MNP LLP

IAS 12 *Income Taxes*

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SCOPE

Income taxes:

- Domestic & foreign taxes based on taxable profits.
- Withholding taxes payable by subsidiary/associate/joint arrangement on distributions to reporting entity.

Does NOT cover accounting for government grants (see IAS 20) or investment tax credits; however, **does cover** accounting for *temporary differences* which may arise from such grants or investment tax credits.

RECOGNITION & MEASUREMENT OF CURRENT TAX

- **Current Tax =** Amount payable (recoverable) in respect of taxable profit (tax loss) for a period.
- UNPAID current tax for the *current* and prior period→ recognize as a liability.
- If amounts paid exceed amounts due→ recognize EXCESS as an asset.
- Tax loss that can be used to recover *current* tax of previous period→ recognize as an asset.
- Measure using the tax rates (and laws) enacted or substantively enacted by end of reporting period (use rate for undistributed profits).

OTHER POINTS

Off-setting of tax assets/liabilities:

- **Current tax**→ ONLY if the entity has legal enforceable right to set-off AND intends to net settle/ realize simultaneously.
- **Deferred tax** →ONLY if the entity has legal enforceable right to set-off and either amounts are levied by the same taxation authority on the same taxable entity OR different taxable entities which intend to net settle/realize simultaneously.
- See IAS 12 for example calculations of *tax bases* of assets/liabilities, *temporary differences* and deferred tax; and disclosure requirements.
- See IAS 12.66-68C for detailed guidance on deferred tax arising from a business combination, and share-based payment transactions.

DEFERRED TAX LIABILITY (ASSET)

Deferred tax liability (asset) = income taxes payable (recoverable) in future periods resulting from taxable (deductible) *temporary differences* (and carry-forward of unused tax losses and credits).
Temporary difference = difference between carrying amount of asset/liability for accounting purposes, and its *tax base*.

absolute values (i.e., do not use "-" for liabilities)	**Deductible Temporary Differences =** ↓ tax payable when carrying amount settled/recovered (i.e., *deferred tax asset).*	**Taxable Temporary Differences** ↑ tax payable when carrying amount settled/recovered (i.e., *deferred tax liability).*
F/S ASSETS*	Tax Base > Carrying Value **TB – CV = "+"**	Tax Base < Carrying Value **TB – CV = "–"**
F/S LIABILITIES*	Carrying Value > Tax Base **CV – TB = "+"**	Carrying Value **<** Tax Base **CV – TB = "–"**

CALCULATING THE TAX BASE FOR F/S ASSETS

- Amount deductible for tax purposes against taxable economic benefits when asset is recovered.
- If economic benefits NOT taxable → *tax base* = carrying amount.

CALCULATING THE TAX BASE FOR F/S LIABILITIES

- Carrying amount LESS amount that will be deductible for tax purposes in respect of that liability in future periods.
- Revenue received in advance → carrying amount of liability LESS revenue NOT taxable in future periods.

RECOGNITION

DEFERRED TAX LIABILITIES → Recognize for all taxable temporary differences.

Exceptions:

- Do not recognize when arising from initial recognition of:
  - Goodwill; or
  - Asset/liability in transaction which is NOT a business combination, and affects NEITHER accounting profit nor tax profit (loss) at time of transaction.
- Recognize when associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, EXCEPT to the extent that:
  - Parent/investor/joint venturer controls timing of reversal (e.g., controls dividend policy); AND
  - Probable that temporary differences will NOT reverse in foreseeable future.

DEFERRED TAX ASSETS → Recognize for *deductible temporary differences*/unused tax losses and tax credits → ONLY to the extent *probable* that taxable profit will be available to utilize differences against (consider available *taxable temporary differences* from same tax authority and taxable entity and their reversal timing OR tax planning opportunities).

- History of recent losses → recognize only to extent of taxable temporary differences or convincing evidence that sufficient taxable profit will be available in future.
- Reassess unrecognized *deferred tax assets* at end of each reporting period.

Exceptions:

- Do not recognize when arising from initial recognition of asset/liability in transaction which is NOT a business combination AND affects NEITHER accounting/tax profit (loss) at the time.
- Recognize when associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, ONLY to the extent that probable:
  - The *temporary difference* will reverse in the foreseeable future; AND
  - Taxable profit will be available against which differences can be utilized.
- Do not recognize a deferred tax asset for amounts potentially recoverable as a result of future dividends (i.e., recovery of RDTOH is ONLY recognized when dividend is declared).

MEASUREMENT AMOUNT = Temporary Difference X Tax Rate

Measured at tax rates expected to apply to period when asset/liability is realized/settled:

- Rates/laws enacted/substantively enacted by end of reporting period (do NOT discount).
- Reflect tax consequences of expected manner of recovery/settlement (i.e., sale vs. use).
  - Revalued non-depreciable asset→ reflect recovery through sale.
  - Investment property at FV → rebuttable presumption of recovery through sale; rebutted where depreciable & business model is to consume substantially all benefits over time.
- Review carrying amount of *deferred tax assets* at end of each reporting period and reduce/reverse as appropriate.

Where different tax rates for distributed and undistributed profits → measure *current and deferred tax assets/liabilities* at undistributed profits rate.

- Tax consequences of dividends → recognized when liability for dividend recognized (i.e., recognize recovery of income taxes in current income tax when dividend is declared).

ALLOCATION

Tax consequences of transactions/events are accounted for in the same way as the transactions/events themselves:

- In P/L or other comprehensive income or directly in equity, based on where the transaction/event has been recognized (e.g., at initial recognition of a compound instrument a *temporary difference* may arise because tax base = equity + liability component→ *deferred tax* recognized in equity (exception does not apply) – subsequently in P/L).
- *Deferred tax assets/liabilities* recognized in a business combination affect goodwill/bargain purchase gain.