Accounting Standard - 22

Accounting for Taxes on Income

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Technical Pronouncements – Exhaustive

Accounting Standard	AS 22
Limited Revisions to Accounting Standards	None
Central Council Decisions	None
•ASIs	In all 8

•**ASI 3** **Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the Income-tax Act, 1961**

•**ASI 4** **Losses under the head Capital Gains**

•**ASI 5** **Accounting for Taxes on Income in the situations of Tax Holiday under Sections 10A and 10B of the Income-tax Act, 1961**

•**ASI 6** **Accounting for Taxes on Income in the context of Section 115JB of the Income-tax Act**

•**ASI 7** **Disclosure of deferred tax assets and deferred tax liabilities**

•**ASI 9** **Virtual certainty supported by convincing evidence**

•**ASI 11** **Accounting for Taxes on Income in case of an Amalgamation**

•**ASI 26** **Accounting for Taxes on Income in CFS**

AS-22 DEFERRED TAXATION

Applicability

- Mandatory with a Staggered Schedule of Implementation
  - Mandatory w.e.f. 1.4.2001 for listed companies
  - Mandatory w.e.f 1.4.2002 for other companies
  - Mandatory w.e.f 1.4.2003 for other enterprises

Questions

1. **What is the rationale of the Standard ?**
2. **What is the Impact of High Court Decision about its Applicability (SPIC Case) ?**
3. **In general, is the application of the Standard preferred to be worked out by Accounts Department or Tax Department.**

AS-22 DEFERRED TAXATION

Key concepts

Accounting profit or loss

Taxable profit or tax loss

Provision for taxes payable (current tax)

Tax Expense (current tax + deferred tax)

Timing differences

Permanent difference

Deferred tax Asset (DTA)

Deferred tax liability (DTL)

AS-22 DEFERRED TAXATION

Timing v/s Permanent differences

Differences between book profit or (loss) and tax profit or (loss) are analysed into;

(a) Permanent differences or

(b) Timing differences

PERMANENT DIFFERENCES

Differences which originate in the current reporting period and do not reverse in future are termed permanent in nature

TIMING DIFFERENCES

Differences originating in one period and adjusting or reversing in subsequent period

Question: Is there any impact tax expense on account of (a) permanent differences (b) Temporary differences

AS-22 DEFERRED TAXATION

TAX ACCOUNTING

Case Study No. 1 Deferred Tax Liability

Profit before tax = Rs. 500 (As per accounts)

Depreciation as per Income Tax Act = Rs. 200

Depreciation as per companies Act = Rs. 100

Current tax (assumed tax rate 30%) = Rs. 120 (Computed on Taxable profit)

Timing difference = Rs. 200 - 100 = Rs. 100

Deferred Tax liability = Rs. 100 * 30% = Rs. 30

Tax Expense = Rs. 150 (Rs. 500 * 30 %)

AS-22 DEFERRED TAXATION

TAX ACCOUNTING

Case Study No. 2 Deferred Tax Asset

Profit as per Companies Act = Rs. 1000

Provision for bad and doubtful debts = Rs. 300

Tax rate = 30%

Current tax = (Rs. 1000+ 300)* 30 %

= Rs. 390

Timing difference = Rs. 300

Deferred Tax Asset = Rs. 300 * 30 % = Rs. 90

Tax expense = Rs. 390 -90 = Rs. 300 (Rs. 1000 * 30%)

AS-22 DEFERRED TAXATION

Interpreting Common Situation – Whether Permanent or Temporary ?

- Fixed Assets
  - Differences in Depreciation Method
  - Differences in Depreciation Rates
  - Differences in Actual Cost (put to use v/s ready to use or Interest Capitalisation)
  - Revaluations or Impairment Loss
- Payments Covered under Section 43 B of Income Tax, 1961
  - Provision for Gratuity, bonus, Excise duty, etc
  - Delay in payment of Provident Fund Dues
- R & D Expenses – Weighted Average Deduction

AS-22 DEFERRED TAXATION

Timing v/s Permanent differences

SUM UP

• Permanent differences are Tax Neutral

• Timing differences directly impact the tax expense and is based on Matching Concept of Accountancy. It results in creating asset (or liability) in one period/s and reversing the same in subsequent period/s

AS-22 DEFERRED TAXATION

TAX ACCOUNTING

Balance sheet method

- Compute deferred tax based on difference between book values and IT values of year end assets and liabilities – ignore permanent difference

Profit & Loss Method

- Compute deferred tax based on difference between P&L Account and statement of taxable income – ignore permanent difference

Question –

1. What is the differences between "Timing Difference" and "Temporary Difference" ? Is there any impact in Accounting ?

Recognition of Deferred Tax

REASONABLE CERTAINTY V/S VIRTUAL CERTAINTY

• Deferred Tax Asset in case of unabsorbed losses or depreciation is recognised only if its is virtually certain ***supported by convincing evidence*** that sufficient future taxable income will be available

• Deferred Tax Asset with in case of other items is recognised if its is reasonably certain that sufficient future taxable income will be available.

RE-ASSESSEMENT OF UN-RECOGNISED DEFERRED TAX

• At each balance sheet date re-assessment of un-recognized deferred tax assets is required to be made by the enterprise

Measurement of Deferred Tax

- Measured at Applicable TAX RATE and TAX LAWS that have ENACTED or SUBSTANTIALLY ENACTED
- Substantially enacted in Indian Context implies that Budget has been Declared but is yet to be Passed
- Discounting is not Permitted

AS-22 DEFERRED TAXATION

Disclosure requirements

- Current Tax asset and Liability to be netted off
  - only if legally enforceable claim exists to net off and
  - Enterprise intends to Set-off
- Deferred tax asset and Liability to be netted off only if
  - legally enforceable claim exists to net off and
  - Assets and liabilities are governed by same tax laws
- DTA/ DTL separately in the balance sheet
- Break up DTA/ DTL to be shown separately
- Current and deferred tax - separate disclosure
- Nature of evidence indicating recognition of DTA to be disclosed

Issues and Clarifications

Tax Holiday and Exemptions (ASI - 3 and ASI - 5)
- Originating and reversing during holiday period
- Originating in holiday period but reversing after holiday period
- Option: Refer ASI – 3 for Illustration

Losses under head Capital Gains (ASI – 4)
- Reasonable Certainty v/s Virtual Certainty
- Indexation
- Rate of Deferred Tax

MAT Rate (ASI – 6)
- Regular tax rate or MAT rate

Disclosure of DTA and DTL in Balance Sheet (ASI – 7)

AS-22 DEFERRED TAXATION

Issues and Clarifications

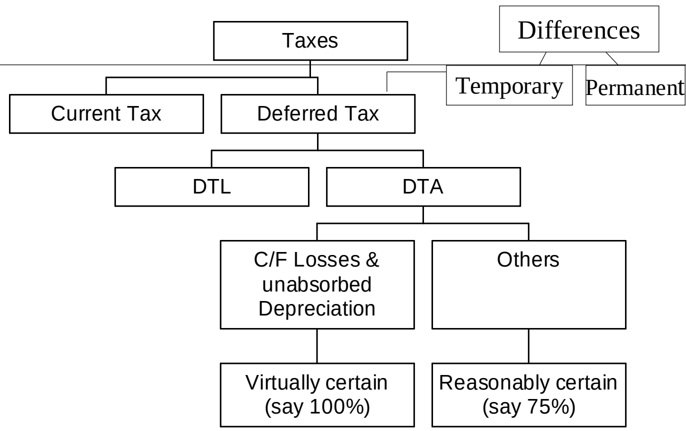
Virtual Certainty Supported by Convincing Evidence (ASI – 9)
- Matter of Judgment
- Cannot merely be based on forecast
- Evidence should be available at reporting date in concrete form, for example, a profitable binding export order.

Accounting for Taxes in case of Amalgamation (ASI – 11)
- Effect of DTA/DTL at the time of amalgamation NOT recognised by the transferee but recognised by Transferor
  - Case 1: at the date of Amalgamation
  - Case 2: After the date of Amalgamation but before First Annual Closing
  - Case 3: After the First Annual Closing
- Deferred Tax Treatment on Differences between book values of transferor and transferee companies

Comparison With US GAAP and IFRS

- Concept of Deferred Tax on Outside Basis under US GAAP
- Concept of Valuation Allowance – Under US GAAP
- Business Combinations – No Subsequent Adjustments under US GAAP or IFRS
- Temporary Differences v/s Timing Differences under US GAAP
- Criteria of “Reasonably Certain or Virtually Certain” v/s “More likely Than Not” under US GAAP
- Enacted Rate v/s “Enacted or Substantially Enacted Rate”
- Disclosures
  - Rate Reconciliation
  - Year of Expiration in unabsorbed losses
  - Changes in Valuation allowance

Summary



Questions

Thanks

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