ IAS 1)</li> <li>▶ Potential effect of an uncertainty tax treatment as a tax-related contingency (paragraph 88 of NZ IAS 12)</li> </ul>	<p>An entity may use either</p> <ul style="list-style-type: none"> <li>▶ Retrospectively by restating comparatives if possible without hindsight; or</li> <li>▶ Retrospectively with the cumulative effect recognised by adjusting the opening balance of retained earnings on the date of initial application (i.e. the start of the accounting period in which NZ IFRIC 23 is first applied). In this case comparatives would not be restated.</li> </ul>	<p>NZ IFRS RDR Reporters are required to comply with NZ IFRIC 23 in full.</p>

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