IAS 12 (Deferred tax and related amendments)
Presentation by:

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Presentation agenda

Agenda

- Components of tax expense
- Basic concepts of IAS 12
- Exemptions within IAS 12
- Computation of deferred tax on commonly encountered assets and liabilities
- Disclosure requirements under IAS 12
- Tax reconciliation – "Proof of tax"
- Amendments to IAS 12

Introduction

IAS 12 specifies the accounting treatment for income taxes, including how to account for the current and future tax consequences.

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 (12.5).

Current tax

Current tax is the amount of income tax payable/recoverable in respect of the taxable profit/loss for the period (12.5).

Current tax for current and prior periods should, to the extent unpaid, be recognised as a liability (12.12).

Deferred tax

Deferred tax relates to all differences between the carrying amount of assets and liabilities in the statement of financial position, and the tax base of assets and liabilities.

A deferred tax asset or liability arises if recovery (settlement) of assets (liabilities) affects the amount of future tax payments.

Recognition

Deferred tax assets are recognised **only if it is probable** that future taxable profit will be available to absorb the losses or credits or deductible differences.

The existence of unused tax losses may indicate that future taxable profit is not probable.

Recognition

The tax consequences of transactions and events are recognised in the same financial statement as the transaction or event—i.e. either in the statement of comprehensive income or directly in equity.

Recognition of deferred tax assets or liabilities in a business combination affects the amount of goodwill.

Measurement

- Deferred tax is measured at tax rates expected to apply when the deferred tax asset (liability) is realised (settled) and reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover (settle) the carrying amount of its assets (liabilities).
- Exceptions when revaluation model used for non-depreciable asset and fair value model used for investment property.
- Deferred tax assets and liabilities are not discounted.

Measurement

- The tax rate expected to apply in future is generally indicated by the tax rate that is in force at end of the reporting period.
- Deferred tax assets or liabilities are adjusted when a new tax rate is substantively enacted.
- The adjustment is accounted for as a revision to an accounting estimate, i.e. it affects that period's profit or loss.

Calculation of deferred tax

For every asset and liability in the statement of financial position, and for tax losses carried forward:

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

Calculation of deferred tax

What is a temporary difference?

Temporary difference = [the carrying value of an asset or liability] - [its tax base]:

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

Calculation of deferred tax

Temporary differences can be .....

taxable differences - giving rise to deferred tax liabilities; or

deductible differences - giving rise to deferred tax assets (12.5)

Calculation of deferred tax

What is the meaning of **tax base**?

...... "the amount attributed to that asset or liability for tax purposes" (12.5)

The tax base of an asset is the amount that will be deductible for tax purposes ... when the entity recovers the carrying amount of the asset (12.7).

ie Tax base = future deductible amount

Note: if the future recovery of the asset is not taxable, the tax base is equal to the carrying amount.

Calculation of deferred tax

What happens when depreciable assets are revalued?

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

They therefore create additional temporary differences on which deferred tax must be recognised (12.20).

Calculation of deferred tax

Exceptions to the rule

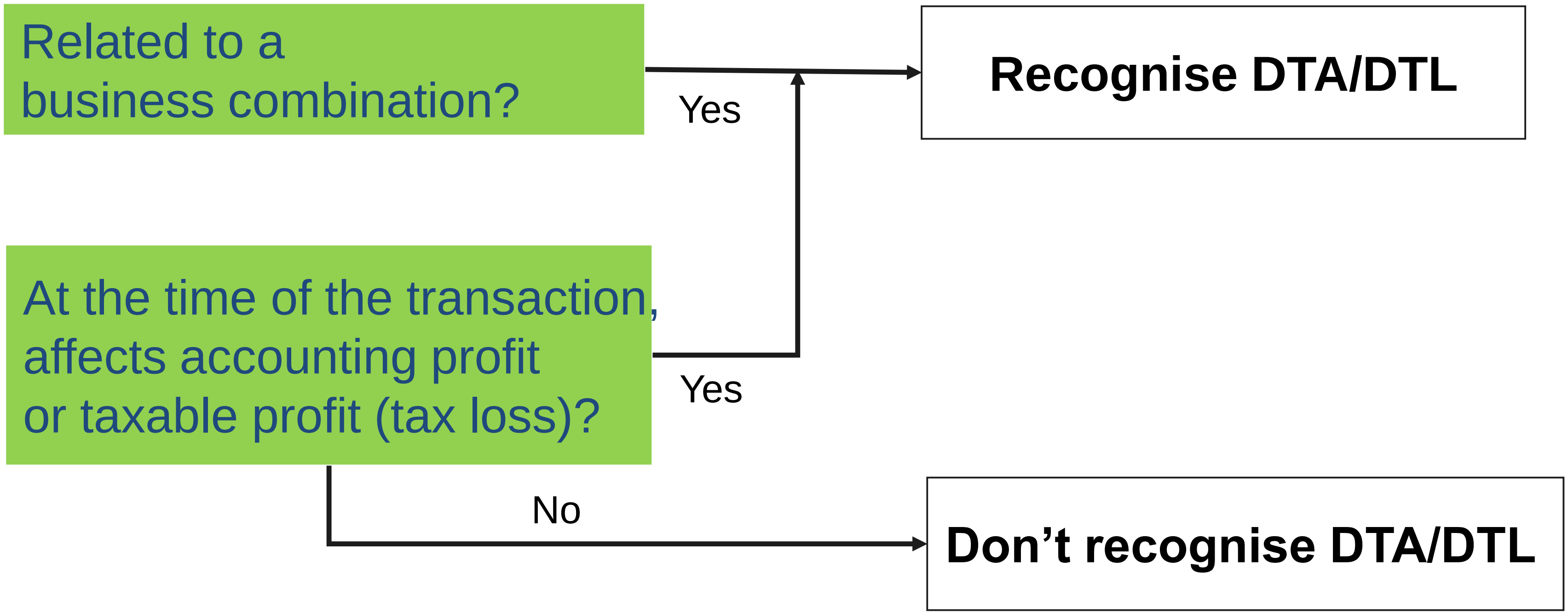
Deferred tax should not be recognised (12.15) when:

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,

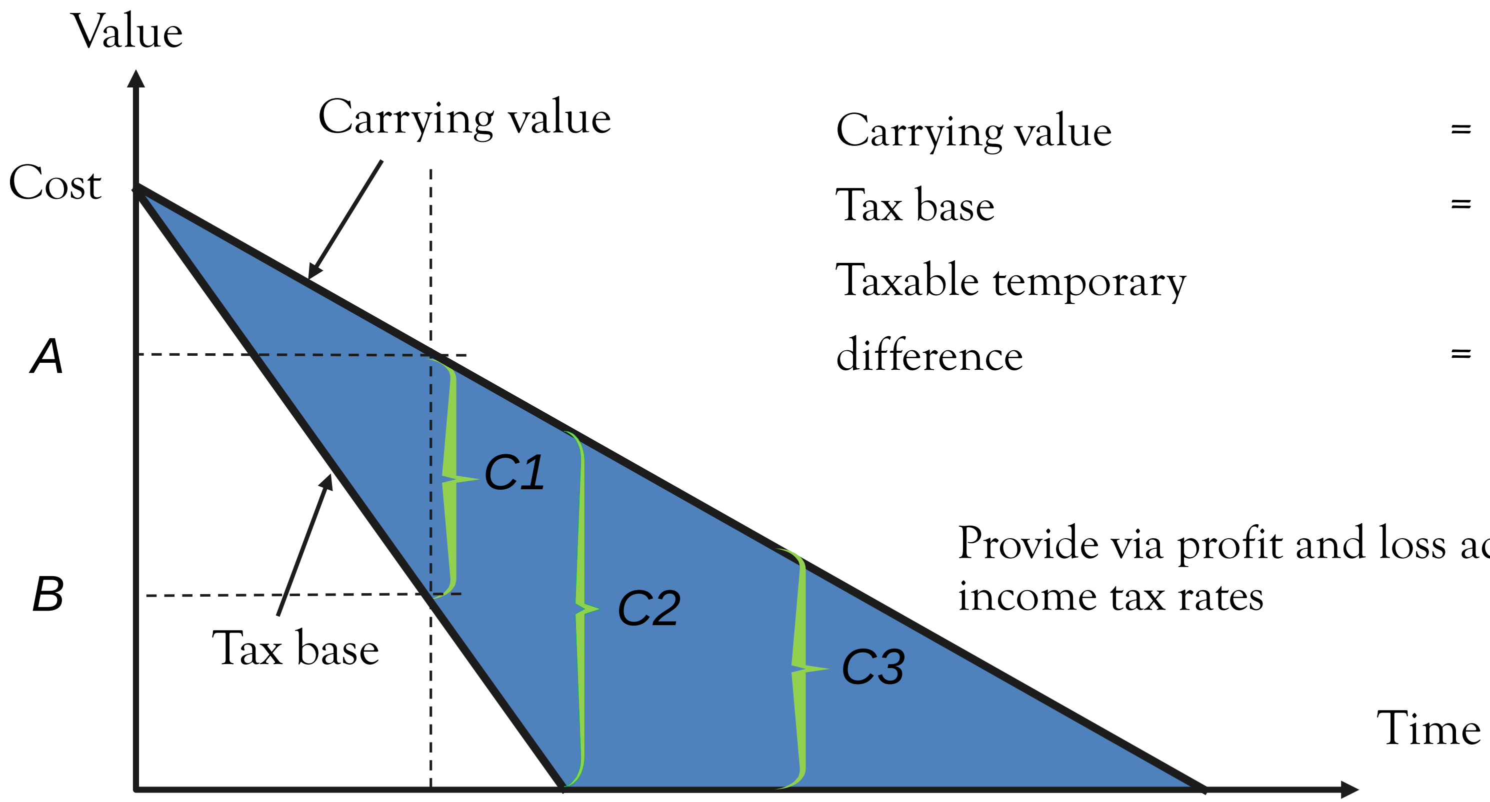
Calculation of deferred tax

Exceptions to the rule



Calculation of deferred tax

Example of origination and reversal of temporary differences



Carrying value	=	A
Tax base	=	B
Taxable temporary difference	=	C

Provide via profit and loss account at income tax rates

Presentation and disclosure

Presentation ....

Deferred tax should be recognised in the profit and loss account except where the transaction giving rise to the asset or liability is recognised directly in equity, or from a business combination (12.58): e.g.

- prior year adjustments
- revaluation surpluses
- “excess” depreciation.

Presentation and disclosure

Offsetting ….

Deferred tax assets and liabilities may be offset only if:

- The entity has a legally enforceable right to set off current tax assets against current tax liabilities
- The deferred tax assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity (12.74).

Presentation and disclosure

Disclosures to the profit or loss....

The components of the tax expense which include:

- current tax
- deferred tax movement
- prior period under/over provision
- deferred tax asset not previously recognised (12.79).

And also tax relating to discontinued operations (12.81(h)).

Presentation and disclosure

Disclosures to the profit or loss….

….. a reconciliation of:

- the tax expense, to
- the accounting profit multiplied by the applicable tax rate

The "proof of tax" (12.81(c)).

Presentation and disclosure

Proof of tax

Reconciliation of expected tax based on accounting profit to tax charge

Accounting profit before taxation	X
Tax at the applicable rate of 30%	X
Add back: Tax effect of expenses not deductible for tax purposes	(X)
Deduct: Tax effect of non-taxable income and allowances	X
Taxation charge/(credit)	X

Presentation and disclosure

Disclosures to the statement of financial position....

- The movement of gross deferred tax assets and liabilities analysed by category of temporary difference (12.81(g))
- The evidence supporting recognition of deferred tax assets if the entity is making losses (12.82)
- The amount of temporary differences and unused tax losses for which no deferred tax asset is recognised (12.81(e)).

Amendments to IAS 12

for annual periods beginning on or after 1 January 2018 with earlier application permitted….

- Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;

Amendments to IAS 12

for annual periods beginning on or after 1 January 2018 with earlier application permitted….

- When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;

Amendments to IAS 12

for annual periods beginning on or after 1 January 2018 with earlier application permitted….

- The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
- In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

Interactive Session