Issue 238/June 2025

IFRS Developments

IFRS accounting impacts of tariffs

What you need to know

- Entities need to consider the effects of current trade policy and tariffs on their accounting and financial reporting. This includes determining whether the potential risk factors associated with tariff exposure, material risks to financial performance or other factors are significant enough to warrant disclosure.
- Entities need to closely monitor developments and determine the implications for their businesses and their internal control over financial reporting.

Overview

Entities need to consider the effects of current trade policy, including tariffs imposed by the US and other countries, on their accounting and financial reporting. Tariffs are a form of taxes levied by governments, often as a fixed percentage of the value of imported goods, that are designed to increase the cost of foreign product imports, making them less competitive compared to domestic products.

As tariffs are generally based on a percentage of the value of a product, they are not accounted for as an income tax and are capitalisable (e.g., inventory; property, plant and equipment). This publication highlights certain accounting and reporting considerations related to the tariffs. Because trade policy is constantly evolving, entities need to monitor changes for potential effects.

Key considerations

Prospective financial information

Management needs to carefully evaluate the implications of trade policy and tariffs on projections and other assumptions used in preparing the financial statements, including determining how tariffs may affect cash flow projections used in prospective financial information. Entities also need to consider how uncertainty caused by tariffs could affect the discount rate. Projections should be consistently applied (e.g., measurement of fair value, asset impairment tests, realisability of deferred tax assets tests) and should reflect the effects of the current economic environment, including tariffs.

Asset impairment

Since tariffs increase the cost of assets that are imported, if a entity is unable to pass these rising costs on to customers, the carrying amount of non-current assets may not be recoverable (e.g., property plant and equipment, goodwill) and will need to be assessed for impairment in accordance with IAS 36 *Impairment of Assets*. The more uncertainty there is, the more important it is for entities to provide detailed disclosure of the assumptions taken, the (preferably external) evidence they are based on and whether a reasonably possible change in the key assumptions could result in recognising impairment losses (sensitivity analysis).

Entities also need to consider whether the current economic conditions affect the recoverability of other assets (e.g., inventory (IAS 2 *Inventories*), equity method investments (IAS 28 *Investments in Associates and Joint Ventures*), deferred tax assets (IAS 12 *Income Taxes*)).

Revenue

Entities need to understand the purpose of each tariff and what triggers an obligation to pay a tariff to determine whether they are incurring the tariff expense itself (i.e., the entity is liable) or they are paying the tariff on behalf of the customer.

Entities must consider whether changes in pricing of existing customer contracts due to tariffs need to be accounted for as variable consideration or a contract modification. If an existing contract contains legally enforceable terms that allow an entity to pass the increased costs of tariffs to their customers automatically, any change in the transaction price would be accounted for as a change in the estimate of variable consideration and, generally, allocated to the performance obligations on the same basis as their initial allocation at contract inception. If a price change resulting from tariffs needs to be separately negotiated and agreed with the customer, the contract modification requirements in IFRS 15 *Revenue from Contracts with Customers* are applied once the modification is enforceable. Based on the facts and circumstances, the contract modification would be accounted for either as a separate contract, a termination of the existing contract and creation of a new contract, or as a part of the existing contract.

Tariffs might affect the measure of progress for over-time performance obligations under which a cost-to-cost input method (i.e., costs incurred relative to total expected costs) is applied to measure an entity's progress toward satisfaction of the performance obligation to recognise revenue.

Financial instruments

Entities with lending activities will need to consider the requirements in IFRS 9 *Financial Instruments* when measuring expected credit losses (ECLs) on financial instruments as tariffs may adversely impact the ability of borrowers to repay their debts and could trigger impairment losses. Borrowers that are adversely affected by tariffs should consider the impact on their debt covenants. Tariffs and the related uncertainty may also impact the fair value of financial instruments.

Share-based payment awards

The significant uncertainty in the current environment may prompt entities to amend the terms and/or conditions of share-based payment awards to keep employees and others providing similar services incentivised. An entity must apply modification accounting if amendments change the fair value, vesting conditions or classification of the award. When an award is modified, the entity is required to, as a minimum, recognise the cost of the original award as if it had not been modified unless the award does not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. In addition, when the effect of the modification increases the fair value of the award, the incremental fair value is recognised The incremental fair value is spread over the period from the date of modification until the vesting date of the modified award, which might not be the same as that of the original award. The incremental fair value is the difference between the fair value of the original award and that of the modified award, both measured at the date of modification. If entities or employees cancel any equity-settled share-based payment awards during the vesting period, the cancellation should be accounted for as an acceleration of vesting and the entities must, therefore, recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. However, if a new equity instrument is granted and identified as a replacement of the cancelled award, the entity accounts for the granting of the replacement equity instruments in the same way as a modification of the original grant of equity instruments.

Provisions and contingent liabilities

When an entity has a regulatory, legal or contractual obligation to pay a tariff, the amount and timing of that obligation (e.g., the applicable tariff rate and when the tariff payment is due) is usually clear and there is no uncertainty involved. In these cases, tariff liabilities are generally recognised and measured in accordance with IFRIC 21 *Levies*. When it is not clear whether an obligating event to pay a tariff has occurred or what amount is required to be paid (e.g., there is ambiguity in the tariff policy), an entity is required to apply the guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* to recognise, measure and disclose any potential tariff liabilities.

If the introduction of tariffs makes a contract loss making, entities will need to consider whether the contract is onerous. A contract is considered onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If an entity has a contract that is onerous, IAS 37 requires the entity to recognise and measure the present obligation under the contract as a provision. IAS 37 specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

Subsequent events

A subsequent event that provides evidence about conditions that did not exist at the balance sheet date (i.e., those that arose after that date) is not recognised in the financial statements. A tariff that is levied or amended after the balance sheet date is a non-adjusting subsequent event. However, such a non-adjusting subsequent event may need to be disclosed to prevent the financial statements from being misleading. Such disclosure should include both the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

Inventory

IAS 2 *Inventories* generally requires entities to account for inventories at the lower of cost and net realisable value (NRV). If tariffs increase the costs of purchase of inventories and an entity cannot pass those higher costs on to its customers, a write-down of inventories to the NRV might be required. If the NRV increases in a subsequent period, the entity would reverse these writedowns. However, the amount of gains recorded by an entity should not exceed the original cost.

Financial statement disclosures

Financial statement disclosures will vary based on the magnitude, duration and nature of the effects of the current economic environment including tariffs on businesses and the availability of information required to make the disclosures.

IAS 1 *Presentation of Financial Statements* requires disclosure of information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. An entity is also required to disclose the judgements, apart from those involving estimations, that management has made in the process of applying its accounting policies and that have the most significant effect on the amounts recognised in the financial statements. In addition, management is required to make an assessment of an entity's ability to continue as a going concern, including whether the going concern assumption is appropriate, and provide relevant disclosures for both annual and interim reporting periods. Entities will need to consider the current economic environment, including tariffs, in their evaluations.

How we see it

Given the current economic environment, including tariffs, entities need to continuously evaluate the related effects on their business and financial reporting, provide disclosures on the material effects and update the disclosures as circumstances change. Entities should avoid using boilerplate language in their disclosures and instead provide specific, tailored information that allows investors to evaluate the current and anticipated effects of the current economic environment including tariffs from the perspective of management.

EYG no. 005422-25Gbl

ED None

UKC-039837 (UK) 06/25.

Artwork by Creative UK.