

5. Income taxes



Summary

This chapter covers:

- Ind AS 12, *Income Taxes*



Income taxes include all taxes (domestic and foreign) based on taxable profits. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of the following:

- The future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's balance sheet
- Transactions and other events of the current period that are recognised in an entity's financial statements.



Key principles

General principles

- Ind AS 12 includes all domestic and foreign taxes which are based on taxable profits as also withholding taxes (which are payable by a subsidiary, associate or joint venture on distributions to investors).
- Ind AS 12 requires recognition of tax consequences of difference between the carrying amounts of assets and liabilities and their tax base.
- Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.
- Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.
- Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, carry forward of unused tax losses and carry forward of unused tax credits.



- A Deferred Tax Asset (DTA) or a Deferred Tax Liability (DTL) is not recognised if:
 - It arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and
 - At the time of transaction, it affects neither accounting profit nor taxable profit.
- DTL/DTA is not recognised in respect of temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements if certain conditions are met. For example, in the case the investor is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future.
- A DTA is required to be recognised for the carry forward of 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 utilised.

Measurement

- Current and deferred taxes are measured based on rates that are enacted or substantively enacted at the reporting date.
- Deferred tax liabilities and assets are measured based on the expected manner of settlement (liability) or recovery (asset).
- Deferred tax assets and liabilities are not discounted.
- The carrying amount of a deferred tax asset is required to be reviewed at the end of each reporting period.
- The total income tax expense (income) recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period, excluding tax recognised outside profit or loss.
- Tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity.
- Tax consequences that relate to amounts recognised in OCI are required to be recognised in OCI.

Presentation

- A DTA or DTL is classified as a non-current asset or liability respectively in the balance sheet.

Offsetting

- The current tax assets and current tax liabilities can only be offset against each other when the entity has a legally enforceable right to set off and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
- The same principle as above applies for offsetting deferred tax assets and deferred tax liabilities.

Appendix C, Uncertainty over Income Tax Treatments

- Key test is to ascertain whether it is probable the tax authority would accept the company's chosen tax treatment.
- In case it is not probable that the tax authority would accept the treatment, an entity would reflect the uncertainty using whichever of the following provides a better prediction of the resolution of the uncertainty-either:
 - The most likely amount
 - The expected value.
- Entities should provide the following disclosures:
 - Judgements made
 - Assumptions and other estimates used
 - Potential impact of uncertainties that are not reflected.

Significant differences from IFRS¹

- IAS 12, *Income Taxes*, provides that acquired deferred tax benefits recognised within the measurement period that result from new information about facts and circumstances existed at the acquisition date should be applied to reduce the carrying amount of goodwill related to that acquisition. If the carrying amount of that goodwill is zero, any remaining deferred tax benefits should be recognised in profit and loss. However, under Ind AS 103, bargain purchase gain is recognised in capital reserve rather than in profit or loss. Therefore, under Ind AS 12, if the carrying amount of such goodwill is zero, any remaining deferred tax benefits would be recognised in the OCI and accumulated in equity as capital reserve or recognised directly in capital reserve.

1. Indian Accounting Standards: An Overview (Revised 2019) published by the ICAI

Guidance from ITFG clarifications

Ind AS 12 requires a DTA/DTL to be created for all deductible/taxable temporary differences, except in specified situations e.g. if it arises from a transaction that affects neither accounting profit nor taxable profit (tax loss) at the time of the transaction (known as initial recognition exemption).

In addition, Ind AS 12 requires the measurement of DTA/DTL to reflect the 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/liabilities. This may require the exercise of judgement based on facts and circumstances.

Ind AS 12 also specifies that if a non-depreciable asset is measured using the revaluation model under Ind AS 16, the related DTA or DTL is measured based on the tax consequences of recovering the carrying amount of such an asset through sale, regardless of the basis of measuring its carrying amount.

Recognition of deferred tax on freehold land

Entities may hold freehold land which is sometimes expected to be sold on a slump-sale basis and not individually. In such cases, an issue may arise whether or not to recognise a DTA on such land since it will be sold on a slump sale basis and hence, a temporary tax difference would not exist.

Accounting of deferred taxes on freehold land could be a highly judgmental area for entities under Ind AS since it involves considerable estimation. Therefore, entities, should consider all facts and circumstances while accounting for deferred taxes and disclose the judgement taken in respect to deferred taxes on a freehold land.

Since accounting of deferred taxes on freehold land could be a highly judgmental area therefore all facts and circumstances would be considered while accounting for deferred taxes. To address uncertainty, the following steps could be helpful:

- Consider all factors concerning its expected profitability, both favourable and unfavourable, when assessing whether a DTA should be recognised on the basis of availability of future taxable profits. A DTA should be recognised if:
 - An entity has stable earnings history
 - There is no evidence to suggest that current earnings level will not continue into the future, and
 - There is no evidence to suggest that the tax benefits will not be realised for some other reason.
- Assess if the fair value of freehold land is higher than its tax base (due to indexation), then this is a factor taken into account in assessing the probability of whether taxable profits will be available to offset the deductible temporary difference in future.
- While assessing DTA, an entity should also take into account the appropriate scheduling of the reversal of such temporary differences. If the assessment is favourable, then a DTA should be recognised for the deductible temporary differences.
- Assess the situation where an entity does not have an intention to sell freehold land separately, for example, it has constructed a factory on that land and the factory is vital for its operations. The entity should also assess its past experience of slump-sale of such assets.

The difficulty of estimating the timing of the reversal of the temporary difference is not in itself a reason for not recognising a DTA. However, it is a relevant factor in assessing the probability of the availability of future tax profits.

In such a case where an entity held freehold land expected to be sold on a slump sale basis, ITFG clarified that the entity would be required to exercise judgement to determine whether the freehold land will be sold through a slump sale. If so, then the tax base of the land would be the same as its carrying amount as an indexation benefit is not available in case of slump sale under the Income-tax Act, 1961 (IT Act). Therefore, there would be no temporary difference and consequently DTA would not be recognised. (*ITFG 7, Issue 7*)





Creation of deferred taxes on land converted in inventory

The ITFG discussed the conversion of a capital asset into stock-in-trade and its sale after conversion, as per the IT Act. The tax treatment would be as follows:

- **Capital gains tax:** There would be capital gains liability in respect of the conversion of capital asset into stock-in-trade, at market value thereof on the date of conversion. Thus, the capital gains will be computed as the difference between the indexed cost of capital asset to the assessee and the fair market value of such capital asset on the date of its conversion into stock-in-trade. However, the tax will be computed using the capital gains tax rate applicable in the year of actual sale and not in the year of conversion. Also, the capital gains tax will be required to be paid only at the time of sale of the stock-in-trade.
- **Profit/loss on sale of land as stock-in-trade:** As regard the sale of the stock-in-trade, any profit realised or loss incurred (i.e. difference between the sale proceeds and fair value on the date of conversion) will be liable to tax as a business income. Such profit/loss would accrue and be liable to tax at the time of sale of the stock-in-trade. If there is a business loss in the year of sale of stock-in-trade, the IT Act allows the loss to be offset against capital gains arising on conversion. Thus, the liability for capital gain tax on conversion is not sacrosanct and can vary depending on outcome from sale of stock-in-trade.

Considering the above, conversion of capital asset into stock-in-trade would not require an entity to recognise any current tax liability. Under the IT Act, the current tax liability would arise only on the sale of stock-in-trade.

An entity would need to consider deferred tax implications under Ind AS 12 when a capital asset is converted into inventory. Additionally, the recognition of DTA would be subject to consideration of prudence.

In a case, when an entity Z Ltd. purchased certain land as a fixed asset on 1 January 2007 for INR100 which was subsequently converted to inventory on 1 January 2016. At the date of conversion indexed cost of land was INR150 and its fair value was INR1,000.

Z Ltd. adopted Ind AS from 1 April 2018 and its date of transition was 1 April 2017. On the date of transition, the land (now classified as inventory) was recognised at its historical cost (i.e. INR100, which was its carrying value).

The issue considered was whether Z Ltd. recognise deferred tax on land on the date of transition to Ind AS.

In accordance with guidance provided in Ind AS 12, the ITFG clarified as follows:

- On the date of transition to Ind AS (1 April 2017), a deductible temporary difference existed for Z Ltd. arising out of the carrying amount of asset (which is INR100 as on 1 January 2016) and its tax base (which is INR150 as on 1 January 2016, considering indexation benefit). Thus, on the date of transition, the entity would recognise a DTA for the deductible temporary difference of INR50 in the value of land provided it satisfied other DTA recognition criteria under Ind AS 12.
- The difference between the indexed cost of land on the date of conversion and its fair value, however, would not meet definition of temporary difference under Ind AS 12. Additionally, the business income under the IT Act would be computed as a difference between the sale price of the stock-in-trade (i.e. date of actual sale of inventory) and market value of the fixed asset on the date of its conversion into stock-in-trade. Hence, such a tax liability would not arise on the date of transition. (*ITFG 17, Issue 7*)

Deferred taxes on capitalised exchange differences

AS 11, *The Effects of Changes in Foreign Exchange Rates*, provided a relief to the entities from reporting adverse impact of volatility in exchange rate difference by providing the following options:

- Adjust to the cost of the asset, where the long-term foreign currency monetary items relate to the acquisition of a depreciable capital asset (whether purchased within or outside India), and consequently depreciate over such asset's balance life, or
- Accumulate in 'Foreign Currency Monetary Item Translation Difference Account' (FCMITDA) and amortise over the balance period of long-term monetary asset/liability but not beyond 31 March 2020, in cases other than those falling under (a) above.



On transition to Ind AS, Ind AS 101 and Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, allow entities to recognise foreign exchange adjustments as per the policy adopted under previous GAAP. Therefore, exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period can continue to be accounted for as per the previous GAAP.

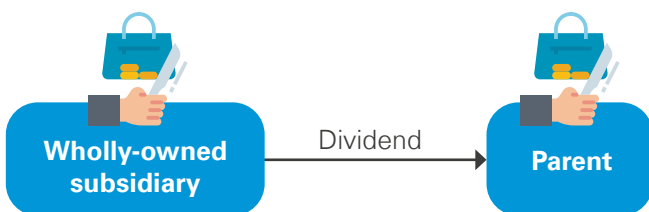
Accordingly, certain entities that availed the relief provided by AS 11 would have added to or deducted exchange gain/loss on foreign currency loan from the cost of Property, Plant and Equipment (PPE), before adoption of Ind AS. However, such exchange differences capitalised are not allowed deduction under the IT Act including Income Computation and Disclosure Standards (ICDS). In addition, entities that chose to follow the previous GAAP accounting policy post transition, such adjustment would lead to temporary differences and recognition of deferred taxes through statement of profit and loss. Such adjustments are likely to bring volatility to the statement of profit and loss.

Entities would need to recognise deferred taxes on such differences arising from the adjustment of exchange difference to the cost of the asset. (*ITFG 8, Issue 8*)

Deferred taxes on undistributed profits

The practical implications on accounting of deferred tax on undistributed profits are discussed in detail under various situations as follows:

i. When a parent receives dividend from its wholly-owned subsidiary during the year



At the time of consolidation, the dividend income earned by the parent would be eliminated against the dividend recorded in its equity by the subsidiary as a result of consolidation adjustment. The Dividend Distribution Tax (DDT) paid by the subsidiary to the taxation authorities (being outside the consolidation group) would be charged as expense in the consolidated statement of profit and loss of the parent (presuming that parent is unable to claim an offset against its own DDT liability).

Ind AS 12 requires recognition of DTL on the undistributed reserves of subsidiaries except where the parent is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

However, in case the board of directors of a subsidiary propose to declare dividend for the previous financial year, to the extent of such proposed dividend, the temporary difference (in relation to DDT liability) is considered to be probable to reverse.

In case where the parent is likely to claim the DDT paid by the subsidiary as an offset against its own DDT liability, the ability to claim offset is subject to receipt of approval from the shareholders of the parent (approval of dividend at the Annual General Meeting (AGM)).

Accordingly, while it has been clarified that the parent may be required to recognise DTL in the Consolidated Financial Statement (CFS) (measured based on the DDT expense of the subsidiary), recognition of DTA to the extent of offset may not be recognised pending receipt of approval from the shareholders of the parent. (*ITFG 9, Issue 1*)

ITFG clarified in its clarifications' bulletin 18, that while dealing with the above issue, the intention was not to preclude recognition of DDT credit in the CFS in the period in which the parent receives dividend from a subsidiary. A parent should evaluate its facts and circumstances and if it reasonably expects at the reporting date that it would be able to avail of the DDT credit upon the declaration of dividend at its AGM (to be held after the end of the financial year), it should consider the following situations:

- *Declaration of dividend by a parent is probable:* At the time of distribution of dividend by a subsidiary to the parent (and consequent payment of DDT by the subsidiary), the parent should recognise the associated DDT credit as an asset to the extent that it is probable that a liability for DDT on distribution of dividend by the parent would arise (against which the DDT credit can be utilised).
- *Declaration of dividend by a parent not probable:* If it is not probable that a liability for DDT on distribution of dividend by the parent would arise against which the DDT credit could be utilised, the amount of DDT paid by the subsidiary should be charged to profit or loss in the consolidated statement of profit and loss.
- *Assessment of DDT credit at each reporting period:* At the end of each reporting period, the carrying amount of DDT credit should be reviewed. The carrying amount of the DDT credit should be reduced to the extent that it is no longer probable that a liability for DDT on distribution of dividend by



the parent would arise against which the DDT credit can be utilised. Conversely, any such reduction made in a previous reporting period should be reversed to the extent that it is now probable that a liability for DDT on distribution of dividend by the parent would arise against which the DDT credit could be utilised. The corresponding debit (for a reduction) or credit (for reversal of a previously recognised reduction) should be made to the consolidated statement of profit and loss.

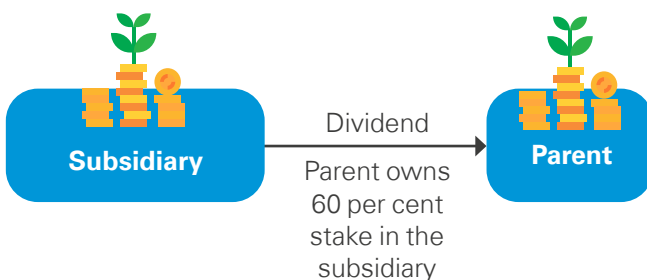
At the end of each reporting period, the parent should reassess any unrecognised DDT credit. The parent should recognise a previously unrecognised DDT credit to the extent that it has become probable that a liability for DDT on distribution of dividend by the parent would arise against which the DDT credit can be utilised. The corresponding credit should be made to the consolidated statement of profit and loss.

To the extent the DDT credit is utilised to discharge the liability (or a part of the liability) of the parent for payment of DDT on distribution of dividend to its shareholders, the DDT credit should be extinguished by corresponding debit to the parent's liability for payment of DDT.

The above assessment can be made only by considering the particular facts and circumstances of each case including the parent's policy regarding dividends, historical record of payment of dividends by the parent, availability of distributable profit and cash, etc. (*ITFG 18, Issue 2*)

ii. A parent which receives dividend from a subsidiary which is not wholly owned

A parent owns 60 per cent stake in the subsidiary and the subsidiary pays a dividend at the rate of INR10 per share and DDT at the rate of 20 per cent.



In such a situation, dividend income earned by the parent and the dividend recorded by the subsidiary in its equity would be eliminated in the CFS of the holding entity as a result of consolidation adjustment while dividend paid to the NCI shareholders would be recorded in the statement of changes in equity as a reduction in the NCI balance (as the shares are classified as equity in accordance with Ind AS 32).



It is important to note here, that the DDT paid to the taxation authorities by the subsidiary has two components - that paid in relation to the parent entity and the other paid in relation to Non-Controlling Interest (NCI). As already explained earlier, the DDT relating to the parent entity would be charged as tax expense in the consolidated statement of profit and loss of the parent since this is paid outside the group. With regard to the DDT paid on dividend related to NCI, it would be recognised in the statement of changes in equity along with the portion of such dividend paid to the NCI.

In the same situation, further, when the parent also pays dividend to its shareholders and assuming that it is eligible to claim an off-set in respect of its DDT liability to the taxation authorities to the tune of DDT paid by its subsidiary on its behalf. Then in such a situation, the total amount of DDT (i.e. DDT paid by the subsidiary as well as the additional DDT paid by the parent after utilising the offset claimed in respect of DDT paid by the subsidiary) should be recognised in the consolidated statement of changes in equity of the parent entity since the share of the parent in the DDT paid by the subsidiary was utilised by the parent for payment of dividend to its own shareholders.

In addition, it has been clarified that due to parent's transaction of distribution of dividend to its shareholders (a transaction recorded in parent's equity) and the related DDT set-off, the DDT paid by the subsidiary is effectively a tax on distribution of dividend to the shareholders of the parent entity. Therefore, the DDT paid by the subsidiary and additional DDT paid by parent (on account of distribution of dividend to its shareholders and claiming the off-set thereon) should be recognised in the consolidated statement of changes in equity of the parent entity and no amount would be charged to the consolidated statement of profit and loss.

Also, it is important to note that in case the DDT liability of the parent is lower as compared to the off-set available on account of DDT paid by the subsidiary, then in such a case, the amount of DDT liability paid by the subsidiary which could not be utilised as an offset by the parent should be charged to consolidated statement of profit and loss.

iii. DDT paid by an associate

Since DDT paid by an associate is not allowed to be set-off against the DDT liability of the investor. Therefore the investor's share of DDT would be accounted by the investor entity by crediting its investment account in the associate and recording a corresponding debit adjustment towards its share of profit or loss of the associate. *(ITFG 13, Issue 9)*

Thus, entities which were recognising both, a deferred tax liability towards the subsidiary's DDT liability and a deferred tax asset towards the offset to be claimed in the future period may now be required to evaluate the impact of this clarification on their respective financial statements. This may also create significant volatility in the consolidated statements of profit and loss especially in cases where the subsidiary declares a large one-off dividend.

Additionally, for the purpose of interim financial statements, necessary adjustment to the effective tax rates may be required to be considered.

Applicability of Accounting Standards Interpretation (ASIs) issued under previous GAAP to situations of tax holiday under Ind AS

An entity may be entitled to tax holiday under Sections 80IA and 80IB of the IT Act.

Under the previous GAAP, certain ASIs were issued by the ICAI to provide guidance on applicability of AS 22, *Accounting for Taxes on Income*, in the situations of tax holiday under section 80IA and 80IB of the IT Act. Some of these, subsequently were included in the relevant standard i.e. AS 22, by means of explanations and thus became part of previous GAAP.

Under Ind AS, the principles of Ind AS 12 would be applied to determine the treatment of deferred taxes in the tax holiday period.





AS 22 clarified that deferred taxes in respect of timing differences which reverse during the tax holiday period should not be recognised to the extent the entity's gross total income is subject to the deduction during the tax holiday period. However, timing differences which reverse after the tax holiday period should be recognised in the year in which the timing differences originate.

ASIs are not effective in the context of Ind AS. Under Ind AS, to determine the treatment of deferred taxes in the tax holiday period, the principles enunciated in Ind AS 12 are required to be applied. Accordingly, under Ind AS, deferred taxes in respect of temporary differences which reverse during the tax holiday period should not be recognised in the financial statements to the extent the entity's gross total income is subject to deduction during the tax holiday period in accordance with the requirements of section 80IA/80IB of the IT Act. (ITFG 11, Issue 2)

Recognition of deferred tax on tax deductible goodwill of subsidiary, not recognised in CFS

Issue considered involved a situation where two subsidiaries of an entity were amalgamated and as a result of this transaction, a goodwill was recognised in the SFS of the amalgamated entity under previous GAAP. This goodwill was allowed as deduction under income tax laws in the books of the amalgamated entity. On transition to Ind AS, the parent entity availed of the optional exemption under Ind AS 101 and decided not to restate its past business combinations. Accordingly, on the date of transition to Ind AS such accounting goodwill was eliminated as a result of consolidation adjustment in the CFS. However, there was an increase in the tax base of assets in the CFS of parent entity resulting from such tax deductible goodwill.

In this situation an issue arises whether DTA on the tax deductible goodwill should be recognised in the CFS of parent entity prepared as per Ind AS when there is no corresponding accounting goodwill in the CFS.

A deferred tax may be recognised for assets or liabilities with a tax base but nil carrying amount in the financial statements since Ind AS 12 states that some items may have a tax base but are not recognised as assets and liabilities in the balance sheet.

Accordingly, DTA on the tax base of goodwill should be recognised in accordance with Ind AS 12 by crediting the consolidated statement of profit and loss, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, in the CFS of the parent.

In this situation, it was assumed that the tax base of the goodwill will be the amount that will be allowed as deduction in future in accordance with the IT Act.

Additionally, this transaction will not qualify for the initial recognition exemption under Ind AS 12 as there is no initial recognition of an asset or liability arising from the amalgamation of subsidiaries in the CFS of parent entity (the impact of amalgamation of subsidiaries is eliminated in the CFS of the parent entity). (ITFG 10, Issue 3)

Treatment of income tax related interest and penalties under Ind AS vis-a vis IFRS

The Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 Act (GN) provides that any interest on shortfall in payment of advance income tax is in the nature of finance cost and hence, should not be clubbed with the current tax. Rather, it should be classified as interest expense under 'finance costs'.

Any interest on shortfall in payment of advance income-tax is in the nature of finance cost. Hence, it should not be clubbed with the current tax, be classified as interest expense under finance costs and disclosed separately.

Similarly, any penalties levied under income tax laws should not be classified as current tax. Penalties which are compensatory in nature should be treated as interest and disclosed under finance costs. Other tax penalties should be classified under 'other expenses'.

An entity's obligation for current tax arises because it earns taxable profit during a period. However, an entity's obligation for interest or penalties, arises because of its failure to comply with one or more of the requirements of income-tax law (e.g. failure to deposit income-tax). Therefore, it was concluded that the obligations for current tax and those for interest or penalties arise due to reasons that are fundamentally different in nature. Ind AS 1, *Presentation of Financial Statements*, requires an entity to separately present items of a dissimilar nature or function unless they are immaterial except when required by law. Therefore, interest or penalties related to income tax cannot be clubbed with current tax.

Additionally, it was highlighted that similarity in a particular jurisdiction in the bases of computation of amount of current tax and interest/penalties for non-compliance is not a sufficient ground for clubbing these items, as they are different in terms of their nature.

The ITFG also considered the treatment of such interest and penalties under IFRS. IFRS Interpretations Committee (IFRIC) in its meeting held on 12 September 2017 decided that entities do not have an accounting policy choice between applying IAS 12 and IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* to interest and penalties. Therefore, if an entity considers a particular amount payable or receivable for interest and penalties to be an income tax, then the entity should apply IAS 12 to that amount. However, if an entity does not apply IAS 12 to a particular amount payable or receivable for interest and penalties, it should apply IAS 37 to that amount. Based on the IFRIC agenda, it was highlighted that an entity should consider whether an amount of interest or a penalty is in the scope of IAS 12 i.e. an entity should consider whether the interest or penalty is a tax and whether that tax is based on taxable profits.

In cases, where it is difficult to identify whether an amount payable to (or receivable from) a tax authority includes interest or penalties (for instance, single demand issued by a tax authority for unpaid taxes), entire amount would qualify within the meaning of IAS 12.

An entity should determine whether a particular amount payable or receivable for interest and penalties is in the scope of IAS 12 (or Ind AS 12) after considering the tax laws applicable in its individual jurisdiction i.e. an entity should consider whether tax laws in the jurisdiction and other facts and circumstances indicate that this amount is based on a taxable profit (i.e. a 'net' amount).

It was pointed out that interest and penalty payable under Section 234A/B/C of the IT Act would not qualify as income-taxes within the meaning of IAS 12 (or Ind AS 12). Therefore, the related amount would be recognised as interest. Similarly, other interest and penalties under the IT Act would not generally qualify as income-taxes. (*ITFG 16, Issue 2*)

Measurement of current tax and DTA/DTL to give effect to concessional tax rates

The Taxation Laws (Amendment) Ordinance, 2019 (Ordinance 2019) came into effect from 20 September 2019. It has brought out significant changes to corporate income-tax rates. In accordance with the Ordinance 2019, the domestic companies have now been provided with an option to pay income-tax at a rate lower than the normal corporate income-tax rate of 30 per cent depending upon certain specified conditions. However, the option to pay income-tax at a lower rate is dependent upon not availing certain exemptions or incentives as specified in the Ordinance 2019. The issue under consideration was whether

a domestic company could give effect to lower tax rate (in accordance with the Ordinance 2019) while determining current tax and DTA or DTL with the purpose to present interim results/interim financial statements as on 30 September 2019 (financial year 2019-20).

Even though, the lower rates of corporate income-tax have been enacted (on 20 September 2019) well before the interim reporting date of 30 September 2019, the ITFG has clarified that such lower rates should be applied by a company for measurement of current and deferred taxes only if it expects to opt for the lower rates. This is in accordance with the requirements of Ind AS 12.

Accordingly, if the company **expects to opt** for the lower tax rate (**with an intention appropriately evidenced**), the current and deferred taxes are required to be measured using lower tax rate as per the Ordinance 2019 for the purpose of presenting interim results/interim financial statements for the quarter/half year ended 30 September 2019.

Additionally, it was clarified that in case the company expects to opt for the lower tax rate from the next financial year 2020-21 onwards, the lower tax rate is required to be applied only to the following extent:

- The DTA is expected to be realised or
 - The DTL is expected to be settled
- in the periods during which the company expects to be subject to lower tax rate.

The normal tax rate is required to be applied to the extent DTA/DTL is expected to be realised (settled) in earlier periods. (*ITFG 23, Issue 1*)

Accounting treatment of deferred tax adjustments recognised in equity on first-time adoption of Ind AS in accordance with Ind AS 101, First-time Adoption of Indian Accounting Standards at the time of transition to Ind AS 115 and Ind AS 116

An entity is required to determine (using the current accounting policies) the underlying items (source transaction/events) with respect to which deferred taxes were recognised by it at the time of first-time adoption of Ind AS or at the time of transition to Ind AS 115 or Ind AS 116.

For more details on the issue please refer to the Chapter 9, First-time adoption of Ind AS (*ITFG 23, Issue 2*).



Opinions by EAC

Deferred tax under Ind AS 12 on fair value changes of investments under Section 112A of the IT Act²

Accounting for deferred tax under Ind AS 12 is applicable on fair value changes of all equity investments including those covered under Section 112A of the IT Act at each reporting date (and not at the time of sale).

DTA on long-term capital loss under Section 112A of the IT Act should be recognised, only if the entity has reasonable certainty about taxable income/gain that would arise in future that could be set off against the unabsorbed capital loss within the prescribed time period. For this purpose, the entity should consider, amongst others, future reversal of existing taxable temporary differences (for example, future capital gains against which the long-term capital loss could be set-off, existing carried forward long term capital losses) and tax planning opportunities.

The DTL/DTA should be computed separately for each individual investment since the cost of acquisition, market value and the fair value at the reporting date for each investment may vary. Consequently, the tax base and the temporary difference for each individual would vary.

Regulatory asset and interaction with Ind AS 12³

In this EAC, the case deliberated relates to a company in the power sector that receives certain benefits from the government in relation to its tax liability. The benefit is recognised as regulatory deferral account balances as per Ind AS 114, *Regulatory Deferral Accounts*. Deferral account balance would not be recoverable through adjustment in future income tax liabilities arising on the company as assessed under the IT Act and is, therefore, not a deductible temporary difference resulting in DTA under Ind AS 12. Rather, it is a regulatory deferral account balance, as mentioned in Ind AS 114.

2. EAC-December 2019 edition of ICAI Journal 'The Chartered Accountant'
3. Presentation of deferred tax recoverable from beneficiaries (customers) accounted as 'Deferred Asset for DTL' under Ind AS (EAC- May 2019 edition of ICAI Journal 'The Chartered Accountant')

