Ind AS 12 - Income taxes

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Setting the context

Setting the context

Current Tax calculation framework

- Starting point – Accounting PBT
- IT Act/ Tax Laws adjustments
- ICDS adjustments
- Ind AS adjustments

MAT calculation framework

- Starting point – Accounting PBT
- IT Act (Sect 115 JB) adjustments
- Understand Ind AS adjustments

Deferred Taxes

- Consider all adjustments above

Ind AS Principles

Ind AS 12 - Principles

The timing of the recognition of transactions for the purpose of measuring the taxable profit is governed by the application of tax laws which might prescribe accounting treatment different from that used in financial statement. Accordingly,

Current tax	Amount payable to or refundable in respect of the taxable profit or tax loss for a period
Deferred tax	The **future tax consequences** of recovering or settling the carrying amount of an asset or liability

Ind AS 12 principles – deferred taxes

Recognition and measurement of deferred taxes

Deferred tax	The **future tax consequences** of recovering or settling carrying amount of an asset or liability

Key steps

Step 1	Calculate the **tax base** of each asset and liability
Step 2	Calculate the **temporary difference** between the carrying amount and tax base
Step 3	Identify which temporary differences will give rise to deferred taxes using the **recognition criteria and exceptions** in Ind AS 12
Step 4	Calculate the deferred tax assets/liabilities using the **appropriate tax rate**
Step 5	**Recognise net movement** for the period in profit or loss, outside profit or loss, or as part of accounting for a business combination

Ind AS 12 principles – deferred taxes

Deferred taxes arising from temporary differences

Carrying amount	–	Tax base	=	Temporary difference
Temporary difference	X	Tax rate	=	Deferred tax asset / liability

Deferred taxes arising from carry forward tax losses/tax credits

Unused tax losses/credits	X	Tax rate	=	Deferred tax asset

Example: Difference between accounting and tax books for Property, plant and equipment

Background

- Company X bought a machine on 1 April 2013 for Rs.9 million.
- For accounting purposes, the machine is amortised on straight-line basis over 3 years.
- For tax purposes, the machine is depreciated as follows: 2013-14: Rs.4 million, 2014-15: Rs.3 million, and 2015-16: Rs.2 million. Tax rate is 30%

Q: Compute the carrying amount and tax base at the end of each year, and determine the respective deferred tax impact in the financial statements.

	Carrying amount (Rs.'000)	Tax base (Rs.'000)	Difference (Rs.'000)
Book value 01 April 2013	9,000	9,000	0
Charge of the year	(3,000)	(4,000)	
Book value 01 April 2014	**6,000**	**5,000**	**(1,000)**
Charge of the year	(3,000)	(3,000)	
Book value 01 April 2015	**3,000**	**2,000**	**(1,000)**
Charge of the year	(3,000)	(2,000)	
Book value 31 March 2016	**0**	**0**	**0**

Example: Difference between accounting and tax books for Property, plant and equipment (cont'd)

Deferred tax impact in balance sheet

Year	Carrying amount (Rs.'000)	Tax base (Rs.'000)	Taxable temporary difference (Rs.'000)	Deferred tax liability (Rs.'000)
At 31 March 2014	6,000	5,000	1,000	300
At 31 March 2015	3,000	2,000	1,000	300
At 31 March 2016	0	0	0	0

Ind AS 12 Basic principles—tax rate

Tax rate

- Tax rate expected to apply to the period when the asset is realized or the liability is settled
- Tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period
- 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

Tax Rate (cont'd)

Example:

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 20% would apply if the item were sold and a tax rate of 30% 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.12 (Rs. 40 at 30%) if it expects to retain the item and recover its carrying amount through use.

Determine Tax base

Tax base

Tax base definition
The amount attributed to an asset or a liability for tax purposes

Guidance in Ind AS 12			
Assets	Amount that will be deductible for tax purposes against any future taxable economic benefits		
Liabilities	Carrying amount	–	Amount deductible for tax in the future
Income in advance	Carrying amount	–	Revenue not taxable in future periods

Typical examples of difference between carrying amount and tax base

Carrying amount → **Sources of differences** → **Tax base**

- Accelerated depreciation
- Tax advantages to promote investments
- Research cost expenses
- Provisions or accrued expenses
- Tax losses carried forward
- Differences in revenue recognition
- Revaluations in fixed assets as result of a business combination

Determining Tax base

Examples

Tax base of an asset:

- A machine cost Rs. 100. For tax purposes, depreciation of Rs. 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal. Revenue generated by using the machine is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. The tax base of the machine is Rs. 70.
- Interest receivable has a carrying amount of Rs. 100. The related interest revenue will be taxed on a cash basis. The tax base of the interest receivable is nil.
- Trade receivables have a carrying amount of Rs. 100. The related revenue has already been included in taxable profit (tax loss). The tax base of the trade receivables is Rs. 100.

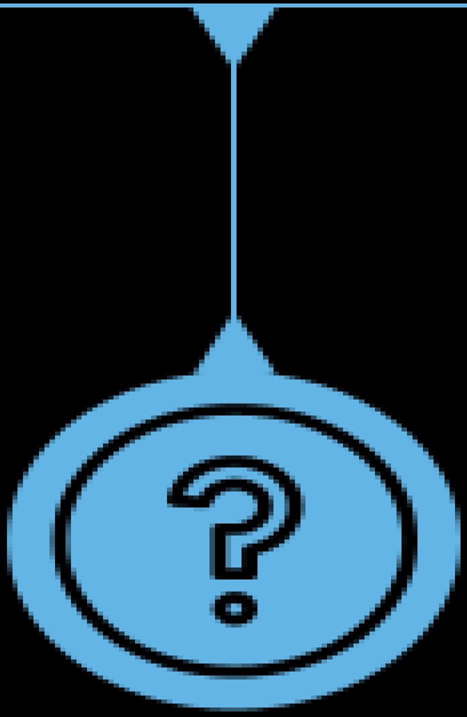
Tax base of a liability:

- Current liabilities include accrued expenses with a carrying amount of Rs. 100. The related expense will be deducted for tax purposes on a cash basis. The tax base of the accrued expenses is nil.
- Current liabilities include interest revenue received in advance, with a carrying amount of Rs. 100. The related interest revenue was taxed on a cash basis. The tax base of the interest received in advance is nil.
- Current liabilities include accrued expenses with a carrying amount of Rs. 100. The related expense has already been deducted for tax purposes. The tax base of the accrued expenses is Rs. 100.

Other Key Highlights

- DTA – Virtual certainty replaced by probable
- Tax impact separately for OCI, Reserves
- Uncertain tax positions
- DT on Business Combination
- No discounting of DTA/DTL

Questions & answers



Thank You

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