

# Ind AS 12 – Income Taxes

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# Introduction

# Ind AS 12

## Introduction

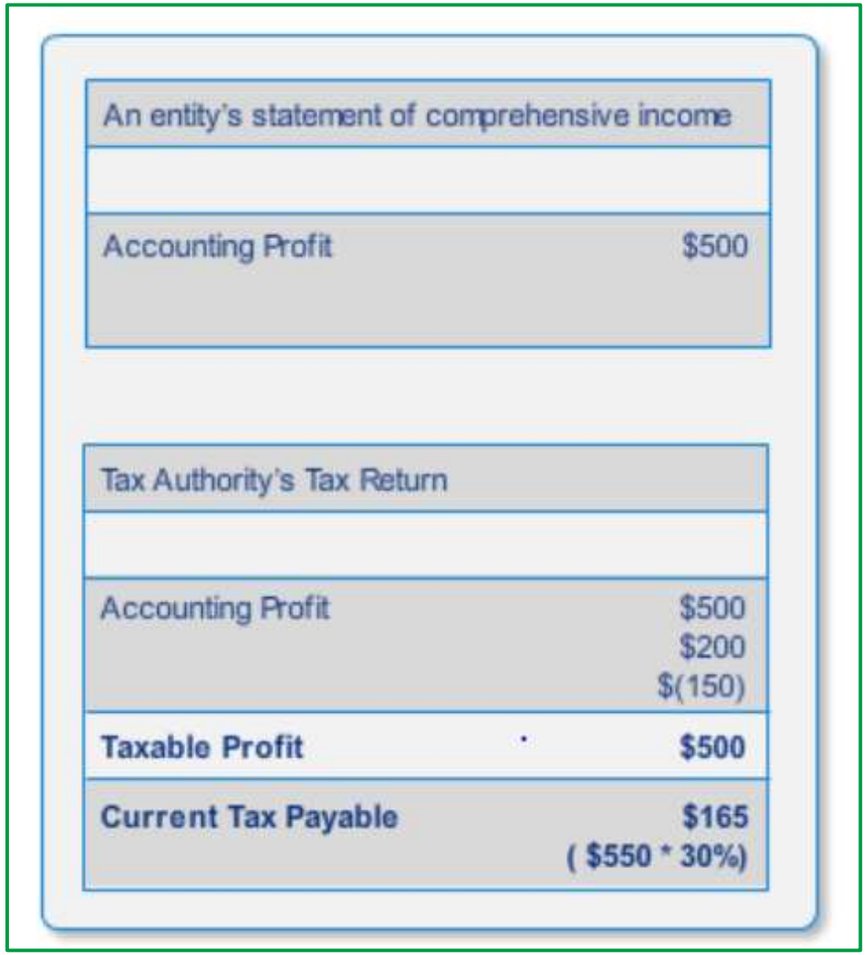
- The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

(a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's balance sheet; and

(b) transactions and other events of the current period that are recognised in an entity's financial statements.

- Income taxes include all domestic and foreign taxes which are based on **taxable profits**, which is "the profit (loss) for the period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

- **Taxable profit is not the same as accounting profit, consequently Ind AS 12 requires a reconciliation between tax expenses and accounting profit.**



# INDAS 12

## Scope

INDAS 12 applies to all domestic and foreign taxes that are based on taxable profits.

It does not apply to:

- Methods of accounting for government grant
- Method of accounting Investment tax credits

However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

# Ind AS 12

## Scope

Whether income taxes computed based on the following measures is covered in the scope of Ind AS 12?

(a) Revenue (a gross figure) (b) A fixed amount per unit of production (c) Notional income derived from tonnage capacity for shipping companies

(d) Presumptive taxation (tax is computed based on specified profit percentage on gross measure (revenue/ sales)

(e) Margin taxes (tax is assessed on margin which is computed by reducing specified costs from revenue)

- Income taxes are based on taxable profits are in the scope of Ind AS 12. As taxable profit is determined in accordance with rules established by tax authorities, it is not necessarily the same as accounting profit. However, the term 'taxable profit' implies that taxes in the scope of Ind AS 12 are levied on a net (that takes into consideration both income and expenses) rather than on a gross amount.

| **Tax computation measures** | **Scope Coverage** |
|---|---|
| Revenue (a gross figure), A fixed amount per unit of production | Not in scope of Ind AS 12 as tax is not computed on taxable profit. It is computed based on gross measure and fixed unit of production |
| Notional income derived from tonnage capacity for shipping companies | Taxes on tonnage capacity are based on gross measure (e.g. tonnage capacity of shipping companies). Inherent notional income derived from tonnage capacity are not based on net measure (that takes into consideration the entity's actual income and expenses). Therefore, taxes on notional income derived from tonnage capacity are not in the scope of Ind AS 12. |
| Presumptive taxation (tax is computed based on a presumptive profit computed as a percentage of gross measure (revenue/ sales) | In case of presumptive taxation, taxes are computed based on presumptive profit computed as a specified percentage of revenue. Though, the amount computed is presumed net measure, however, it is based on a gross measure (i.e. revenue) and does not taken into consideration entity's expenses. Accordingly, presumptive taxation is not in the scope of Ind AS 12. |
| Margin taxes (tax is assessed on margin which is computed by reducing specified costs from revenue) | Tax assessed using taxable margin calculated as revenue less specified costs. Margin tax applies a tax rate to income less expenses which is net measure. Accordingly, margin tax is covered in the scope of Ind AS 12. |



# Accounting profit and taxable profit

# INDAS 12

## Calculation of taxable profit

**Taxable profit** (tax loss) is the profit (loss) for the period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

**Accounting profit (or loss)**

| | |
|---|---|
| Add: expenses not deductible under tax laws but recognised for accounting purposes | Depreciation – often calculated differently for tax and accounting purposes,<br><br>Provisions – not tax deductible |
| Add: income included under tax laws but not recognised for accounting purposes | For certain type of income, tax authorities require income to be taxed on cash basis |
| Deduct: expenses deductible under tax laws but not recognised for accounting purposes | Tax authorities often provide extra tax credits to entities that incur R&D cost. |
| Deduct: income not included under tax laws but recognised for accounting purposes | Re-measurement of certain assets at fair value for accounting purpose |

**= Taxable profit (or tax loss)**

# Case study - Calculation of taxable profit

## Example 1

Jones Inc. has an accounting profit of $10,000 for the year ended 31 December 2016.

During the year the Company paid fines of $300 and received $1,200 dividends, both of which are disallowed by the tax laws of the jurisdiction in which Jones Inc. operates.

The Company recognised a depreciation expense of $450 for the year whereas the tax depreciation was $600.

Jones Inc. recognised a provision for bonus of $775 in 2016 and $625 in 2015. These amounts are tax deductible when they are paid. The bonus of 2015 was paid in 2016.

The relevant tax rate is 30%

# Case study - Calculation of taxable profit

## Example 1

| Particulars | Amount |
|---|---|
| Accounting profit | $10,000 |
| Add: expenses not deductible under tax laws but recognised for accounting purposes<br>➢ Fines ($ 300)<br>➢ Depreciation ($ 450)<br>➢ 2016 bonus ($ 775) | $1,525 |
| Deduct: expenses deductible under tax laws but not recognised for accounting purposes<br>➢ 2015 bonus ($ 625)<br>➢ Depreciation ($ 600) | ($1,225) |
| Deduct: income not included under tax laws but recognised for accounting purposes<br>➢ Dividend | ($1,200) |
| Taxable profit | $9,100 |
| Current Tax @ 30% | $2,730 |

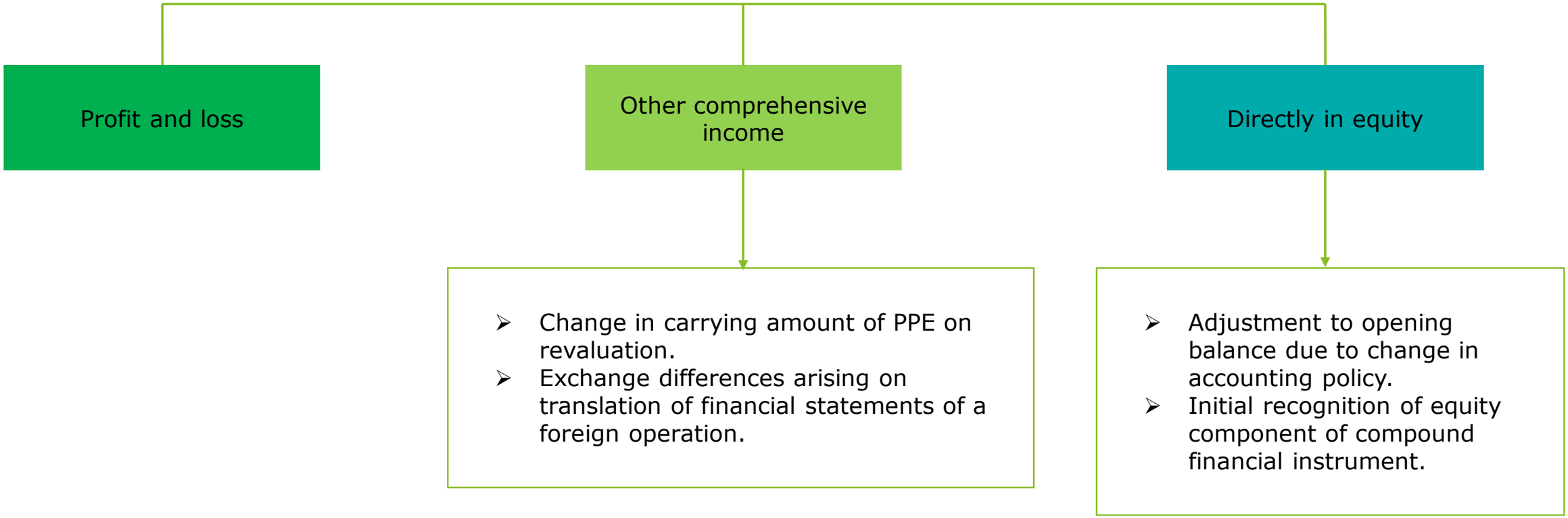


# Current taxes – Recognition & Measurement

# Current Taxes

## Recognition and measurement

- Current tax is **the amount payable to or refundable by the tax authorities in respect of the current and prior periods**
- Current tax to the extent unpaid is recognised as a liability
- A current tax asset is recognised when the amount already paid exceeds the tax due to taxation authorities and it is probable that the benefit will flow to the entity and the amount can be reliably measured
- Current tax is recognised in the same manner as the underlying item giving rise to the tax





# Deferred taxes – Overview & definition

# Ind AS 12

- Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:
- (a) deductible temporary differences;
- (b) the carryforward of unused tax losses; and
- (c) the carryforward of unused tax credits.

Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

(a)taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or

(b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled

**Measurement of Deferred tax:**

| Ind AS 12 | AS 22 |
|---|---|
| Balance Sheet Approach | Income Approach |
| Comparison of Accounting Base and Tax Base of Assets and Liabilities | Comparison of Accounting Income and Taxable Income |

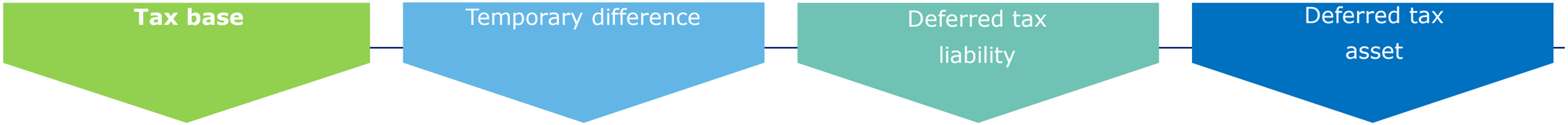
# Deferred taxes – Recognition & Measurement

## Key steps of deferred tax calculation

| | |
|---|---|
| Step 1 | Determine the tax base |
| Step 2 | Calculate the temporary difference, if any. |
| Step 3 | Identify if the temporary difference is deductible or taxable, taking into account recognition criteria and initial exceptions applicable |
| Step 4 | Calculate the deferred tax attributable to those temporary differences by applying the correct tax rate |
| Step 5 | Assess the recoverability of deferred tax assets |
| Step 6 | Recognise the movement between the deferred tax balances |

# Deferred taxes – Recognition & Measurement

## Definitions




- Tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes i.e. the value of an asset or liability in terms of tax laws
- 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.**
- Taxable benefits could take the form of proceeds on disposal of an asset or income earned through use of an asset
- If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount i.e. there will be no temporary difference
- Tax base of a liability **is its carrying amount less any amount of revenue that will be deductible for tax purposes in respect of that liability.**
- In case of revenue which has been received in advance, the tax base of the resulting liability is its carrying amount less any amount of revenue that will not be taxable in the future.

# Tax Base of asset

Tax base of 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 asset

| Particulars | Accounting Base | Tax Base | Temporary Difference | DTL/DTA |
|---|---|---|---|---|
| PPE | 100 | 70 | 30 | DTL |
| Interest Receivable (Taxable on cash basis) | 100 | 0 | 100 | DTL |
| Trade Receivable (Included in computing the taxable income) | 100 | 100 | Nil | None |
| Dividend Receivable (Considered as tax exempt) | 100 | 100 | Nil | None |
| Loan Receivable | 100 | 100 | Nil | None |
| Inventories | 100 | 100 | Nil | None |
| Security Deposits | 100 | 100 | Nil | None |

# Tax Base - Liability

Tax base of a liability is the carrying amount less any amount that will be deductible for tax purpose in respect of that liability in future periods

| Particulars (1) | Accounting Base (2) | Amt deductible (3) | Tax Base (4)= (2)-(3) | Temporary Difference (5)=(2)-(4) | DTL/DTA |
|---|---|---|---|---|---|
| Accrued expenses deductible on cash basis (Sec 43B) | 100 | 100 | 0 | 100 | DTA |
| Interest Received in advance (Taxedon cash basis) | 100 | 100 | 0 | 100 | DTA |
| Accrued Expenses (already deducted for tax purpose) | 100 | 0 | 100 | Nil | None |
| Provision for fines and penalties (not deductible for tax purpose) | 100 | 0 | 100 | Nil | None |
| Loan Payable (Repayment has no tax consequence) | 100 | 0 | 100 | Nil | None |
| Security Deposits | 100 | 0 | 100 | Nil | None |
| Sum payable to a National Laboratory or a University or an IIT or a specified person (Sec 35(2AA) | 100 | 150 | 50 | 50 | DTA/DTL |

# Tax Base

Tax base of an amount not appearing in the financial statements to be also considered.

| Particulars (1) | Accounting Base (2) | Amt deduc tible (3) | Tax Base (4)= (2)-(3) | Temporary Difference (5)=(2)-(4) | DTL/DTA |
|---|---|---|---|---|---|
| Preliminary Expenses incurred to be written off in 5 years (Sec 35D) | 0 | 100 | 100 | 100 | DTA |

# Summary

| Particulars | For Assets | For Liabilities |
|---|---|---|
| If Carrying amount> Tax base | Taxable Temporary difference:- Deferred Tax Liability(e.g. WDV as per books> WDV as per Income Tax) | Deductible Temporary Difference:- Deferred Tax Asset(e.g. Provision for Bonus as per books> Provision for Bonus as per Income Tax) |
| If Carrying amount< Tax base | Deductible Temporary Difference:- Deferred Tax Asset (e.g. WDV as per books< WDV as per Income Tax) | Taxable Temporary difference:- Deferred Tax Liability (e.g. Loan carrying amount as per books and<Loan carrying amount as per Income Tax) |
| If Carrying amount=Tax Base | No temporary difference | No temporary difference |

# Case study – Tax base

Company X, an Indian company owns a freehold land with carrying value of INR 10,00,000 which is not depreciated for tax purposes, but is indexed for inflation. Indexed value and fair value of such land is INR 15,00,000 and INR 22,00,000 respectively as of the reporting date. What will be the tax base for such freehold land for measurement of deferred tax if:

a) Company X intends to sell it as a part of slump sale of business eventually after using it for business purpose
b) Company X intends to sell the land individually and not on a slump sale basis
c) Company X has classified such land as investment property and intends to sell it individually and not on a slump sale basis
d) Company X follows a revaluation model for freehold land and intends to sell it individually and not on a slump sale

"51 The measurement of **deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.**

51A In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of: (a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and (b) the tax base of the asset (liability). In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement."

| Scenario | Tax base |
|---|---|
| Company X intends to sell it as slump sale eventually after using it for business purpose | If it is concluded based on evaluation of facts that the freehold land will be sold through slump sale, then the tax base of the land will be the same as the carrying amount of the land, as indexation benefit is not available in case of slump sale and hence there will not be any temporary difference. |
| Company X intends to sell the land individually and not on a slump sale basis | As per paragraph 51A of Ind AS 12, benefit to the entity till it recovers the carrying amount of the asset) is the indexed valued of INR 15,00,000 since the company intends to sell the land individually and not on slump sale and thus get indexation benefit. **Deferred tax assets will be set up, subject to recoverability, on a deductible tax difference of INR 5,00,000.** |
| Company X has classified such land as investment property and intends to sell it individually and not on a slump sale | Same as above |
| Company X follows a revaluation model for freehold land and intends to sell it individually and not on a slump sale | If Company X follows a revaluation model, carrying amount of freehold land in the balance sheet would be INR 22,00,000. Thus, book base of land is INR 22,00,000. **Accordingly, deferred tax liability will be set up on taxable temporary difference of INR 7,00,000.** |



# Deferred taxes – Tax rates

# Deferred Tax

## Tax rates



- Tax rate used are those that are **expected to apply** to the period when the asset is realised or the liability is settled.
- An entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the **expected manner of recovery or settlement.**



- Tax rates (and tax laws) used are those that have been **enacted or substantively enacted** at the end of the reporting period.
- In some jurisdictions, announcements of tax rates (and tax laws) by the government have the **substantive effect of actual enactment.**



- When different tax rates apply to different levels of taxable income (loss) i.e. graduated tax rates, DTA and DTL are measured using the average rates (weighted average) that are expected to apply to the taxable profit (or tax loss) of the periods in which the temporary difference is expected to reverse.

# Case study – Tax rates

An item of property, plant and equipment has a carrying amount of Rs. 100 and a tax base of Rs. 60.

A tax rate of 25% would apply if the item were sold and a tax rate of 20% would apply to other income.

The entity recognises a deferred tax liability of Rs. 8(Rs. 40 at 20%) if it expects to sell the item without further use and a deferred tax liability of Rs. 10 (Rs. 40 at 25%) if it expects to retain the item and recover its carrying amount through use.

# Case study – Tax rates

Wood and Food Company (WFC) has a taxable profit of $300,000 for the year ending 31 December 2016. WFC is subject to income tax at the rate of 30%.

During 2016, the government announced an unexpected decrease in tax rates from 30% to 25% w.e.f. 1 April, 2017.

WFC's current tax for the year ending 31 December 2016 is $90,000 ($300,000*30%). The current tax liability is measured at the amount expected to be paid to taxation authorities, using the rates and laws that have been enacted or substantively enacted by the balance sheet date.

WFC will be using the tax rate of 30% for the first three months of 2017 and 25% for the remaining months to calculate the current tax for the year ending 31 December 2017.



# Case study – Different tax rates

Alpha Limited operates in a jurisdiction that has graduated tax rates as follows:

| Income > | Income < | Tax rate |
|---|---|---|
| $0 | $50,000 | 25% |
| $50,000 | $200,000 | 30% |
| $200,000 | $750,000 | 34% |
| $750,000 | $10,000,000 | 36% |
| $10,000,000 | - | 38% |

The estimated taxable income of Alpha is

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Estimated taxable income | $900,000 | $1,100,000 | $200,000 |

# Case study – Different tax rates

The weighted average tax rate is:

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| $50,000 * 25% | $12,500 | $12,500 | $12,500 |
| $150,000 * 30% | $45,000 | $45,000 | $45,000 |
| $550,000 * 34% | $187,000 | $187,000 | |
| (Estimated taxable income - $750,000) * 36% | $54,000 | $126,000 | |
| Estimated tax | $298,500 | $370,500 | $57,500 |
| Applicable tax rate (Estimate tax/ Estimated taxable income) | 33% | 34% | 29% |

# Deferred Tax

## Tax rates



Changes in tax rates after the reporting period - no impact, but disclosure required if significant impact



Dual use assets (use and sale): different tax rates may apply



# Deferred taxes – Recognition & Measurement

# Ind AS 12

- **Taxable temporary difference also arise when**:-

1. Identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values in accordance with Ind AS 103.
2. Assets are revalued and no equivalent adjustment is made for tax purposes.
3. Goodwill arises in a business combination
4. Tax base of an asset or liability on initial recognition differs from its initial carrying amount, for example when an entity benefits from non-taxable government grants related to assets
5. The carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements becomes different from the tax base of the investment or interest.

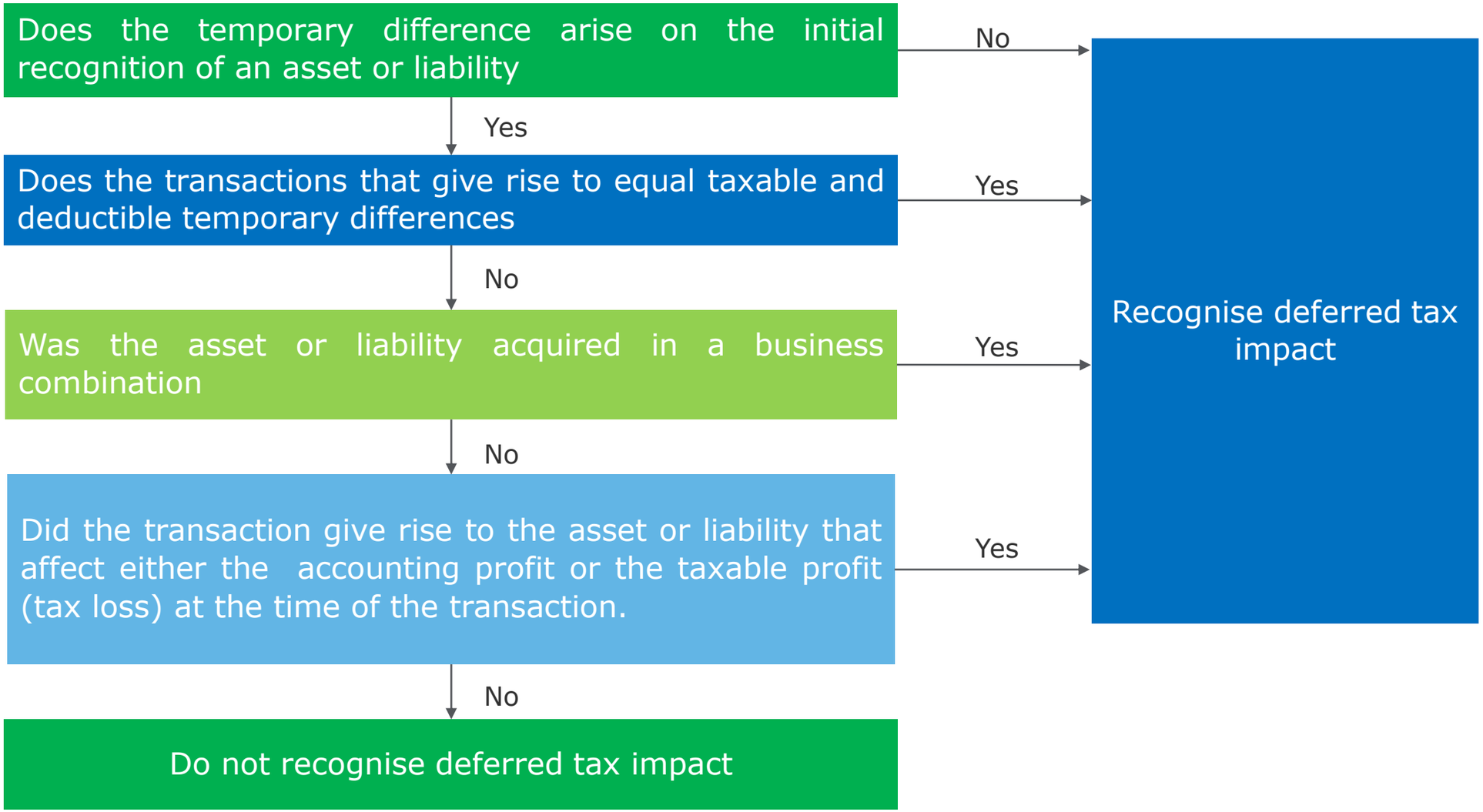
**Recognition of DTL:**

Deferred tax liability shall be recognised for all taxable temporary differences, except:

- 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).

# Deferred taxes – Recognition & Measurement

## Initial recognition exemption



# Case study

**Certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes:**

A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

A Bond of Rs 1000, measured at fair value is quoted at Rs 918. The Tax Base is Rs 1000. The fair values are not tax deductible. The gains or losses on sale of bond will be considered for tax deduction.

Accounting Base of the Bond is Rs 918 as against the tax base of Rs 1000. The resultant difference of Rs 82 will be Deductible Temporary Difference resulting in DTA

**Deferred tax results from initial recognition:**

XYZ Ltd intends to use an asset whose cost (carrying amount) is Rs.1,500 throughout its useful life of five years and then scrap it. The tax rate is 30%. Depreciation of the asset is deductible for tax purposes up to 1,000 (i.e. the tax base of the asset on initial recognition is 1,000).

As XYZ Ltd recovers the carrying amount of the asset, the entity will earn taxable income of 1,500 and pay tax of 450 (1,500 x 30%) but can recover from depreciation only up to 300 (1,000 x 30%).

A taxable temporary difference exists of the asset that does not affect accounting profit or taxable profit on initial recognition.

The entity **does not recognise** the resulting deferred tax liability of Rs.150 **because it results from the initial recognition of the asset.**

# Case study - Initial recognition exemption

Applying the initial recognition exception in practice

| Examples | Carrying amount | Tax base | TD | A | B | C | D | Recognise? |
|---|---|---|---|---|---|---|---|---|
| Purchase of plant and equipment | 250,000 | 250,000 | Nil | n/a | n/a | n/a | n/a | n/a |
| Accrued annual leave, deductible when paid | 40,000 | nil | 40,000 | ☑ | ☑ | ☒ | ☑ | YES |
| Investment property directly acquired | 500,000 | 450,000 | 50,000 | ☑ | ☑ | ☑ | ☑ | NO |
| Investment property acquired as part of a business combination | 500,000 | 450,000 | 50,000 | ☑ | ☒ | ☑ | ☑ | YES |

**A** - TD must arise on initial recognition of asset or liability
**B -** TD must not arise in a business combination
**C -** must not impact accounting profit at the time of the transaction
**D -** must not impact taxable profit at the time of the transaction

# Deferred taxes – Recognition & Measurement

## Recognition and Measurement

- Taxable temporary differences result in DTL
- Deductible temporary differences result in DTA

| | Asset in Statement of Financial position | Liability in Statement of Financial position |
|---|---|---|
| Carrying amount > Tax Base | Taxable temporary difference | Deductible temporary difference |
| Carrying amount < Tax Base | Deductible temporary difference | Taxable temporary difference |

# Deferred taxes – Recognition & Measurement

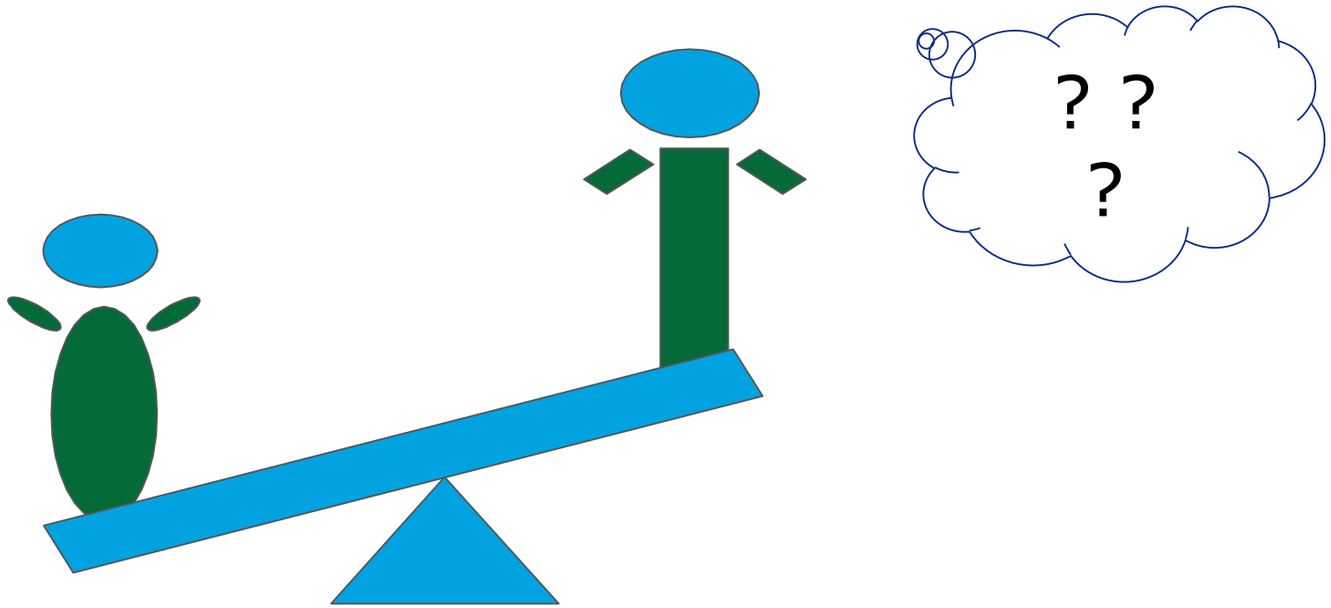
## Recognition of a DTA/ DTL

**DTL:**

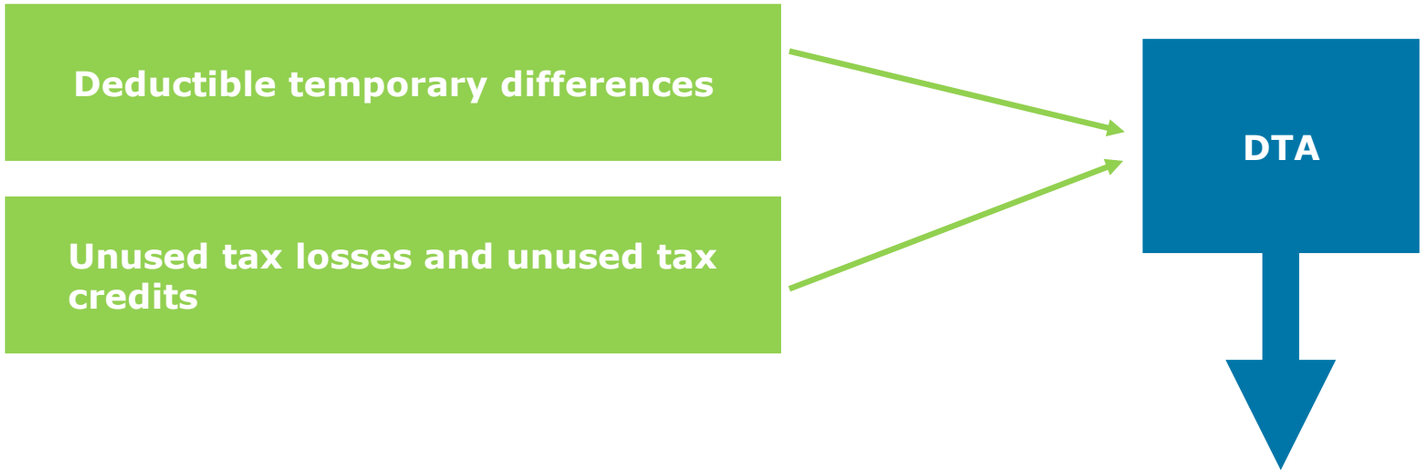
**Recognise in full**

**DTA:**

**Recognise if recoverable**



# Recognition criteria for DTA




| Recognition criteria |
| --- |
| Probable that |
| • Sufficient future taxable profits or taxable temporary differences will exist |
| – From the same taxation authority and same taxable entity |
| – Which will reverse in the same period as the expected reversal of the deductible temporary difference or in the period where the tax loss arising from the DTA can be carried back or forward |
| • Tax planning opportunities |

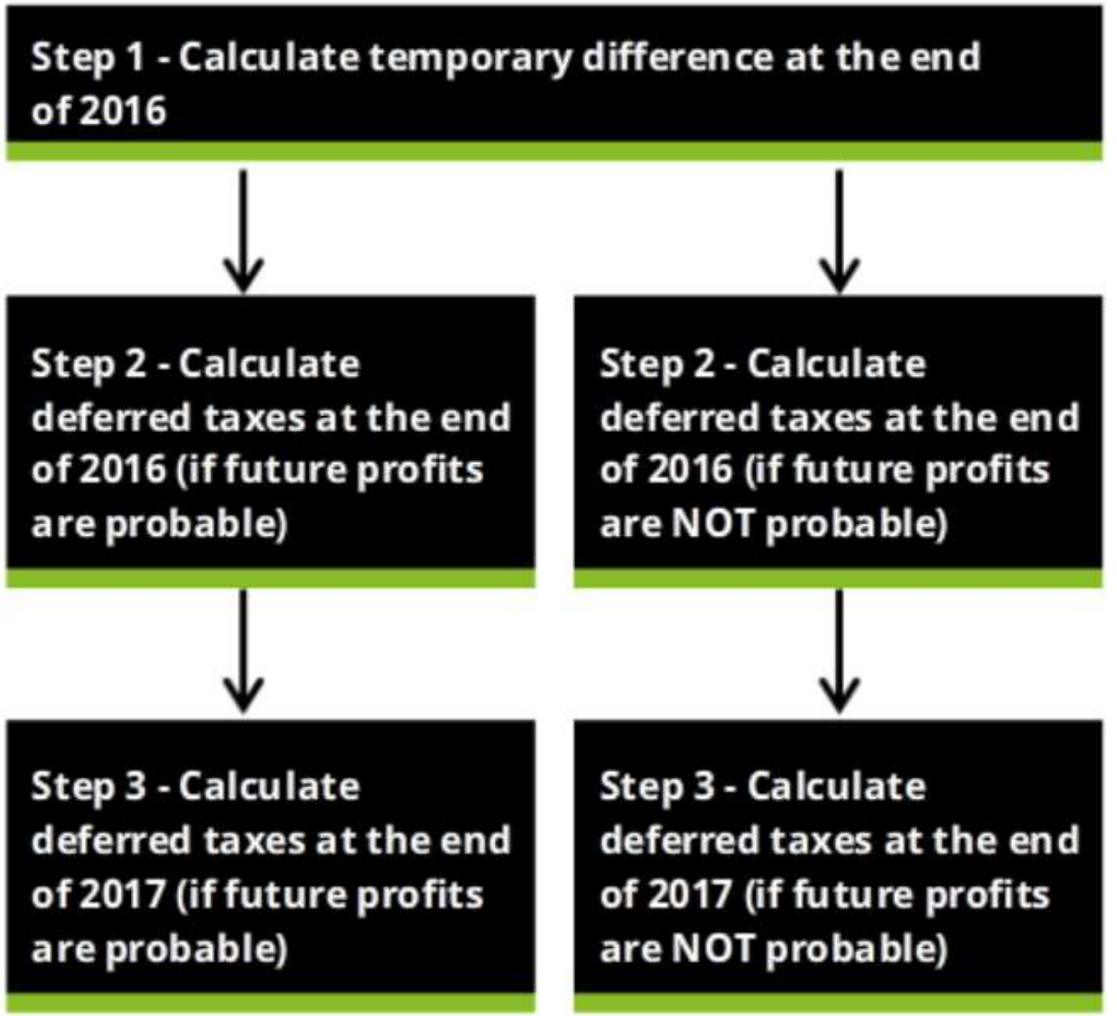
# Case study

Ed Ltd had taxable temporary differences of $30,000 at the end of 2016. Ed Ltd also incurred an assessed loss of $40,000 for the period of 2016, which can be carried forward indefinitely.

At the end of 2017, the taxable temporary differences were $35,000.

The tax rate was 30%.

**What is the amount of deferred taxes recognized by Ed Ltd at the year-end 2016 and 2017?**



# Case study

**<u>Situation 1:</u> Future profits are probable**

| Particulars | Amount |
|---|---|
| Temporary difference at the end of 2016 | $30,000 |
| DTL (30% * $30,000) | $9,000 |
| Assessed loss | $40,000 |
| DTA (Assessed loss * Tax rate) | $12,000 |
| Net DTA (DTA-DTL) at the end of 2016 | $3,000 |
| DTL at the end of 2017 ($35,000 *30%) | $10,500 |
| Reversal of assessed loss against current tax | ($12,000) |

**<u>Situation 2:</u> Future profits are not probable**

| Particulars | Amount |
|---|---|
| Temporary difference at the end of 2016 | $30,000 |
| DTL (30% * $30,000) | $9,000 |
| Assessed loss | $40,000 |
| DTA recognised only up to the extent it is recoverable as future profits are not probable | $9,000 |
| Net DTA (DTA-DTL) | Nil |
| DTL at the end of 2017 ($35,000 *30%) | $10,500 |
| Reversal of assessed loss against current tax | ($9,000) |

# Deferred taxes – Recognition & Measurement

## Recognition of a DTA/ DTL – certain cases

### Business combination

- Any deferred tax on temporary differences arising in business combination shall be recognised (if it satisfies recognition criteria) as a separate identifiable asset or liabilities on acquisition date.

  However, an entity cannot recognise deferred tax liabilities arising from initial recognition of goodwill.

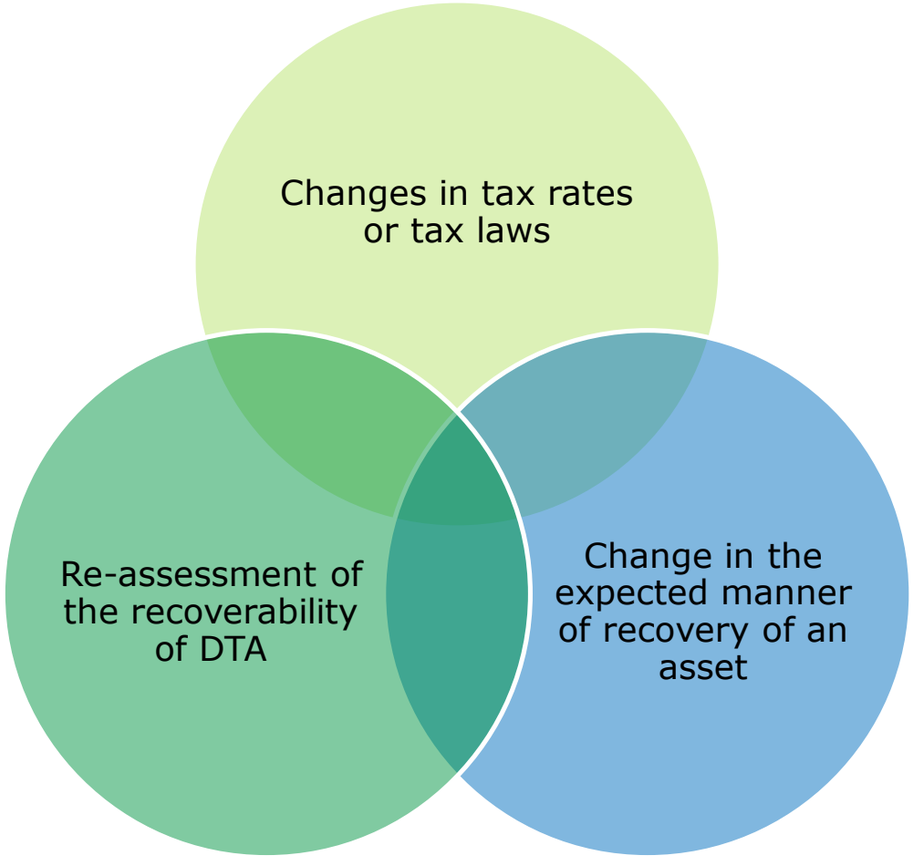
- As a result of a business combination, the probability of realising a pre-acquisition deferred tax asset of the acquirer could change. For example, the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree.
- In such cases, the acquirer recognises a change in the deferred tax asset in the period of the business combination, but does not include it as part of the accounting for the business combination. Therefore, the acquirer does not take it into account in measuring the goodwill or bargain purchase gain it recognises in the business combination.

### Share based payment transactions

- An entity may recognise an expense for the consumption of employee services received as consideration for share options granted, in accordance with Ind AS 102, Share-based Payment, and not receive a tax deduction until the share options are exercised.
- If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item.
- in this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

# Subsequent changes

- The carrying amount of deferred tax may change after the initial recognition even though there is no change in the amount of the related temporary difference.
- The carrying amount may change in the following situations:





# Application issues

# Tax consequences of distributed dividends

## Tax rate

- Corporate taxes might be payable at a higher or lower rate if part or all of the net profit or retained earnings are distributed as dividends.
- For example, undistributed profits might be taxed at 45% and distributed profits at 30%.
- In such situations, deferred tax assets and liabilities should be measured using the tax rates on undistributed profits i.e. 45%
- Tax consequences of paying dividend are recognised only when the dividend is declared and recognised as a liability.

## Presentation

- The tax consequences of dividends are also included as part of the tax charge in profit or loss, unless the tax is paid on behalf of the shareholders.
- This is because the tax payable relates to the profits that have been recognised in profit or loss and is an income tax, even though it is triggered by paying a dividend.
- If the amounts payable are, in effect, a withholding tax for the benefit of the shareholders, the tax is charged directly to equity.

# Case study – Tax rates applicable to distributed dividends

**Background**

- In jurisdiction X, the tax rate applicable to undistributed investment income is 50%.
- The tax rate applicable to distributed investment income is 30%.
- Company F earns investment income of 100 in year 1 and pays a dividend of 80 in year 2.
- F has a history of annual dividend payments and it intends to continue this policy in the future



- F did not recognise the dividend as a liability at the end of year 1 because the dividend was approved after the reporting date.
- In this case, the specific requirement regarding the tax consequences of dividend payments takes precedence over the general requirement regarding the amount expected to be paid (recovered).
- Therefore, in year 1 F recognises current tax expense of 50 (100 x 50%); in year 2, F recognises current tax income of 16 (80 x (30% - 50%)) as a result of the dividend

# Intra-group transactions



Intra-group transactions are eliminated on consolidation.



Analyze all consolidation adjustments to determine whether new temporary differences arise

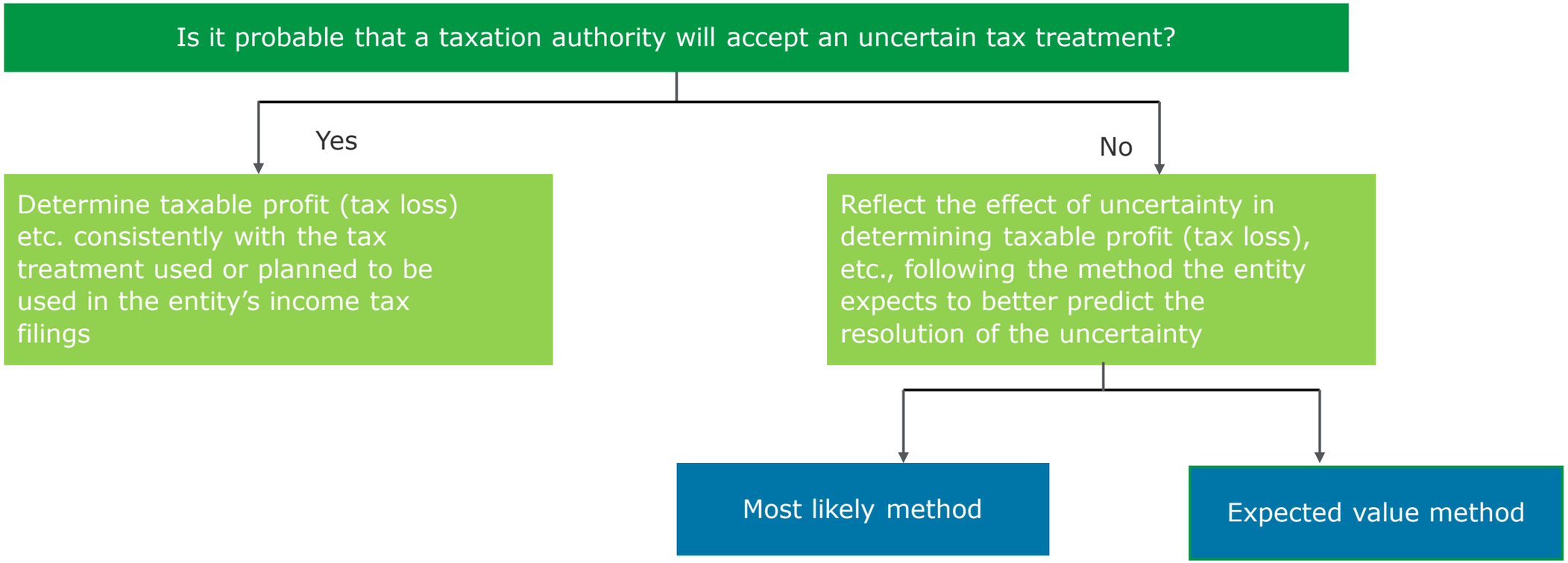


# Appendix C to Ind AS 12 – Uncertain tax treatments

# Appendix C to Ind AS 12 - Uncertainty over Income Tax Treatments

- Appendix C to Ind AS 12 clarifies the accounting for income tax treatments that are yet to be accepted by tax authorities.

- It clarify how to apply the recognition and measurement requirements in Ind AS 12 when there is uncertainty over income tax treatments.



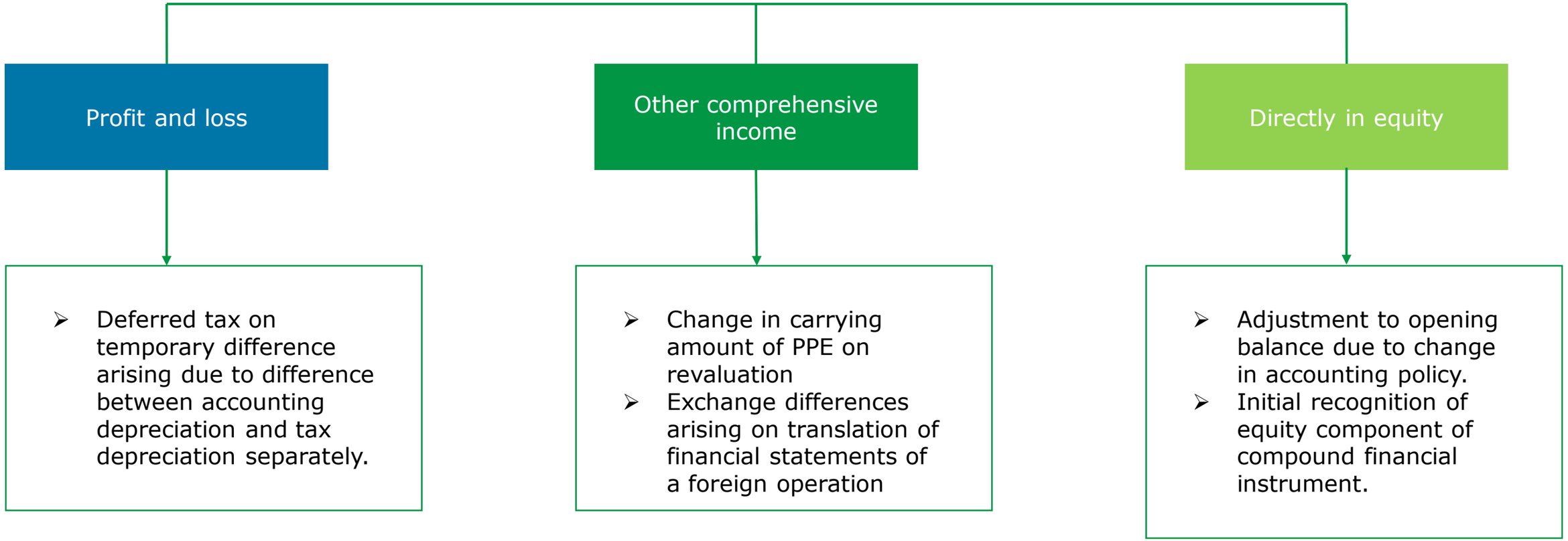

- **The most likely amount**—the single most likely amount in a range of possible outcomes. The most likely amount may better predict the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one value.
- **The expected value** —the sum of the probability-weighted amounts in a range of possible outcomes. The expected value may better predict the resolution of the uncertainty if there is a range of possible outcomes that are neither binary nor concentrated on one value.



# Presentation and disclosure

# Presentation

- Deferred tax should be recognised as an income or expense in the profit or loss
- Deferred tax is recognised in the same manner as the underlying item giving rise to the tax



# Disclosure

## Disclosures

- Deferred tax assets/liabilities to be classified as non current items in a classified statement of financial position
- Tax expense to be presented separately in the statement of comprehensive income
- Income tax recognised outside profit or loss-Equity/OCI
- Disclosure in case of offset of current/deferred tax
- Explanation of changes in tax rates compared to previous year
- A reconciliation between income tax expense/ income and the accounting profit as a multiple of applicable tax rate – also known as Effective Tax Rate reconciliation
- Unrecognised deferred tax assets
- Details of tax holiday period and expiry

# Disclosure

## Disclosures

- Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013
- Any interest on shortfall in payment of advance income-tax is in the nature of finance cost
- To be classified as Interest expense under finance costs & to be separately disclosed.
- Any penalties levied under Income tax laws should not be classified as Current tax. Penalties which are compensatory in nature should be treated as interest and disclosed as Finance Cost.
- Other tax penalties should be classified under ‘Other Expenses’
-



# Ind AS vs AS

# Ind AS vs IFRS

| Topic | Ind AS 12 | AS 22 |
|---|---|---|
| Approach for creating Deferred tax | Based on Balance Sheet approach.<br>It requires recognition of tax consequences of differences between the carrying amounts of assets and liabilities and their tax base. | Based on income approach. It requires recognition of tax consequences of differences between taxable income and accounting income. |
| Recognition for DTA | Only to the extent sufficient taxable temporary difference or other convincing evidence that sufficient taxable profits will be available. | Recognised or carried forward only to the extent of reasonable certainty.<br>Where DTA is against the unabsorbed depreciation or carry forward of losses, DTA recognised only when virtual certainty supported by convincing evidence that sufficient future taxable income will be available. |
| Recognition of Current and Deferred Tax | • In profit and Loss<br>• Except to the extent the tax arises from a transaction or event which is recognised outside profit and loss. | Does not deal with the aspect |
| DTA/DTL arising out of revaluation of assets. | DTA/DTL on revaluation of non depreciable assets measured on the basis of tax consequence rather than the through use. | AS 22 does not deal with this aspect. |
| Virtual Certainty | No such concept exists. | Explains virtual certainty supported by convincing evidence. |
| Deferred tax in tax holiday period | Does not specifically deals with these situations. | Provides special reference to sections of Income Tax Act, 1961 for treatment of tax holiday. |



# Ind AS vs IFRS

# Ind AS vs IFRS

| Topic | Ind AS 12 | IAS 12 |
|---|---|---|
| **Impact of deferred tax on items arising during measurement period in business combination.** | During the measurement period, if the carrying value of goodwill reduces below zero, the remaining deferred tax benefits shall be recognised in other comprehensive income and accumulated in equity as capital reserve or recognised directly in capital reserve. | In IAS 12, the remaining deferred tax benefits shall be recognised in statement of profit & loss. |
| **Para 98J – DTA & DTL arising on single transaction**<br><br>**Para 98L – Pillar Two Rules** | Recently Ind AS 12 has introduced the requirement mentioned in Para 98J with effect from Apr 1, 2023.<br><br>Para 98L has not been notified yet in Ind AS 12. | 98J is effective from Jan 1, 2023.<br>98L is deferred in scope of IAS 12. |



# Thank you

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