

Invitation to Comment

Draft Appendix to the Tax Transparency
Code

Preface

Introduction

The Board of Tax issued its final report to the Australian Treasury in respect of the Tax Transparency Code (TTC) in February 2016. The TTC recommends disclosures aimed at increasing the tax transparency of both large and medium sized businesses, so as to enable users such as social justice groups, media, analysts, shareholders and the general public to better understand an entity's tax situation.

For those entities voluntarily adopting the TTC, the TTC recommends information be disclosed regarding the calculation of the entity's income tax position and its effective tax rate (TTC ETR) (Part A disclosures). Further information regarding an entity's general tax strategy and international tax profile is also recommended, dependent on the Australian turnover of the entity (Part B disclosures). The TTC is not prescriptive in respect of where Part A tax disclosures are made; an entity may choose to make Part A disclosures either within, or outside of its general purpose financial statements. Part B disclosures are expected to be made within a separate 'taxes paid' report.

About this Appendix

The Board of Tax requested that the AASB develop guidance to assist businesses meet the TTC recommendations for the suggested tax reconciliation and calculation of the TTC ETR.

As the presentation of useful information in respect of income taxes and TTC disclosures will depend on the particular facts and circumstances of each entity, this Appendix does not prescribe a particular format of presentation nor degree of disclosure, but rather sets out principles and guidance (including examples) for entities to consider for both Part A and B disclosures set out in the TTC.

This Appendix has been prepared on the following basis:

- (a) entities presenting information in accordance with the TTC are preparing financial statements to be lodged with the Australian Securities and Investments Commission (ASIC), and accordingly, whether general purpose or special purpose in nature, should apply all recognition and measurement requirements of Australian Accounting Standards¹; and
- (b) TTC effective tax rates may differ from the effective tax rate as defined in accounting standards, and where they differ, the TTC effective tax rate is a Non-IFRS ratio that needs to comply with ASIC Regulatory Guide 230 principles. Compliance with this Appendix will comply with Regulatory Guide 230.

¹ Per ASIC Regulatory Guide 85, entities lodging financial statements with ASIC are required to comply with the recognition and measurement requirements of the Australian Accounting Standards.

Limitations on the use of this Appendix

This Appendix has been issued in a **draft** form in order to support entities in presenting income tax disclosures under the TTC for the 2017 tax year.

This Appendix is not an AASB Accounting Standard. Use of both the TTC and this Appendix is voluntary.

The examples in this Appendix are included for illustrative purposes only. This Appendix does not mandate income tax disclosure requirements, or set out a template format of disclosure. Entities are encouraged to adopt a presentation format and determine the degree of disclosure that best communicates relevant information to users of tax information in line with the objectives of the Board of Tax in developing the TTC.

Invitation to comment

This Appendix reflects the current views of the AASB. The AASB intends to revisit the form and content of this Appendix, including the illustrative examples, at a future time, after entities have had experience applying the TTC. Accordingly, the AASB welcomes feedback on the content of this Appendix, including on the following matters:

1. whether the guidance outlining factors to consider in preparing and presenting tax disclosures for the purposes of the TTC is useful;
2. whether the TTC effective tax rates should be calculated using accounting profit determined in accordance with accounting standards as the denominator, or an alternative denominator where considered useful (e.g. underlying earnings) or if, as currently proposed in this guidance the TTC effective tax rate should be based on either, as considered appropriate by the entity? Please indicate reasons why you prefer one or the other, and the impact, if any, on comparability with other entities;
3. whether further guidance in relation to Part B TTC disclosures would be useful, and if so, what specific matters should be addressed?;
4. whether the illustrative examples are helpful, and if not, why not;
5. whether an illustrative example setting out Part A TTC disclosures for an entity that incurs tax losses for a financial year would be helpful?;
6. whether the guidance, when finalised, should be issued as AASB extrinsic material (e.g. a Practice Statement) or as an Appendix to the TTC; and
7. whether there are any other matters pertaining to Part A of the TTC that this Appendix should cover.

Submissions should be lodged online via the “Work in Progress – Open for Comment” page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only)

Other feedback is also welcomed and may be provided via the following methods:

E-mail: standard@aaasb.gov.au

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All submissions will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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Appendix to the Tax Transparency Code

Introduction

- 1 This Appendix sets out principles and guidance for entities voluntarily adopting the Tax Transparency Code (TTC) to consider when preparing and presenting tax disclosures. Entities are encouraged to adopt a presentation format and determine the degree of disclosure that best communicates useful information to users of tax information in line with the objectives of the Board of Tax in developing the TTC.
- 2 Whilst use of this Appendix is voluntary, an entity shall not describe its TTC disclosures as complying with this Appendix unless all aspects are complied with.
- 3 This Appendix is set out as follows:
 - (a) what factors should be considered when preparing TTC tax disclosures? (paragraphs 5 to 26) – this section outlines the characteristics underpinning relevant information that entities consider in setting out their Part A and B TTC tax disclosures, as well as other considerations;
 - (b) how to calculate TTC effective tax rates (paragraphs 27 to 43);
 - (c) what entities should disclose regarding effective tax rates (paragraphs 44 to 52);
 - (d) how to prepare the reconciliation of accounting profit to income tax paid or income tax payable (paragraphs 53 to 60); and
 - (e) illustrative examples (paragraphs 61 to 68).

Terminology

- 4 For the purposes of this Appendix, Table 1 sets out how the key terms used in the TTC should be interpreted by reference to the corresponding accounting terminology.

Table 1: Key TTC terms

TTC terminology	Accounting terminology
Company tax expense: <ul style="list-style-type: none"> • All domestic and foreign corporate income taxes incurred by an entity. Company tax expense in Australia includes only taxes incurred under the Income Tax Acts.² 	Tax expense (income): <ul style="list-style-type: none"> • The aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax. • Tax expense (income) may be different to company tax expense in some instances as it includes all domestic and foreign taxes which are based on

2 'Income Tax Acts' refers to the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*.

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	taxable profits (e.g. withholding taxes, Petroleum Resources Rent Tax).
Income tax payable for a tax year	Current tax expense (income), separately disclosed in the income tax note reflects income tax payable for a tax year. Income tax expense (income) in the Statement of Comprehensive Income comprises both current and deferred tax expense (tax expected to be paid in future years).
Income tax paid during a financial reporting period	Income tax paid, separately disclosed in the Statement of Cash Flows.
No equivalent	Current tax liability (asset) separately disclosed in the Statement of Financial Position, representing the income tax payable for the current tax year, adjusted by any prepaid instalments and/or under/over payments in connection with prior tax years.
Accounting profit – can be either in accordance with the Australian Accounting Standards (or another relevant national standard setter), or any other form of profit measure, including underlying earnings ³	Accounting profit – determined in accordance with the Australian Accounting Standards (or another relevant national standard setter) as profit or loss per the Statement of Comprehensive (i.e. before income tax expense) or its equivalent

3 The Board of Tax has verbally advised the AASB that they did not consider accounting profit to be restricted to accounting profit determined in accordance with accounting standards. Accordingly this view has been reflected in this guidance. Question 2 is soliciting feedback on the ultimate approach to take.

What factors should be considered when preparing TTC tax disclosures?

Figure 1: A framework for TTC disclosures

Characteristics of useful tax information	Examples of how the characteristics may apply to TTC disclosures
<ul style="list-style-type: none"> Relevant <ul style="list-style-type: none"> Capable of changing decisions made by users Confirmatory and / or predictive value Material 	<p>Satisfy the minimum level of disclosure as set out in the TTC:</p> <p><i>Part A</i></p> <ul style="list-style-type: none"> Identify and explain significant under/over statement of tax in prior years. Numerical tax disclosures accompanied by a narrative to assist the user in understanding how the amounts were, or have been determined, or whether the amounts are/were unrepresentative of the entity's usual performance. If needed, provide additional effective tax rate calculations in addition to the accounting and TTC ETRs if the calculations enable future predictions about the entity's future tax position. <p><i>Part B</i></p> <ul style="list-style-type: none"> Explain how the entity assesses its acceptable level of risk regarding its tax strategy.
<ul style="list-style-type: none"> Faithful representation <ul style="list-style-type: none"> Free from error and a neutral and complete reflection of the entity's tax position 	<p>Items reducing tax obligations should not be disclosed with greater prominence than items increasing tax obligations.</p> <p>Material tax adjustments should not be offset in presenting the line items in the reconciliation of accounting profit to income tax expense and income tax paid or income tax payable.</p>
<ul style="list-style-type: none"> Comparability <ul style="list-style-type: none"> Compared across entities, and within the same entity over time 	<p>Separately disclose in the reconciliation of accounting profit to income taxes paid or payable the line items necessary to allow users to understand the income tax position relative to another entity. Include tax adjustments relevant to the industry and clearly explain the tax impact.</p> <p>Use the same reconciliation format and reconciling items from year to year (unless the entity has undergone structural change).</p> <p>Use the same additional effective tax rate metrics from year to year.</p>
<ul style="list-style-type: none"> Verifiability <ul style="list-style-type: none"> Capable of being validated as a faithful representation of the entity's tax position 	<p>Where an entity makes its TTC disclosures in a separate 'taxes paid' report, state whether the TTC disclosures have been audited (and on what basis). Reconcile amounts disclosed to audited financial statements.</p> <p>Where TTC disclosures are made in the financial statements and have not been audited, clearly state this.</p>
<ul style="list-style-type: none"> Timeliness <ul style="list-style-type: none"> Released on a timely basis to remain relevant 	<p>If the entity chooses to prepare a separate 'taxes paid' report, consider issuing the report in conjunction with the financial statements, or within one month of the release of the financial statements.</p>
<ul style="list-style-type: none"> Understandability <ul style="list-style-type: none"> Clear and concise 	<p>Use simple and clear language. For example, "fines are not a tax deductible expense" rather than "fines are not included in tax expense".</p> <p>Present information that is entity-specific in an organised manner, cross-referenced to related information (rather than duplicated) using a table rather than extended narrative commentary.</p>

Deciding whether to locate Part A and B TTC disclosures within or outside of financial statements

Other regulatory guidance

Is there any other regulatory guidance that might apply to the TTC disclosures that should be considered?

Audit obligations	Duplication
How will TTC disclosures affect the time and scope of audit obligations?	Do cross-referencing limitations and possible duplication affect where the TTC disclosures should go?

Materiality

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions that users make regarding their level of understanding of the tax affairs of an entity. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

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- 5 The objective of the TTC is to provide an entity's users with more transparency regarding its income tax position and affairs.
- 6 When determining where, what and how to communicate tax disclosures for TTC purposes, an entity considers the following:
- (a) characteristics of useful information;
 - (b) materiality;
 - (i) where to locate the TTC information, including:
 - (ii) duplication and cross-referencing;
 - (iii) audit implications; and
 - (iv) other considerations (related guidance or conceptual frameworks issued by other bodies (for example, ASIC)).
- 7 These factors and specific examples are depicted in Figure 1.

Characteristics of useful information⁴

- 8 Useful information is information that is relevant and a faithful representation of what it purports to represent.
- 9 Relevant information is information that is capable of making a difference in the decisions made by users, whether or not users are already aware of it from other sources. Relevant information assists users by providing confirmatory or predictive value. Information that is relevant to an entity's users is not necessarily relevant to another entity's users; an entity has regard to its facts and circumstances when determining whether information is relevant. The concept of materiality is inherent when determining whether information is relevant and is discussed at paragraphs 14 to 18.
- 10 Faithfully represented information should be free from error and a neutral and complete reflection of the entity's income tax position. Faithful representation does not mean, however, that any amounts disclosed must be accurate to the dollar.
- 11 A complete set of reported information includes all the necessary descriptions and explanations for the user to understand the disclosures presented.
- 12 A neutral depiction of an entity's income tax position is without bias in the selection and presentation of the various elements. No particular aspect is slanted, weighted or

4 The AASB had regard to the following sources when developing the characteristics of useful information set out in this Appendix:

- *Framework for the Preparation and Presentation of Financial Statements*
- Exposure Draft ED 264 *Conceptual Framework for Financial Reporting*
- ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information*
- AASB 101 *Presentation of Financial Statements*
- Exposure Draft ED 271 *IFRS Practice Statement: Application of Materiality to Financial Statements*

over-emphasised in the information reported, but rather is a factual reporting of the entity's position and affairs. Neutrality does not communicate an overly conservative nor opportunistic view.

- 13 The usefulness of information is enhanced when it reflects the following features:
- (a) comparability. Comparability does not necessarily mean tax disclosures must be consistent between entities, or laid out to a prescribed format; but that information disclosed allows a user to compare the entity with similar entities, and to identify and understand similarities in and differences among items;
 - (b) verifiability. The income tax disclosures are, either directly or indirectly, capable of being validated as a faithful representation of the entity's income tax position (see also paragraphs 22 to 24 on audit implications);
 - (c) timeliness. The timeliness of reported information under the TTC affects whether the information is still relevant to a user; and
 - (d) understandability. Information is communicated in a clear and concise manner, considering the most appropriate format and location for the type of information (see paragraph 19 below).

Materiality

- 14 The TTC states that entities should apply materiality concepts in preparing TTC disclosures. Materiality is an important consideration in identifying the relevant information for disclosure. Applying the materiality concept assists entities appropriately balance providing users with enough detailed information to understand an entity's income tax position, without providing an overload that compromises understandability.
- 15 Materiality for the purposes of TTC disclosures and understanding an entity's tax affairs is defined as follows:
- “Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions that users make regarding their level of understanding of the tax affairs of an entity. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.⁵ The size or nature of the item, or a combination of both, could be the determining factor.”*
- 16 TTC disclosures will not be necessarily accurate to an absolute degree.
- 17 Determining whether information is material is an entity-specific exercise, considering the entity's users, and is a matter of professional judgement. Both qualitative factors (e.g. nature of the tax adjustment⁶, objective of the TTC disclosures⁷), and quantitative

5 Based on AASB 101.7 definition of materiality.

6 The term 'tax adjustment' is used in this document to refer to the adjustments required to recognise the differences between the treatment of revenue and expenses for accounting purposes, and the assessability and deductibility of items for income tax purposes.

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factors (e.g. relative dollar value in relation to income tax payable for the tax year and/or current tax liability) are considered.

- 18 Materiality may influence:
- (a) the extent of information included, and the nature of the disclosure. For example, whether an entity should expand a descriptor such as 'impairment' in the reconciliation of accounting profit to income tax expense to explain the nature of the assets impaired;
 - (b) the extent to which information is aggregated. For example, whether income tax adjustments made in the reconciliation of accounting profit to income tax expense, and income tax expense to income tax paid or payable, are disaggregated and presented as individual line items; and
 - (c) rounding choices. For example, whether it is appropriate to round amounts to the nearest thousand (or other specified amount).

Where to locate the TTC disclosures

- 19 When deciding whether to locate the TTC information in the financial statements or in a separate report, an entity considers how duplication and cross-referencing impact the understandability of the information and the audit implications.

Duplication and cross-referencing

- 20 Understandability of information is improved by setting out related information together, or cross-referencing to related information. Duplicating information should be avoided, thereby enhancing the clarity and conciseness of the information presented. For example, an entity may decide to include a cross-reference in its separate 'taxes paid' report to relevant income tax disclosures included in its financial statements.
- 21 AASB 112 *Income Taxes* does not explicitly permit the inclusion of income tax disclosures by way of cross-reference from general purpose financial statements to another document. Accordingly, there may be some duplication between the disclosures required by AASB 112 (for example, the reconciliation of accounting profit to income tax expense) and the disclosures made in a separate 'taxes paid' report. This may be relevant in deciding whether to make the specified TTC disclosures in the financial statements or in a separate 'taxes paid' report.

Audit implications

- 22 TTC disclosures prepared in accordance with this Appendix are capable of being audited or reviewed in accordance with Australian Auditing Standards, whether located in the financial statements or a separate report.

7 See section 9.1 of A Tax Transparency Code.

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- 23 The extent to which TTC disclosures made within financial statements are included or excluded from the scope of the financial statement audit engagement, whether the TTC disclosures wherever located are subject to a specific audit or review report, and the consequential impact on audit fees, should be discussed at an early stage with the auditor. The way information is presented in the financial statements will impact these decisions.⁸
- 24 Any reference in financial statements to a separate ‘taxes paid’ report should clearly identify whether the separate report is included or excluded from the financial statement audit.

Other considerations

- 25 When determining the location and information to disclose, the views of other regulatory bodies, such as ASIC are relevant.⁹
- 26 ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information* (RG 230)¹⁰ sets out ASIC’s views in respect of the interpretation and application of the *Corporations Act 2001* providing non-IFRS information inside and outside of the financial statements. RG 230 applies regardless of whether an entity prepares special purpose or general purpose financial statements. As set out at paragraph 42, AASB 112 *Income Taxes* defines ‘effective tax rate’ and this may differ from the TTC effective tax rate. Accordingly, for the purposes of RG 230 where the accounting and TTC effective tax rate differ, the TTC effective tax rate is non-IFRS information. TTC disclosures prepared in compliance with this Appendix will also comply with the requirements of RG 230.

8 Pursuant to section 301 of the *Corporations Act 2001*, certain entities are required to have their annual financial reports audited. Broadly, the audit requirement extends to companies, registered schemes and disclosing entities, subject to specific carve outs for certain small proprietary companies and other entities.

9 Entities may also need to consider the positions of other regulators, such as the Australian Prudential Regulation Authority, or the Australian Securities Exchange.

10 Whilst the Regulatory Guides are non-mandatory, they are intended to explain when and how ASIC will exercise its powers under the relevant legislation, describe principles underlying ASIC’s approach, provide practical guidance and set out illustrative examples. RG 230 is available on the ASIC website at: <http://download.asic.gov.au/media/1241462/rg230-published-9-december-2011.pdf>

How to calculate TTC effective tax rates

- 27 Part A of the TTC recommends disclosure of effective tax rates for Australian and global operations (TTC ETRs). The objective of these disclosures is to enable a user to compare the TTC ETRs to the corporate tax rate in Australia, and to understand why there are differences.
- 28 This section provides guidance on the calculation of the TTC ETRs and the differences with the accounting ETR.
- 29 The TTC ETRs are defined as company tax expense divided by “accounting profit” for Australian operations (the Australian TTC ETR) and divided by “accounting profit” for the worldwide accounting consolidated group (the global TTC ETR).¹¹

In calculating the TTC ETRs, entities should:

- Calculate company tax expense to include all domestic and foreign income tax incurred by an entity; eliminate under/overstatements, interest, penalties and refunds relating to prior year assessments;
- Use accounting profit determined in accordance with Australian Accounting Standards or those set by other relevant standard setters or another measure such as underlying earnings if considered more relevant to users;
- Determine the Australian operations by reference to the accounting profit of the companies, partnerships or trusts established under Australian law and permanent establishments under Australian tax law that are consolidated; and
- Adjust Australian operations accounting profit to include/exclude transactions which are/are not reflected in the calculation of company tax expense.

What is company tax expense?

- 30 The term ‘company tax expense’ is defined in Table 1 to include all domestic and foreign corporate income taxes incurred by an entity. From an Australian perspective this would only include amounts payable under the Income Tax Acts¹² and would not include, for example, Petroleum Resources Rent Tax.
- 31 Company tax expense should reflect the amount relevant for the tax period the accounting profit relates to. Accordingly to maintain comparability and consistency of the ratio, any material under or overstatements, interest, penalties or refunds relating to prior year assessments should be eliminated for the current year. In such circumstances the prior year calculation should be restated and explanation provided for the change.

What is accounting profit?

- 32 ‘Accounting profit’ is not defined in the TTC,¹³ but is defined by the Australian Accounting Standards as profit or loss per the Statement of Comprehensive (i.e. before income tax expense) or its equivalent.
- 33 Subsequent to the finalisation of the TTC, the Board of Tax has indicated to the AASB that for the purposes of the TTC, the use of the term ‘accounting profit’ was not

11 The TTC states that businesses should disclose an Australian accounting ETR and a global ETR for the worldwide accounting consolidated group calculated based on company tax expense. As the ETR is defined by AASB 112, to avoid misleading users of the information, these disclosures should be referred to as TTC ETRs.

12 ‘Income Tax Acts’ refers to the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*

13 The term ‘accounting profit’ is not clearly defined by the TTC. AASB staff are of the view that for the purposes of the TTC, the term ‘accounting profit’ would be better described as ‘relevant profit’.

intended to restrict the denominator in calculating TTC ETRs to accounting profit as defined by the Australian Accounting Standards. Accordingly, this guidance allows entities to use either accounting profit in accordance with accounting standards or other measures of profits, such as underlying earnings, where this is considered more relevant to users.

- 34 Where entities choose to adopt an alternative measure of profit such as underlying earnings as the denominator, disclosures should clearly articulate to users why the alternative measure for the denominator has been adopted (e.g. to better explain tax risks to users, or to communicate what the entity may consider as its ‘sustainable’¹⁴ tax rate), and how it has been calculated (see also paragraphs 44 to 47 for reconciliation requirements).
- 35 Where entities choose to use ‘accounting profit’ as defined by the Australian Accounting Standards, or another relevant accounting standard setter when Australian Accounting Standards are not applicable, profit or loss is not adjusted (except when determined for Australian operations in paragraph 38 below). The impacts of impairments, significant or non-recurring items and foreign exchange gains or losses are not adjusted for the TTC ETR. However, the impact of these types of transactions on the TTC ETR and why it differs from the corporate tax rate may warrant disclosure. Entities lodging financial statements with ASIC, regardless of whether preparing special purpose or general purpose financial statements, should be complying with all the recognition and measurement requirements of Australian Accounting Standards as a result of ASIC Regulatory Guide 85.

What do Australian and global operations mean?

- 36 The TTC defines ‘global operations’ to mean the entity’s worldwide accounting consolidated group. Accordingly, this will include all entities consolidated in accordance with AASB 10 *Consolidated Financial Statements* if there is an Australian parent, IFRS 10 *Consolidated Financial Statements* or an equivalent relevant national accounting standard where the parent is not Australian.
- 37 An entity’s Australian operations for the purposes of the Australian TTC ETR calculation should encompass:
- (a) companies, partnerships or trusts established under Australian law (regardless of where they operate);
 - (b) Australian permanent establishments as per Australian tax law, if not captured by (a).
- 38 Accounting profit is determined at the consolidated entity level. Accordingly, determining the accounting profit for an entity’s Australian operations where the Australian operations comprise a subset of the consolidated group, will require adjustments to ensure the company tax expense numerator is consistent with the accounting profit denominator. For example, transactions with ‘foreign entities’ within

¹⁴ The term ‘sustainable’ tax rate is used in this document to refer to an entity’s ETR excluding the impact of ‘once-off’ or unusual transactions.

the accounting consolidated group should not be eliminated from the calculation of accounting profit for Australian operations if company income tax is determined with these transactions included. Entities should clearly explain any adjustments made to the consolidated accounting profit to determine the profit for the Australian operations.

- 39 Information about an entity’s TTC ETR may help users better understand an entity’s income taxes position relative to the company tax rate/s.¹⁵
- 40 There are a number of reasons why an entity’s TTC ETR may be low relative to the Australian corporate income tax rate. In such cases, disclosure of the contextual information underpinning the numerical disclosure provides useful information to users as it assists in understanding the TTC ETR.
- 41 Illustrative example 2 sets out an example of how an entity could present information about the TTC ETRs.

How does the TTC ETR compare with accounting ETR?

- 42 Australian Accounting Standard AASB 112 *Income Taxes*, defines ETR (the accounting ETR) as:

“The average effective tax rate is the tax expense (income) divided by the accounting profit.”

- 43 The table below sets out when the accounting and TTC ETRs will be the same. Differences have presentation implications that are discussed in paragraph 45.

Table 2: Differences between the accounting and TTC ETRs

Calculation element	TTC ETR	Accounting ETR	TTC and accounting ETR equal when
Numerator – tax expense	Company tax expense only	Broader definition, including taxes based on profit such as Petroleum Resource Rent Tax	Not subject to taxes other than income taxes, no material under or over statements, interest, penalties or refunds related to prior years
Denominator – accounting profit	Accounting profit per the accounting standards, or alternative measures such as underlying earnings	Accounting profit per accounting standards	Accounting profit as defined by the accounting standards adopted as the denominator for the TTC ETR
Global operations	Consolidated group for accounting purposes	Consolidated group for accounting purposes	No difference between tax expense and

15 Where an entity operates in multiple jurisdictions, the average statutory corporate income taxes rate may be relevant.

			company tax expense
Australian operations	Companies, partnerships, trusts established under Australian law, permanent establishments under Australian tax law	No requirements	Australian parent with no foreign entities and no differences between tax expense and company tax expense

What should entities disclose regarding ETRs?

- 44 The TTC requires entities to disclose an Australian TTC ETR and a global TTC ETR as discussed above.
- 45 Where the TTC and accounting ETRs differ, as there is a clearly defined accounting ETR in AASB 112, based on IFRS numbers (regardless of whether the actual ETR is disclosed in the financial statements), to avoid misleading users of either the financial statements or a separate taxes paid report, the TTC ETRs are considered non-IFRS numbers. Accordingly, both the accounting and TTC ETRs should be presented together, regardless of where the TTC ETRs are located.
- 46 The TTC acknowledges that the ETR may be calculated on different bases, but requires the entity to clearly identify the basis adopted. Entities presenting a TTC ETR based on accounting profit in accordance with the accounting standards, may also choose to present another metric based on an alternative profit such as underlying earnings. The alternative metric is also non-IFRS number. Accordingly the additional ETR must also be presented with the accounting ETR.
- 47 In setting out its ETR disclosures, entities consider the characteristics of useful information as outlined at paragraphs 8 to 13, including the provision of comparatives. The TTC ETRs should not be more prominently displayed, should be adequately reconciled and adjustments made to the accounting ETR to calculate the TTC ETRs explained. Key judgements made in determining accounting profit, Australian operations and the accounting profits attributable to those operations should be clearly disclosed. Any changes to the way in which the calculations have been made in prior years should be clearly disclosed.
- 48 The objective of any ETR other than the accounting ETR (including the TTC ETR) should be clearly articulated so that users can understand the difference between the

Entities presenting ETRs should:

- Disclose the objective of the TTC ETR and any additional metric;
- Present the accounting ETR, TTC ETRs and any alternative metric together regardless of disclosure location, with equal prominence;
- Present the TTC ETR and any additional metrics neutrally;
- Reconcile the TTC ETR and additional ETRs to the accounting ETR. Explain how any adjustments to the accounting ETR are consistent with the objective of the TTC and any additional metric;
- Present the TTC ETR and any alternative metric with no more prominence than the accounting and TTC ETRs;
- Explain adjustments made to the accounting ETR and key judgements made about determining accounting profit and Australian operations;
- Provide adequate narrative(s) to give context to the TTC and accounting ETRs, and alternative metrics, and why they differ from the corporate tax rates;
- Consider comparability of the TTC ETR and additional metrics with similar entities/industries/sectors; and
- Provide comparatives. Explain any differences in methodology from prior years.

non-accounting ETR metric and the accounting ETR. There should be no undue prominence relative to the accounting ETR and consideration should be given to the characteristics underpinning useful information (paragraphs 8 to 13) in setting out any such disclosures. An additional ETR metric should also be accompanied by a clear and concise explanatory narrative, and reconciled to the accounting ETR.

49 When adjusting the accounting ETR for an alternative metric, calculation of the numerator (tax expense) and denominator (accounting profit) must remain comparable and consistent. Examples of circumstances in which an additional ETR metric might be calculated by adjusting either the numerator or denominator could include:

- (a) adding industry specific taxes to better reflect actual taxes paid; or
- (b) eliminating one-off or unusual items of either revenue or expense to better reflect the expected future tax profile. For example, if excluding a significant accounting impairment loss from the denominator in the ETR calculation,¹⁶ the additional ETR metric disclosures should include:
 - (i) why the entity considers the exclusion of the impairment loss from the calculation to be a better representation of the entity's income tax position;
 - (ii) what the impairment relates to, for example, whether its fixed or intangible assets;
 - (iii) how different the additional metric is relative to the TTC ETR and/ or accounting ETR as a result of the exclusion of the impairment loss; and
 - (iv) whether the additional metric is calculated the same way as in prior periods (i.e. whether impairment losses were fully excluded from the calculation of the additional metric in prior periods) or whether the exclusion of the impairment loss from the additional metric is unique to the current period.

50 An example of how an entity could present an additional metric to the ETR is set out at illustrative example 2 and Attachment 2.

Impact of specific transactions on the ETR calculation

51 To the extent that the underlying accounting treatment in respect of transactions affects either or both the calculation of tax expense and accounting profit before tax, the accounting ETR should reflect the outcome of such transactions as appropriate. However, if additional metrics for ETR are presented, such as the TTC ETR (which excludes one or more items that are included in the accounting ETR), then the entity should provide clear explanations on how the adjustments made to arrive at the additional ETR are internally consistent between the numerator and the denominator.

¹⁶ This does not represent the AASB's view on the approach that should be adopted in respect of the ETR calculation. Entities should consider whether adjustments resulting in additional calculations are appropriate having regard to their particular facts and circumstances.

- 52 Attachment 1 discusses the effect of impairment, foreign currency translation, amended assessments, refunds and penalties on the calculation of ETR.

Reconciliation of accounting profit to tax expense and to income tax paid or payable guidance

- 53 The TTC requires entities to disclose a reconciliation of accounting profit to income tax expense, and from income tax expense to income tax paid or income tax payable. The reconciliation should identify material temporary and non-temporary differences.

In presenting the reconciliation of accounting profit to current tax expense (income tax payable for the period), entities should:

- 54 AASB 112 sets out income tax disclosure requirements that entities should make in their financial statements, subject to materiality. The reconciliation required by the TTC builds on the disclosure requirements of the AASB 112. Accordingly, entities may want to make the reconciliation disclosure required by the TTC in financial statements to minimise duplication.

- Disaggregate material line items adjusting accounting profit before tax to present information that enables users to compare the entity with similar other entities;
- Consider the nature and degree of detail to clearly explain the major line items to users;
- Consider whether the disaggregation of foreign and domestic line item disclosures and/or key balances enhances understandability and comparability for users;
- Consider whether the disaggregation of recurring and non-recurring income tax adjustments enhances understandability and comparability for users; and
- Provide comparatives.

- 55 Per AASB 112.79-88, the Standard includes disclosure of:

- (a) the major components of income tax expense (AASB 112.79-80);
- (b) the aggregate current and deferred tax relating to items that are charged or credited directly to equity, and the amount of income tax relating to each component of other comprehensive income (AASB 112.81(a)-81(ab)); and
- (c) an explanation of the relationship between tax expense (income) and accounting profit by way of a numerical reconciliation between income tax expense and the product of accounting profit multiplied by the applicable tax rate, and/or between the average effective tax rate and the applicable tax rate (AASB 112.81(c)).

- 56 In addition, AASB 1054 *Australian Additional Disclosures* requires entities to disclose information about Australian franking credits (imputation credits).

- 57 AASB 112 Illustrative Example 2 – Deferred Tax Assets and Liabilities illustrates the reconciliation of accounting profit before tax to income tax expense required by AASB 112.81(c).

- 58 The reconciliation of accounting profit to tax expense and income taxes paid or income tax payable should show the material line items adjusting accounting profit before tax that drive the deviation in order to present information that enables users to compare the entity with similar other entities. Each entity's tax adjustments, particularly those that are considered key in driving the income tax payable, may be unique for each

entity depending on its particular facts and circumstances and nature of transactions. Accordingly, the nature and degree of detail pertaining to the major line items and the descriptors is likely to vary for each entity. The entity's assessment of the materiality of the information may also affect the extent of disclosure made.

- 59 Entities should consider the characteristics underpinning useful information in setting out the reconciliation, as outlined at paragraphs 8 to 13, including the provision of comparatives. The reconciliation of accounting profit before tax to tax expense and income taxes paid or payable also supplements the ETR disclosures by illustrating the key drivers that may be attributable to the deviation of the ETRs from the corporate income tax rate, and may therefore enhance the completeness of the overall set of TTC disclosures presented.
- 60 In determining the extent of disclosure that entities may want to provide in the reconciliation to enhance comparability and understandability for users, entities could consider separately identifying:
- (a) income taxes paid or payable relating to foreign and domestic entities. This information may assist users in understanding, in the context of its global income tax position, how much income tax relates to Australia;
 - (b) accounting profit before tax relating to foreign and domestic entities. This information may assist users in understanding the entity's income tax position relative to the accounting profit generated in Australia;
 - (c) recurring and non-recurring income tax adjustments. This information may help users determine the 'sustainable' tax rate in respect of line items representing once-off transactions or events, and income tax adjustments that are expected to recur. Non-recurring income tax adjustments may be temporary or non-temporary differences.

Illustrative examples

- 61 The following examples illustrate one way of presenting the information required by Part A of the TTC.¹⁷ The examples illustrate some adjustments that may be made to accounting profit to derive income tax payable.¹⁸
- 62 Entities may wish to consider the key messages to be communicated in respect of their specific income tax affairs through the TTC disclosures and consider whether accompanying the disclosures with a narrative, or cross-reference to other related information, could enhance the relevance of the TTC disclosures presented.

17 The reconciliation form specified by the TTC could be presented in alternative ways to that set out in illustrative examples 1 and 2. For example, the reconciliation from income tax expense to income tax paid or income tax payable could start at income tax expense, reverse the effect of deferred tax expense and account for income tax paid to reconcile to an entity's income tax payable at reporting date (as reported in the statement of financial position).

18 The illustrative examples set out one way entities could prepare the TTC Part A reconciliation disclosure. Entities could reconcile accounting profit to income tax expense to income taxes paid, however, the reconciliation from accounting profit to income tax expense to income taxes payable results in less duplication between the TTC and AASB 112 income tax disclosures.

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- 63 The format of presentation set out in the illustrative examples shows how accounting profit, income tax expense and income taxes paid or payable could be presented in conjunction with selected AASB 112 income tax disclosures to facilitate user understanding of the relationship between accounting requirements and the entity's tax obligations.¹⁹ The components of the illustrative examples denoted by outlined boxes (section A. Reconciliation of Accounting Profit to Income Tax Expense and Income Tax Payable, and section C. Income Taxes Payable) show how the Part A TTC disclosures could be incorporated into the income tax note in financial statements.
- 64 Illustrative example 2 illustrates how an entity could present its Part A TTC disclosures in a separate taxes paid report, including by cross-referencing to relevant tax disclosures made in financial statements.

Illustrative example 1

- 65 The following example is one way the reconciliation of accounting profit to income tax expense and to income taxes paid or payable could be presented by an Australian parent (Simple Ltd) with a partially-owned Australian subsidiary. The following transactions gave rise to differences between tax and accounting during the period:
- (a) unfranked dividends derived from the subsidiary are eliminated on consolidation, but are assessable for income tax purposes;
 - (b) fair value gains on shares designated as fair value through profit and loss are not yet assessable for income tax purposes;
 - (c) fair value losses pertaining to investment properties held are not yet deductible for income tax purposes;
 - (d) a deduction is not available for annual leave and long service leave employee benefit provisions until the leave is taken;
 - (e) doubtful debts and the audit fee accrual are not deductible until paid/written off; and
 - (f) differences between the effective lives applied for accounting and income tax purposes for plant and equipment.
- 66 To improve understandability, these disclosures would be accompanied by explanatory narrative and/or cross-references to other related information in general purpose financial statements as appropriate.

¹⁹ AASB 112.79-88 sets out the income tax disclosure requirements for entities in their general purpose financial statements. The illustrative examples set out in this Appendix illustrate disclosures that are consistent with the requirements of the Standard, but do not present all of the disclosures specified by the Standard.

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SIMPLE LTD			
INCOME TAX NOTE - 30 JUNE 20X1			
A. RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE AND INCOME TAX PAYABLE			
		20X1	20X0
		A\$ thousands	A\$ thousands
Profit for the year before income tax		980	xxx
Income tax calculated at 30% (20X0: 30%)		294	xxx
a. Amounts not recognised in profit but included in taxable income			
Taxable unfranked dividends		15	xxx
b. Amounts recognised in profit but not included in taxable income			
Fair value gain on investments (shares)		(36)	xxx
Employee benefits		(8)	xxx
Provisions and accruals		16	xxx
Fair value loss on investments (investment properties)		7	xxx
Net difference between accounting and tax depreciation		(24)	xxx
Current tax expense / (income) (income tax payable for 20X1) [1]		<u>264</u>	<u>xxx</u>
c. Deferred tax expense			
Deferred tax expense (see section B. for a reconciliation of deferred tax expense)		(45)	xxx
Income tax expense		<u>309</u>	<u>xxx</u>
B. DEFERRED TAXES			
	20X0	Movement	20X1
	A\$ thousands	A\$ thousands	A\$ thousands
a. Deferred tax assets			
Employee benefits	96	(8)	88
Provisions and accruals	40	16	56
Investments (investment properties)	13	7	20
	<u>149</u>	<u>15</u>	<u>164</u>
b. Deferred tax liabilities			
Investments (shares)	54	36	90
Property, plant and equipment	80	24	104
	<u>134</u>	<u>60</u>	<u>194</u>
Net deferred tax asset / (liability)	<u>15</u>	<u>(45)</u>	<u>(30)</u>
C. INCOME TAXES PAYABLE			
		20X1	20X0
		A\$ thousands	A\$ thousands
Income taxes payable at beginning of financial year		53	xxx
Less: income tax paid during the year (see statement of cash flows)		(61)	xxx
Income taxes payable for current financial year (see A. above)		264	xxx
Income taxes payable as at 30 June 20X1 (see statement of financial position)		<u>256</u>	<u>xxx</u>
D. ACCOUNTING AND TTC EFFECTIVE TAX RATES			
	20X1	20X0	
	A\$ thousands	A\$ thousands	
Income tax expense	309	xxx	
Accounting profit before tax	980	xxx	
Accounting and TTC effective tax rate [2]	32%	xx%	
[1] Where an entity recognises current tax expense through equity in respect of a transaction(s), the amount should be added to the entity's current tax expense to reflect the entity's income tax payable for the financial year			
[2] Simple Ltd's accounting and TTC ETR (for Australian and global operations) are the same for the financial year ended 30 June 20X1.			

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Illustrative example 2

- 67 The following example is one way Part A TTC disclosures could be presented in a separate 'Taxes Paid' report.
- (a) Complex Ltd is Australian headquartered multinational accounting consolidated group with interests in both wholly-owned foreign subsidiaries (in lower tax jurisdictions) with the following transactions for the reporting period:
 - (b) unfranked dividends derived from a non-wholly owned Australian subsidiary entity that are eliminated on consolidation, but are assessable for income tax purposes;
 - (c) impairment of tax depreciable intangible assets. The impairment expense is non-deductible for income tax purposes;
 - (d) expenditure in relation to research and development activities qualifying for the research and development tax offset under the Australian income tax law;
 - (e) gains pertaining to shares designated as at fair value through profit or loss are not yet assessable for income tax purposes;
 - (f) fair value losses pertaining to investment properties held are not yet deductible for income tax purposes;
 - (g) a deduction is not available for annual leave and long service leave employee benefit provisions until the leave is taken;
 - (h) doubtful debts and the audit fee accrual are not deductible until paid/written off;
 - (i) differences between the effective lives applied for accounting and income tax purposes pertaining to plant and equipment assets held;
 - (j) utilisation of transferred tax losses carried forward from the prior financial year is subject to an available fraction;
 - (k) a partially-owned foreign associate (Foreign Complex Pte Ltd) was divested during the period, however the gain on divestment does not qualify for any exemptions from income tax under the Australian income tax law;
 - (l) payment of income taxes in foreign jurisdictions in respect of the foreign subsidiaries;
 - (m) Complex Ltd has applied the Australian thin capitalisation rules and determined that it has excess debt such that not all interest expense pertaining to its foreign currency loans is deductible for the current reporting period, but is planning to restructure its debt such that it should not have excess debt in future financial years;
 - (n) unrealised gains on hedging instruments designated into a cash flow hedge.
- 68 This example also outlines how entities with more complex structures and income tax affairs could improve the ability of users to understand the entity's income tax position by disaggregating line items within the reconciliation between those recurring and

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non-recurring in nature. Additionally, the example illustrates how, in order to enhance the comparability and understandability of the entity's performance, an entity might choose to present selected amounts disaggregated between amounts relating to foreign and domestic entities.

Extract from Complex Ltd's Taxes Paid report for 30 June 20X1				
Part A TTC disclosures				
a) Reconciliation of accounting profit to income tax expense and income tax payable				
Complex Ltd has disclosed its reconciliation of accounting profit to income tax expense and income tax payable in its financial statements for the financial year ended 30 June 20X1.				
b) Effective Tax Rates				
	20X1		20X0	
	A\$ thousands Australia [3]	A\$ thousands Global	A\$ thousands Australia [3]	A\$ thousands Global
Accounting effective tax rate	31%	28%	xx%	xx%
TTC ETR [1] [2]	29%	27%	xx%	xx%
Adjusted ETR excluding impairment loss [4]	24%	24%	xx%	xx%
[1] The objective of the TTC ETR disclosure is to demonstrate, relative to the Australian corporate income tax rate, the company tax expense borne by Complex Ltd in respect of its Australian and global operations.				
[2] Complex Ltd has calculated the TTC ETRs as company tax expense divided by accounting profit per the Australian Accounting Standards. PRRT of A\$12,000 has been excluded in calculating company tax expense and results in a 2% difference between the accounting and TTC ETRs.				
[3] The Australian TTC ETR has been calculated as company tax expense divided by accounting profit for Complex Ltd's Australian operations. Complex Ltd's Australian operations encompass all companies, partnerships and trusts established under Australian law within the accounting consolidated group. Accounting profit in respect of Complex Ltd's Australian operations includes transactions with foreign entities within the accounting consolidated group.				
[4] The objective of the adjusted ETR is to provide users of the Taxes Paid report with predictive information relating to Complex Ltd's income tax position. The adjusted ETR is calculated as company tax expense divided by accounting profit adjusted for an impairment loss of \$117,000 (\$35,000 tax effected). As the impairment loss is not expected to recur, Complex Ltd believes the adjusted ETR is illustrative of Complex Ltd's sustainable ETR. The adjustment to accounting profit results in a 5% and 3% difference to the TTC ETR for Australian and global operations respectively.				

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COMPLEX LTD				
INCOME TAX NOTE - 30 JUNE 20X1				
Extract from Complex Ltd's financial statements for 30 June 20X1				
INCOME TAX NOTE - 30 JUNE 20X1				
A. RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE AND INCOME TAX PAYABLE				
			Consolidated 20X1 A\$ thousands	Consolidated 20X0 A\$ thousands
Profit for the year attributable to Australian entities			650	xxx
Profit for the year before income tax			1,005	xxx
Income tax calculated at 30% (20X0: 30%)			302	xxx
a. Amounts not recognised in profit but included in taxable income				
<i>Recurring items</i>				
Taxable unfranked dividends	<1>*		10	xxx
Research and development tax offset	*		(7)	xxx
Utilisation of tax losses	<2>*		(10)	xxx
Overseas tax rate differential	<3>		(20)	xxx
<i>Non-recurring items</i>				
Taxable gain on disposal of equity accounted investments	<4>		15	xxx
b. Amounts recognised in profit but not included in taxable income				
<i>Recurring items</i>				
Employee benefits	*		(8)	xxx
Net unrealised foreign exchange loss on loans	<5>		13	xxx
Share of associate's post tax profit	<6>*		(21)	xxx
Provisions and accruals	<7>*		16	xxx
Fair value loss on investments (investment properties)			7	xxx
Net difference between accounting and tax depreciation	<8>*		(24)	xxx
Non-deductible interest expense	*		4	xxx
Fair value gain on investments (shares)	<9>		(36)	xxx
<i>Non-recurring items</i>				
Non-deductible impairment of intangibles			35	xxx
Current tax expense / (income) [1] (income tax payable for 20X1)			<u>276</u>	<u>xxx</u>
Current tax expense / (income) [1] attributable to Australia (income tax payable for 20X1)			153	xxx
c. Deferred tax expense				
Deferred tax expense (see section B. for a reconciliation of deferred tax expense)			(7)	xxx
Income tax expense			<u>283</u>	<u>xxx</u>
[1] Where an entity recognises current tax expense through equity in respect of a transaction(s), the amount should be added to the entity's current tax expense to reflect the entity's income tax payable for the financial year				

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B. DEFERRED TAXES			
	20X0	Movement	20X1
	A\$ thousands	A\$ thousands	A\$ thousands
a. Deferred tax assets			
Employee benefits	96	(8)	88
Provisions and accruals	40	16	56
Investments (investment properties)	13	7	20
Foreign currency loan payable	40	13	53
Tax losses	430	(10)	420
	619	18	637
b. Deferred tax liabilities			
Investments (shares)	54	36	90
Intangible assets	60	(35)	25
Property, plant and equipment	80	24	104
	194	25	219
Net deferred tax asset / (liability)	425	(7)	418
c. Deferred tax expense recognised in equity			
<i>Deferred tax liabilities</i>			
Foreign currency translation reserve	30	3	33
Hedges	27	(21)	6
	57	(18)	39
C. INCOME TAXES PAYABLE			
	20X1	20X0	
	A\$ thousands	A\$ thousands	
Income taxes payable at beginning of financial year	163	xxx	
Less: income tax paid during the year (see statement of cash flows)	(102)	xxx	
Income taxes payable for current financial year (see A. above)	276	xxx	
Income taxes payable as at 30 June 20X1 (see statement of financial position)	337	xxx	
D. EXPLANATION OF KEY INCOME TAX ADJUSTMENTS			
<1> Dividends received from non-wholly owned foreign subsidiaries			
<2> Utilisation of carried forward transfer losses subject to an available fraction			
<3> Differential in corporate tax rates between Australian and jurisdictions where foreign subsidiaries operate			
<4> Taxable gain on the disposal of shares in ForeignComplex Pte Ltd			
<5> Net unrealised foreign exchange loss on US dollar denominated loans			
<6> Complex Ltd's share of post tax profits from foreign associate entities			
<7> Net movement in allowance for doubtful debts and provision for audit fees			
<8> Differences in effective lives applied for accounting and income tax purposes pertaining to plant and equipment assets			
<9> Fair value gains on shares designated as fair value through profit and loss not yet assessable for income tax purposes			
* Denotes transactions relating wholly or partly to Complex Ltd's Australian operations.			

Attachment 1: Impact of specific transactions on the ETR calculation

Impairment

- 69 The effect of an impairment loss on the ETR will be dependent on whether it is recognised in profit or loss or as a reversal of a previous revaluation through other comprehensive income. In accordance with AASB 112.61A, the income tax effect is recognised outside of profit or loss in other comprehensive income if the impairment loss is recognised in other comprehensive income, and consequently, is not reflected in the ETR. Where an impairment loss is recognised in profit or loss, the income tax effect is also recognised in profit or loss (AASB 112.58), and therefore, should be reflected in the ETR.
- 70 For example, when an impairment is treated as an expense for accounting purposes and non-deductible for income tax purposes, income tax expense is higher to reflect the tax effect of the non-deductible amount, and accounting profit before tax is lower. This results in an ETR higher than the statutory corporate income tax rate.

Foreign currency translation

- 71 Per paragraph 50 of AASB 121 *The Effects of Changes in Foreign Exchange Rates*, the income tax effects of gains and losses on foreign currency transactions and exchange differences arising in respect of translating the financial position and/or financial performance of an entity is driven by the way the transactions or translation itself is accounted for. To the extent that the gains and losses (and related tax) arising from foreign currency transactions and exchange differences arising from translation are reflected within accounting profit, the effect of the transaction will be reflected in the ETR.
- 72 Upon disposal of a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation, recognised in other comprehensive income and accumulated in a separate component of equity, is reclassified from equity and recognised in profit or loss. It is at this point that the effect of the exchange differences will be reflected in the ETR.

Amended assessments

- 73 Amended assessments may be recognised as a prior period error recognised by restating prior year comparatives without impacting current year ETR or a change in estimate recognised in the year the assessment is amended (through profit or loss) and will likely impact the current year ETR.
- 74 With respect to errors, the income tax effect of the error should be recognised in the same way as the transaction giving rise to the error itself, an amended assessment that is associated with the correction of a material prior period error is unlikely to be reflected in the current year ETR. The effect of some other amended assessments (e.g. some amended assessments initiated by the tax authority reflecting will affect the ETR where it relates to an item recognised in profit or loss rather than in other comprehensive income.

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Refunds and tax losses

- 75 An entity may receive an income tax refund from an income tax authority in circumstances where, during the period, it has already paid more than its income tax payable amount to the tax authority. The receipt of an income tax refund in such instances does not itself affect the ETR.
- 76 For a financial year, an entity may calculate its accounting income tax position pursuant to AASB 112 and recognise ‘income tax income’ in profit or loss. The income tax income represents an aggregate position of benefit in the future and where recoverable, is recognised in the statement of financial position as a deferred tax asset.
- 77 In such instances, whilst it is numerically possible to calculate an ETR, the ETR may not result in a measure that provides useful information about the entity’s income tax position to users. In these cases, an entity considers what information to disclose that would provide relevant information to users, for example, some entities may determine user needs would better served by disclosing the ETR as 0% with a supplementary narrative explanation.

Penalties

- 78 Where an entity incurs a penalty, the amount is recognised as an expense in profit or loss.
- 79 Where a penalty is non-deductible for income tax purposes, it will represent a non-temporary difference in the period in which the penalty is incurred.²⁰ In such instances, all else being equal, an entity that incurs a penalty will show a higher tax expense amount, and therefore higher ETR compared to a similar entity that has not suffered a penalty.

²⁰ Penalties are generally non-deductible for Australian income tax purposes, however, the income tax treatment is dependent on the specific facts relevant to the particular entity and penalty.