

# PROJECT IND AS

IND AS 12 ↔ AS 22

Brief outline, changes and comparison

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# Introduction

- Indian Accounting Standard (Ind AS) 12 “income Taxes” have been replaced in place of Accounting Standard -22 “Accounting for Taxes on Income”.

# Objective

- 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.
- Recognizing current tax and deferred tax outside profit or loss if the tax relates to items that are recognised outside profit or loss i.e. the tax on items recognised in other comprehensive income or directly in equity, are recorded in other comprehensive income or in equity, as appropriate.

# Objective

- Recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.
- Recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in the financial statements and the disclosure of information relating to income taxes.

# Check your understanding—Where to give Effect

Scenarios	Effect in
Temporary difference due to depreciation	P&L
A change in carrying amount arising from the revaluation of property, plant and equipment.	OCI
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.	Equity
Adjustment to fair value on acquisition	Adjust goodwill
Temporary difference on MTM of derivative contract designated in hedge relationship (Cash flow hedge)	OCI

# Scope

- This Standard shall be applied in accounting for income taxes.
- Income taxes include all domestic and foreign taxes which are based on taxable profits.
- Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

# Definitions

- Accounting profit
- Taxable profit ( tax loss)
- Tax expense ( tax income)
- Current tax
- Deferred tax liabilities
- Deferred tax assets

*Definition to the above terms are similar to that in AS -22*

# Definitions

- The *tax base* of an asset or liability is the amount attributed to that asset or liability for tax purposes.

(a) The *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.

Example: 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.

# Definitions

(b) The *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 which 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.

Example:

(a) 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.

(b) 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.

# Definitions

(c) The tax base is determined by reference to the tax returns of each entity in the group. In some jurisdictions, in consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements 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.

# Definitions

- *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

# Example

- An asset which cost Rs 150 has a carrying amount of Rs 100. Cumulative depreciation for tax purposes is Rs 90 and the tax rate is 25%.

Tax Base of Assets =  $150 - 90 = 60$

Book Value of Assets = 100

Temporary Difference =  $100 - 60 = 40$

Deferred tax liability =  $40 * 25\% = 10$

# Definitions

(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.

# Example

- An entity recognises a liability of Rs 100 for gratuity and leave encashment expenses by creating a provision for gratuity and leave encashment. For tax purposes, any amount with regard to gratuity and leave encashment will not be deductible until the entity pays the same. The tax rate is 25%.

Tax Base of Liability = Nil

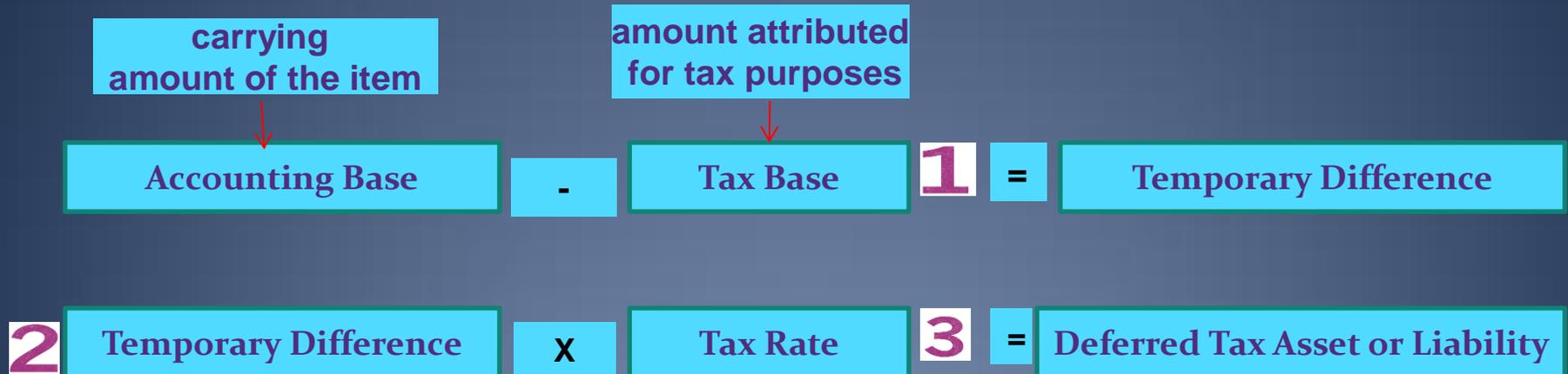
Book Value= 100

Deferred Tax Assets =  $100 * 25\% = 25$

# Check your understanding

**Fundamental principle of Ind AS 12 is to:**

recognise deferred tax liability or asset whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments higher or lower than they would be if such recovery or settlement were to have no tax consequences



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.

# Check your understanding

## Tax Base:

It is the amount of an asset or liability attributed to that asset or liability for tax purposes

**Tax base of an asset**

Amount deductible for tax purposes against future taxable economic benefits

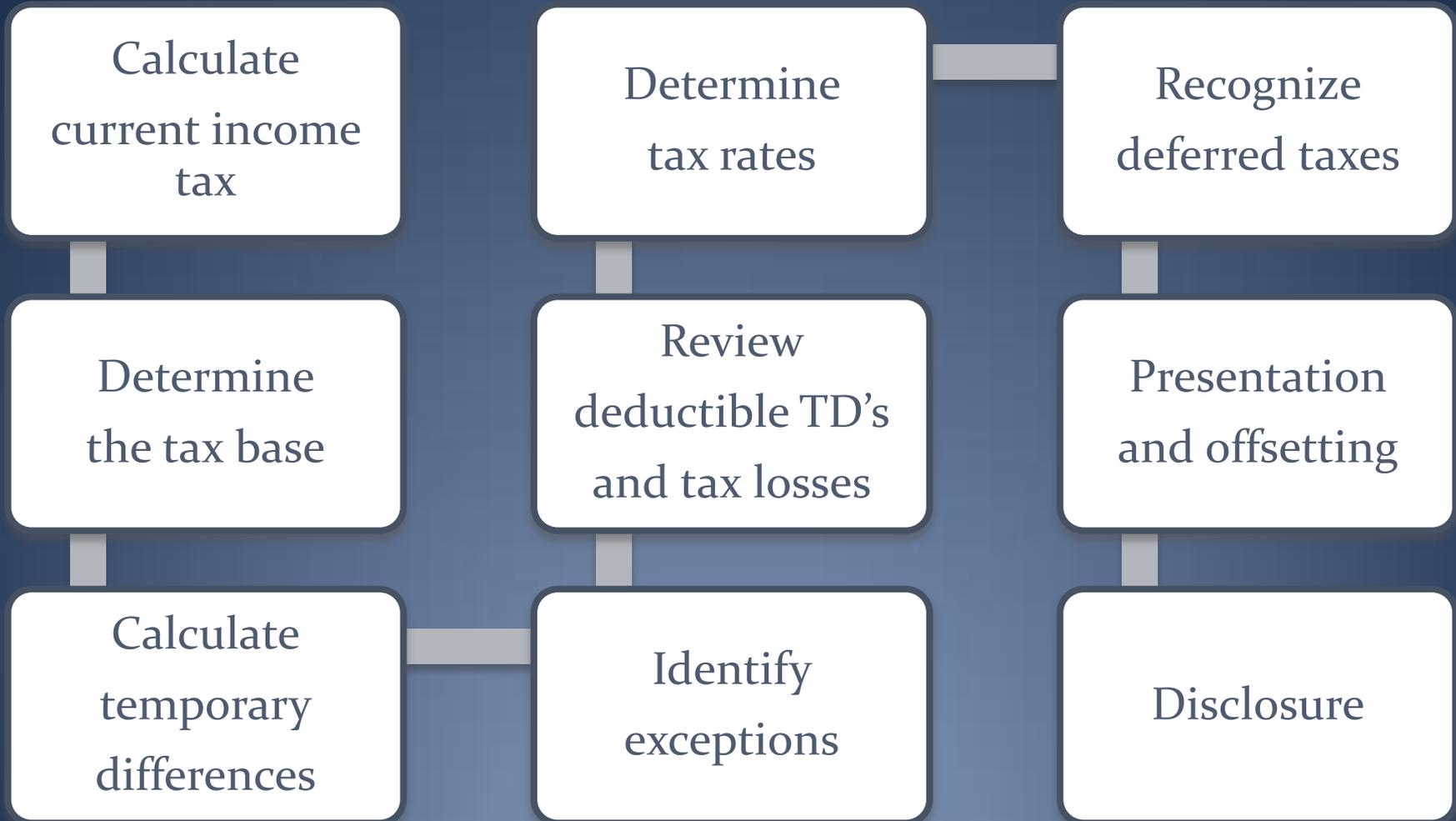
**If economic benefits not taxable**

**Tax base = Carrying amount**

**If economic benefits already taxed**

**Tax base = Carrying amount**

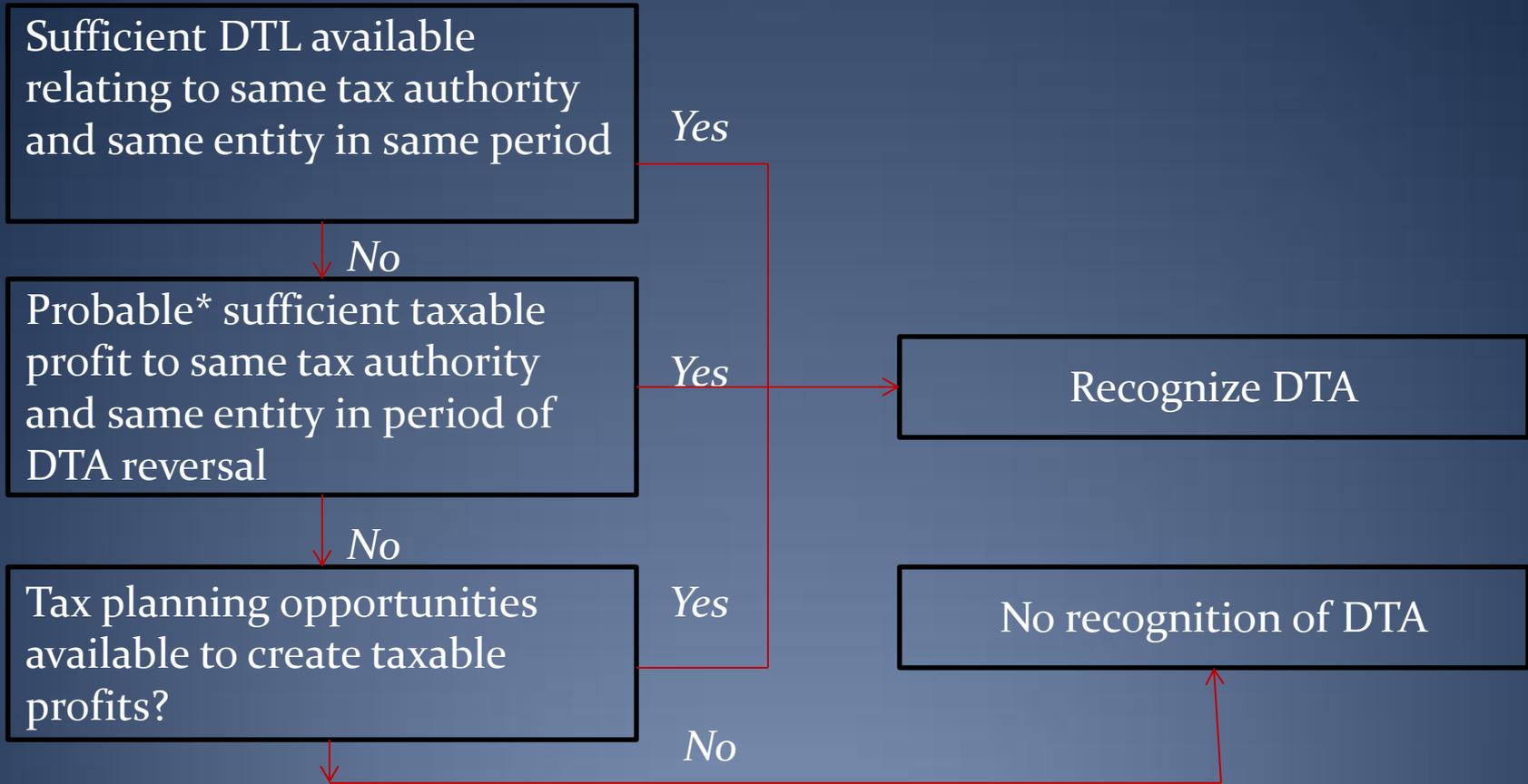
# *Nine step approach to calculating deferred tax*



# *Recognition*

- Current tax for current and prior periods shall, to the extent **unpaid, be recognised as a liability.**
- If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the **excess shall be recognised as an asset.**
- The benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognised as an asset.

# Deferred Tax Asset Recognition



The carrying amount of a deferred tax asset should be reviewed at each balance sheet date

Tax planning opportunity are not offset against DTL they are specifically used for DTA

# *Deferred Tax Asset – Certain points*

- **Future taxable profit**

The future realisation of deferred tax assets depends on the expectation of sufficient taxable profit of the appropriate type (trading profit or capital gain) being available for the offset of deductible temporary differences or unused tax losses

- **Re-assessment of recoverability at each balance sheet date**

# *Unused tax losses and unused tax credits*

- DTA is recognised for unused losses and unused tax credits to the extent it is probable that future taxable profit will be available against which it can be utilized.
- In case when company has a history of recent losses, then recognize only to the extent of sufficient taxable temporary differences or convincing other evidence that future taxable profit will be available.
- Nature of evidence supporting its recognition needs to be disclosed.

## *Check your understanding - Unused tax losses and unused tax credits*

**Q.** When assessing the recoverability of deferred tax assets arising from the carry forward of unused tax losses and unused tax credits, should a deferred tax asset be recognised where the amount of probable future taxable profit available is sufficient only for a portion, rather than the total, of the unused tax losses or unused tax credits?

# *Check your understanding - Unused tax losses and unused tax credits*

**Answer: Yes**

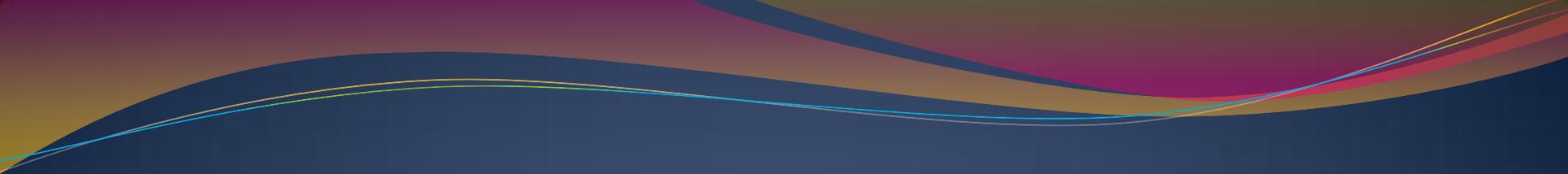
Ind AS 12.34 states the following:

A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

# *Applicable Tax Rate*

- Deferred tax to be measured based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date
- Impact of the changes in tax rates to be recognised
- Expected manner of recovery or settlement of an asset or a liability depend on the manner in which the recovery of the asset or settlement of the liability takes place.

**An entity shall measure deferred tax assets and liabilities using the tax rates and tax bases that are consistent with the manner in which the entity's management expects, at the balance sheet date, to recover or settle the carrying amount of assets and liabilities.**



# *Disclosures*

# Disclosures

- Major component of tax expenses (income) to be separately disclosed such as :
  - Current tax expense
  - Prior period adjustment
  - Deferred expense/income
- Aggregate current and deferred tax relating to items charged or credited directly to equity
- Income tax relating to each component of other comprehensive income
- **Reconciliation**
  - a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed; or

# *Disclosures*

- a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;
- An explanation of **changes in the applicable tax rate compared to** the previous accounting period;
- Amount and expiry date, if any of deductible temporary differences, unused losses and credits for which **no DTA recognised**
- 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 recognised**;

# Example of a reconciliation to the domestic tax rate

In 19X2, an entity has accounting profit in its own jurisdiction (country A) of Rs 1,500 (19X1: Rs 2,000) and in country B of Rs 1,500 (19X1: Rs 500). The tax rate is 30% in country A and 20% in country B. In country A, expenses of Rs 100 (19X1: Rs 200) are not deductible for tax purposes.

	(Amount in Rs)	
	<u>19X1</u>	<u>19X2</u>
Accounting profit	2,500	3,000
Tax at the domestic rate of 30%	750	900
Tax effect of expenses that are not Deductible for tax purposes	60	30
Effect of lower tax rates in country B	<u>(50)</u>	<u>(150)</u>
Tax Expenses	760	780

# Disclosures

- In respect of discontinued operations, the tax expense relating to:
  - the gain or loss on discontinuance; and
  - the profit or loss from the ordinary activities of the discontinued operation for the period, and corresponding amounts for each prior period presented;
- Amount of deferred tax asset recognised and **nature of evidence** supporting its recognition, when:
  - the utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
  - the entity has suffered a loss in either the current or preceding period (**history of losses**)

# *Disclosures*

- 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 recognised in the balance sheet for each period presented;
  - the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the balance sheet;
- the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were approved for issue, but are not recognised as a liability in the financial statements;

# *Disclosures*

- Illustrative Disclosure of Bayer 2014



Adobe Acrobat  
Document

*Key GAAP differences – Ind AS 12 vs.  
AS 22*

# Key GAAP differences – Ind AS

## 12 vs. AS 22

Particulars	Ind AS 12	AS-22
Approach for deferred taxes	Balance sheet approach (Temporary Differences)	Profit and loss approach (Timing Differences)
Recognition of taxes in OCI or Equity	Tax on items recognised in OCI or directly in equity is also recorded in OCI or equity, as appropriate	No specific guidance
Recognition of DTA on unused tax losses, etc.	DTA is recognised for unused losses and tax credits to the extent it is probable that future taxable profit will be available	Unused losses – Virtual certainty of future taxable profits

# Key GAAP differences – Ind AS 12 vs. AS 22

Particulars	Ind AS 12	AS 22
Deferred tax on unrealized intragroup profits	Recognised at buyer's rate	Not recognised
Disclosures	Certain additional disclosures like Reconciliation, details of tax holiday and expiry of losses, unrecognized DTL etc. are required.	Not required

# Impact on an organization and its processes

Ind AS 12 implementation requires accounting personnel to work effectively with the tax department to:

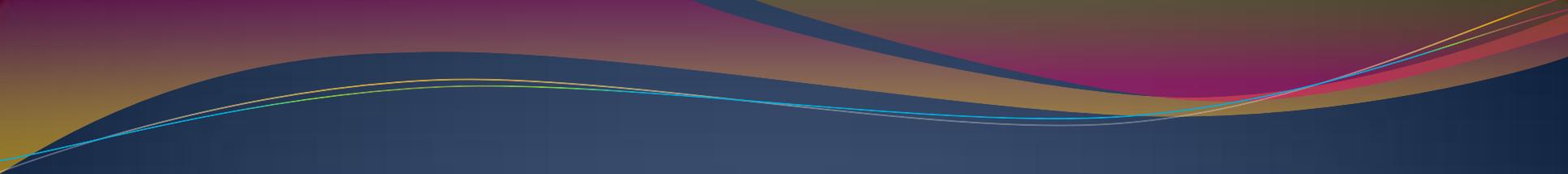
- Monitor and calculate tax bases of assets and liabilities
- Monitor tax losses and tax credits of all components in the group
- Assess recoverability of deferred tax assets
- Determine possible offsets between deferred tax assets and liabilities
- Monitor changes in tax rates and collect applicable tax rates to determine the amount of deferred tax in the event of asset disposal
- Understand implications of double tax treaty, where there are foreign operations
- Prepare more detailed disclosures — tax reconciliation

**Tax teams should be involved, both at the group and subsidiary level. If no tax specialists are available at the subsidiary level, tools (e.g., accounting and tax manuals, including checklists that enable group entities to accurately determine tax bases) and appropriate training should be provided to ensure quality reporting. The group needs to do a thorough review of existing tax planning strategies to test alignment with any organizational changes created by Ind AS conversion.**

# Questions & Comments?



Discussion !!!



Thank You