

DEFINITIONS:

1. Accounting Profit: profit or loss for a period before deducting tax expense.
2. Taxable Profit: profit as per IT Act, upon which incometaxes are payable(receivable).
3. Tax Expense (Tax Income): Tax on Accounting Profit (Current tax \pm Deferred tax)
4. Current Tax: Current period Income Tax on taxable profit.
5. Deferred Tax: Future Tax Consequences (Deferred Tax Asset/Deferred Tax Liability)
6. Deferred Tax Liabilities: Income taxes payable in future periods in respect of TTD)
7. Deferred Tax Assets: Income Taxes Receivable in future periods in respect of DTD, the carry forward of unused tax losses/taxcredits.
8. Tax Base: Carrying Amount of asset or liability for tax purpose.
9. Temporary Difference: Difference between Carrying Amount as per Books of Accounts & Tax Base

Taxable Temporary Difference Results in DTL (Future Taxable Amount)

Deductible Temporary Difference Results in DTA (Future Deductible Amount)

DTA / DTL Recognition in PL or OCI or Equity

1. An item of Current Tax or Deferred Tax pertaining to P/L should be recognised in P/L
2. An item of Current Tax or Deferred Tax pertaining to OCI should be recognised in OCI
3. An item of Current Tax or Deferred Tax pertaining to EQUITY should be recognized in Equity.

Concept Talks:

CA of Asset > Tax Base	DTL	CA of Liability > Tax Base	DTA
CA of Asset < Tax Base	DTA	CA of Liability < Tax Base	DTL

When there is no tax consequences, then DTA/DTL should not be created.

If no DTA/DTL is created, then,

- Carrying Amount of Asset should be equal to tax base of asset
- Carrying Amount of Liability should be equal to tax base of liability

CURRENT TAX AND ITS RECOGNITION:

1. Current Tax: Amount of Income Tax Payable in respect of taxable profits/loss for the period.
2. Current Tax Liability: Current and Prior Period Tax to the extent unpaid recognised as Liability. Any excess of this liability over Advance Tax & TDS is to be treated as Current Tax Liability.
3. Current Tax Asset: Amount already paid in respect of Current and Prior period exceeds amount due.

4. Determination of Tax Rates:

Tax Rates should be based on Tax Rates enacted or substantially enacted by the end of reporting period.

RECOGNITION OF DEFERRED TAX ASSET & DEFERRED TAX LIABILITY:

1. Deferred Tax Liability:

A DTL should be recognised for all TTD except to the extent DTL arises from:

- a. Initial Recognition of Goodwill
- b. Initial Recognition of Asset/Liability in a transaction which is not a Business Combination and at the time of transaction affects neither Accounting Profit nor Taxable Profit.

An entity shall recognise DTL for all TTD associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- i. the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
- ii. it is probable that the temporary difference will **not reverse in the foreseeable future.**

2. Deferred Tax Asset:

A DTA should be recognised for all DTD to the extent probable that future taxable profits will be available against which DTD will be utilised.

Exception: Initial Recognition of Asset/Liability in a transaction which is not a Business Combination and at the time of transaction affects neither Accounting Profit nor Taxable Profit.

An entity shall recognise DTA for all DTD arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that both of the following conditions are satisfied:

- i. the temporary difference will reverse in the foreseeable future; and
- ii. taxable profit will be available against which the temporary difference can be utilised.

ASSESS DEDUCTIBLE TEMPORARY DIFFERENCE, TAX LOSSES & CREDITS:

Entity should recognise DTA only when it is probable that taxable profits will be available in future against which the DTD can be utilised i.e., entity has to make sufficient taxable profits in future.

The Standard provides three step criteria to be applied in a serial order:

1. Criteria No. 1: Existence of taxable temporary differences
2. Criteria No. 2: Probability of Sufficient future taxable profits
3. Criteria No. 3: Availability of tax planning opportunities

For example, taxable profit may be created or increased by:

- a) electing to have interest income taxed on either a received or receivable basis
- b) selling an asset that generates non-taxable income (such as govt bond) in order to purchase another investment that generates taxable income.
- c) deferring the claim for certain deductions from taxable profit;

UNUSED TAX LOSSES/UNUSED TAX CREDITS:

DTA recognised to the extent it is probable that Future Taxable Profits will be available. However, the existence of unused tax losses is strong evidence that future taxable profits may not be available.

In this case, DTA should be recognised to the extent entity has sufficient Taxable Temporary Difference or there is Convincing other Evidence that sufficient taxable profits will be available. Following are example of convincing other evidence:

1. Losses result from identifiable causes which are unlikely to occur
2. Tax Planning Opportunities
3. Probability of Taxable Profits before expiry.

REASSESSMENT OF UNRECOGNISED DTA:

At the end of each R.P., the entity should reassess unrecognised DTA. To the extent it is now probable that future taxable profits will be available, entity should recognise DTA.

Example: Improvement in Trading Condition, Tax Planning Opportunities, etc.

DETERMININATION OF TAX RATES:

DTA/DTL shall be measured at:

- a. Tax Rates expected to apply to the period when asset is realised or liability is settled.
- b. Based on Tax Rates enacted or substantially enacted by the end of reporting period.

IMPORTANT POINTS:

1. DTA/DTL should not be discounted
2. CA of DTA reviewed at each reporting end
3. To reduce CA of DTA if it is not probable that sufficient taxable profits will be available. Later Any such shall be reversed to the extent it is probable that sufficient future taxable profits will be available.

OFFSETTING DTA/DTL

An entity shall offset only if:

1. Legally enforceable rights
2. Same taxation authority
3. Intends to settle on Net Basis.