June 2021

IAS 12 Income Taxes

SCOPE

For purposes of IAS 12 income taxes include:

- All domestic and foreign taxes based on taxable profits, and
- Taxes such as withholding taxes payable by a subsidiary/associate/joint arrangement on distributions to the reporting entity.

IAS 12 NOT deal with accounting for government grants or investment tax credits, however, does deal with accounting for temporary differences which may arise from such grants or investment tax credits.

CURRENT TAX

1. Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period:
   - Unpaid current tax for the current and prior period shall be recognized as a liability.
   - If amount paid exceeds amount due for those periods recognize excess as an asset.
2. The benefit relating to a tax loss that can be carried back to recover current tax of a prior period shall be recognized as an asset.
3. Measured using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

OFFSET

1. An entity shall offset current tax assets and liabilities only if (i) the entity has a legally enforceable right to set off current tax assets against current tax liabilities, and (ii) intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.
5. An entity shall offset DTA and DTL only if (i) the entity has legally enforceable right to set off current tax assets against current tax liabilities, and (ii) the DTA and DTL relate to income taxes levied by the same taxation authority on either the same taxable entity or different entities which intend to net settle or to simultaneously realize the asset and settle the liability.

DEFINITIONS

Temporary differences are differences between carrying amount of an asset or liability in the statement of financial position and its tax base.

- DTL - income taxes payable in future periods from taxable temporary differences.
- DTA income taxes recoverable in future periods from deductible temporary differences and carryforward of unused tax losses and credits.

*absolute values (i.e., do not use "- "for liabilities)	Deductible Temporary Differences ↓ taxes payable when carrying amount of asset is recovered or liability is settled.	Taxable Temporary Differences ↑ taxes payable when carrying amount of asset is recovered or liability is settled.
ASSETS*	Tax Base (TB) > Carrying Amount (CV) TB – CV = "+"	Tax Base (TB) < Carrying Amount (CV) TB – CV = "– "
LIABILITIES*	Carrying Amount > Tax Base CV – TB = "+"	Carrying Amount < Tax Base CV – TB = "– "

TAX BASE OF AN ASSET

- Amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers carrying amount of asset.
- If economic benefits will not be taxable → tax base = carrying amount.

TAX BASE OF A LIABILITY

- Carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods.
- In case of revenue received in advance, the tax base of the resulting liability is its carrying amount less revenue that will not be taxable in future periods.

RECOGNITION

DEFERRED TAX ASSETS (DTA)

1. Recognize for all deductible temporary differences to extent it is probable taxable profit will be available against which the deductible temporary differences can be utilized unless the DTA arises from the initial recognition of an asset or liability in a transaction that (i) is NOT a business combination, and (ii) at the time of the transaction affects NEITHER accounting profit nor taxable profit (loss).
2. Recognize for all deductible temporary differences associated with investments in subsidiaries, branches, and associates, and interests in joint arrangements, only to the extent that it is probable that (i) the temporary difference will reverse in the foreseeable future, and (ii) taxable profit will be available against which differences can be utilized.
3. Recognize for the carryforward of all unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.
4. Reassess unrecognized deferred tax assets at the end of each financial reporting period.

DEFERRED TAX LIABILITIES (DTL)

1. Recognize for all taxable temporary differences, except to extent that it arises from initial recognition of (i) goodwill, or (ii) an asset or liability in a non-business combination transaction, which at time of transaction affects NEITHER accounting profit nor taxable profit (loss) and does not give rise to equal amounts of taxable and deductible temporary differences.
2. Recognize for all taxable temporary differences associated with investments in subsidiaries, branches, and associates, and interests in joint arrangements, except to the extent (i) the parent, investor, joint venture/operator can control the timing of the reversal, and (ii) it is probable that temporary differences will NOT reverse in foreseeable future.

MEASUREMENT - DEFERRED TAX ASSETS AND LIABILITIES

1. Measured using tax rates expected to apply to the period when the asset is realized or the liability is settled, using tax rates and tax laws that have been enacted, or substantively enacted by the end of the reporting period.
2. Shall reflect tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.
3. Deferred tax assets and liabilities shall not be discounted.
4. Deferred tax assets shall be reviewed at the end of each reporting period:
   - The carrying amount shall be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit or part or all of that DTA to be utilized, and
   - Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

ITEMS RECOGNIZED IN P&L

1. Current and deferred tax shall be recognized in the P&L, except to the extent it is from (i) a transaction/event which is recognized outside the P&L, either in OCI or directly in equity, or (ii) a business combination, other than for an investment entity of a subsidiary measured in the P&L at fair value.
2. Current and deferred tax shall be recognized outside of the P&L if the tax relates to items that are recognized outside of the P&L:
   - If the item is recognized in OCI, the related deferred or current tax is recognized in OCI, and
   - If the item recognized in equity, the related deferred or current tax is recognized in equity.