

INCOME TAX (AS 22)

ACCOUNTING FOR TAXES ON INCOME *TAX INCL. DEFERED TAX*

**By : CA MAYUR CHOKSHI,
Mumbai**

CA MAYUR CHOKSHI , Mumbai : e-Mail : mayur@menco.in : Website : www.menco.in

Current and Deferred Tax

AS 22 concerns two different taxation issues:

Current tax: this is defined as the amount of income tax payable, or recoverable, by an entity in respect of its taxable profit, or loss, for a period.

Deferred tax: this is an accounting measure rather than a tax levied by government; it represents tax payable or recoverable in future accounting periods in relation to transactions which have already taken place arising due to timing difference.

CA MAYUR CHOKSHI , Mumbai : e-Mail : mayur@menco.in : Website : www.menco.in

Key Terminology

- Accounting Income (Loss)
- Taxable Income (tax loss)
- Deferred Tax Asset / Liability
- Tax Expense (tax saving) – aggregate of cur tax and def tax charged or credited to PLA
- Timing Difference :- Diff between taxable income and accounting income and are capable of reversal in one or more subsequent period.
- Permanent Difference :- Diff between taxable income and accounting income and are not capable subsequently.

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Current Tax and Deferred Tax

- Taxable income in accordance with tax laws.
- Deferred Tax should be recognised on all timing differences, **subject to consideration of prudence.**
- At each balance sheet date, an enterprise re-assesses unrecognised deferred tax assets.
- DTA should be reviewed on each BS date.

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Current Tax and Deferred Tax

- ***DTA / DTL should be measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.***
- When different tax rates apply to different levels of taxable income, DTA / DTL are measured using average rates.
- DTA should be reviewed on each BS date.

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Deferred Tax

- **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.
- DTA , subject to consideration of prudence.**
- DTA if reasonable certainty of their realisation
 - Reasonability is achieved by by examining the past records and by making realistic estimates of profits for the future of an enterprise.

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RECOGNITION

- Tax Expense = Cur Tax +/- Defer Tax
- Taxes on Income is an expense incurred in earning income and are accrued in the same period as revenue and expenses.
- Matching may result into timing difference
- DTA if, exp in PLA but not allowed in IT in cur yr but will be allowed in future (Disallowances)
- DTL higher charge in IT than Accounts (Dep)

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NOTE ON DTA – Unab Dep & C/F Losses

- Unabsorbed Dep and C/F losses under tax losses DTA is a **STRONG EVIDENCE** that future taxable income may not be available. Thus, DTA to the extent there is **VIRTUAL** certainty supported by convincing evidence about sufficiency of future taxable profit.
- IF recognised, disclose nature of the evidence supporting its recognition.
- **REASSESS DTA AT EACH BS DATE.** Any such write down may be reversed in subsequent period on ascertaining virtual certainty about future taxable income

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MEASUREMENT

- Current tax at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.
- DTA/ DTL at the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.
- When diff tax rates applied to diff level of taxable income , Def Tax measured at Average Tax.

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PRESENTATION AND DISCLOSURES

Offset assets and Liabilities representing current tax if the enterprise:

(a) has a legally enforceable right to set off the recognised amounts; and

(b) intends to settle the asset and the liability on a net basis.

Thus, if same governing taxation laws, same jurisdiction and taxation laws permit to make single payment

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PRESENTATION AND DISCLOSURES

FOR DTA and DTL

- (a) If it has a legally enforceable right to set off assets against liabilities representing current tax; and
- (b) the DTA & DTL relate to taxes on income levied by the same governing taxation laws.
 - DTA & DTL be distinguished from A&L under Cur Tax.
 - Break-up of major components of DTA and DTL be disclosed
 - The nature of the evidence supporting the recognition of DTA be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

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MEASUREMENT - TAX RATE

Change in tax rates:-

The tax rate applicable to an entity may change as a result of changes in relevant legislation. Any impact of the changes will be recognized in accounting periods ending on or after the date of substantive enactments.

Reassess at each reporting period – BUT NO Discounting`

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ISSUES

- Foreign Operations
- Consolidation
- Interim Reports
- MAT
- SEZ
- Interpretations
- EXAMPLES
- Issues on Quarterly

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DTA or DTL ?

- 43B Disallowances
- Disallowances U/S 40(a)(i)
- Provisions made in Books
- Provision earlier made, now crystalised
- Preliminary Exp W/Off 100 %
- Donation
- Dividend Income
- Conversion of capital assets into stock in trade

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ASI on AS 22

- ASI 3 - Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the IT Act
- ASI 4 - Losses under the head Capital Gains
- ASI 5 - Accounting for Taxes on Income in the situations of Tax Holiday under Sections 10A and 10B of the IT Act
- ASI 6 - Accounting for Taxes on Income in the context of Section 115JB of the Income-tax Act, 1961
- ASI 7 - Disclosure of deferred tax assets and deferred tax liabilities in the balance sheet of a company
- ASI 9 - Virtual Certainty Supported by Convincing Evidence
- ASI 11 - Accounting for Taxes on Income in case of an Amalgamation

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AS V/S IFRS- Major shift

- Balance sheet approach . Method of calculation is Tax Base amt in BS
- Thus, Unpaid statutory Liab = Tax Base Rs. NIL
- Land Tax Base = Indexed Cost
- Include Assets / Liabilities not included in BS
- Diff Rate for diff types of Income for DTA and DTL
- More extensive Disclosures
 - If Carrying amount > Tax base of Assets = DTL
 - If Carrying amount > Tax base of Liab = DTA & So On

CA MAYUR CHOKSHI, Mumbai : e-Mail : mayur@mcnco.in : Website : www.mcnco.in

QUESTIONS .? ? ? ? – Income Tax

THANKS

HOPE IT WAS NOT TAXING

MAYUR CHOKSHI

CA MAYUR CHOKSHI , Mumbai : e-Mail : mayur@mcnco.in : Website : www.mcnco.in

Questions ?????

CA MAYUR CHOKSHI

Be in touch through :

E-mail : mayur@mcnco.in

Facebook : www.facebook.com/mayur.chokshi

LinkedIn : in.linkedin.com/in/CAmayurchokshi

Twitter : www.twitter.com/mayurchokshi

Convener of the Group “ **IFRS HUB** ” on **LinkedIn.com**

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