

# AS 22 - Accounting for Taxes on Income

---

## Summary of Tax Expense in Profit and Loss (P/L) Account (Draft Format)

Particulars	Amount
Current Tax	XXX
Deferred Tax	(XX)
<b>Tax Expense</b>	<b>XXX</b>

**Formula for Tax Expense:** Formula for Tax Expense

Tax Expense = Current Tax Expense (Profit and Loss) + Deferred Tax Liability – Deferred Tax Asset

---

## 1. Definitions

---

- **Deferred Tax:** It is the tax effect of **timing difference** between Accounting profit and Taxable profit.
  - **Deferred Tax Asset (DTA):**
    - DTA means paid **more tax in current year** but will pay **less tax in future**.
    - It arises when accounting profit is less than taxable profit due to timing differences (Expense in Accounting is recognized earlier than in Tax Books, or Income in Accounting is recognized later than in Tax Books).
  - **Deferred Tax Liability (DTL):**
    - DTL means paid **less tax in current year** but will pay **more tax in future**.
    - It arises when accounting profit is more than taxable profit due to timing differences (Income in Accounting is recognized earlier than in Tax Books, or Expense in Accounting is recognized later than in Tax Books).
  - **Current Tax:** It is the amount of tax determined to be payable in respect of taxable income.
- 

## 2. Timing Difference and Permanent Difference

---

- **Timing Difference:**
    - These are differences between Accounting income and Taxable income that **originate in one period** and are **capable of reversal** in one or more subsequent periods.
    - *Examples:* Depreciation, preliminary expenditure, expense allowed on cash basis (e.g., Interest paid to NBFCs is allowed only on payment basis in tax, but on accrual basis in accounting).
    - Deferred Tax is created on **all timing differences**.
  - **Permanent Difference:**
    - These are differences between Accounting income and Taxable income that originate in one period and **Do Not Reverse subsequently**.
    - *Examples:* Fines and penalties, donation to political party/trust, etc. These are permanently disallowed in tax.
    - **No Deferred Tax is created on permanent differences.**
- 

## 3. Deferred Tax on Carry Forward Losses and Unabsorbed Depreciation

---

- Deferred Tax Asset (DTA) Recognition

Carry forward losses result in less tax in future → Create Deferred Tax Asset (DTA)

Unabsorbed depreciation also results in less tax in future (future tax benefit of depreciation expense) → Create Deferred Tax Asset (DTA)

---

## 4. Recognition of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL)

---

- **Deferred Tax Liability (DTL):**
    - There are **no pre-conditions** to recognise DTL. DTL is recognized without any conditions.
  - **Deferred Tax Asset (DTA):**
    - **DTA arising due to normal timing differences (any other reason):**
      - DTA are recognised only to the extent there is **reasonable certainty** of their realisation (i.e., sufficient **future expected profit**).
    - **DTA arising due to unabsorbed depreciation or carry forward losses:**
      - DTA should be recognised only when there is **virtual certainty** supported by **convincing evidence** that sufficient future taxable profit will be available against which such DTA can be realised.
      - *Examples of convincing evidence:* Future export orders, projection of future profits made by the enterprise, etc.
- 

## 5. Review of Unrecognized DTA

---

- At each balance sheet date, the Company should **reassess unrecognized DTA**.
  - If future taxable profit is now **reasonably certain** (or virtually certain, as applicable), then the company can record **previous years' unrecognized DTA**.
- 

## 6. Tax Rates for Current Tax and Deferred Tax

---

- **For Current Tax:** Use the Tax Rate that is applicable to the **current period**.
  - **For Deferred Tax:** Use the **future tax rate** if announced/proposed by the government. If the future tax rate is not available, then use the current year rate.
    - *Example:* If in the current year 2024-25, the tax rate is 30%, but the government proposed a 35% rate for future years:
      - Current Tax will be calculated @ 30%.
      - Deferred Tax will be calculated @ 35%.
- 

## 7. Implication in Tax Holiday Period

---

- DTA or DTL in respect of timing differences which **reverse during the tax holiday period** should **not be recognised**.
  - The timing difference which originates first should be considered to **reverse first**.
- 

### Note on Current Tax Calculation (If Minimum Alternate Tax - MAT is Applicable):

- Current Tax is calculated as **Higher of:**
  - Taxable profit × Tax Rate
  - Book profit × MAT Rate (if applicable)