

Seminar on Ind-AS

Income Taxes (Ind AS 12)

Private & Confidential



Agenda

- Conceptual Background
- Apply the scope requirements of Ind AS 12
- Determine tax bases
- Determine tax rate to be used for measuring deferred taxes
- Describe how uncertain tax positions are treated
- Impact on Tax components of Ind AS Conversions

Conceptual Background

Conceptual background

The Ind AS 12 'balance sheet approach'

Current tax

Amount payable to or refundable in respect of the taxable profit or tax loss for a period

Deferred tax

The **future tax consequences** of recovering or settling the carrying amount of an asset or liability

Deferred taxes

Recognition and measurement of deferred taxes

Deferred tax

The **future tax consequences** of recovering or settling the carrying amount of an asset or liability

Calculation steps

Step 1

Calculate the **tax base** of each asset and liability

Step 2

Calculate the **temporary difference** between the carrying amount and tax base

Step 3

Identify which temporary differences will give rise to deferred taxes using the **recognition criteria and exceptions** in Ind AS 12

Step 4

Calculate the deferred tax asset or liability using the **appropriate tax rate**

Step 5

Recognise net movement for the period in profit or loss, outside profit or loss, or as part of accounting for a business combination

Deferred taxes

Recognition and measurement of deferred taxes

Deferred tax

The **future tax consequences** of recovering or settling the carrying amount of an asset or liability

Deferred taxes arising from temporary differences

Carrying
amount

–

Tax
base

=

Temporary
difference

Temporary
difference

x

Tax
rate

=

Deferred tax asset
/ liability

Deferred taxes arising from carry forward tax losses/tax credits

Unused tax
losses/credits

x

Tax
rate

=

Deferred tax
asset

Quiz

Question 1

Can deferred tax assets and liabilities be discounted?

Answer

No.

Ind AS 12.53 strictly prohibits the discounting of deferred tax assets and liabilities.

Quiz

Question 2

When should an entity assess the carrying amount of a deferred tax asset?

- A – only on initial recognition
- B – at the end of each reporting period
- C – If the net deferred tax position is a liability

Answer

B – Ind AS 12.56 requires an entity to review the carrying amount of a deferred tax asset at the end of each reporting period and reduce to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Quiz

Question 3

Which of the following is/are **required** to be disclosed in the statement of profit or loss?

- A – total income tax expense related to profit or loss from ordinary activities
- B – income tax expense related to discontinued operations
- C – major components of income tax expense

Answer

A – This is required by Ind AS 12.77. B and C are only required by way of note [Ind AS 12.79].

Apply the scope
requirements of Ind AS
12

Scope of Ind AS 12

Included	Excluded
All domestic and foreign taxes paid on taxable profits	Government grants* (Ind AS 20)
Withholding taxes on distributions to the reporting entity	Investment tax credits*

* Ind AS 12 does apply to temporary differences arising from these items

Definition of 'taxable profit (tax loss)'

“the profit (loss) for the period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable)”

Scope of Ind AS 12

Taxable profit / (tax loss) as per Ind AS 12

“the profit (loss) for the period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable)”

Not all taxes are within the scope of Ind AS 12

Taxes **do not** need to be based on a figure that is exactly accounting profit

Determine tax bases

Tax bases

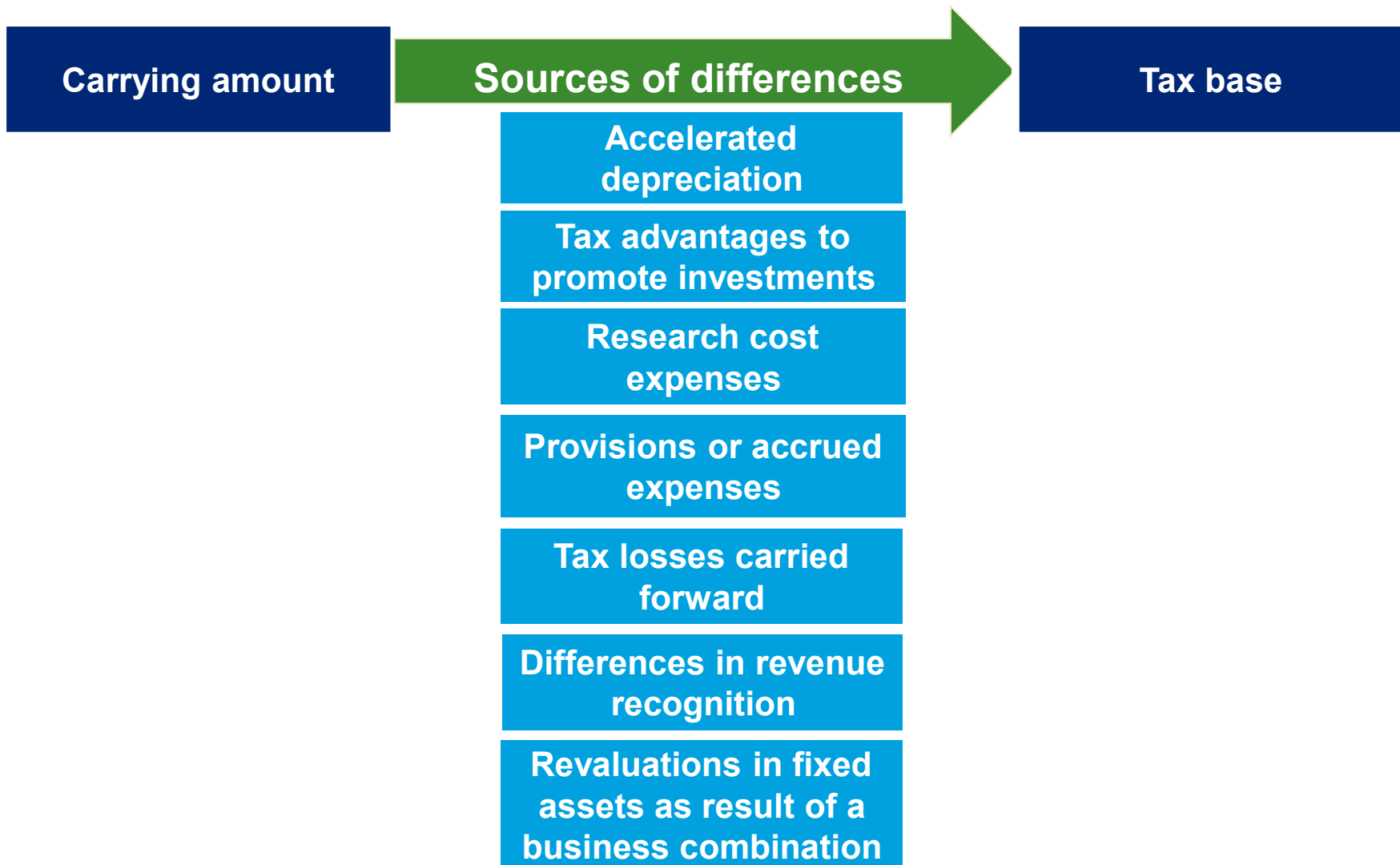
Tax base definition

The amount attributed to an asset or a liability for tax purposes

Guidance in Ind AS 12

Assets	Amount that will be deductible for tax purposes against any future taxable economic benefits		
Liabilities	Carrying amount	—	Amount deductible for tax in the future
Income in advance	Carrying amount	—	Revenue not taxable in future periods

Typical examples of difference between carrying amount and tax base



Example: Difference between accounting and tax books for Property, plant and equipment

Background

- Company X bought a machine on 1 April 2013 for Rs.9 million.
- For accounting purposes, the machine is amortised on straight-line basis over 3 years.
- For tax purposes, the machine is depreciated as follows: 2013-14: Rs.4 million, 2014-15: Rs.3 million, and 2015-16: Rs.2 million. Tax rate is 30%

Q: Compute the carrying amount and tax base at the end of each year, and determine the respective deferred tax impact in the financial statements.

	Carrying amount (Rs.'000)	Tax base (Rs.'000)	Difference (Rs.'000)
Book value 01 April 2013	9,000	9,000	0
Charge of the year	(3,000)	(4,000)	
Book value 01 April 2014	6,000	5,000	(1,000)
Charge of the year	(3,000)	(3,000)	
Book value 01 April 2015	3,000	2,000	(1,000)
Charge of the year	(3,000)	(2,000)	
Book value 31 March 2016	0	0	0

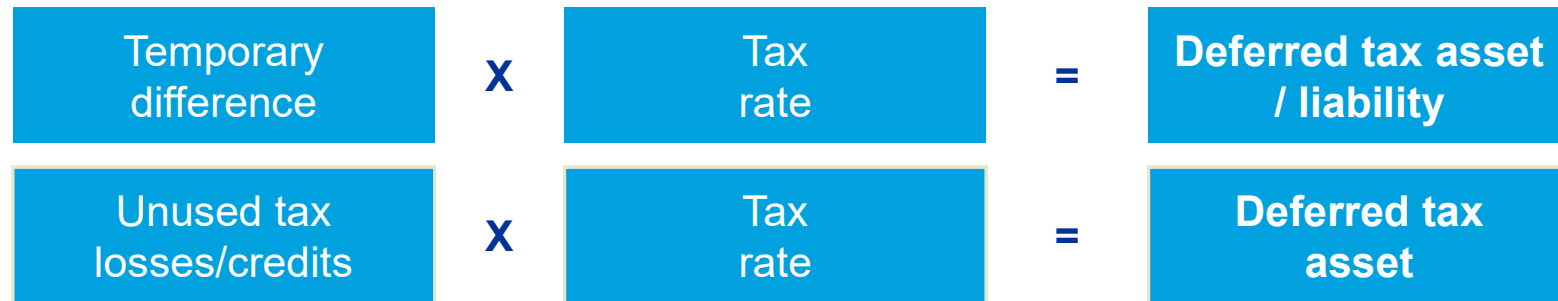
Example: Difference between accounting and tax books for Property, plant and equipment (Cont'd)

Deferred tax impact in balance sheet

	Carrying amount (Rs.'000)	Tax base (Rs.'000)	Taxable temporary difference (Rs.'000)	Deferred tax liability (Rs.'000)
At 31 March 2014	6,000	5,000	1,000	300
At 31 March 2015	3,000	2,000	1,000	300
At 31 March 2016	0	0	0	0

Determine tax rate to be
used for measuring
deferred taxes

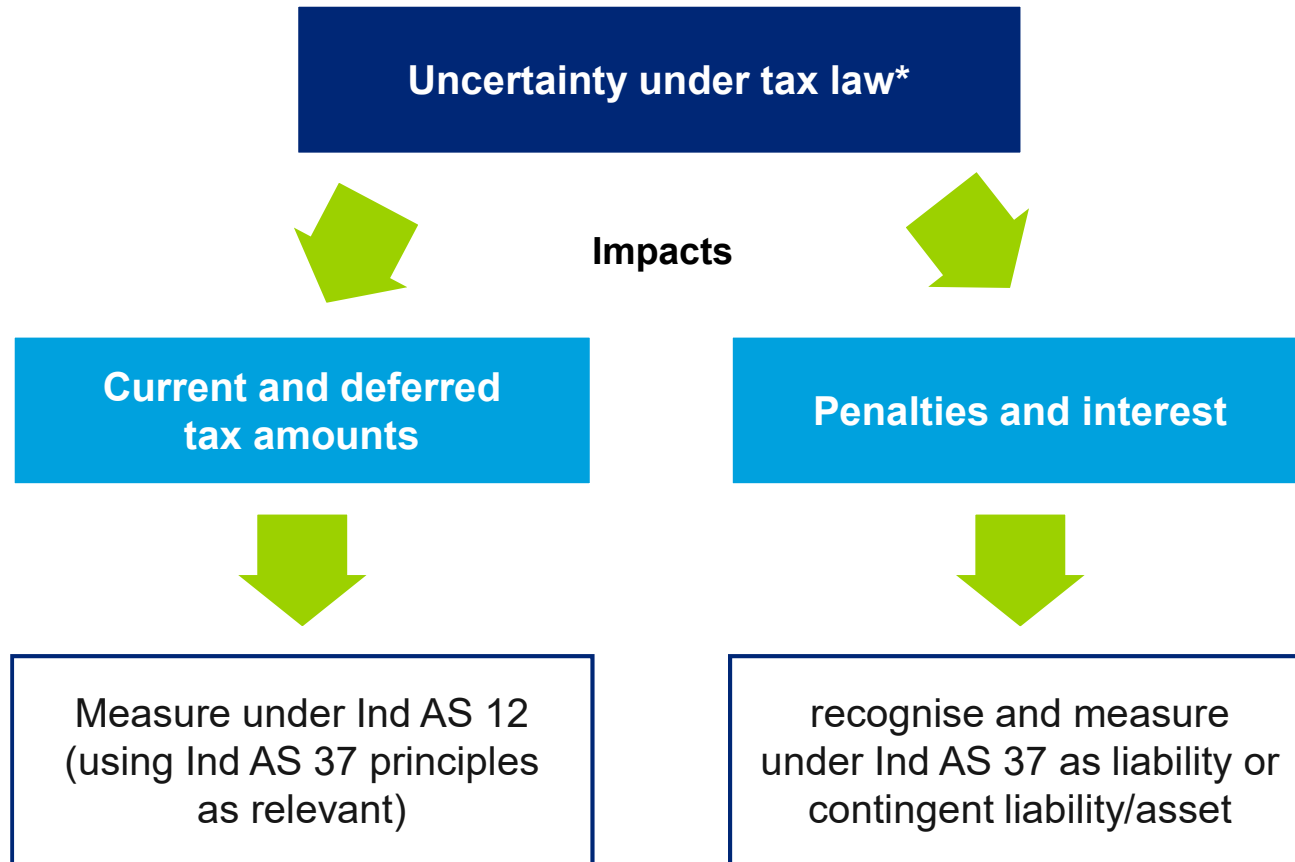
Tax rate



- 1 Tax rate expected to apply to the period when the asset is realised or the liability is settled
- 2 Based on the tax rates (and tax laws) that have been enacted or **substantively enacted** at the end of the reporting period
- 3 Changes in tax rates after the reporting period → no impact, but disclosure required if significant effect on current and deferred tax assets and liabilities

Describe how uncertain
tax positions are treated

Uncertain tax positions



** Assume that the tax authority will detect the tax uncertainty*

Uncertain tax positions

Differing approaches to accounting for uncertain tax positions

- Entity claims a tax deduction of Rs.100,000 in its tax return (Rs.30,000 tax effected)
- >50% probability that the position will be sustained, but a number of outcomes are possible

Under an 'all or nothing' approach, tax benefit of Rs.30,000 recognised

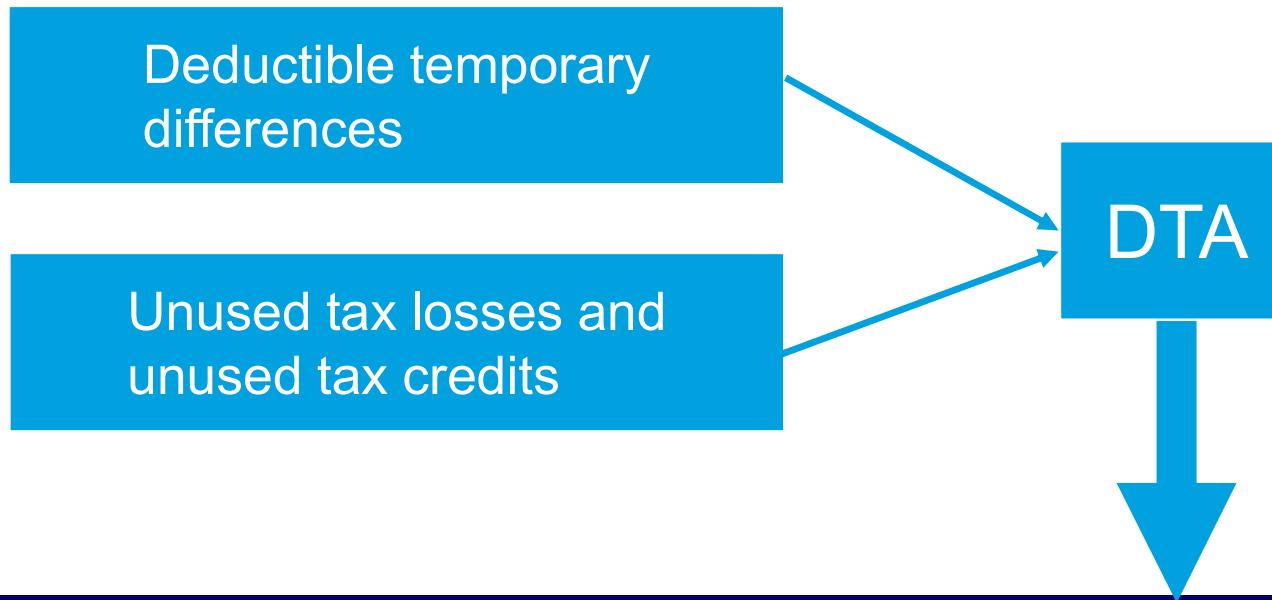
Possible estimated outcome	Individual probability	Cumulative probability	Weighted probability outcome
Rs.30,000	30%	30%	Rs.9,000
Rs.25,000	25%	55%	Rs.6,250
Rs.20,000	20%	75%	Rs.4,000
Rs.15,000	15%	90%	Rs.2,250
Rs.10,000	10%	100%	Rs.1,000

Rs.22,500

Under a probability weighted approach, Rs.22,500 is the weighted amount and a liability of Rs.7,500 + penalties and interest is recognised

Assess the
recoverability of deferred
tax assets

Recognition criteria for deferred tax assets

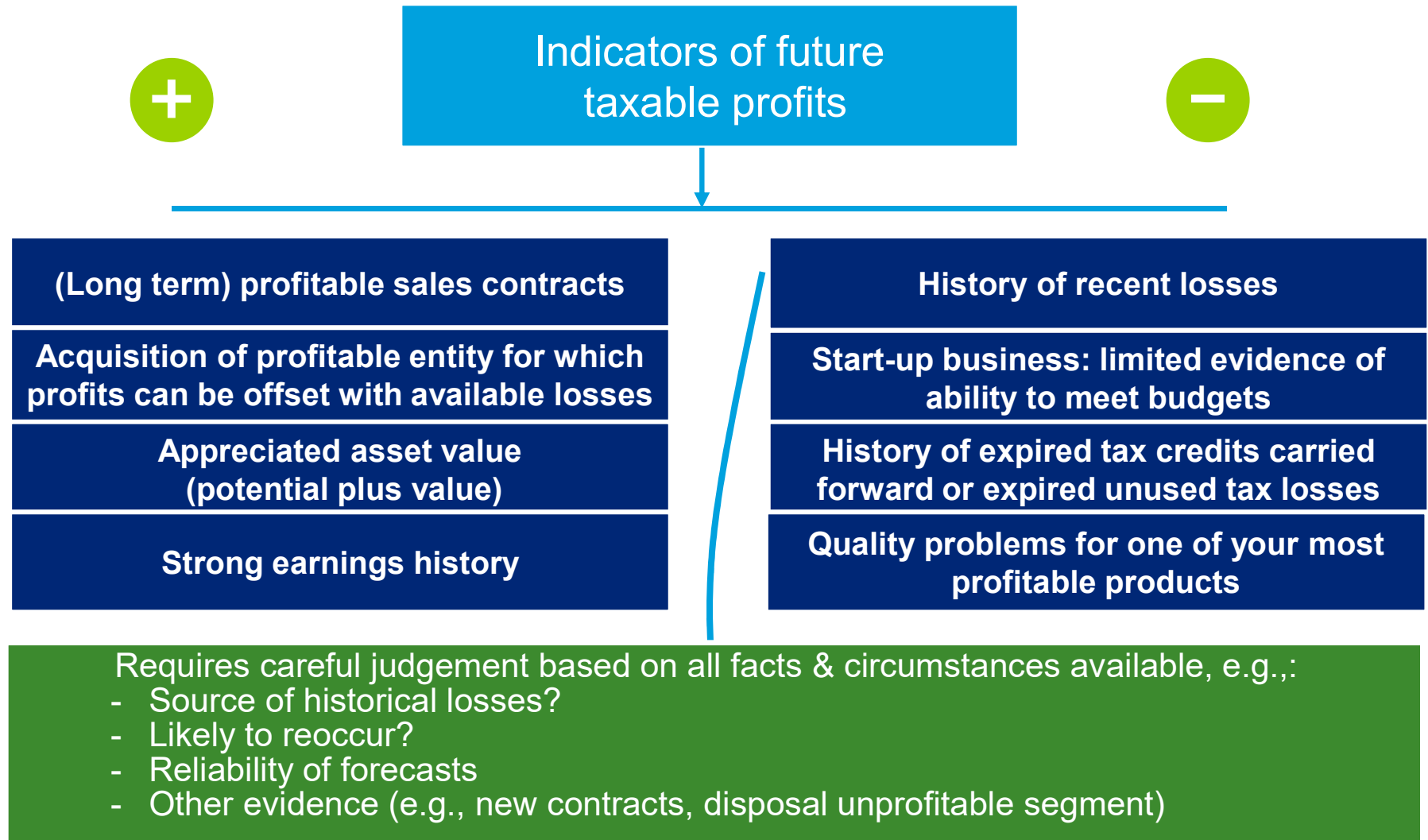


Recognition criteria

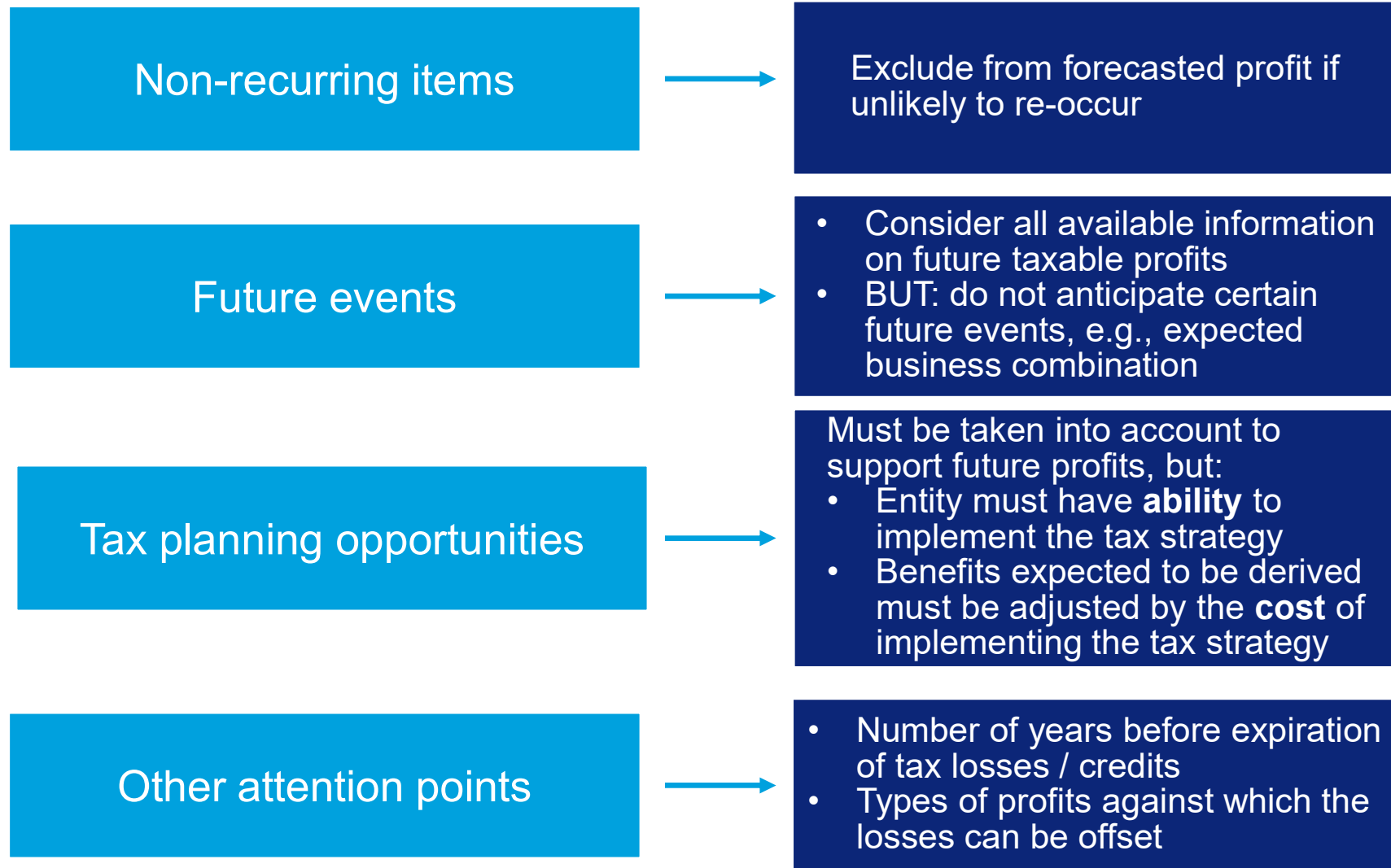
Probable that

- **Sufficient future taxable profits or taxable temporary differences will exist**
 - **From the same taxation authority and same taxable entity**
 - **In the same period** (taking into account tax carry back / forward)

Assessment of future taxable profits



Assessment of future taxable profits



Thank You

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