Ind AS 12 Income Taxes

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Background

- Income statement approach vs Balance sheet approach
- Temporary difference vs Timing difference
- Tax Base of an asset or liability

Research

- Modified Income Statement Approach – for SMEs
  - Income Statement + OCI
- Survey of top 50 companies in India (Nifty50, BSE100)
- 60% of the companies would have recognized the same deferred tax asset/ liability under both the methods
- Balance 40% had some minor differences, but such transactions may be less frequent for SME (On an average, the impact was a mere 4%)

Practical issues

Goodwill

- Initial recognition of goodwill
  - Recognition of deferred tax prohibited (as it would be added to goodwill only, being residual amount)
- Subsequent treatment of non-tax deductible goodwill
  - Do not recognize deferred tax
- Subsequent treatment of tax-deductible goodwill
  - Recognize deferred tax on temporary differences

Leases

- For lessees – ROU asset and lease liabilities
- Subsequently – depreciation and finance costs
- Total cost for both accounting and tax purposes is the same over the period of the lease
- Initial recognition exemption
  - Not a business combination
  - at the time of the transaction, affects neither accounting profit nor taxable profit
- No DT to be recognized – neither subsequently when depreciated

Acquisition of land-bank entity/ optional test of Ind AS 103

- Land-owning entities – commonly bought and sold
- Other examples of optional test of Ind AS 103 – where value is concentrated in a single asset/ group of similar assets
- Not a business combination
  - Consol FS – at fair value; in Tax – at carrying values
- Initial recognition exception would be applicable
- If BC, then initial recognition exception does not apply

Investment in Subsidiary, Associates and JV

- Temporary differences may arise from:
  - Undistributed profits
  - FCTR
  - Valuation adjustments to the carrying value of the investment in the parent or impairment of goodwill
- Recognize all taxable temporary differences except when:
  - The parent controls timing of the reversal of the temporary difference (i.e., distributions); and
  - It is probable that the temporary differences will not reverse in the foreseeable future

Uncertainty over Income Tax treatments

- Uncertain tax treatments – causing or potentially causing dispute/ examination
- Assume 100% detection risk
- If not probable that tax authority will accept entity's position, use either
  - Most likely amount approach
  - Expected value approach

Other Points

- Tax holidays under Section 80-IA/80-IB of Income tax Act
- Interest and penalties related to income taxes
  - Interest – club with finance cost
  - Penalties – club with other expenses
- MAT credits
- Inter-company stock reserves