AS-22 (Accounting for Taxes on Income)

- This AS is mandatory in Nature for all entities. (Co. and non Co.)
- This AS was issued with objective of matching Income/expenses with its tax effects. This standard is one of application of matching concept.
- **Meanings**

  * **Accounting Income** means profit or losses calculated as per generally accepted accounting principal before considering tax effect.

  * **Taxable Income** means profit/loss calculated as per tax law.

  * **Current Tax** means tax calculated on taxable income, as per tax laws.

  * **Deferred tax** means tax calculated on timing difference D.tax can be in nature of Assets or liability (DTA/DTL).

  * **Tax expense** is to be recognized in PnL A/c (above the line)

  tax expense = current tax ± deferred tax

  * **Timing Difference** means allowance or disallowance, while calculating Taxable Income, which are capable of reversal in future years, unabsorbed depreciation and carry fwd of losses are also timing difference.

  * **Permanent Difference** means allowance or disallowance in Income tax which are NOT capable of reversal.
- **Prudance level (Para 15&17)**

  Any entity should create DTA only when prudence level has been satisfied.

  Para 17 :- Whenever any entity has un absorbed Depreciation or carry fwd of losses, then DTA should be created, only if there is Virtual Certainty supported by Convincing evidence that there will be sufficient taxable future income against which such DTA can be realized.

  Para 15 :- Whenever entity does NOT has unabsorbed Depreciation or carry fwd of losses then DTA should be created if, there is reasonable certainty that there will be sufficient, taxable future Income against which such DTA can be realized.
- **D.Tax Asstes/ Liability = Timing Difference X rate of Tax**

  Note: Rate of tax under consideration will be rate of tax as per prevailing law or law which is substantially prevailing. On the date of reporting.

  Rate of tax will be calculated as the mean of tax on Income. If surcharge or EC and HEC are under consideration.
- DTA/ DTL or CT/AT should be presented in statement of Financial position (Balance Sheet) as assets or Liability.

  CT/AT can be offset if both are as per applicable governing law and parties intend to do so and they are related to same year.
- **Presentation in Balance Sheet.**

  Pre-revised Schedule VI

  DTA were reported after Investment as separate **Head.**

  DTL were reported after unsecured loans as separate **Head.**

  (Above presentation was giving as per AS interpretation)

Revised Schedule VI

DTA should be reported as noncurrent Assets as a separate **Item**.

DTL should be reported as noncurrent Liability as separate **Item.**

Note : ASI-7 is needed to be redrafted after issue of Schedule VI.

- **Disclosure Requirement.**

  * **VCCE** evidence in VCCE (Virtual Certainty supported by Convincing evidence) should be disclosed.

  * Constituents of DTA/DTL should be reported.
- DTA/DTL should not be discounted for.
- **Transactional Provisions** are not relevant for exams.

Note :- Meaning of VCCE (Virtual Certainty supported by Convincing evidence)

* For Practical purpose it is completely certain level.

* It should be based on Evidence and not on perception.

* Such evidences can be in form of govt. contracts, govt. subsidy, export order, general building contracts etc (ASI-9).

- **ASI-6 M.A.T. (Minimum Alternative Tax)**

  * DTA/DTL will be created on companies covered under MAT. Such creation will be as usual.

  * Rate of tax for DTA/DTL will be regular. MAT rate is not applied on DTA/DTL.

  * It is immaterial that companies **is** covered u/d MAT or **will be** covered u/d MAT.

Calculation of DTA/DTL

Opening Balance	xxx
Addition	xxx
Reversal	xxx
Closing balance	xxx
D.Tax on closing balance	xxx
opening balance of D.tax	xxx
Transfer to PnL A/c	xxx

- **Thing to remember.**

What creates DTA	**What creates DTL**
• Short Depreciation u/d IT. • Disallowance of Exp u/d sec 43B. • Provision for D.debts. • Sale of profit and its profit. • Any other allowance of disallowance capable of reversal. (Any allowance or disallowance which **decreases** future profits.)	• Excess Depreciation allowed u/d IT. • S.Res Exp u/d sec 35. • C/f of losses and unabsorbed Dep. • Sales of assets and its loss. • Any other allowance of disallowance capable of reversal. (Any allowance or disallowance which **Increases** future profits.)