INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD

# INT SB-FRS 123

# Uncertainty over Income Tax Treatments

## Illustrative Examples

This Guidance is applicable for annual reporting period beginning on 1 January 2021.

## Illustrative Examples

*These examples accompany, but are not part of, INT SB-FRS 123.*

IE1 These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in INT SB-FRS 123 based on the limited facts presented. In all the examples, as required by paragraph 8 of INT SB-FRS 123, the entity has assumed that the taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

## Example 1—The expected value method is used to reflect the effect of uncertainty for tax treatments considered together

IE2 Entity A's income tax filing in a jurisdiction includes deductions related to transfer pricing. The taxation authority may challenge those tax treatments. In the context of applying SB-FRS 12, the uncertain tax treatments affect only the determination of taxable profit for the current period.

IE3 Entity A notes that the taxation authority's decision on one transfer pricing matter would affect, or be affected by, the other transfer pricing matters. Applying paragraph 6 of INT SB-FRS 123, Entity A concludes that considering the tax treatments of all transfer pricing matters in the jurisdiction together better predicts the resolution of the uncertainty. Entity A also concludes it is not probable that the taxation authority will accept the tax treatments. Consequently, Entity A reflects the effect of the uncertainty in determining its taxable profit applying paragraph 11 of INT SB-FRS 123.

IE4 Entity A estimates the probabilities of the possible additional amounts that might be added to its taxable profit, as follows:

| | Estimated additional amount, CU[(a)] | Probability, % | Estimate of expected value, CU |
|---|---|---|---|
| Outcome 1 | – | 5% | – |
| Outcome 2 | 200 | 5% | 10 |
| Outcome 3 | 400 | 20% | 80 |
| Outcome 4 | 600 | 20% | 120 |
| Outcome 5 | 800 | 30% | 240 |
| Outcome 6 | 1,000 | 20% | 200 |
| | | 100% | 650 |

(a) In these Illustrative Examples, currency amounts are denominated in 'currency units' (CU)

IE5 Outcome 5 is the most likely outcome. However, Entity A observes that there is a range of possible outcomes that are neither binary nor concentrated on one value. Consequently, Entity A concludes that the expected value of CU650 better predicts the resolution of the uncertainty.

IE6 Accordingly, Entity A recognises and measures its current tax liability applying SB-FRS 12 based on taxable profit that includes CU650 to reflect the effect of the uncertainty. The amount of CU650 is in addition to the amount of taxable profit reported in its income tax filing.

## Example 2—The most likely amount method is used to reflect the effect of uncertainty when recognising and measuring deferred tax and current tax

IE7 Entity B acquires for CU100 a separately identifiable intangible asset that has an indefinite life and, therefore, is not amortised applying SB-FRS 38 *Intangible Assets*. The tax law specifies that the full cost of the intangible asset is deductible for tax purposes, but the timing of deductibility is uncertain. Applying paragraph 6 of INT SB-FRS 123, Entity B concludes that considering this tax treatment separately better predicts the resolution of the uncertainty.

IE8 Entity B deducts CU100 (the cost of the intangible asset) in calculating taxable profit for Year 1 in its income tax filing. At the end of Year 1, Entity B concludes it is not probable that the taxation authority will accept the tax treatment. Consequently, Entity B reflects the effect of the uncertainty in determining its taxable profit and the tax base of the intangible asset applying paragraph 11 of INT SB-FRS 123. Entity B concludes the most likely amount that the taxation authority will accept as a deductible amount for Year 1 is CU10 and that the most likely amount better predicts the resolution of the uncertainty.

IE9 Accordingly, in recognising and measuring its deferred tax liability applying SB-FRS 12 at the end of Year 1, Entity B calculates a taxable temporary difference based on the most likely amount of the tax base of CU90 (CU100 – CU10) to reflect the effect of the uncertainty, instead of the tax base calculated based on Entity B's income tax filing (CU0).

IE10 Similarly, as required by paragraph 12 of INT SB-FRS 123, Entity B reflects the effect of the uncertainty in determining taxable profit for Year 1 using judgements and estimates that are consistent with those used to calculate the deferred tax liability. Entity B recognises and measures its current tax liability applying SB-FRS 12 based on taxable profit that includes CU90 (CU100 – CU10). The amount of CU90 is in addition to the amount of taxable profit included in its income tax filing. This is because Entity B deducted CU100 in calculating taxable profit for Year 1, whereas the most likely amount of the deduction is CU10.