

IAS 12 Income Tax

CPA Anthony M. Njiru

September 2018

Objectives



- ☐ Overview of tax
- ☐ Current tax Summary
- ☐ Deferred tax

Tax Expense



... is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax

Current Tax



Expense is based on estimate for the current year adjusted for:

- ❖ Over provision in prior year
- ❖ Under provision in prior year

Liability or asset is the amount due or overpaid at the year end

Deferred Tax



This is an accounting measure used to match tax effects of transactions with their accounting impact.

Deferred tax refers to tax payable or to be saved in future as a result of current transactions

Deferred Tax



Deferred tax liabilities

The amounts of income taxes payable in future periods in respect of taxable temporary differences

Deferred Tax



Deferred tax assets

The amounts of income taxes recoverable in future periods in respect of:

deductible temporary differences

the carryforward of unused tax losses, and

the carryforward of unused tax credits

Computation of Deferred Tax Liability/Asset



Carrying amount of asset/liability	X
Less: tax base of asset/liability	(X)
Temporary difference	<hr/> X
@applicable tax rate r%	X
Deferred tax asset/liability	<hr/> X <hr/>

Note: Balance Sheet Liability Method



Temporary Difference



These are differences between the carrying amount of an asset or a liability in the balance sheet and its tax base.

Temporary Difference



Carrying amount of asset/liability	X
Less: tax base of asset/liability	(X)
Temporary difference	X

Taxable Temporary Difference



These are temporary differences that will result in taxes payable in future periods when the carrying amount of an asset or a liability is recovered or settled.

Deductible Temporary Differences



These are temporary differences that will result in amounts that are deductible in determining profits or losses of future periods when the carrying amount of the asset or liability is recovered or settled.

Carrying Amount



The carrying amount refers to the amounts that the company has on its books for an asset or a liability.

For example, the carrying amount of a company's truck is the cost of the truck minus the accumulated depreciation on the truck.

Tax Base



The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes

Tax Base Of An Asset



Tax base of an asset is the carrying amount except

1. A depreciating asset with capital allowances

$\text{Tax base} = \text{TWDV}$

2. Receivables net of general provision

$\text{Tax base} = \text{Carrying amount} + \text{General provisions}$

3. Receivables taxed on cash basis

$\text{Tax base} = 0$

Practical Illustration – Tax Base of An Asset



Example 1

A machine cost sh. 100,000, sh 30,000 of wear and tear has already been deducted for tax purposes in the current and prior periods. The remaining cost of sh. 70,000 will be deductible in future periods for tax purposes. Revenue generated by using the machine will be taxable. If the carrying amount of the machine in the balance sheet is sh 80,000, what is the tax base of the machine?

Solution:

Practical Illustration – Tax Base of An Asset



Example II

Interest receivable has a carrying amount of sh. 80,000.
If the related interest revenue is taxed on a cash basis,
what is the tax base of interest receivable?

Solution:

Practical Illustration – Tax Base of An Asset



Example III

Trade receivable have a carrying amount of sh. 100,000. The related revenue has already been included in taxable profit (loss). What is the tax of the Trade receivable?

Solution

Practical Illustration – Tax Base of An Asset



Example IV

Dividends receivables from a subsidiary have a carrying amount of sh. 100,000. The dividends are not taxable. What is the tax base of the dividends receivables?

Solution

Practical Illustration – Tax Base of An Asset



Example V

A loan receivable has a carrying amount of sh 100,000.

What is tax base?

Solution

Practical Illustration – Tax Base of An Asset



Example VI

Inventory has a carrying value of sh. 100,000. What is its tax base?

Solution:

Tax Base of A Liability



- ❖ Tax base of a liability payable is the non deductible amount in future
- ❖ Tax base of income in advance is the amount taxable in future

Practical Illustration – Tax Base of A Liability



Example I

Current liabilities include accrued expenses of Ksh. 100,000. The related expenses will be deductible for tax purposes on cash basis. What is its tax base?

Practical Illustration – Tax Base of A Liability



Example II

The current liabilities of an enterprise include fines and penalties with a carrying amount of sh. 100,000. Fines and penalties are not deductible for tax purposes. What is the tax base of the fine and penalties?

Practical Illustration – Tax Base of A Liability



Example III

A loan payable has a carrying amount of sh. 100,000.
What is its tax base?

Practical Illustration – Tax Base of A Liability



Example IV

Current liabilities include interest received in advance with a carrying amount in of sh. 100,000. The related interest revenue was taxed on cash basis. What is the tax base of the interest revenue received in advance?

Solution:

Tax Base Of Unrecognized Items



Some items have a tax base but are not recognized as assets and liabilities in the balance sheet.

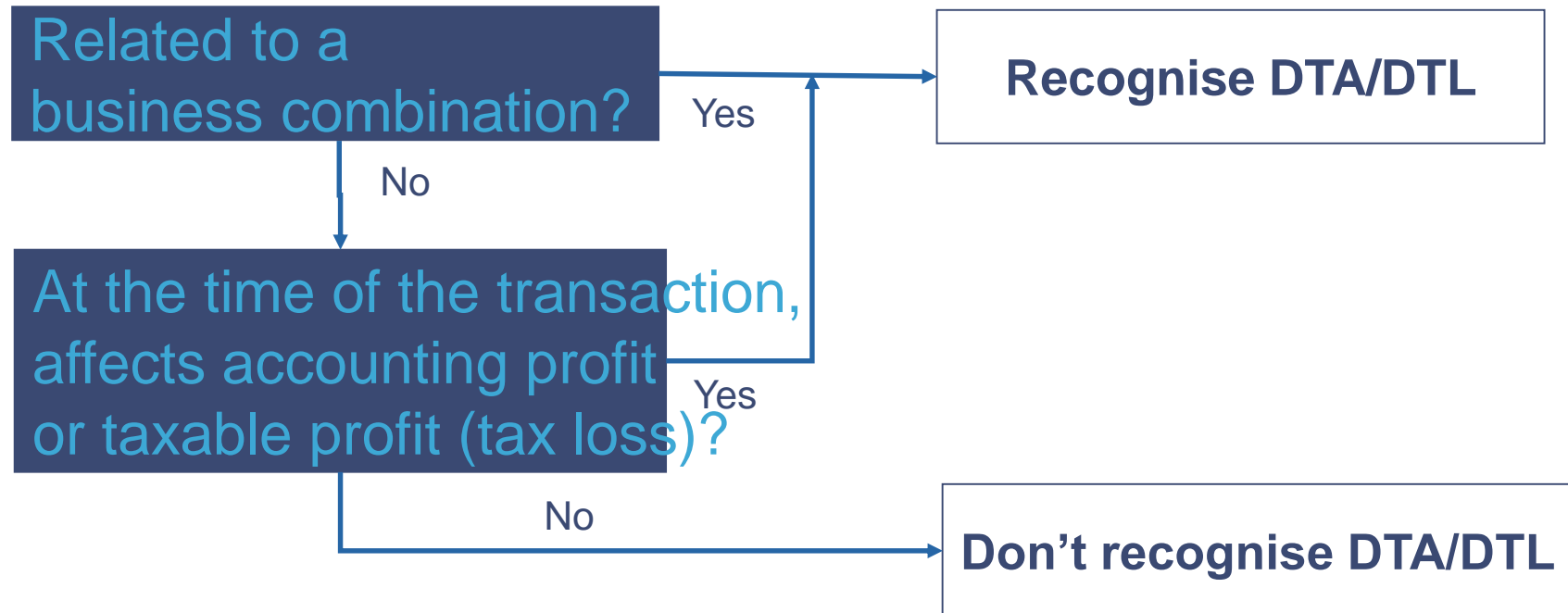
Unrecognized items. If items have a tax base but are not recognized in the statement of financial position, the carrying amount is nil [IAS 12.9]

Specific Exemption - Initial recognition



The tax effect of all temporary differences arising on initial recognition of an asset or liability which:
is not a business combination
at the time of the transaction, affects neither
accounting profit nor taxable profit/loss,
should not be recognised (12.15).

Initial recognition of assets and liabilities



Specific Exemption - Goodwill



No deferred tax liability shall be recognized in respect of goodwill arising in a business combination for which impairment is not deductible for tax purposes

Revaluations



Revaluations of property, plant and equipment increase the carrying amount of an asset without affecting the tax base.

The resulting change in the temporary difference has not arisen on initial recognition. Therefore the deferred tax must be recognised (12.20).

Illustration



Lami Limited had a deferred tax liability as at 1 May 2016 of Sh.100 million. For the purposes of preparing the financial statements for the year ended 30 April 2017, the following additional information is available:

1. Property, plant and equipment has a carrying amount of Sh.1,200 million and a tax base of Sh.1,000 million. Some land and buildings were revalued upwards by Sh.50 million during the year ended 30 April 2017.
2. Intangible assets consisting of trade licenses being amortized over five years had a carrying amount of Sh.60 million. This was allowed for tax purposes in 'full two years ago.
1. The company has available for sale financial assets with a carrying amount of Sh.20 million and financial assets at fair value through profit and loss of Sh.10 million. Both financial assets reported losses in fair value of Sh.2 million each as at 30 April 2017.

1. Inventory is shown at the lower of cost and net realizable value. The cost is Sh.800 million while the net realizable value is Sh.780 million.
2. Receivables had a carrying amount of Sh.500 million after making an allowance for doubtful debt of Sh.20 million and an exchange gain or Sh. 40 million (unrealized). Both the allowance and exchange gain are not allowed for tax purposes.

-
6. Trade and other payables are stated at Sh.900 million after making a provision for discount of Sh. 10 million.
 7. Assume a tax rate of 30%.

		Balance b/f	XX
		Revaluation reserve	XX
		(tx revaluation gain)	
		Income statement	XX
		(Balancing amount)	
Balance c/f	xx		
Tx taxable temporary			
Differences			
	<u>XX</u>		<u>XX</u>

Disclosure



major components of tax expense

aggregate current and deferred tax relating to items recognized directly in equity tax relating to each component of other comprehensive income

changes in tax rates amounts and other details of deductible temporary differences, unused tax losses, and unused tax credits

End



GOD BLESS YOU ALL