Accounting for Taxes on Income

(Accounting Standard-22)

1. This AS is **mandatory in nature** for all entities (Companies or Non-Companies).
2. This AS was issued with objective of matching Income/Expenses with its tax effects. This standard is one of application of matching concept.
3. **Meaning**
   i. **Accounting income means** *profit or loss calculated* as per generally accepted accounting principles *before considering tax effects (PBT).*
   ii. **Taxable income means** *profit/loss calculated* as per tax laws (Total Income).
   iii. **Current tax means** tax computed *on taxable income*, as per tax laws.
   iv. **Deferred tax means tax** calculated *on timing difference*. Def. tax can be in nature of Asset or Liab. (DTA/DTL)
   v. **Tax expenses** to be recognized in P&L A/c (above the line) and it are equal to Current tax+/- Deferred tax.
   vi. **Timing difference means** allowance or disallowance, while calculating Taxable income, which are *capable of reversal in future years.* Unabsorbed depreciation and carry forward losses are also timing difference.
   vii. **Permanent difference** means allowance r disallowance in Income tax, which are *not capable of reversal.*

4. **Prudence level (Para 15 & 17)**
   Any entity should create <u>DTA only</u> when prudence levels have been satisfied.

   Para 17
   Whenever any entity has unabsorbed <u>depreciation or carry forward losses</u>, then DTA should be created, only if there is <u>virtual certainty supported by convincing</u> evidence that there will be <u>sufficient taxable future income</u> against which such DTA can be realized.

   Para 15
   Whenever entity <u>does not</u> has unabsorbed depreciation or carry forward losses, then DTA should be created, if there is <u>reasonable certainty</u> that there will be sufficient taxable future income against which such DTA can be realized.

5. **DTA/DTL** = Timing difference × Rate of tax
   Rate of tax to be applied for calculation of DTA/DTL will be rates as per
   - Enacted law or
   - Laws which have been substantially enacted
     On reporting date.

6. **Presentation DTA/DTL and Current tax/Advance tax**
   DTA/DTL or CT/AT should be presented in statement of financial position (Balance sheet) as asset or liability.
   Note: DTA/DTL can be set off if CT/AT can be set off.

7. **Presentation in Balance sheet**
   <u>Pre-revised Schedule-VI</u>
   - DTA were reported *after Investment* as separate head.
   - DTL were reported *after unsecured loan* as separate head.

   (This presentation is given by **"ASI-7"**)

   <u>Revised Schedule-VI</u>

   - DTA should be reported as Non-Current asset as separate item.
   - DTL should be reported as Non-Current liab. as separate item.

   Note: ASI-7 needs to be redrafted and changes to be made as per Revised VI.

8. **Disclosure requirements**
   i. VCCE evidence in VCCE should be disclosed.
   ii. Constituents of DTA/DTL should be reported.

9. **DTA/DTL should not be discounted.**

10. **Transitional Provisions are not relevant for exams.**

11. **Meaning of VCCE**
    VCCE means
    - For practical purpose it is complete certain level.
    - It should be based on evidence and not perception.
    - Such evidence can be in form of govt. contract, govt. subsidy, export order, general binding contracts etc. **(ASI-9).**

12. MAT (Minimum alternative tax)

i. DTA/DTL will be created on companies covered under MAT. Such creation will be as usual.
ii. Rate of tax for DTA/DTL will be regular. MAT rate is not applied on DTA/DTL.
iii. It is immaterial that company is covered under MAT/will be covered under MAT.

13. A.S.I- 3 & 5

Tax holiday u/s 80IA, 80IB, 80IC, 10A, 10B, 10C
Deduction resulting in Tax holiday.
(ASI-3- Sec 80IA/B/C)
(ASI-5-Sec 10A/B/C)

i. Timing difference which result in tax holiday and are expected to be reverse in tax holiday are not relevant. DTA/L is not recognized on such timing difference.
ii. Timing which arise in tax holiday and expected to reverse after tax holiday is relevant. DTA/L should be recognized on such items.
iii. FIFO method should be used for reversal of timing difference of similar nature.

14. Examples of items of timing difference:-

S.No.	Item	Resulting In
1.	Excess dep allowed	DTL
2.	Short dep allowed	Reversal of DTL/ Creation of DTA
3.	Disallowance of expense u/s 43B	Creation of DTL
4.	Allowance of expenses u/s 43B	Reversal of DTA
5.	Scientific research expense u/s 35 allowed	Creation of DTL
6.	Scientific research expense u/s 35 disallowed	Reversal of DTL
7.	Provision for doubtful debts	Creation of DTA
8.	Bad debts against Prov. For doubtful debts	Reversal of DTA
9.	Carry forward losses and unabsorbed dep.	Creation of DTA
10.	Setoff of losses / Unabsorbed dep.	Reversal of DTA
11.	**Sale of assets and its profit & loss u/s 50**	**Creation of DTA/L**
12.	Any other allowance or disallowance capable of reversal	Creation of DTA/L