Accounting for Taxes on Income (AS-22)

(This AS allocates tax expense on systematic basis to each year)

Definitions:

Accounting Income : Net Profit/(Loss) as per Statement of P&L

Taxable Income : Income/loss as per Tax Laws

Tax Expense : Current Tax ± Deferred Tax

Current Tax : Tax calculated as per tax laws

Deferred Tax : Tax effect on Timing Differences

Timing Differences: Differences b/w Taxable Income & Accounting Income that originate in one period & capable of reversal in subsequent period

Permanent Differences: Other than Timing Differences

Accounting Income ≠ Taxable Income

Tax on Accounting Income ≠ Tax on Taxable Income

Tax Expense ≠ Current Tax

Tax Expense = Current Tax ± Deferred Tax

(Debited in P&L A/c) (As per Tax Laws) (Tax Effect on timing Differences)

[+DTL/-DTA]

* Permanent Differences do not result in DTA/DTL

I A/c'ing Income > Taxable Income

DTL = Timing Diff. X Tax Rate

II A/c'ing Income < Taxable Income

DTA = Timing Diff. X Tax Rate

Differences b/w Accounting Income & Taxable Income

Timing Differences

E.g.

* Depreciation Diff.
* Sec 43B: Allowance On Payment Basis
* Deferred Revenue Exp.

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DTA/DTL to be Created/recognised

Permanent Differences

E.g.

* Donation
* 40A(3)
* Exempted Income

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No Recognition of DTA/DTL

Timing Differences

- **Accounting Income > Taxable Income**
  - **Fresh Difference**
    - DTL = Timing Diff. × Tax Rate
  - **Earlier Difference**
    - DTA earlier made to be reversed
- **Accounting Income < Taxable Income**
  - **Fresh Difference**
    - DTA = Timing Diff. × Tax Rate
  - **Earlier Difference**
    - DTL earlier made to be reversed

DTA: Should be created subject to prudence limits.

Entities having unabsorbed Dep./carry forward of losses:
Create DTA if there is VCCE (Virtual certainity with convincing evidence) that there will be future taxable income against which DTA can be adjusted.

Other Entities: Create DTA if there is reasonable certainity.

Note: DTA/DTL should not be discounted to their present value.

Example: Y_1 to Y_4 Profit before Dep. & Tax = 500000
Tax Rate = 30%

Dep. as per Books = 100000 p.a.
Dep. as per Income Tax = 140000, 110000, 80000, 70000

Statement of P&L

	Y_1	Y_2	Y_3	Y_4
Profit	500000	500000	500000	500000
- Dep. as per books	(100000)	(100000)	(100000)	(100000)
Profit Before Tax	400000	400000	400000	400000
- Tax Expense				
Current Tax				
Deferred Tax				
Profit after Tax				

Working Note:

Current Tax

	Y_1	Y_2	Y_3	Y_4
Profit	500000	500000	500000	500000
- Depreciation	(140000)	(110000)	(80000)	(70000)
	360000	390000	420000	430000

Tax @ 30%

Entity having Tax Holiday:

* Timing Differences will be taken on FIFO Basis
* Timing Differences which arise in tax holiday & are capable of reversal in tax holiday will be ignored

Example: Tax holiday period Y_1 to Y_5. Tax Rate 30%

	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7
Dep. as per books	100000	100000	100000	100000	100000	100000	100000
Dep. as per Tax Laws	190000	160000	120000	80000	60000	50000	40000

Minimum Alternate Tax (MAT)

Sec 115JB of Income Tax Act, 1961

Tax Payable for the year

Higher of $\begin{bmatrix} \text{Taxable Income} \\ \times \\ \text{Tax Rate} \end{bmatrix}$ OR $\begin{bmatrix} \text{Book Profit} \\ \times \\ \text{MAT Rate} \end{bmatrix}$

MAT Credit = Excess of MAT paid over Tax on Total Income. It is an asset

Case 1:

Taxable Income = 1000000
Tax Rate = 30%

Book Profit = 2500000
MAT Rate = 15%

Case 2:

Taxable Income = 1000000
Tax Rate = 30%

Book Profit = 1200000
MAT Rate = 15%

Deferred Tax: Tax Effect of Timing Differences between Accounting Income & Taxable Income to be calculated using regular tax rates & not MAT rate.

Tax Expense = Current Tax ± Deferred Tax

$\Downarrow$

Tax Liability as per provisions of Income Tax & not Tax Payable as per Sec 115JB

* DTA/DTL not recognised on basis of Sec 115JB.