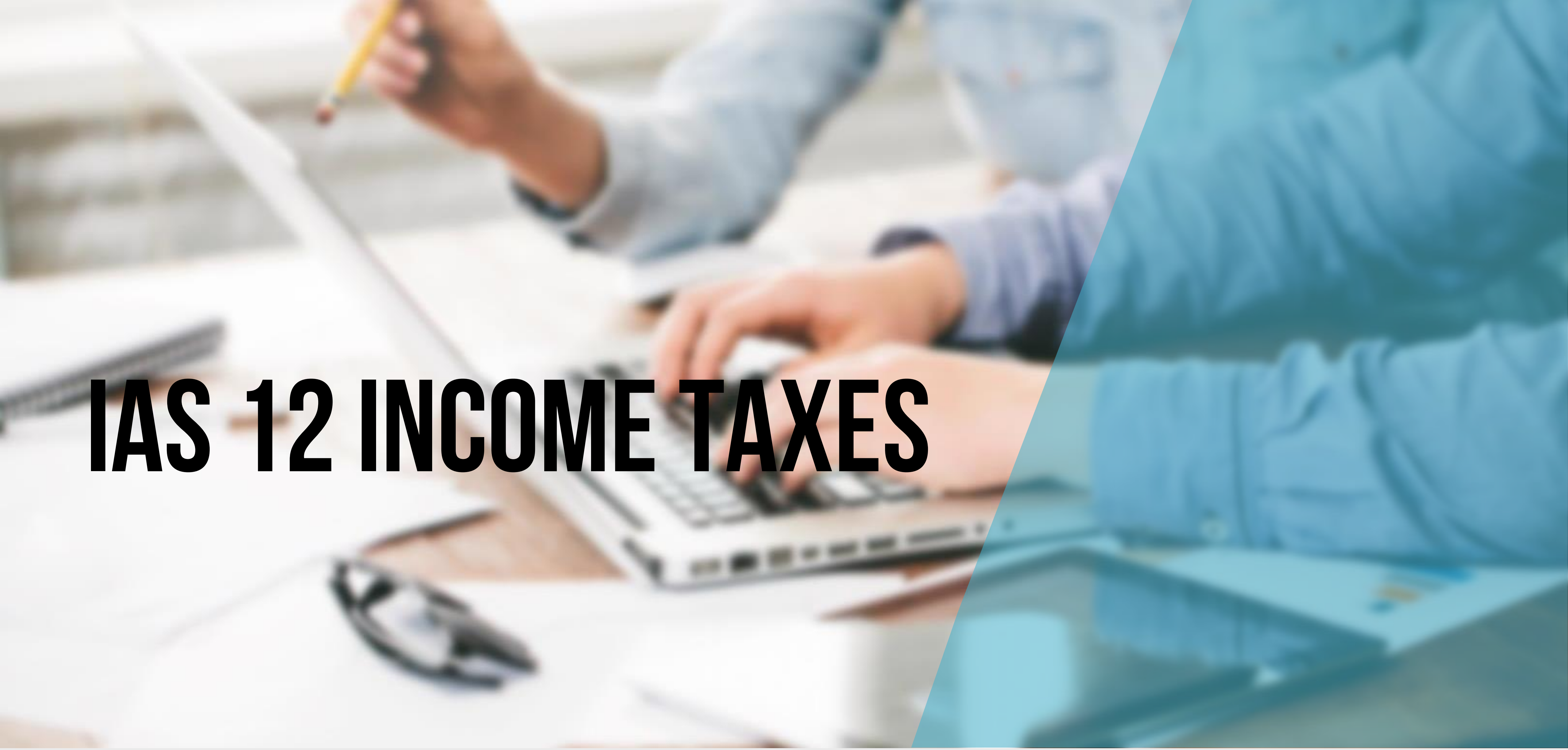

# IAS 12 INCOME TAXES

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# ***IAS 12 Income Taxes***

## Definitions

**Tax base**
The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes
**Taxable temporary differences**
Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled
**Deductible temporary differences**
Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled
**Deferred tax liabilities**
The amounts of income taxes payable in future periods in respect of taxable temporary differences
**Deferred tax assets**
The amounts of income taxes recoverable in future periods in respect of: deductible temporary differences the carry forward of unused tax losses, and the carry forward of unused tax credits
**Current tax**
Amount expected to paid to tax authorities on the current year's income
**Recognised as Asset:**
If the amount of tax already paid is less than the amount due, difference result in Asset .
**Recognised as Liability**
If the tax expense for current year is not paid yet, it is recognized as Liability.

## Presentation

If the entity has legal right, offsetting of current asset and current liabilities is allowed.
The amount of tax expense (or income) related to statement profit or loss is required to be presented in the statement(s) of profit or loss and other comprehensive income.
The tax effects of items included in other comprehensive income can either be shown net for each item or separately.

## Deferred tax

Deferred tax deals with the occurrence of mismatch because International Financial Reporting Standards (IFRS) recognition criteria for items of income and expense are different from the treatment of items under tax law. Those differences which are capable of reversing in future are known as **temporary differences**

Temporary Difference = Carrying Amount − Tax base

Deferred Tax asset = Timing difference resulting into assets × Tax rate

Deferred Tax Liability = Timing difference resulting into Liabilities × Tax rate

## Recognition of deferred tax assets

- ❖ Deferred tax asset is recognized on those temporary differences which are capable of deduction in future provided it is probable that in future years taxable profits will be available.

**Exceptions**

- ❖ initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect accounting profit or taxable profit.
- ❖ Where in case temporary difference arise from investment in subsidiaries, branches and associates , are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference will be utilised
- ❖ Carrying amount of deferred tax asset is reviewed every year and if probable future income not foreseeable, it is reversed.
- ❖ For carry forward of losses deferred tax is recognized only if there will be sufficient future taxable profit against which the loss or credit carry forward can be utilized.

## Recognition of deferred tax liability

Deferred tax liability is recognised for all taxable temporary differences resulting in liabilities.

**Exceptions**

- ❖ initial recognition of goodwill
- ❖ Initial recognition of an asset/liability that does not affect accounting or tax profit and the transaction is not a business combination
- ❖ Investments in subsidiaries, branches and associates, and interests in joint ventures where company can control the timing of the reversal.

## Measurement of deferred tax

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled

IAS 12 provides the following guidance on measuring deferred taxes:

- measurement of deferred taxes is consistent with the way in which an asset is recovered or liability settled
- Where deferred taxes arise from revalued non-depreciable assets (e.g. revalued land), deferred taxes reflect the tax consequences of selling the asset
- Deferred taxes arising from investment property measured at fair value under IAS 40 Investment Property reflect the rebuttable presumption that the investment property will be recovered through sale.
- If dividends are paid to shareholders, and this causes income taxes to be payable at a higher or lower rate, or the entity pays additional taxes or receives a refund, deferred taxes are measured using the tax rate applicable to undistributed profits
- Deferred tax assets and liabilities cannot be discounted.

## Illustrative Disclosures

XYZ Co. bought an asset for AED 150,000 at the start of the financial year. The asset has an estimated life of 6 years and an estimated residual value of AED 30,000.

Capital allowances are available at a rate of 25% reducing balance and the tax rate is 20%.

Calculate the deferred tax asset/liability to appear in the statement of financial position

Depreciation: (15000-30000)/6 = AED 20,000 p.a

Cost 150000

Tax allowance @25% (37500)

Tax WDV 112500

Year 1 Carrying value Tax WDV

Temporary Difference

1,30,000 1,12,500

17,500

(1,50,000 – 20,000)

CV>TWDV therefore resulting Deferred tax liability 17500*20% = 3500 AED

## Disclosure

IAS 12 requires the following disclosures:

- Major components of tax expense
  - current tax expense (income)
  - adjustments of taxes of prior periods
  - amount of deferred tax expense (income) relating to the origination and reversal of temporary differences
  - amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes
  - amount of the benefit arising from a previously unrecognized tax loss, tax credit or temporary difference of a prior period
  - write-off , or reversal of a previous write down, of a deferred tax asset amount of tax expense (income) relating to changes in accounting policies and corrections of errors.
- aggregate current and deferred tax relating to items recognised directly in equity
- tax relating to each component of other comprehensive income
- explanation of the relationship between tax expense (income) and the tax that would be expected by applying the current tax rate to accounting profit or loss
- changes in tax rates
- amounts and other details of deductible temporary differences, unused tax losses, and unused tax credits
- temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements  for each type of temporary difference and unused tax loss and credit, the amount of deferred tax assets or liabilities recognised in the statement of financial position and the amount of deferred tax income or expense recognised in profit or loss
- tax relating to discontinued operations
- tax consequences of dividends declared after the end of the reporting period
- information about the impacts of business combinations on an acquirer's deferred tax assets
- recognition of deferred tax assets of an acquiree after the acquisition date.