IND-AS 12 INCOME TAXERS

ICAI – WIRC

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CONTENTS

- Objective and Scope
- Definitions
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- Recognition (including in special situations)
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OBJECTIVE & SCOPE

- Accounting for income taxes (includes domestic taxes, foreign taxes and Withholding taxes payable by a subsidiary, associate or joint venture on distribution to reporting entities) – taxes like sales tax, VAR etc. which are based on revenue, government grants etc. are excluded. **Tonnage Tax paid by shipping companies is also excluded. Penalties and fines also excluded**
- Prescribe accounting treatment in current period for
  - Current tax consequences
  - Future tax consequences
- Describe the recognition criteria for deferred tax liabilities and assets.
- Explain the deferred tax effects on business combinations.
- Where to account for the tax consequences (P&L or outside P&L)
- Criteria for recognition of deferred tax assets arising from unused tax losses or credits.
- Presentation and disclosure requirements

DEFINITIONS

- **Accounting Profit**
  - Profit or loss for a period per the books of account.
- **Taxable Profit**
  - The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable)
- **Tax expense**
  - The aggregate amount included in the determination of profit or loss for the period in respect of **current tax** and **deferred tax**
- **Current tax**
  - The amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

DEFINITIONS

- **Tax base**

  – It is the amount attributable to that asset or liability for tax purposes.

- **Deferred tax assets**

  – The amounts of income taxes recoverable in future periods in respect of;

  - Deductible temporary differences
  - Carry forward of unused tax losses and credits

- **Deferred tax liabilities**

  – The amounts of income taxes payable in future periods in respect of taxable temporary differences.

MEASUREMENT

- **Current Taxes –** Measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or **substantially enacted** by the end of the reporting period
- **Deferred Taxes –** Measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or **substantively enacted** by the end of the reporting period.
- **No discounting is permissible**

RECOGNITION

CURRENT TAX

- Current tax for current and prior period, to the extent unpaid, should be recognized as a liability. Payment in excess of the amount due should be recognized as an asset.
- The benefit relating to a tax loss that can be carried back to recover current tax of a previous period should be recognized as an asset.

RECOGNITION

DEFERRED TAX –general principles

- Liability method to be adopted
- Deferred tax is recognized for all **temporary differences** (*Differences between the carrying amount of an asset or liability in the balance sheet and its tax base*) – **taxable temporary differences** and **deductible temporary differences**

RECOGNITION

DEFERRED TAX –Steps for accounting and recognition

1. Calculate tax base
2. Calculate temporary differences
3. Identify the temporary differences that give rise to deferred tax assets or liabilities
4. Calculate deferred tax balances using appropriate tax rate
5. Recognise deferred tax in income, equity or as an adjustment to goodwill

TAX BASE

- Four types:
  - Tax base of an asset
  - Tax base of a liability
  - Tax base with no recognized carrying amounts
  - Tax base not immediately apparent

Tax Base of an Asset

- Is the amount that will be *deductible for tax purposes:*

  - against any *taxable economic benefits* that will flow to an entity

  - when it recovers the carrying amount of the asset

- ***If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount***

Tax Base of an Asset

- *Examples of amounts deductible for tax purposes:*
  - *Depreciation*
  - *Indexation benefits*
    - *May be for the full amount, a portion or none*
    - *May be in the year of acquisition or over a number of years*

Tax Base of an Asset

- *Examples of taxable economic benefits:*
  - *Income earned from the asset's use*
  - *Proceeds arising from its disposal that enter into the determination of taxable profits*

Tax Base of an Asset

- Tax base of an asset = Carrying value – Future taxable amounts + Future deductible amounts

- **Examples follow**

Tax Base of an Asset

Example: 01

A machine costs INR 100. For tax purposes, depreciation of INR 30 has already been deducted. Revenue generated by using the machine will be taxable. For accounting purposes, the machine has been depreciated by INR 20.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
80	-	80	+	70	=	70

Tax Base of an Asset

- Four scenarios could be anticipated
- Recovery of asset
  - gives rise to
    - both taxable amounts and deductible amounts (A)
    - Taxable amounts but not to deductible amounts (B)
  - Does not give rise to
    - Taxable amount but gives rise to deductible amounts (C)
    - Either taxable amounts or deductible amounts (D)

Tax Base of an Asset

- **Scenario A**:
  - Recovery of asset gives rise to both taxable amounts and deductible amounts
- **Example follows:**-

Tax Base of an Asset

Scenario A: Recovery of asset gives rise to both taxable amounts and deductible amounts

Example: 02

A machine cost INR 100. For tax purposes, depreciation of INR 30 has already been deducted. Revenue generated by using the machine will be taxable. For accounting purposes, the machine has been depreciated by INR 20.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
80	-	80	+	70	=	70

Tax Base of an Asset

Scenario A: Recovery of asset gives rise to both taxable amounts and deductible amounts

Example: 03

Inventory at the balance sheet date has a carrying value of INR 100. The inventory will be deductible for tax purposes when sold.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
100	-	100	+	100	=	100

Tax Base of an Asset

Scenario A: Recovery of asset gives rise to both taxable amounts and deductible amounts

Example: 04

Land was acquired for INR 100 at the beginning of the financial year. It is revalued to INR 150 at the balance sheet date. The cost of land at the balance sheet date for tax purposes is INR 110 due to indexation of cost for tax purposes.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
150	-	150	+	110	=	110

Tax Base of an Asset

- **Scenario B:**
  - Recovery of asset gives rise to taxable amounts but not to deductible amounts
- **Examples follow:-**

Tax Base of an Asset

Scenario B: Recovery of asset gives rise to taxable amounts but not to deductible amounts

Example: 05

Interest receivable has a carrying value of INR 100. The related interest will be taxed on a cash basis.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
100	-	100	+	0	=	0

Tax Base of an Asset

Scenario B: Recovery of asset gives rise to taxable amounts but not to deductible amounts

Example: 06

Foreign Exchange debtor has a carrying value of INR 115 after recognizing an exchange gain of INR 5 in the income statement. The original amount of INR 110 was included in taxable profit. Exchange gains are taxable only when realized.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
115	-	5	+	0	=	110

Tax Base of an Asset

Scenario B: Recovery of asset gives rise to taxable amounts but not to deductible amounts

Example: 07

Research expenditure has a carrying value of INR 100 that was claimed as a deduction when paid. For accounting purposes the research expenditure is amortized over 5 years.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
100	-	100	+	0	=	0

Tax Base of an Asset

Scenario B: Recovery of asset gives rise to taxable amounts but not to deductible amounts

Example: 08

Interest paid of INR 100 is capitalized as part of asset's carrying value. Tax deductions were obtained when the interest was paid.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
100	-	100	+	0	=	0

Tax Base of an Asset

- **Scenario C:**
  - Recovery of asset does not give rise to taxable amount but gives rise to deductible amounts
- **Example follows:-**

Tax Base of an Asset

Scenario C: Recovery of asset does not give rise to taxable amounts but gives rise to deductible amounts

Example: 09

Trade debtors have a carrying value of INR 95 after recognizing a general bad debt provision of INR 5. The original amount of INR 100 has already been included in taxable profits. The provision for bad debts is not tax deductible, but would be so when the provision becomes specific.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
95	-	0	+	5	=	100

Tax Base of an Asset

- **Scenario D:**
  - Recovery of asset does not give rise to either taxable amounts or deductible amounts
- **Example follows:-**

Tax Base of an Asset

Scenario D: Recovery of asset does not give rise to either taxable amounts or deductible amounts

Example: 10

Trade debtors have a carrying value of INR 95 after recognizing a specific bad debt provision of INR 5. The original amount of INR 100 has already been included in taxable profits. Specific provision for bad debts is tax deductible at the time it is made.

Applying the formula we have:

Carrying value of asset	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
95	-	0	+	0	=	95

Tax Base of a Liability

- Is its carrying amount,
- less any amount that will be deductible for tax purposes
- in respect of that liability in future periods

- ***In the case of revenue that is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods***

Tax Base of a Liability

- Tax base of a liability = Carrying value – Future deductible amounts + Future taxable amounts
- **Examples follow:-**

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Tax Base of a Liability

Example: 11

A loan payable has a carrying value of INR 100 at the balance sheet date. The repayment of the loan will have no tax consequences.

Applying the formula we have:

Carrying value of liability	-	Future deductible amounts	+	Future taxable amounts	=	Tax base
100	-	0	+	0	=	100

Tax Base of a Liability

Example: 12

Foreign currency loan payable has a carrying value of INR 95 after recognizing an exchange gain of INR 5 in the income statement. Exchange gains are taxable only when realized.

Applying the formula we have:

Carrying value of liability	-	Future deductible amounts	+	Future taxable amounts	=	Tax base
95	-	0	+	5	=	100

Tax Base of a Liability

Example: 13

Wages payable to employees amounting to INR 100 were accrued at the balance sheet date and allowed as a deduction at the time of expense recognition.

Applying the formula we have:

Carrying value of liability	-	Future deductible amounts	+	Future taxable amounts	=	Tax base
100	-	0	+	0	=	100

Tax Base of a Liability

Example: 14

A liability of INR 100 for long service leave has been accrued at the balance sheet date in terms of the AS. No deduction will be available for tax until the long service leave is paid.

Applying the formula we have:

Carrying value of liability	-	Future deductible amounts	+	Future taxable amounts	=	Tax base
100	-	100	+	0	=	0

Tax Base of a Liability

- Tax base of revenue received in advance = Carrying value – Amount of revenue that will not be taxable in future periods amounts
- **Example follows:-**

Tax Base of a Liability

Tax base of revenue received in advance

Example: 15

Interest received in advance at the balance sheet date amounted to INR 100. The interest revenue was taxed by reference to the amount credited in the income statement.

Applying the formula we have:

Carrying value of revenue received in advance	-	Amount of revenue that will not be taxable in future periods	=	Tax base
100	-	0	=	100

Tax Base of a Liability

Tax base of revenue received in advance
Example 16:

A government grant of INR 100 is recognized at the balance sheet date as deferred income rather than being deducted against the cost of the asset. No tax is payable on receipt or subsequent amortization. The cost of the asset is fully deductible.

Applying the formula we have:

Carrying value of revenue received in advance	-	Amount of revenue that will not be taxable in future periods	=	Tax base
100	-	100	=	0

Tax Base of a Liability

Tax base of revenue received in advance

Example: 17

Royalties from users of licensed technology relating to the following financial year amounted to INR 100 at the balance sheet date. Royalties are taxed on a cash receipt basis. The royalty income is deferred in the accounts until the period to which it relates.

Applying the formula we have:

Carrying value of revenue received in advance	-	Amount of revenue that will not be taxable in future periods	=	Tax base
100	-	100	=	0

Tax base with no recognized carrying amounts

- Expenditure expensed out in accounts but is carried forward in the tax balance sheet
- **Example follows:-**

Tax base with no recognized carrying amounts

Expenditure expensed out in accounts but is carried forward in the tax balance sheet

Example: 19

IPO expenditure of INR 100 expensed out in accounts in the year of IPO but as per taxation laws allowable equally over 5 years.

Applying the formula we have:

Carrying value of expense	-	Future taxable amounts	+	Future deductible amounts	=	Tax base
0	-	0	+	80	=	80

Tax base not immediately apparent

- Apply fundamental principle
- Fundamental Principle
  - An entity should recognize a deferred tax liability (asset)
  - whenever recovery or settlement of the carrying amount of an asset or liability
  - would make future tax payments larger (smaller) than they would be
  - if such recovery or settlement were to have no tax consequences.

Temporary Differences - Summary

	For assets	For liabilities
If Carrying amount > Tax base	Taxable temporary difference (TTD) - Deferred tax liability (DTL)	Deductible temporary difference (DTD) - Deferred tax asset (DTA)
If Carrying amount < Tax base	Deductible temporary difference (DTD) - Deferred tax asset (DTA)	Taxable temporary difference (TTD) - Deferred tax liability (DTL)

Recognition of Deferred Tax Liabilities

- A deferred tax liability must be recognized for all taxable temporary differences, unless the deferred tax liability arises from:

– the initial recognition of goodwill, or

– the initial recognition of an asset or liability in a transaction which:

  - is not a business combination, and
  - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)

- **There are special recognition exceptions for investments in subsidiaries, branches and associates, and interests in joint ventures for both deferred tax liabilities and assets.**

Consolidated Financial Statements

- In consolidated financial statements (CFS), temporary differences are determined by comparing the carrying amounts of assets and liabilities in the CFS with the appropriate tax base.
- The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the group.

Goodwill

- Goodwill arising on a business combination is the excess of the cost of acquisition over the acquirer's interest in the fair value of assets and liabilities acquired.
- Under Ind AS 103, 'Business Combinations', goodwill is recognized as an asset and is not amortized but is tested for impairment.
- Where the cost of purchased goodwill is non-deductible for tax purposes, the goodwill has a tax base of Nil.
- The difference between the carrying amount and tax base of Nil of goodwill gives rise to taxable temporary difference to result into deferred tax liability.
- ***Ind AS 12 does not permit recognition of goodwill as this is measured as a residual being difference of cost of acquisition and fair value of assets acquired and any recognition of DTL will only increase the goodwill.***

Recognition of Deferred Tax Assets

- Deferred tax assets must be recognized **only** to the extent that it is '**probable**' that future taxable profits will be available.
  – 'Probable' not defined, Ind AS 12 contains guidance
    - Factors to consider for recognition of DTA arising from unabsorbed losses:
      - Existence of sufficient taxable temporary difference
      - Convincing other evidence that sufficient taxable profits will b available
      - Losses resulted from identifiable causes, which are unlikely to recur
      - Availability of tax planning opportunities

- At the end of each reporting period, an entity should reassess unrecognized DTAs.

  – The entity should recognize a previously unrecognized DTA to the extent that it has become probable that future taxable profit will allow the DTA to be recovered.

Business Combinations

- Assets acquired and liabilities assumed are recognised at fair values at the acquisition date.
- However:
  - – The tax bases of individual assets and liabilities may not be affected.
  - – changing the carrying amount (to fair value) affects temporary differences and accordingly deferred taxes.
  - – These tax consequences impact goodwill and are recognised when accounting for the business combination.
- However, no deferred tax liability is recognised on the initial recognition of goodwill itself
- Recognize DTA's of acquiree once the 'probability' criterion is met, even post acquisition.
  - – No time limit.
  - – If within the measurement period and resulting from new information about facts and circumstances that existed at the acquisition date - Adjust goodwill and reassess impairment for goodwill
- If goodwill is nil – recognise the deferred– If not - Recognised in profit or loss.

Investment in Group Components

- When the parent or investor acquires such an investment, it is accounted for in its separate financial statements at cost.
- In the consolidated financial statements of parent / investor, the investment is recorded on a line by line method (in case of subsidiaries) or equity method (in case of associates & JVs)
- A temporary difference may arise between the investment's carrying value in the separate and consolidated financial statements and its tax base.

- For such investments or interests, the carrying amounts may be recovered either **through distributions or through disposals**.
- Therefore the standard requires the investor to recognize DTL unless:
  - ***investor is able to control the timing of reversal of temporary difference and***
  - ***it is probable the difference will not reverse in foreseeable future***
- And recognize DTA only if:
  - temporary differences will reverse in the foreseeable future and recovery is probable

Revaluation of assets

- Ind-AS permit or require certain assets to be carried at fair value or to be revalued
- In tax jurisdictions, where it is permitted, the tax base is adjusted and no temporary difference arise
- In tax jurisdictions, where it is not permitted, the tax base remains unaffected and temporary difference arises and gives rise to DTL or DTA
- The resulting DTL or DTA is recognized directly in equity

Tax consequences of dividends

- If the tax on undistributed income is different from the tax on distributed income?
  - Recognize current and deferred tax assets and liabilities at the rate applicable to undistributed profits
  - The income-tax consequences of dividends are recognized when a liability to pay dividend is recognized (**Principle would apply to Special Reserve Created under Section 36(1)(viii)]**
- **DDT position not clear?**

Current and Deferred Tax Recognised Outside P& L

- If the underlying item is recognized outside profit or loss, the current and deferred tax is also recognized outside the profit or loss
- If the underlying item is recognized in:

– Other comprehensive income, the current and deferred tax is also recognized in other comprehensive income

– Directly in equity, the current and deferred tax is also recognized directly in equity

Presentation

Tax expense

- Tax Expense (Income) related to profit or loss from ordinary activities
  – shall be presented in the statement of profit and loss.
- Exchange differences on deferred foreign tax liabilities or assets

- Where exchange differences on deferred foreign tax liabilities or assets are recognised in the statement of profit and loss, such differences may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.

Presentation

Offset

- current tax assets and current tax liabilities to be Offset if, and only if, the entity:
  - has a legally enforceable right to set off the recognised amounts; and
  - intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

An entity will normally have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the entity to make or receive a single net payment.

- In consolidated financial statements, a current tax asset of one entity in a group is offset against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment.

Presentation

- deferred tax assets and liabilities to be Offset if, and only if:

  – the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

  – the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either:

    » the same taxable entity; or

    » different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the asset and settle the liability simultaneously.

Disclosures

- Balance Sheet
- Profit and Loss Statement
- Notes

Disclosures – Balance Sheet

- Current / Non-current classification
  - Current tax: Current asset – liability
  - Deferred tax: Non-current asset - liability
- Classification based on liquidity
  - Current tax: more liquid
  - Deferred tax: less liquid

Disclosures – Profit and Loss Statement

- Recognize current & deferred tax in Income (PL) Statement except when tax arises out of transaction recognized in
  - Other comprehensive income
  - Directly in equity
  - Business combination

Disclosures – Profit and Loss Statement

- Items that could be recognized in 'Other comprehensive income'
- Examples:
  - A change in carrying amount arising from the revaluation of PPE;
  - Exchange differences arising on the translation of the financial statements of a foreign operation
- Disclose:
  - In statement of other comprehensive income
  - The amount of income-tax relating to each component

Disclosures – Profit and Loss Statement

- Items that could be recognized ‘directly to equity’
- Examples:
  - An adjustment to the opening balance of retained earnings resulting from
    - Either a change in accounting policy that is applied retrospectively;
    - Or the correction of an error
  - Amounts arising on initial recognition of the equity component of a compound financial instrument
- Disclose
  - The aggregate current and deferred tax relating to items that are charged or credited directly to equity

Disclosures - Notes

- General
- Analysis of tax expense
- Discontinued operation
- Explanation of relationship between tax expense and accounting profit
- Analysis of deferred tax assets / liabilities
- Unrecognized temporary differences
- Tax consequences of dividends
- Deferred tax asset of loss making entities
- Business combinations
- Tax related contingencies
- Post balance sheet changes in tax rates

General

- Disclose
  - Accounting Policies – [Ind AS 1(117)]
    - Accounting policy to include measurement basis
  - Judgements – [Ind AS 1(122)]
  - Sources of estimation uncertainty - [Ind AS 1(125)]

Analysis of Tax Expense

- Recollect: What is ‘Tax Expense’
  – Tax expense
    - Is the aggregate amount
    - included in the determination of profit or loss
    - in respect of current tax and deferred tax
- Disclose separately
  – Major components of tax expense
    - Current tax
    - Deferred tax

Analysis of tax expense – Current Tax

- The amount of current tax expense
- Adjustment recognized in current period for current tax of prior periods
- The amount of benefit arising from a previously unrecognized:
  - Tax loss, tax credit or temporary difference
  - That is used to reduce current tax expense
- The amount of tax expense relating to
  - those changes in accounting policies and errors
  - That are included in profit or loss as per IAS 8
  - Because they cannot be accounted for retrospectively

Analysis of tax expense – Deferred Tax

- The amount of deferred tax expense relating to
  - Origination and reversal of temporary differences
  - Changes in tax rates or the imposition of new taxes
- The amount of benefit arising from a previously unrecognized:
  - Tax loss, tax credit or temporary difference
  - That is used to reduce deferred tax expense
- Deferred tax expense arising
  - from the write-down, or reversal of a previous write-down
  - of a deferred tax asset on its review at balance sheet date
- The amount of tax expense relating to
  - those changes in accounting policies and errors
  - That are included in profit or loss as per Ind AS 8
  - Because they cannot be accounted for retrospectively

Discontinued operation

- Disclose, the tax expense relating to:
  - The gain or loss on discontinuance
  - The profit or loss from ordinary activities of the discontinued operation for the period,
    - together with the corresponding amounts for each period presented

Explanation of relationship between tax expense and accounting profit

- What could be the significant factors:
- Examples
  - Significant tax-free incomes
  - Significant disallowances
  - The effect of tax losses utilized
  - The effect of different tax rates of foreign based operations
  - Adjustments relating to prior periods
  - Unrecognized deferred tax
  - Effects of changes in tax rates

Explanation of relationship between tax expense and accounting profit

- How
- Two methods
- Numerical reconciliation between:
  - Tax expense and the product of accounting profit multiplied by the applicable tax rate (amount method)
  - Average effective tax rate and the applicable tax rate (% method)
- Also:
  - Disclose the basis on which applicable tax rate is computed
  - Provide explanation of changes in the applicable tax rates as compared to the previous accounting period

Explanation of relationship between tax expense and accounting profit

Illustration:Method 1

Method 1 : Amount method	**Year 1**	**Year 2**
Accounting profit	8,775	8,740
Tax at the applicable rate of 35% (Y1:40%)	3,510	3,059
Tax effect of expenses that are not deductible in determining taxable profits		
- Charitable donations	200	122
- Fines for environment pollution	280	-
Reduction in opening deferred taxes resulting from reduction in tax rates	-	(1,127)
Tax expense	3,990	2,054
The applicable tax rate is the aggregate of the income tax rate of 30% (Y1: 35%) and the surcharge of 5% (Y1: 5%		
Explanation for change in applicable tax rate: in Y2, the government enacted a change in the income-tax rate from 35% to 30%		

Explanation of relationship between tax expense and accounting profit

Illustration:Method 2

Method 1 : Amount method	**Year 1**	**Year 2**
	%	%
Applicable tax rate	40.0	35.0
Tax effect of expenses that are not deductible in determining taxable profits		
- Charitable donations	2.3	1.4
- Fines for environment pollution	3.2	-
Reduction in opening deferred taxes resulting from reduction in tax rates	-	(12.9)
Tax expense	45.5	23.5
The applicable tax rate is the aggregate of the income tax rate of 30% (Y1: 35%) and the surcharge of 5% (Y1: 5%		
Explanation for change in applicable tax rate: in Y2, the government enacted a change in the income-tax rate from 35% to 30%		

Analysis of deferred tax assets / liabilities

- In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:
  - the amount of the deferred tax assets and liabilities recognized in the balance sheet for each period presented;
  - the amount of the deferred tax income or expense recognized in the income statement, if this is not apparent from the changes in the amounts recognized in the balance sheet;

Disclosure in respect of 'Unrecognized temporary differences'

- The amount (and expiry date, if any) of deductible temporary differences, unused losses and unused tax credits for which no deferred tax asset has been provided
- The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized
  - However, if practicable, disclose the amount of deferred tax liabilities also

Tax consequences of dividends

- Where tax rates of undistributed profits and distributed profits do not vary:
  - Disclose the amount of the income-tax consequences of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorized for issue
  - Example: Corporate Dividend Tax in India

Tax consequences of dividends

- Where tax rates of undistributed profits and distributed profits vary:
  - Disclose the nature of potential tax consequences that would result from the payment of dividends
  - The important features of the tax systems and the factors that will affect the amount of the potential income-tax consequences of dividends
  - The amount of potential tax consequences that arises from the payment of dividends to shareholders where such amounts are practically determinable
  - Whether there are any potential tax consequences that are not practically determinable

Deferred tax asset of loss making entities

- The
  - amount of deferred tax asset and
  - the nature of evidence supporting its recognition
- should be disclosed
- where an entity
  - has incurred a loss in the current or preceding period and
  - The recovery of the deferred tax asset is dependant on future taxable profits in excess of those arising from the reversals of existing taxable temporary differences

Business combinations

- If a business combination in which the entity is the acquirer causes a change in the amount recognized for its pre-acquisition deferred tax asset, disclose the amount of that change
- If the deferred tax benefits acquired in a business combination are not recognized at the acquisition date but are recognized after the acquisition date, disclose a description of the event or change in circumstances that caused the deferred tax benefits to recognized

Tax related contingencies

- When arises
  - Tax assessments of earlier years are open
  - Tax assessments are disputed by taxation authorities
- Disclose
  - Its nature
  - An indication of the uncertainty affecting whether the further tax will become payable
  - An estimate of financial effect

Questions

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