

Recognition of current income tax on uncertain tax position (IAS 12 *Income Taxes*)—July 2014

The Interpretations Committee received a request to clarify the recognition of a tax asset in the situation in which tax laws require an entity to make an immediate payment when a tax examination results in an additional charge, even if the entity intends to appeal against the additional charge. In the situation described by the submitter, the entity expects, but is not certain, to recover some or all of the amount paid. The Interpretations Committee was asked to clarify whether IAS 12 is applied to determine whether to recognise an asset for the payment, or whether the guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should be applied.

The Interpretations Committee noted that:

- a. paragraph 12 of IAS 12 provides guidance on the recognition of current tax assets and current tax liabilities. In particular, it states that:
 - i. current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability; and
 - ii. if the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.
- b. in the specific fact pattern described in the submission, an asset is recognised if the amount of cash paid (which is a certain amount) exceeds the amount of tax expected to be due (which is an uncertain amount).
- c. the timing of payment should not affect the amount of current tax expense recognised.

The Interpretations Committee understood that the reference to IAS 37 in paragraph 88 of IAS 12 in respect of tax-related contingent liabilities and contingent assets may have been understood by some to mean that IAS 37 applied to the recognition of such items. However, the Interpretations Committee noted that paragraph 88 of IAS 12 provides guidance only on disclosures required for such items, and that IAS 12, not IAS 37, provides the relevant guidance on recognition, as described above.

On the basis of this analysis, the Interpretations Committee noted that sufficient guidance exists. Consequently, the Interpretations Committee concluded that the agenda criteria are not met and decided to remove from its agenda the issue of how current income tax, the amount of which is uncertain, is recognised.