Tax uncertainties in the United States

Issues In-Depth

IFRS

November 2018

kpmg.com/us/frv

Contents

GAAP differences hidden in the detail

The FASB first published guidance on income tax uncertainties in 2006 with the well-known FIN 48, *Accounting for Uncertainty in Income Taxes* – subsequently codified as part of ASC 740, *Income Taxes*. During that period, the IASB issued no specific guidance, leading to diversity in practice. IFRIC 23, *Uncertainty over Income Tax Treatments*, now addresses that diversity.

At a high level, ASC 740 and IFRIC 23 appear similar in their approach to income tax uncertainties. Under both GAAPs, the overall objective is to ensure that the amounts recognized in the financial statements are reasonable in the circumstances.

However, a deeper analysis of ASC 740 versus IFRIC 23 reveals important differences that may result in different amounts being recognized in the financial statements – even when the underlying fact pattern appears to be similar.

In this publication, we take a detailed look at those differences, using a series of examples to illustrate the potential implications.

Kayreen Handley and Julie Santoro
Department of Professional Practice, KPMG LLP

About this publication

IFRIC 23, *Uncertainty over Income Tax Treatments*, was issued in June 2017 to clarify the recognition and measurement requirements in IAS 12 when the tax law or its application is unclear. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

Purpose

This publication looks in-depth at the application of IFRIC 23 through a series of examples analyzed from both a US GAAP and IFRS perspective. This comparison will allow US preparers to better understand:

— how IFRIC 23 differs from the ASC 740 (FIN 48) model under US GAAP; and
— the related accounting questions that arise from applying the interpretation – e.g. when to recognize and how to measure an uncertain tax treatment.

Organization of the text

The publication provides a general introduction to IFRIC 23. It then compares IFRIC 23 with existing US GAAP guidance, followed by a series of examples with detailed fact patterns and answering a series of questions, such as:

— When and how is a tax uncertainty recognized? And how do the recognition and measurement requirements differ from US GAAP?
— How do the disclosure requirements under IFRIC 23 differ from US GAAP?

The commentary is referenced to the underlying literature. For example, IFRIC 23.3 is paragraph 3 of IFRIC 23, and 740-10-25-13 is paragraph 25-13 of ASC Subtopic 740-10.

Optimized for US GAAP preparers

For the benefit of US readers of this publication, the comparison is organized into steps following the practical approach to applying US GAAP published in KPMG's Handbook, Accounting for income taxes. For comparative purposes, IFRIC 23 is analyzed in corresponding steps; we acknowledge that some of these steps are 'forced' to enable comparison and, absent this comparison, IFRIC 23 might be better explained using fewer steps

In addition, the example fact patterns used in this publication are based on US tax law and may not be consistent with tax law in other jurisdictions.

1. Understanding the concepts

1.1 Definition and scope

An 'uncertain tax treatment' is an income tax treatment (in applying IAS 12) for which there is uncertainty over whether the relevant tax authority will accept the tax treatment under tax law. Therefore, the term generally refers to treatments (also referred to as positions) taken or planned to be taken by an entity that: [IFRIC 23.3(c)]

— may be challenged by the tax authorities; and
— may result in:
  – additional taxes;
  – penalties or interest;
  – changes in the applicable tax rate;
  – changes in the tax base of assets or liabilities; or
  – changes in the amount of available tax losses carried forward or tax credits that would reduce a deferred tax asset or increase a deferred tax liability.

Whether an income tax uncertainty is present depends on both the specific position an entity takes and the applicable tax law. Therefore, income tax uncertainties often occur:

— when the applicable tax law is not very clear or is not consistently understood; or
— in tax regimes where the amounts finally payable to the tax authorities arise from lengthy negotiations involving a high degree of subjectivity and discretion.

Examples of tax uncertainties include:

— deductions taken on tax returns that may be disallowed by the tax authorities;
— transactions structured to use existing tax losses carried forward that may otherwise expire unused;
— transactions that could affect an entity's nontaxable or tax-exempt status; and
— an unresolved dispute between the entity and the relevant tax authority about the amount of tax due.

The following definitions are also relevant. [IAS 12.5]

— **Current tax** is the amount of income tax payable (recoverable) with respect to the taxable profit (tax loss) for a period. A tax uncertainty falls under the definition of current tax to the extent that it affects the calculation of income tax related to the current or prior periods.

— **Deferred tax liabilities** are the amounts of income taxes payable in future periods with respect to taxable temporary differences. A tax uncertainty falls under the definition of deferred tax to the extent that it affects the carrying amount of an asset or liability for accounting or tax purposes.

Uncertainties related to taxes that are not income taxes (e.g. sales taxes) are recognized and measured under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* and IFRIC 21, *Levies*, unless they are dealt with in another standard (e.g. IAS 19, *Employee Benefits*, for social security taxes).

1.2 Recognition and measurement

If there is uncertainty about an income tax treatment, an entity considers whether it is probable that the relevant tax authority will accept the tax treatment included or planned to be included in its tax filing. The underlying assumption in the assessment is that a tax authority will examine all amounts reported and will have full knowledge of all relevant information. [IFRIC 23.8–9]

Based on the assessment, an entity reflects uncertainty about a tax treatment in measuring its current and deferred taxes under one of two scenarios. [IFRIC 23.10–11]

— **Tax authority is likely to accept the entity's tax treatment.** If an entity concludes that it is probable that the tax authority will accept its tax treatment, it measures current and deferred taxes consistently with the tax treatment used or planned to be used in its income tax filing.

— **Tax authority is unlikely to accept the entity's tax treatment.** If an entity concludes that it is not probable that the tax authority will accept its tax treatment, it reflects the effect of that tax uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. To do so, an entity uses either the most likely amount or the expected value method – whichever better predicts the resolution of the uncertainty.

The definition of 'tax authority' in IFRIC 23 covers all bodies that decide whether a particular tax treatment is acceptable under the tax law, including a court. In some cases, a specific tax treatment may be challenged by a local tax authority, but ultimately be defendable if it is escalated to a higher tax authority – e.g. to court. [IFRIC 23.3(b)]

However, some entities may intend to settle the claim instead of taking it to a higher level, considering the costs and efforts involved in defending the claim. In these cases, the entity needs to determine which body within the tax authority is relevant for its assessment of whether it is probable that a tax treatment would be accepted. In our view, in determining the relevant body within the tax authority for this assessment, the entity should consider management's intention to settle the claim. Therefore, the analysis should focus on acceptance by the local tax authority, rather than the court. This approach would better reflect the expected manner of resolving the tax uncertainty. [IAS 12.46–47, 51, IFRIC 23.9]

Entities with more than one uncertain tax treatment assess uncertainties separately or together, depending on which approach better predicts the resolution of the uncertainty – e.g. how the entity supports the tax treatment, or what approach it expects the tax authority to take during an examination. [IFRIC 23.6–7]

An entity reassesses estimates and assumptions if facts and circumstances change or new information emerges. If changes in facts and circumstances occur, or new information emerges, between the reporting date and the date when the financial statements are authorized for issue, the entity applies IAS 10, *Events after the Reporting Period*, to identify whether its estimates and assumptions need to be adjusted to reflect those events. [IFRIC 23.13–14, A1–A3, IAS 8.36–37, IAS 10.8, 10]

1.3 Interest and penalties

Neither IAS 12 nor IFRIC 23 specifically include interest and penalties related to income taxes in their scope. The IFRS Interpretations Committee discussed the accounting for interest and penalties related to income taxes and noted that an entity considers whether interest or a penalty is itself an income tax.

— If so, the entity applies IAS 12. Such interest and penalties are presented as current/deferred tax payable in the balance sheet and as income tax expense in the income statement.

— If not, the entity applies IAS 37 to that amount. Such interest and penalties are presented as other provisions (liabilities) in the balance sheet and as operating (penalties) and interest expense respectively in the income statement.

The Committee noted that this is not an accounting policy choice. [IU 09-17]

In our view, an entity should apply judgment, based on the specific facts and circumstances, including the substance of the tax legislation and the process of negotiation with the tax authorities in a specific jurisdiction, to determine whether interest or a penalty related to a particular income tax treatment in its nature:

— is a separately identifiable financing charge or an operating expense, and therefore is not an income tax – e.g. when the interest and/or penalties arise because an entity underpays or overpays its income tax bill, whether deliberately to manage its cash flows, similar to its financing decisions in relation to any other settlement, or through oversight; or

— forms part of the tax treatment and therefore is itself an income tax – e.g. when an entity negotiates with tax authorities a single amount payable in relation to an uncertain tax treatment, including the interest and penalties charge.

1.4 Effective date and transition

IFRIC 23 applies to annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. [IFRIC 23.B1]

An entity initially applies IFRIC 23 either: [IFRIC 23.B2]

— retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if possible without the use of hindsight; or

— retrospectively with the cumulative effect of applying the Interpretation recognized at the date of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). Comparative information is not be restated.

2. Comparison of ASC 740 and IFRIC 23

Detailed contents

	US GAAP: ASC 740	IFRS: IFRIC 23
Step 1	Identify tax positions	Identify tax treatments
Step 2	Determine the appropriate unit of account	
Step 3	Determine whether the tax position (treatment) meets the recognition threshold	
Step 4	Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority	Determine the amount of tax uncertainty to be reflected in the financial statements
Step 5	Recognize a liability (reduce an asset) for each position (portion thereof) not recognized	Reflect tax uncertainty in measuring current and/or deferred tax
Step 6	Determine the classification on the balance sheet	
Step 7	Calculate interest and penalties	
Step 8	Prepare related disclosures	

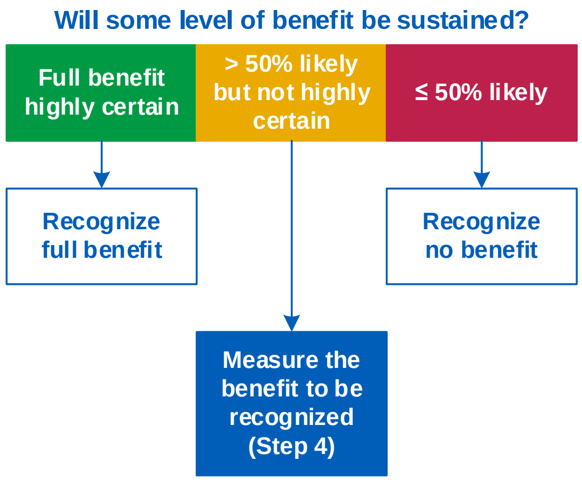
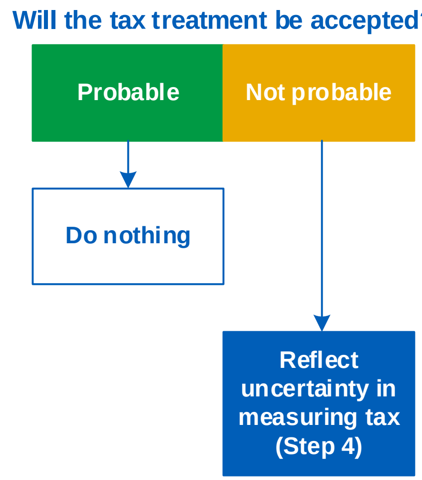
At a high level, US GAAP and IFRS appear similar in their approach to income tax uncertainties. Under both GAAPs, the overall objective is to ensure that the amounts recognized in the financial statements are reasonable in the circumstances. However, a deeper analysis of ASC 740 versus IFRIC 23 reveals important differences between the two frameworks that may result in different amounts being recognized in the financial statements even when the underlying fact pattern appears to be similar.

For the benefit of US readers of this publication, the following comparison is organized into steps following the practical approach to applying US GAAP published in KPMG's Handbook, Accounting for income taxes. For comparative purposes, IFRIC 23 is analyzed in corresponding steps; we acknowledge that some of these steps are 'forced' to enable comparison and, absent this comparison, IFRIC 23 might be better explained using fewer steps.

US GAAP: ASC 740	IFRS: IFRIC 23
Step 1: Identify tax positions	**Step 1: Identify tax treatments**
A 'tax position' is a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. [740-10-20]	Like US GAAP, a 'tax treatment' also refers to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods.
Step 2: Determine the appropriate unit of account	
In determining the unit of account, an entity considers the manner in which it prepares and supports its income tax return and the approach it anticipates the tax authority will take during examination. This approach focuses on how the entity prepares and supports its tax position – i.e. its technical merits. [740-10-25-13] Once the unit of account is determined, each tax position is evaluated independently without the possibility of aggregation or offset with other positions. [740-10-25-7(c)]	Uncertain tax treatments are treated either separately or aggregated with other uncertain tax treatments based on which approach better predicts resolution of the uncertainty. In making its determination, an entity considers, for example, how it prepares its income tax filings and supports tax treatments, or how it expects the tax authority to make its examination and resolve issues that might arise from that examination.

US GAAP: ASC 740	IFRS: IFRIC 23
	This approach gives weight to how the entity expects its tax treatment to be audited and any settlement negotiated in addition to consideration of how it prepares and supports its tax position. [IFRIC 23.6] While the considerations for determining the unit of account under IFRS and US GAAP are similar, there are subtle differences in wording. As a result, there may be instances in which tax treatments are aggregated under IFRIC 23 but represent separate units of account under ASC 740, and vice versa. Regardless of this technical distinction, determining the appropriate approach under either GAAP may be complex and require significant judgment.
Step 3: Determine whether the tax position (treatment) meets the recognition threshold	
In applying ASC 740, the entity asks itself: Is the position more likely than not (> 50%) to be sustained on examination based on its technical merits?	In applying IFRIC 23, the entity asks itself: Is it 'probable' that a tax authority will accept the tax treatment on examination? 'Probable' is not defined in IAS 12. However, in our experience, entities often use a working definition of 'more likely than not' (> 50%, like US GAAP), which is consistent with the definition of 'probable' in other standards (e.g. for provisions). [IAS 12.24, IFRIC 23.9, BC14–BC15]
In analyzing a tax position, an entity assumes that a tax authority with the right to examine the tax position will examine that position and have full knowledge of the relevant information – i.e. detection risk is not considered. [740-10-25-7a]	Like US GAAP, detection risk is not considered. Therefore, in analyzing an uncertain tax treatment, an entity assumes that a tax authority with the right to examine the tax treatment will examine that treatment and have full knowledge of the related information. [IFRIC 23.8]
An entity recognizes the financial statement effects of a tax position when it is more likely than not, based on the	Unlike US GAAP, IFRS considers whether it is probable that the relevant body within the tax authority will accept

US GAAP: ASC 740	IFRS: IFRIC 23
technical merits, that **some level of tax benefit** related to the position will be sustained on examination if the taxpayer takes the dispute to the court of last resort. [740-10-25] While the tax law and widely understood administrative practices of the tax authority are taken into account in assessing the recognition threshold, the possibility of negotiation with the tax authority is not considered in assessing the recognition threshold – i.e. Step 3 is based only on the technical merits of the position. In performing this evaluation, tax positions are classified as follows. — **Highly certain position.** The position clearly meets the recognition threshold by way of unambiguous tax law or a previous treatment agreed to by the tax authority for which the entity has no reason to believe it will not sustain 100% of the benefit. In that case, the entity recognizes the full benefit in the financial statements. No further evaluation of these positions is required. — **Position does *not* meet the more-likely-than-not recognition threshold.** If the position does not meet the more-likely-than-not threshold, no benefit of the position is recognized in the financial statements – i.e. skip Step 4 and go to Step 5. — **Position meets the more-likely-than-not recognition threshold but is not highly certain.** The position has a > 50% likelihood of being sustained, but it is not highly certain that the full amount of tax benefit taken will be realized on examination. Go to Step 4 for measurement of the benefit.	the tax treatment **as reported** in the income tax return. [IFRIC 23.9] This is the reverse of the question construct under US GAAP. — Under US GAAP, the entity begins by assuming that nothing is/will be recognized, and asks whether something will be sustained. — Under IFRS, the entity begins by assuming that the full amount is/will be recognized, and asks whether the tax position taken is probable of being accepted. A 'yes' answer under IFRS means the entity recognizes in its financial statements the same amount as reported in its tax return and does not reflect any uncertainty – i.e. no action is required. Using US GAAP phrasing, the entity recognizes the entire tax benefit. A 'no' answer under IFRS means the entity proceeds to recognition and measurement of the uncertainty (Step 4). In our view, in determining the relevant body within the tax authority for an entity's assessment of whether it is probable that a tax treatment would be accepted, an entity should consider its intention to settle the claim, unlike US GAAP. Therefore, if an entity does not intend to take an uncertain tax treatment to court, the relevant body within the tax authority for purposes of the assessment is the authority that the entity expects will examine the tax treatment. For further discussion, see section 1.2. Because Step 3 under US GAAP is focused only on the technical merits of the position, the possibility of settlement is only considered when/if the entity applies Step 4 under US GAAP.

US GAAP: ASC 740	IFRS: IFRIC 23
The US GAAP approach is summarized in the following diagram.  	The IFRS approach is summarized in the following diagram. 
Step 4: Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority	**Step 4: Determine the amount of tax uncertainty to be reflected in the financial statements**
If the answer in Step 3 is 'yes' but the full benefit of the tax position taken is not highly certain of being sustained, the entity measures the tax benefit to be recognized. The benefit recognized is the largest amount that is > 50% likely of being realized on settlement with the tax authority. [740-10-30-7]	If the answer in Step 3 is 'no', the entity needs to reflect the level of uncertainty in measuring its current and/or deferred tax. Unlike US GAAP, the amount of uncertainty reflected is determined using the method the entity expects to better predict the outcome of the uncertainty. [IFRIC 23.11] — **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

US GAAP: ASC 740	IFRS: IFRIC 23
	uncertainty if the possible outcomes are binary or are concentrated on one value. — **Expected value.** The sum of the probability-weighted amounts in the 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.
In measuring the benefit to be recognized, the entity considers its intention to settle the claim. Therefore, if an entity does not intend to take an uncertain tax position to court, the relevant body within the tax authority for purposes of the assessment is the authority that the entity expects will examine the tax treatment. [740-10-30-7]	Like US GAAP, any intention to settle the claim is considered in measuring the benefit to be recognized.
Subsequent events	**Subsequent events**
Only information available at the reporting date is considered in the recognition and measurement analyses, which is an exception to the general subsequent events guidance. [740-10-25-8, 30-7]	Unlike US GAAP, all information available through the date the financial statements are authorized for issuance is considered in recognizing and measuring the effects of the uncertain tax treatment. General guidance in IAS 10 is applied to determine whether a change that occurs after the reporting period is an adjusting or nonadjusting event. [IFRIC 23.14, IFRS 10.8, 10]
Step 5: Recognize a liability (reduce an asset) for each position (portion thereof) not recognized	**Step 5: Reflect tax uncertainty in measuring current and/or deferred tax**
The amount of benefit measured in Step 4 may differ from the amount taken or expected to be taken in the current year's tax return. This difference represents an unrecognized tax benefit. A liability is recorded (or the amount of a net operating loss carryforward or amount refundable is reduced) for an unrecognized tax benefit because it represents an entity's potential future	The amount of uncertainty measured in Step 4 will differ from the amount taken or expected to be taken in the previous or current year's tax return. Therefore, the amount determined in Step 4 is reflected in measuring current and/or deferred tax. [IFRIC 23.11]

<table>
<tr><th>US GAAP: ASC 740</th><th>IFRS: IFRIC 23</th></tr>
<tr><td>obligation to the tax authority for a tax position that was not recognized, and/or a deferred tax adjustment is recognized. [740-10-25-16 – 25-17]

The same outcome applies if the answer in Step 3 is ‘no’ and Step 4 does not apply – i.e. when the position does not meet the more-likely-than-not recognition threshold. A liability is recorded (or the amount of a net operating loss carryforward or amount refundable is reduced) for the unrecognized tax benefit. [740-10-25-16]

Subsequent events

Only information available at the reporting date is considered in the recognition and measurement analyses, which is an exception to the general subsequent events guidance. [740-10-25-8, 30-7]

Reevaluation

Tax positions are reevaluated in each period when new information about recognition and measurement becomes available. [740-10-25-14, 35-2, 40-2]</td><td>This step is conceptually the same as US GAAP, except that the amounts may differ because of the different recognition and measurement approaches in Step 4.

Subsequent events

Unlike US GAAP, all information available through the date the financial statements are authorized for issuance should be considered in recognizing and measuring the effects of the uncertain tax treatment. General guidance in IAS 10 is applied to determine whether a change that occurs after the reporting period is an adjusting or nonadjusting event. [IFRIC 23.14, IFRS 10.8, 10]

Reevaluation

Like US GAAP, tax positions are reevaluated in each period when the facts and circumstances on which the judgment or estimate was based change or as a result of new information that affects the judgment or estimate. [IFRIC 23.13]</td></tr>
<tr><td colspan="2">Step 6: Determine the classification on the balance sheet</td></tr>
<tr><td>Income taxes payable for unrecognized tax benefits are classified as current if cash payment is expected within 12 months; if not, the amount is classified as noncurrent. [740-10-45-11]</td><td>Unlike US GAAP, income taxes payable are classified as current or noncurrent based on the classification criteria in IAS 1, Presentation of Financial Statements. For example, if the income tax is due to be settled within 12 months after the reporting period, it is classified as current. Conversely, if the entity negotiates a deferral of payment with the tax authority such that it has an unconditional</td></tr>
</table>

US GAAP: ASC 740	IFRS: IFRIC 23
Deferred taxes are classified as noncurrent. [740-10-65-4]	right to defer settlement for at least 12 months after the reporting period, it is classified as noncurrent. [IAS 1.69] Like US GAAP, deferred taxes are classified as noncurrent. [IAS 1.56]
Step 7: Calculate interest and penalties	
The entity (1) calculates interest on the underpayment of income taxes when interest would begin accruing under the tax law and (2) may elect to classify the interest as either income taxes or interest expense in the income statement. [740-10-25-56, 45-25] The entity (1) calculates penalties when a position does not meet the minimum statutory threshold to avoid the payment of penalties and (2) may elect to classify the penalties as either income taxes or expenses in the income statement. [740-10-25-57, 45-25]	Unlike US GAAP, the treatment of interest and penalties is not an accounting policy election. Instead, judgment is required to determine whether interest and penalties meet the definition of income taxes (accounted for under IAS 12) or not (accounted for under IAS 37); see section 1.3. [IFRIC 23.BC9]
Step 8: Prepare related disclosures	
Specific disclosures are required with an emphasis on the amounts of unrecognized tax benefits recorded. [740-10-50-15 – 50-15A] These disclosures include interest and penalties, the amount of unrecognized tax benefits that are reasonably possible to change within the next 12 months, and a description of open tax years by major jurisdiction. [740-10-50-15] Public entities also disclose a tabular roll-forward of unrecognized tax benefits, and the amount of such benefits that, if recognized, would affect the effective tax rate. [740-10-50-15A]	Unlike US GAAP, the general disclosure requirements around significant judgments, assumptions or estimates, and tax-related contingencies required by IAS 1 and IAS 12 apply. [IFRIC 23.A4–A5]

3. Examples

Detailed contents

	US GAAP: ASC 740	IFRS: IFRIC 23
Background		
Example 1: IFRS measurement based on expected value method		
Step 3	Determine whether the tax position (treatment) meets the recognition threshold	
Step 4	Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority	Determine the amount of uncertainty to be reflected in the financial statements
Step 5	Recognize a liability (reduce an asset) for each position (portion thereof) not recognized	Reflect tax uncertainty in measuring current and/or deferred tax
Example 2: IFRS measurement based on most likely amount method		
Step 3	Determine whether the tax position (treatment) meets the recognition threshold	
Step 4	Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority	Determine the amount of uncertainty to be reflected in the financial statements
Step 5	Recognize a liability (reduce an asset) for each position (portion thereof) not recognized	Reflect tax uncertainty in measuring current and/or deferred tax

	US GAAP: ASC 740	IFRS: IFRIC 23
Example 3: Recognition threshold under US GAAP is not met		
Step 3	Determine whether the tax position (treatment) meets the recognition threshold	
Step 4	Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority	Determine the amount of uncertainty to be reflected in the financial statements
Step 5	Recognize a liability (reduce an asset) for each position (portion thereof) not recognized	Reflect tax uncertainty in measuring current and/or deferred tax
Example 4: Expected settlement		
Step 3	Determine whether the tax position (treatment) meets the recognition threshold	
Step 4	Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority	Determine the amount of uncertainty to be reflected in the financial statements
Step 5	Recognize a liability (reduce an asset) for each position (portion thereof) not recognized	Reflect tax uncertainty in measuring current and/or deferred tax

Background

The examples in this chapter illustrate the practical application of the two frameworks – focusing on Steps 3, 4 and 5 – and should be read together with the explanations in chapter 2. The following simplifying assumptions apply in each example.

- Each example illustrates only the effects of the specific income tax position that is uncertain, assuming that the company has an overall income tax liability position.
- Interest and penalties are ignored.

Example 1: IFRS measurement based on expected value method

Company A's income tax filing includes a deduction (single tax treatment) of $1,500 related to intercompany services that only affect taxable profit for the current period. Company A has a tax rate of 25%.

Company A assesses the tax treatment of deductions related to intercompany services in the United States separately from other uncertain tax treatments because that approach better predicts the resolution of the uncertainty. Therefore, this tax deduction represents the unit of account for purposes of the analysis.

Company A concludes that it is not probable that the tax treatment as filed on its income tax return will be accepted, but that it is more likely than not to realize some level of benefit for the position based on its technical merits.

US GAAP: ASC 740	IFRS: IFRIC 23
Step 3: Determine whether tax position (treatment) meets the recognition threshold	
Is the position more likely than not (> 50%) to be sustained on examination based on its technical merits? Yes. Although Company A concludes that it is not more likely than not that it will receive the entire benefit of the deduction (as filed on its income tax return), it is more likely than not that **some** amount will be deductible based on the technical merits of the tax position. Therefore, the recognition test is met and Company A proceeds to Step 4.	Is it probable (> 50%) that the tax treatment will be accepted on examination? No. Company A concludes that it is not probable that it will be able to realize the benefit of the **full** deduction. Therefore, it needs to reflect the tax uncertainty in measuring its current tax and Company A proceeds to Step 4.

US GAAP: ASC 740

Step 4: Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority

Company A analyzes the potential outcomes.

	Possible deduction	Probability of position	Cumulative probability
Outcome 1	$1,500	25%	25%
Outcome 2	1,000	30%	55%
Outcome 3	700	25%	80%
Outcome 4	300	10%	90%
Outcome 5	-	10%	100%
		100%	

Because $1,000 is the largest amount of benefit that is > 50% likely of being realized on settlement, Company A recognizes a tax benefit based on a deduction of $1,000.

Consequently, Company A will record an unrecognized tax benefit based on $500 of additional taxable income. This is the difference between the amount of benefit taken in its tax return of $1,500 and the amount of benefit to be recognized of $1,000.

IFRS: IFRIC 23

Step 4: Determine the amount of uncertainty to be reflected in the financial statements

Company A analyzes the potential outcomes.

	Possible deduction	Amt. dis-allowed	Prob. of position	Expected value dis-allowed
Outcome 1	$1,500	$ -	25%	$ -
Outcome 2	1,000	500	30%	150
Outcome 3	700	800	25%	200
Outcome 4	300	1,200	10%	120
Outcome 5	-	1,500	10%	150
			100%	$620

Note: The amounts in the 'Amount disallowed' column represent the amount that would need to be reflected in measuring the tax uncertainty for the respective outcome. This is the amount used in the 'expected value' calculation.

Based on the probabilities of possible outcomes, Outcome 2 ($500 disallowed) represents the single most likely outcome. However, Company A notes that there is a range of possible outcomes that is neither binary nor concentrated on a single value. As a result, Company A concludes that the expected value disallowed of $620 better predicts the resolution of the uncertainty.

Consequently, Company A recognizes and measures its taxable profit (tax loss) including $620 of additional taxable income to reflect the effect of the uncertainty. This is the difference between the amount of benefit taken in its tax

<table>
<tr><th>US GAAP: ASC 740</th><th>IFRS: IFRIC 23</th></tr>
<tr><td></td><td>return of $1,500 and the amount of benefit expected to better predict the resolution of the uncertainty of $880.</td></tr>
<tr><td>Step 5: Recognize a liability (reduce an asset) for each position (portion thereof) not recognized</td><td>Step 5: Reflect tax uncertainty in measuring current and/or deferred tax</td></tr>
<tr><td>Company A records the following entry to reflect the position taken in its income tax return – i.e. before recognizing the effect of the uncertainty.
<table>
<tr><th></th><th>Debit</th><th>Credit</th></tr>
<tr><td>Current tax payable
($1,500 deduction × 25% tax rate)</td><td>375</td><td></td></tr>
<tr><td>Current tax expense</td><td></td><td>375</td></tr>
</table>
Company A records the following entry to reflect the tax uncertainty.
<table>
<tr><th></th><th>Debit</th><th>Credit</th></tr>
<tr><td>Current tax expense
($500 disallowed × 25% tax rate)</td><td>125</td><td></td></tr>
<tr><td>Income tax payable (noncurrent)</td><td></td><td>125</td></tr>
<tr><td colspan="3">Note: A noncurrent tax payable is credited because the issue is not expected to be settled within 12 months – i.e. it is noncurrent (see Step 6 in chapter 2).</td></tr>
</table>
The result is that Company A's financial statements reflect a net tax benefit of $250, which represents the largest amount of benefit that is > 50% likely of being realized on settlement: $1,000 deduction × tax rate of 25%.</td>
<td>Company A records the following entry to reflect the tax treatment taken in its income tax return – i.e. before recognizing the effect of the uncertainty.
<table>
<tr><th></th><th>Debit</th><th>Credit</th></tr>
<tr><td>Current tax payable
($1,500 deduction × 25% tax rate)</td><td>375</td><td></td></tr>
<tr><td>Current tax expense</td><td></td><td>375</td></tr>
</table>
Company A records the following entry to reflect the tax uncertainty.
<table>
<tr><th></th><th>Debit</th><th>Credit</th></tr>
<tr><td>Current tax expense
($620 disallowed × 25% tax rate)</td><td>155</td><td></td></tr>
<tr><td>Current tax payable</td><td></td><td>155</td></tr>
<tr><td colspan="3">Note: The current tax payable is credited (i.e. classified as a current liability) because income tax is due to be settled within 12 months after the reporting period, and Company A does not have the unconditional right to defer payment of any settlement for over 12 months – i.e. it is current (see Step 6 in chapter 2).</td></tr>
</table>
The result is that Company A's financial statements reflect a net tax benefit of $220, which represents the estimated amount of benefit based on the expected value method: $880 deduction × tax rate of 25%.</td></tr>
</table>

Example 2: IFRS measurement based on most likely amount method

Company B incurs a series of costs to repair equipment, totaling $500. The entire amount is expensed in the current period for financial reporting purposes and a deduction of $500 in calculating taxable profit is reported by Company B in its income tax filing. Company B has a tax rate of 25%, and there are no changes in tax rates enacted or substantively enacted by year-end.

The tax law permits the repairs to be deducted for income tax purposes; however, there is uncertainty about whether the costs are deductible in the year incurred or over a 10-year period. Company B assesses the tax treatment of all of the repairs together because that approach better predicts the resolution of the uncertainty.

Company B concludes that it is probable that the tax authority would require the tax deductions to be deducted over 10 years.

US GAAP: ASC 740	IFRS: IFRIC 23
Step 3: Determine whether tax position (treatment) meets the recognition threshold	
Is the tax position more likely than not (> 50%) to be sustained on examination based on its technical merits? Yes. Although Company B concludes that it is not more likely than not that the tax authority will accept the position as filed on its income tax return (i.e. all expenses deducted in one year), it is more likely than not that the expenses will be deductible in either the current year or a future year based on the technical merits of the tax position. Therefore, the recognition test is met and Company B proceeds to Step 4.	Is it probable (> 50%) that the tax treatment will be accepted on examination? No. Company B concludes that it will be able to deduct the costs of repairs in either the current year or a future year. However, it concludes that it is not probable that the tax treatment **as filed** on its income tax return (i.e. full deduction in one year) will be accepted. Therefore, it needs to reflect the tax uncertainty in measuring its current tax and Company B proceeds to Step 4.

<table>
<tr><th>US GAAP: ASC 740</th><th>IFRS: IFRIC 23</th></tr>
<tr><td>Step 4: Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority</td><td>Step 4: Determine the amount of uncertainty to be reflected in the financial statements</td></tr>
<tr><td>Company B concludes that a tax deduction of $50 per year ($500 / 10 years) represents the largest amount of tax benefit that is > 50% likely of being realized.

This outcome results in a deductible temporary difference of $450 based on the difference between the financial reporting carrying amount of zero and the more-likely-than-not tax basis of $450.</td><td>Company B concludes that it is probable that the tax authority would require the repairs to be deducted over 10 years, and the most likely amount ($50 per year) better predicts the resolution of the uncertainty. This is because the outcome is likely binary (immediately expensed or taken over 10 years).

This outcome results in a deductible temporary difference of $450, based on the difference between the financial reporting carrying amount of zero and the most-likely tax basis of $450.

The measurement outcome in this example is the same as US GAAP.</td></tr>
<tr><td>Step 5: Recognize a liability (reduce an asset) for each position (portion thereof) not recognized</td><td>Step 5: Reflect tax uncertainty in measuring current and/or deferred tax</td></tr>
<tr><td>Company B records the following entry to reflect the position taken in its income tax return – i.e. before recognizing the effect of the uncertainty.
<table><tr><th></th><th>Debit</th><th>Credit</th></tr><tr><td>Current tax payable
($500 deduction × 25% tax rate)</td><td>125</td><td></td></tr><tr><td>Current tax expense</td><td></td><td>125</td></tr></table></td><td>Company B records the following entry to reflect the tax treatment taken in its income tax return – i.e. before recognizing the effect of the uncertainty.
<table><tr><th></th><th>Debit</th><th>Credit</th></tr><tr><td>Current tax payable
($500 deduction × 25% tax rate)</td><td>125</td><td></td></tr><tr><td>Current tax expense</td><td></td><td>125</td></tr></table></td></tr>
</table>

US GAAP: ASC 740	IFRS: IFRIC 23
Company B records the following entries to reflect the tax uncertainty.	Company B records the following entries to reflect the tax uncertainty.

US GAAP: ASC 740

	Debit	*Credit*
Current tax expense ($450 disallowed × 25% tax rate)	113	
Income tax payable (noncurrent) (see note in Step 5 of Example 1)		113
Deferred tax asset ($450 temp. diffs. × 25% tax rate)	113	
Deferred tax benefit		113

The result is that Company B's financial statements reflect the following based on the largest amount of benefit that is > 50% likely of being realized on settlement (rounded):

- current tax benefit of $12: $50 deduction × tax rate of 25%; and
- deferred tax benefit of $113: future deduction of $450 × tax rate of 25%.

IFRS: IFRIC 23

	Debit	*Credit*
Current tax expense ($450 disallowed × 25% tax rate)	113	
Current tax payable (see note in Step 5 of Example 1)		113
Deferred tax asset ($450 temp. diffs. × 25% tax rate)	113	
Deferred tax benefit		113

Like US GAAP, the result is that Company B's financial statements reflect the following based on the most likely deduction (rounded):

- current tax benefit of $12: $50 deduction × tax rate of 25%; and
- deferred tax benefit of $113: future deduction of $450 × tax rate of 25%.

Example 3: Recognition threshold under US GAAP is not met

Company C's income tax filing includes the tax benefit of $100 of research credits for a unique emerging area of investment. Company C accounts for research credits under IAS 12 and assesses the tax treatment of the research credits separately from other uncertain tax treatments because that approach better predicts resolution of the uncertainty.

Although Company C believes it has substantial authority for claiming the credits, Company C cannot reach a more-likely-than-not conclusion that it would sustain the benefit of the credits, based on technical merits, if the dispute were taken to the court of last resort. However, due to the nature of the credits related to an area in which the government is encouraging investment and the hazards of litigation, Company C believes it is possible the local tax authority would be willing to negotiate a settlement instead of taking the claim to court.

Note: Under US federal tax law, a position with 'substantial authority' is not subject to underpayment penalties. Regulation §1.6662-4(d) defines the 'substantial authority' standard as less stringent than 'more likely than not' but more stringent than the 'reasonable basis' standard defined in §1.6662-3(b)(3).

US GAAP: ASC 740	IFRS: IFRIC 23
Step 3: Determine whether tax position (treatment) meets the recognition threshold	
Is the tax position more likely than not (> 50%) to be sustained on examination based on its technical merits? No. Company C concludes that the recognition test has not been met. The recognition threshold is based on the likelihood of a tax position being sustained on examination based on its technical merits, if the dispute were taken to the court of last resort. Even though very few tax positions are ultimately taken to the court of last resort in the United States, the possibility of negotiation with the tax authority is not considered in evaluating whether the recognition threshold has been met. Because the recognition test is not met, Company C proceeds directly to Step 5.	Is it probable (> 50%) that the tax treatment will be accepted on examination? No. Company C concludes that it is not probable that the entire tax benefit will be accepted. We believe that when assessing the probability that a tax benefit would be accepted, Company C should consider its intention to settle the claim. Because the claim is not expected to be taken to court, the relevant body within the tax authority for purposes of the assessment is the local tax authority. This approach better reflects the expected manner of resolving the tax uncertainty. Considering the position of the local tax authority, Company C concludes it is not probable that its tax treatment would be accepted.

US GAAP: ASC 740	IFRS: IFRIC 23
	Therefore, it needs to reflect the tax uncertainty in measuring its current tax and Company C proceeds to Step 4.
Step 4: Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority	**Step 4: Determine the amount of uncertainty to be reflected in the financial statements**
N/A Because the position does not meet the more-likely-than-not threshold, no benefit of the position is recognized in the financial statements.	Company C analyzes the potential outcomes.

	Possible benefit	Amt. dis-allowed	Prob. of position	Expected value dis-allowed
Outcome 1	$100	$ -	10%	$ -
Outcome 2	40	60	10%	6
Outcome 3	30	70	20%	14
Outcome 4	20	80	20%	16
Outcome 5	-	100	40%	40
			100%	$76

Note: The amounts in the 'Amount disallowed' column represent the amount that would need to be reflected in measuring the tax uncertainty for the respective outcome. This is the amount used in the 'expected value' calculation.

Based on the probabilities of possible outcomes, Outcome 5 (the entire $100 disallowed) represents the single most likely outcome. However, Company C notes that there is a range of possible outcomes that is neither binary nor concentrated on a single value. As a result, Company C concludes that the expected value disallowed of $76 better predicts the resolution of the uncertainty.

Consequently, Company C recognizes and measures its taxable profit (tax loss) including $76 of additional tax

<table>
<tr><th>US GAAP: ASC 740</th><th>IFRS: IFRIC 23</th></tr>
<tr><td></td><td>expense to reflect the effect of the uncertainty. This is the difference between the amount of benefit taken in its tax return of $100 and the amount of benefit expected to better predict the resolution of the uncertainty of $24.</td></tr>
<tr><td>Step 5: Recognize a liability (reduce an asset) for each position (portion thereof) not recognized</td><td>Step 5: Reflect tax uncertainty in measuring current and/or deferred tax</td></tr>
<tr><td>Company C records the following entry to reflect the position taken in its income tax return – i.e. before recognizing the effect of the uncertainty.
<table>
<tr><th></th><th>Debit</th><th>Credit</th></tr>
<tr><td>Current tax payable</td><td>100</td><td></td></tr>
<tr><td>Current tax expense</td><td></td><td>100</td></tr>
</table>
Company C records the following entry to reflect the tax uncertainty.
<table>
<tr><th></th><th>Debit</th><th>Credit</th></tr>
<tr><td>Current tax expense</td><td>100</td><td></td></tr>
<tr><td>Income tax payable (noncurrent)
(see note in Step 5 of Example 1)</td><td></td><td>100</td></tr>
</table>
The result is that Company C’s financial statements reflect no net tax benefit.</td>
<td>Company C records the following entry to reflect the tax treatment taken in its income tax return – i.e. before recognizing the effect of the uncertainty.
<table>
<tr><th></th><th>Debit</th><th>Credit</th></tr>
<tr><td>Current tax payable</td><td>100</td><td></td></tr>
<tr><td>Current tax expense</td><td></td><td>100</td></tr>
</table>
Company C records the following entry to reflect the tax uncertainty.
<table>
<tr><th></th><th>Debit</th><th>Credit</th></tr>
<tr><td>Current tax expense</td><td>76</td><td></td></tr>
<tr><td>Current tax payable
(see note in Step 5 of Example 1)</td><td></td><td>76</td></tr>
</table>
The result is that Company C’s financial statements reflect a net tax benefit of $24, which represents the estimated amount of benefit after reflecting the measurement for the uncertain tax treatment based on the expected value method.</td></tr>
</table>

Example 4: Expected settlement

Company D donated inventory to charity and expenses the carrying amount of that inventory in the current period for financial reporting purposes. The tax law permits Company D to claim a tax deduction for the donated inventory based on its fair market value; however, there is uncertainty about the fair market value of the inventory donated. Company D has a tax rate of 25%.

Company D considers this uncertain tax treatment separately from other uncertain tax treatments because that approach better predicts resolution of the uncertainty. A deduction of $100 in calculating taxable profit is reported by Company D in its income tax filing.

Company D believes it is probable that the full $100 tax deduction would be sustained if taken to the court of last resort. However, to avoid the costs and hazards of litigation, Company D is willing to give up $10 of the tax deduction in negotiations with the local tax authority and believes there is a 60% likelihood that this $90 ($100 - $10) is the amount that will be realized. Therefore, the largest benefit that is > 50% likely of being realized on settlement is a $90 deduction.

US GAAP: ASC 740	IFRS: IFRIC 23
Step 3: Determine whether tax position (treatment) meets the recognition threshold	
Is the tax position more likely than not (> 50%) to be sustained on examination based on its technical merits? Yes. The recognition threshold is based on the likelihood of a tax position being sustained upon examination based on its technical merits, if taken to the court of last resort. Even though very few tax positions are ultimately taken to the court of last resort in the United States, the possibility of negotiation with the tax authority is not considered in evaluating whether the recognition threshold has been met. Therefore, the recognition test is met and Company D proceeds to Step 4.	Is it probable (> 50%) that the tax treatment will be accepted on examination? No. We believe that when assessing the probability that a tax deduction would be accepted, Company D should consider its intention to settle the claim. Because Company D does not intend to take this case to court, the relevant body within the tax authority for purposes of the assessment is the local tax authority. Considering the position of the local tax authority, Company D concludes that it is not probable that its tax deduction would be accepted and reflects the effect of the tax uncertainty in measuring its current tax. Therefore, the recognition test is not met and Company D proceeds to Step 4.

US GAAP: ASC 740

Step 4: Determine the largest amount that is > 50% likely of being realized on settlement with the tax authority

Company D analyzes the potential outcomes.

	Possible deduction	Probability of position	Cumulative probability
Outcome 1	$ 100	40%	40%
Outcome 2	90	60%	100%
		100%	

Because a $90 deduction is the largest amount of benefit that is > 50% likely of being realized on settlement, Company D recognizes a tax benefit based on a deduction of $90.

Consequently, Company D will record an unrecognized tax benefit based on $10 of additional taxable income. This is the difference between the amount of benefit taken in its tax return of $100 and the amount of benefit to be recognized of $90.

IFRS: IFRIC 23

Step 4: Determine the amount of uncertainty to be reflected in the financial statements

Company D analyzes the potential outcomes.

	Possible deduction	Amt. disallowed	Prob. of position	Expected value disallowed
Outcome 1	$ 100	$ -	40%	$ -
Outcome 2	90	10	60%	6
			100%	6

Note: The amounts in the 'Amount disallowed' column represent the amount that would need to be reflected in measuring the tax uncertainty for the respective outcome. This is the amount used in the 'expected value' calculation.

Company D concludes that the most likely amount better predicts the resolution of the uncertainty, and therefore includes an additional $10 of taxable income in measuring its taxable profit (tax loss).

The measurement outcome in this example is the same as US GAAP.

US GAAP: ASC 740

Step 5: Recognize a liability (reduce an asset) for each position (portion thereof) not recognized

Company D records the following entry to reflect the position taken in its income tax return – i.e. before recognizing the effect of the uncertainty.

	Debit	*Credit*
Current tax payable ($100 deduction × 25% tax rate)	25	
Current tax expense		25

Company D records the following entry to reflect the tax uncertainty.

	Debit	*Credit*
Current tax expense ($10 disallowance × 25% tax rate)	3	
Income tax payable (noncurrent) (see note in Step 5 of Example 1)		3

The result is that Company D's financial statements reflect a net tax benefit of $22 (rounded), which represents the largest amount of benefit that is > 50% likely of being realized on settlement: $90 deduction × tax rate of 25%.

IFRS: IFRIC 23

Step 5: Reflect tax uncertainty in measuring current and/or deferred tax

Company D records the following entry to reflect the tax treatment taken in its income tax return – i.e. before recognizing the effect of the uncertainty.

	Debit	*Credit*
Current tax payable ($100 deduction × 25% tax rate)	25	
Current tax expense		25

Company D records the following entry to reflect the tax uncertainty.

	Debit	*Credit*
Current tax expense ($10 disallowance × 25% tax rate)	3	
Current tax payable (see note in Step 5 of Example 1)		3

The result is that Company D's financial statements reflect a net tax benefit of $22 (rounded), which represents the estimated amount of benefit based on the most likely amount method: $90 deduction × tax rate of 25%.

4. Disclosures

Detailed contents

Background

The example in this chapter illustrates the disclosures for income tax uncertainties under US GAAP and IFRS. These disclosures are not intended to be exhaustive and are without regard to materiality.

This example should not be used as a substitute for referring to the standards and other relevant interpretative guidance. It does not consider the requirements of any particular jurisdiction. Preparers should also consider applicable legal and regulatory requirements.

Example: Tax treatment as filed is probable of being accepted

Company E has benefited from a reduced corporate tax rate for a number of years. Due to a change in facts and circumstances, there is uncertainty as to whether this corporate tax rate will prevail, and if the rate does not prevail, it may be retroactively revoked. Company E assesses the treatment of the corporate rate separately from other uncertainties because that approach better predicts the resolution of the uncertainty.

Company E concludes that the tax treatment as filed is probable of being accepted.

US GAAP: ASC 740	IFRS: IFRIC 23
Significant accounting policies	**Significant accounting policies: Adoption of IFRIC 23**
The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses. [740-10-50-19]	The Company has early adopted IFRIC 23, *Uncertainty over Income Tax Treatments*, in its financial statements for the year ended December 31, 2018. [IAS 8.28(a)–(b)] The application of IFRIC 23 did not affect the recognition or measurement of uncertain tax treatments because the Company's previous accounting policy was consistent with the guidance in IFRIC 23. If it is probable that the tax authority will accept a tax treatment on examination, the Company measures its income taxes in the financial statements consistent with the tax treatment used in its income tax return. Otherwise, it measures the effect of the uncertainty using the method that is expected to better predict the resolution of the uncertainty: [IAS 8.28(c)]

US GAAP: ASC 740	IFRS: IFRIC 23
	— most likely amount, representing the single most likely amount in a range of possible outcomes; or — expected value, representing the sum of the probability-weighted amounts in the range of possible outcomes. The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes; therefore, they are accounted for under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. [IAS 12.88, 1.117]
Income taxes footnote (excerpt)	**Income taxes footnote (excerpt)**
For years before 2012, the Company is no longer subject to US federal or state income tax examinations or examination by Canadian tax authorities. From 2014 until 2017, the Company's Canadian subsidiary, Maple-leaf Inc., benefited from a tax ruling of the Canadian tax authorities allowing it to qualify for a reduced corporate tax rate. In 2018, there was a change in the Canadian government. The new government is currently investigating certain tax rulings granted in the past, which include the tax ruling applied by the Company. If the tax ruling applied in the past is retroactively revoked, additional tax expenses for the period 2014–2017 of up to $X million may be incurred. The Company believes that the tax ruling granted in the past complied with the applicable law and, if revoked, the Company believes that it is more likely than not that it would successfully defend its tax position in court. [740-10-50-15(d) – 50-15(e)] The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its	For years before 2012, the Company is no longer subject to US federal or state income tax examinations or examination by Canadian tax authorities. From 2014 until 2017, the Company's Canadian subsidiary, Maple-leaf Inc., benefited from a tax ruling of the Canadian tax authorities allowing it to qualify for a reduced corporate tax rate. In 2018, there was a change in the Canadian government. The new government is currently investigating certain tax rulings granted in the past, which include the tax ruling applied by the Company. If the tax ruling applied in the past is retroactively revoked, additional tax expenses for the period 2014–2017 of up to $X million may be incurred. This amount has not been recognized in these consolidated financial statements because the Company believes that the tax ruling granted in the past complied with the applicable law and, if revoked, the Company believes that it is probable that it would successfully defend its tax treatment in court. [IAS 1.122, IAS 12.88, IFRIC 23.A5]

US GAAP: ASC 740	IFRS: IFRIC 23
assessment of many factors, including interpretations of tax law and prior experience. **Note:** If the Company had an unrecognized tax benefit additional disclosures would be required, as illustrated below. A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the years ended December 31, 2018 and 2017 follows. [740-10-50-15A(a)]	The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. **Note:** If the Company had reflected an uncertainty in the financial statements, additional disclosure about interest and penalties may have been required. [IAS 1.112, IAS 37.84-85]

	2018	2017
Balance, beginning of year	$ -	$ XX
Increase related to prior year tax positions	-	X
Decrease related to prior year tax positions	-	(X)
Increase related to current year tax positions	X	X
Settlements	-	(X)
Lapse of statute of limitations	-	(X)
Change in tax rate	(X)	-
Balance, end of year	$ X	$ -

Included in the balance of total unrecognized tax benefits at December 31, 2018 and 2017, are potential benefits of $X and $X, respectively, that if recognized would affect the effective rate on income from continuing operations. Unrecognized tax benefits that reduce a net operating loss, similar tax loss or tax credit carryforward are presented as a reduction to deferred income taxes. [740-10-50-15A(b)]

US GAAP: ASC 740	IFRS: IFRIC 23
Interest expense recognized related to uncertain tax positions amounted to $X and $X in 2018 and 2017, respectively, and penalties amounted to $X and $X in 2018 and 2017, respectively. Total accrued interest and penalties as of December 31, 2018 and 2017 was $XX and $XX, respectively, and were included in accrued expenses. [740-10-50-15(c)]	

KPMG Financial Reporting View

US GAAP for financial reporting professionals

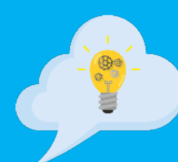
As you evaluate the implications of new financial reporting standards on your company, KPMG Financial Reporting View is ready to inform your decision-making.

Visit kpmg.com/us/frv for accounting and financial reporting news and analysis of significant decisions, proposals, and final standards and regulations.

US news & views | CPE | Reference library | Newsletter sign-up

FRV focuses on major new standards (including revenue, leases and financial instruments) – and also covers existing US GAAP, SEC matters, broad transactions and more.

KPMG's IFRS Institute



IFRS for financial reporting professionals

The KPMG IFRS Institute, part of the KPMG Institute Network, provides an open forum where board and audit committee members, executives, management, stakeholders, academia, and government representatives can share knowledge, gain insight, and access thought leadership about the evolving global financial reporting environment.

Acknowledgments

This edition of Issues In-Depth has been produced by the Department of Professional Practice of KPMG LLP in the United States.

We would like to acknowledge the efforts of the main contributors to this publication:

Kayreen Handley

Carlos Martinez

Julie Santoro

We would also like to acknowledge the significant contributions of the following: Valerie Boissou, Ashby Corum, Holger Erchinger, Prabhakar Kalavacherla (PK), Joyce Liu, Paul Munter, Mahesh Narayanasami, Jenna Summer.

And we would like to thank members of the KPMG International Standards Group (part of KPMG IFRG Limited) for their input, in particular the following: Irina Ipatova, Fred Versteeg, Elizabeth Warnica.