

Accounting Standard 22 – “Accounting for Taxes on Income”

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Introduction

- ❑ This Standard should be applied in accounting for taxes on income. This includes the determination of the amount of the expense or saving related to taxes on income in respect of an accounting period and the disclosure of such an amount in the financial statements.
- ❑ For the purposes of this Standard, taxes on income include all domestic and foreign taxes which are based on taxable income.

Definition

- ❑ **Accounting income/(loss)** – is net profit or loss for a period before deducting income tax expense or adding income tax saving.
- ❑ **Taxable income(loss)** - is the income (loss) for a period, determined in accordance with the tax laws, based upon which income tax payable (recoverable) is determined.
- ❑ **Tax expense (saving)** - is the aggregate current tax and deferred tax charged or credited to the statement of profit and loss for the period.
- ❑ **Current Tax** - is the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.
- ❑ **Deferred tax** - is the tax effect of timing differences.
- ❑ **Timing differences** - are the differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.
- ❑ **Permanent differences** - are the differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently.

What is Timing Difference?

- ❑ Timing differences are those differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.
- ❑ An example of tax effect of a timing difference that results in a deferred tax asset is an expense provided in the statement of profit and loss but not allowed as a deduction under Section 43B of the Income-tax Act, 1961. This situation will reverse when the deduction of said expense is allowed under section 43B in subsequent years.
- ❑ Unabsorbed depreciation and carry forward of losses which can be setoff against future taxable income are also considered as timing differences and result in deferred tax assets

Recognition Principle

- ❑ Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.
- ❑ Deferred tax should be recognised for **all the timing differences**, subject to the consideration of prudence in respect of deferred tax assets
- ❑ Permanent differences do not result in deferred tax assets or deferred tax liabilities.
- ❑ Deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.
- ❑ Determination of virtual certainty that sufficient future taxable income will be available is a matter of judgement based on convincing evidence and will have to be evaluated on a case to case basis.

Measurement and Re-assessment

- Current tax should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.
- Deferred tax assets and liabilities should be measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.
- Certain announcements of tax rates and tax laws by the government may have the substantive effect of actual enactment.
- Deferred tax assets and liabilities should not be discounted to their present value.
- Carrying amount of DTA should be reviewed at each balance sheet date. An enterprise should write-down the carrying amount of a DTA to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available
- Enterprise recognises previously unrecognised DTA to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available

Presentation & Disclosures

- ❑ An enterprise should offset assets and liabilities representing current/deferred tax if the enterprise:
 - has a legally enforceable right to set off the recognised amounts
 - intends to settle the asset and the liability on a net basis
- ❑ Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period.
- ❑ Break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.
- ❑ Nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

Thank You