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Dear Ms Ng,

Draft interpretation on uncertainty over income tax treatments

I refer to your letter dated 28 October 2015 inviting our comments on the draft interpretation issued by the International Financial Reporting Standards Interpretations Committee for uncertainty over income tax treatments (“the Draft Interpretation”).

The Draft Interpretation provides guidance on how to account for current and deferred tax assets and liabilities where there is uncertainty over income tax treatments. It requires an entity to evaluate whether a tax authority is likely to accept the uncertain tax treatments adopted or to be adopted in its income tax filing. If so, the tax position recorded in the entity's accounts should be consistent with that in the filing. If not, the entity will have to reflect the effect of uncertainty by using either the most likely amount or the expected value.

On the other hand, the entity has to determine whether each uncertain tax treatment should be considered independently or collectively. It should also reassess its judgement and estimate on the uncertainty if the facts and circumstances change. As for the disclosure and transitional requirements, the Draft Interpretation states that the existing disclosure requirements in International Accounting Standards 1, 12 and 37 are relevant and the entity may apply the guidance without adjusting the comparative information.

We appreciate the objective of the Draft Interpretation which is to address the inconsistency in accounting for uncertain income tax treatments. We also support that the measurement of uncertainty should reflect the entity's best estimate of its tax position, and that the entity has to determine whether each uncertain tax treatment should be considered independently or on a collective basis with a view to providing a better prediction of the resolution of the uncertainty. As we see it, the requirement for

reassessing the judgment and estimate on uncertain income tax treatments can provide the financial statements users with more relevant information to assess the entity's tax position. Given the considerable involvement of judgment and estimate, we share the view that it may not be necessary to restate the comparative information when first applying the guidance in the Draft Interpretation.

We are grateful for the opportunity to provide our comments on the Draft Interpretation.

Yours sincerely,



(CHAN Sze-wai, Benjamin)
for Commissioner of Inland Revenue