Chapter Six

Ind AS 12

Income Taxes

E-book

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Preview

This is a preview of the e-book and does not contain the full e-book

Ind AS 12

Income Taxes

OBJECTIVE

The objective of this Standard is to prescribe the accounting treatment for income taxes. The two principal issues are:

- Accounting for income taxes for future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's Balance Sheet.
- Tax consequences of transactions and other events of the current period that are recognised in an entity's financial statements.

Both the above issues basically convey the following:

- When an entity recognises an asset or a liability, it is expected that on liquidation of those assets or liabilities, the entity will make future tax payments and, thereby, recognise deferred tax liability or deferred tax assets, with certain limited exceptions.

- This Standard states that for every transaction and other event, a tax implication need to be accounted for. If a transaction and other events are recognised in profit or loss, the related tax effect should also be recognised in profit or loss. If a transaction or event is recognised outside profit or loss (ie, either in Other Comprehensive Income or Statement of Changes in Equity), then any related tax effect need to be recognised outside profit or loss (ie, either in Other Comprehensive Income or Statement of Changes in Equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

Accounting for income taxes is on accrual basis This standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves.

This Standard also covers:

- Recognition of deferred tax assets arising from unused tax losses or tax credits.
- Presentation of income taxes in financial statements.
- Disclosure

SCOPE

This Standard applies to accounting for Income Taxes. It does not deal with methods of accounting for government grants or investment tax credits. However, this Standard deals with the accounting for temporary differences that may arise from such grants or investments tax credits.

For the purpose of Ind AS 12, income taxes include:

- All domestic and foreign taxes based on 'taxable profits'.
- Income Taxes (including withholding taxes) which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity.

DEFINITIONS

The following terms are used in this Standard with the meanings specified:

Accounting profit is profit or loss for a period before deducting tax expense.

Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Tax Expenses = Current Tax +/- Deferred Tax

Carrying amount is the amount at which an asset or a liability is recognised.

The ***tax base*** of an asset or liability is the amount attributable to that asset or liability for tax purposes.

The ***tax base of an asset*** is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

EXAMPLE 19

ABC Ltd has received a rental income of CU 100 in advance. Therefore, in its balance sheet it is recorded as a liability at CU 100. On the other hand, as per tax accounting, income is taxed when received and, therefore, the entire CU 100 is taxed in the current period. Thus the tax base of the liability is CU 0 (since the whole amount is already taxed).

Therefore, when the carrying amount of the liability is greater than its tax base, there is a temporary difference of CU 100 (CU 100 – CU Nil).

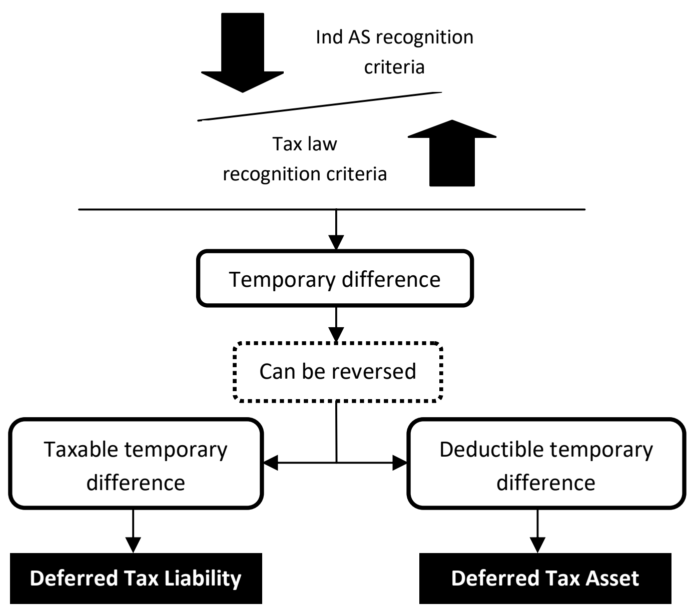
Now, temporary differences are of two types:

- ***Taxable Temporary Differences*** These are temporary differences that result in taxable amounts in determining taxable profit (or loss) of future periods when the carrying amount of the asset (or liability) is recovered (or settled).

  Thus, taxable temporary differences lead to deferred tax liabilities.

- ***Deductible Temporary Differences*** These results in amounts that are deductible in determining taxable profit (or loss) of future periods when the carrying amount of the asset (or liability) is recovered (or settled).

  Thus, deductible temporary differences lead to deferred tax assets.



EXAMPLE 20

ABC Ltd recognises CU 60 as installment sales for financial accounting in year 20x3. However, for tax accounting income will be taxable at CU 20 each year for 3 years. ABC Ltd also earns CU 40 additional income each year and the tax rate is 30%.

Solution

(CU)

Year	20x3		20x4		20x5	
Accounting	Financial	Tax	Financial	Tax	Financial	Tax
Sales	60	20	0	20	0	20
Other income	40	40	40	40	40	40
Profit before tax	100	60	40	60	40	60
Income tax expense (30%)	30	18	12	18	12	18
Profit for the period	70	42	28	42	28	42
Profit for the period as per Financial Accounting (70 + 28 + 28)						**126**
Profit for the period as per Tax Accounting (42 + 42 + 42)						**126**

In year 20x3, ABC Ltd has a tax expense of CU 30, but as per the tax law it pays only CU 18 and defers the balance in the future period. In the next two years, though ABC Ltd has lesser tax expense, ie, CU 12, it ends up paying more, ie, CU 18 to compensate for paying less tax earlier. This is the basic concept of deferred tax liability. The tax expense is broken up into two parts the current tax and the deferred tax.

(CU)

Year	20x3		20x4		20x5	
Income tax expense						
- Current Tax	18		18		18	
- Deferred Tax	12	30	(6)	12	(6)	12

(CU)

	Carrying Amount			Tax Base		
Year	**20x3**	**20x4**	**20x5**	**20x3**	**20x4**	**20x5**
Deferred Revenue	0	0	0	40	20	0
Deferred Tax Liability	12	6	0			

EXAMPLE 24

ABC Ltd has incurred product development costs worth of CU 1,000 at the beginning of year 1 and as per their accounting policy, they have decided to capitalise it over a period of 2 years. The tax law, however, allows full deduction of the amount in the year the product development expenses costs are incurred.

Revenue, cost of goods sold and tax rate are same for two years, ie, CU 2,000, CU 700 and 30% respectively.

Solution

Now, let us calculate the deferred tax for these 2 years using both the approaches.

As per Financial accounting,

Statement of Profit and Loss **(CU)**

Year	1		2	
Revenue		2,000		2,000
Cost of goods sold		700		700
Gross profit		1,300		1,300
Amortisation of Product development cost		500		500
Accounting profit:		800		800
Income tax expense				
Current tax	90		390	
Deferred tax	150	240	(150)	240
Profit for the period		**560**		**560**

As per Tax accounting,

Statement of Profit and Loss **(CU)**

Year	1	2
Revenue	2,000	2,000
Cost of goods sold	700	700
Gross profit	1,300	1,300
Product development cost	1,000	0
Taxable profit	300	1,300
Current tax	90	390

Balance Sheet (includes)

(CU)

	Carrying amount		Tax base	
Year	**1**	**2**	**1**	**2**
Assets				
Product development cost	500	0	0	0
Liabilities				
Deferred tax liabilities	150	0	–	–

Year 1 Carrying amount > tax base of asset, therefore, taxable temporary difference is CU 500.

DTL CU 500 x 30% = CU 150

Year 2 Carrying amount = tax base of asset, therefore, taxable temporary difference is CU Nil.

DTL CU Nil

EXAMPLE 32

Profit before depreciation is CU 100 per year. Cost of asset is CU 100. Income tax rate is 40%. The rate of depreciation for accounting purpose is 25% (SLM), and for tax purpose is 20%. Life of the asset is reduced to 3 years at the end of year 2.

Solution

Statement of Profit and Loss (CU)

Year	1		2		3		4		5	
Profit before depreciation		100		100		100		100		100
Depreciation		25		25		50		–		–
Accounting Profit		75		75		50		100		100
Tax expense –										
Current Tax	32		32		32		32		32	
Deferred Tax (income) / asset	(2)	30	(2)	30	(12)	20	8	40	8	40
Profit for the Period		**45**		**45**		**30**		**60**		**60**

Workings

Current Tax (CU)

Year	1 to 5
Profit before depreciation	100
Depreciation allowed	20
Taxable Profit	80
Current tax @ 40%	**32**

Deferred Tax Asset (CU)

Year	1	2	3	4	5
Opening Balance	–	2	4	16	8
Created	2	2	12	–	–
Reversed	–	–	–	(8)	(8)
Closing Balance	**2**	**4**	**16**	**8**	**–**

Carrying Amount of the Asset (CU)

Year	1	2	3
Gross Block	100	100	100
Accumulated Depreciation	25	50	100
Carrying Amount	**75**	**50**	**–**

Tax Base of the Asset (CU)

Year	1	2	3	4	5
Gross Block	100	100	100	100	100
Depreciation Allowed	20	40	60	80	100
Tax Base	**80**	**60**	**40**	**20**	**–**

EXAMPLE 34

On 1.1.20x3 an entity enters in to a contract to sell a real estate for CU 200. Payment is made on 1.1.20x3 – CU 100 and on 1.1.20x4 – CU 100. Cost of sales is 75% of contract price. Incremental borrowing rate is 10% p.a. Income tax rate is 40%. Date of delivery is 31.12.20x4.

Solution

Contract Liability (CU)

Date	Heads of Account	Dr	Cr	Balance
20x3				
Jan 1	Cash		100	100
Dec 31	Interest expense (10% on 100)		10	110
20x4				
Jan 1	Cash		100	210
Dec 31	Interest expense (10% on 210)		21	231
Dec 31	Revenue	200		31
Dec 31	Interest Income	31		–

Revenue (CU)

Date	Heads of Account	Dr	Cr	Balance
20x4				
Dec 31	Contract Liability		200	200
Dec 31	Profit or Loss	200		–

Deferred Tax Asset (CU)

Date	Heads of Account	Dr	Cr	Balance
20x3				
Dec 31	Deferred tax income (40% of 10)	4		4

20x4				
Dec 31	Deferred tax income (40% of 21)	8		12
Dec 31	Tax expense		12	–

Statement of Profit and Loss (Year 2) **(CU)**

Revenue		200
Cost of Sales (75% of 200)		(150)
Gross Profit		**50**
Interest expense		(21)
		29
Interest income		31
Accounting profit		**60**
Tax expense –		
Current tax	20	
Deferred tax income	(8)	
Deferred Tax Asset	12	24
Profit for the Period		**36**

Workings

Current Tax **(CU)**

Revenue	200
Cost of Sales (75% of 200)	150
Taxable Profit	50
Current tax @ 40%	**20**

Deferred Tax Asset **(CU)**

	31.12.20x3	31.12.20x4
Opening balance	–	4
Created	4	8
Reversed	–	(12)
Closing balance	**4**	**–**

Carrying Amount of Contract Liability **(CU)**

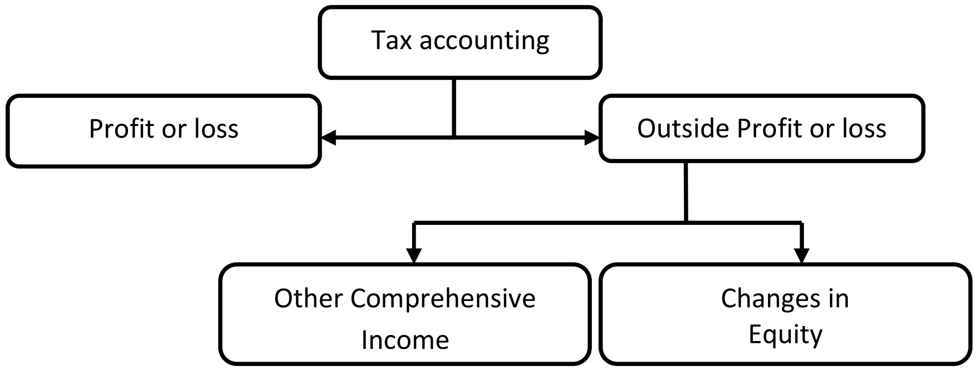
	31.12.20x3	31.12.20x4
Closing balance	**110**	**231**

Tax Base of Contract Liability **(CU)**

	31.12.20x3	31.12.20x4
Closing balance	**100**	**200**

RECOGNITION OF CURRENT AND DEFERRED TAX

This is related to the second principle issue in this Standard. Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or event itself.



Items recognised in profit or loss

Current tax and deferred tax should be recognised as an income or expense in profit or loss for the the period, except to the extent that the tax arises from:

- A transaction or event which is recognised outside profit or loss, either in other comprehensive income or directly in equity; or
- A business combination (other than the acquisition by an investment entity, as defined in Ind AS 110, *Consolidated Financial Statements*, of a subsidiary that is required to be measured at fair value through profit or loss).

EXAMPLE 45

The cost of the asset is CU 100 and its estimated useful life is 5 years. The operating profit and tax rate remains constant for all years at CU 100 and 30% respectively.

The asset is revalued upwards by CU 15 at the end of 2nd year and then due to sudden change in circumstances there is downward revaluation of CU 5 at the end of 4th year.

Financial Accounting

Property, Plant and Equipment **(CU)**

Year	1		2		3		4		5	
Gross carrying amount	100		100		75		75		70	
Revaluation	–	100	15	115	–	75	(5)	70	–	70
Accumulated depreciation		(20)		(40)		(25)		(50)		(70)
Net carrying amount		**80**		**75**		**50**		**20**		**0**

Tax Accounting

Depreciation Schedule **(CU)**

Year	1	2	3	4	5
Gross Block	100	100	100	100	0
Depreciation allowed	20	40	60	80	0
Tax Base	**80**	**60**	**40**	**20**	**0**

Statement of Profit and Loss **(CU)**

Year	1		2		3		4		5	
Revenue		100		100		100		100		100
Depreciation		20		20		25		25		20
Accounting profit		**80**		**80**		**75**		**75**		**80**
Income tax expense										
Current tax*	24		24		24		24		24	
Deferred tax	–	24	–	24	(1.50)	22.50	(1.50)	22.50	–	24
Profit for the period		**56**		**56**		**52.50**		**52.50**		**56**

Other Comprehensive Income **(CU)**

Year	1		2		3		4		5	
Profit for the period		56		56		52.50		52.50		56
Other comprehensive income:										
Revaluation Reserve	–		15		–		(5)		–	
Tax	–	–	(4.50)	10.50	–	–	1.50	(3.50)	–	–
Total comprehensive income		**56**		**66.50**		**52.50**		**49**		**56**

* Let us work out the current tax for each year.

(CU)

Year	1	2	3	4	5
Revenue	100	100	100	100	100
Depreciation	20	20	20	20	20
Taxable profit	80	80	80	80	80
Current tax	**24**	**24**	**24**	**24**	**24**

In year 2, Accumulated Depreciation for Financial Accounting is CU 20 + CU 20 = CU 40, but since there is a revaluation of CU 15, the gross carrying amount becomes CU 115.

In year 3, the previous accumulated depreciation balance of CU 40 is eliminated against the gross carrying amount of CU 115. Thus, the new carrying amount CU 115 – CU 40 = CU 75.

In year 4, Accumulated Depreciation for Financial Accounting is CU 25 (previous year depreciation) + CU 25 (that year depreciation) = CU 50. There is a downward revaluation of CU 5 at the end of the reporting period and, therefore, the new carrying amount is CU 75 – CU 5 = CU 70.

Other important aspects in the problem:

- Deferred tax liability of CU 15 x 30% = CU 4.50 is recognised in the end of year 2 in the OCI due to revaluation.
- In year 3, due to higher depreciation charged by CU 5, deferred tax liability is utilised to the extent CU 1.50.
- In year 4, due to downward revalutation of a revalued asset, it is reduced from OCI and, thereby, reversing previously recognised deferred tax liability to the amount CU 5 x 30% = CU 1.50.
- In year 4, again due to higher depreciation charged the deferred tax liability gets utilised to the extent CU 5 x 30% = CU 1.50.
- Thus the entire deferred tax liability that was recognised has been utilised by the time the asset was recovered.

Statement of Changes in Equity **(CU)**

Year		Retained Earnings	Revaluation Reserve	Total
1	Opening balance	0	0	0
	Total comprehensive income	56	–	56
	Transfer to retained earnings	–	–	–
	Closing balance	**56**	**0**	**56**
2	Opening balance	56	0	56
	Total comprehensive income	56	10.50	66.50
	Transfer to retained earnings	–	–	–
	Closing balance	**112**	**10.50**	**122.50**
3	Opening balance	112	10.50	122.50

	Total comprehensive income	52.50	–	52.50
	Transfer to retained earnings	3.50	(3.50)	0
	Closing balance	**168**	**7**	**175**
4	Opening balance	168	7	175
	Total comprehensive income	52.50	(3.50)	49
	Transfer to retained earnings	3.50	(3.50)	0
	Closing balance	**224**	**0**	**224**
5	Opening balance	224	0	224
	Total comprehensive income	56	–	56
	Transfer to retained earnings	–	–	–
	Closing balance	**280**	**0**	**280**

Balance Sheet (includes) **(CU)**

Year	1	2	3	4	5
Assets					
Non-current asset					
Property, plant and equipment	80	75	50	20	0
Equity					
Retained earning	–	10.50	7	0	0
Revaluation Reserve	56	112	168	224	280
Total equity	56	122.50	175	224	280
Liabilities					
Non-current liabilities					
Deferred tax liabilities	0	4.50	3	0	0
Current liabilities					
Current tax liabilities	24	24	24	24	24

EXAMPLE 50

Zero-coupon convertible bonds CU 1,000. Transaction cost CU 50. Tenure 3 years. Effective interest rate 10%. Profit CU 300 per year. Income tax rate 40%

Solution

Unwinding of Discount **(CU)**

Year	Heads of Account	Opening Value at Effective Interest Rate of 10%	Finance Cost at Effective Interest Rate of 12.5%*
3	1,000	1,000 x 0.909 = 909	887 x 0.125 = 113
2	909	1,000 x 0.826 = 826	788 x 0.125 = 99
1	826	1,000 x 0.751 = 751	701 x 0.125 = 87

* The impact of transaction cost increases the effective interest rate to 12.5%

Zero – Coupon Convertible Bonds **(CU)**

Year	Heads of Account	Dr	Cr	Balance
0	Cash		1,000	1,000
	Transaction Cost	50		950
	Equity component of convertible bonds	149*		801
	Deferred tax liability	100**		701
1	Finance Cost		87***	788
2	Finance Cost		99***	887
3	Finance Cost		113***	1,000
	Share Capital	1,000		–

* 60% of (950 – 701) **40% of (950 – 701) ***At an effective interest rate of 12.5%

Statement of Profit and Loss **(CU)**

Year	1		2		3	
Profit before finance cost		300		300		300
Finance Cost		87		99		113
Accounting Profit		**213**		**201**		**187**
Tax expense –						
Current tax	100		120		120	
Deferred tax expense / (Liability)	(15)	85	(40)	80	(45)	75
Profit for the period		**128**		**121**		**112**

Statement of Changes in Equity **(CU)**

Year	1	2	3
Equity component of bond			
Opening balance	149	106	56
Transferred to retained earnings	43*	50**	56***
Closing balance	**106**	**56**	**–**

*[60% of (87 – 16)] **[60% of (99 – 16)] ***[60% of (113–18)]

Workings

Current Tax (CU)

Year	1		2		3	
Profit		300		300		300
Finance Cost –						
Discount	–		–		–	
Transaction	50	50	–	–	–	–
Taxable Profit		250		300		300
Current tax @ 40%		**100**		**120**		**120**

Deferred Tax Liability (CU)

Year	Heads of Account	Dr	Cr	Balance
0	Zero – coupon convertible bonds		100	100
1	Tax expense	15		85
2	Tax expense	40		45
3	Tax expense	45		–

EXAMPLE 53

Profit (before amortisation) is CU 100 per year. Development costs were deducted for income tax purposes in the period in which they were incurred. Income tax rate is 40%.

Development Costs (CU)

Year	1	2	3	4	5	6
Capitalised	30	30	40	–	–	–
Amortised	–	–	25	25	25	25

Solution

Statement of Profit and Loss (CU)

Year	1		2		3		4		5		6	
Profit before amortisation		100		100		100		100		100		100
Amortisation		–		–		25		25		25		25
Accounting Profit		**100**		**100**		**75**		**75**		**75**		**75**
Tax expense –												
Current tax	28		28		24		40		40		40	
Deferred tax expense/(liability)	12	40	12	40	6	30	(10)	30	(10)	30	(10)	30
Profit for the Period		**60**		**60**		**45**		**45**		**45**		**45**

Workings

Current Tax **(CU)**

Year	1 and 2	3	4 to 6
Profit	100	100	100
Development cost allowed	30	40	–
Taxable profit	70	60	100
Current tax @ 40%	**28**	**24**	**40**

Deferred Tax Liability **(CU)**

Year	1	2	3	4	5	6
Opening balance	–	12	24	30	20	10
Created	12	12	6	–	–	–
Reversed	–	–	–	(10)	(10)	(10)
Closing balance	**12**	**24**	**30**	**20**	**10**	**–**

Carrying Amount of Development Costs **(CU)**

Year	1	2	3	4	5	6
Opening balance	–	30	60	75	50	25
Capitalised	30	30	40	–	–	–
Amortised	–	–	(25)	(25)	(25)	(25)
Closing balance	**30**	**60**	**75**	**50**	**25**	**–**

Tax Base of Development Costs **(CU)**

Year	1	2	3
Opening balance	–	–	–
Capitalised	30	30	40
Amortisation allowed	(30)	(30)	(40)
Closing balance	–	–	–

EXAMPLE 57

Profit before depreciation CU 105 per year. Asset CU 100. Income tax rate : year 1 and 2 – 30%; year 3 – 35%; year 4 and 5 – 40%. Depreciation (SLM) – Financial 20%; Tax 25%. Fair value CU 75 at the end of year 2.

Solution

Statement of Profit and Loss and Other Comprehensive Income **(CU)**

Year	1		2		3		4		5	
Profit before depreciation		105		105		105		105		105
Depreciation		20		20		25		25		25
Accounting Profit		**85**		**85**		**80**		**80**		**80**
Tax expense –										
Current tax	24		24		28		32		42	
Deferred tax expense / (liability)	1.5	25.5	2	26	0.5	28.5	–	32	(10)	32
Profit for the Period		**59.5**		**59**		**51.5**		**48**		**48**
Other comprehensive income:										
Revaluation surplus (net of tax)		–		9.75		(0.75)		–		–
Total comprehensive income		**59.5**		**68.75**		**50.75**		**48**		**48**

Statement of Changes in Equity **(CU)**

Year	2	3	4	5
Revaluation surplus				
Opening balance	–	9.75	6	3
Created	9.75	–	–	–
Reversed	–	(0.75)	–	–
Transferred to retained earnings	–	(3)	(3)	(3)
Closing balance	**9.75**	**6**	**3**	**–**

Current Tax **(CU)**

Year	1 and 2	3	4	5
Profit before depreciation	105	105	105	105
Depreciation allowed	25	25	25	–
Taxable profit	80	80	80	105
Current tax	**24**	**28**	**32**	**42**

Deferred Tax Liability **(CU)**

Year	1	2	3	4	5
Opening balance	–	1.5	8.75	10	10
Created through –					
Profit or loss	1.5	2	0.5	–	–
Other comprehensive income	–	5.25	0.75	–	–

Reversed through profit or loss	–	–	–	–	(10)
Closing balance	**1.5**	**8.75**	**10**	**10**	**–**

Restated proportionately **Carrying Amount of the Asset** **(CU)**

Year	1	2	Revaluation Surplus	3	4	5
Gross block	100	100 →	125	125	125	125
Accumulated depreciation	20	40 →	50	75	100	125
Carrying amount	**80**	**60** →	**75**	**50**	**25**	**–**

Eliminated against gross carrying amount

Year	1	2	Revaluation Surplus	3	4	5
Gross block	100	100 →	75	75	75	75
Accumulated depreciation	20	40 →	–	25	50	75
Carrying amount	**80**	**60** →	**75**	**50**	**25**	**–**

Tax Base of the Asset **(CU)**

Year	1	2	3	4
Gross block	100	100	100	100
Depreciation allowed	25	50	75	100
Tax base	**75**	**50**	**25**	**–**

DISCLOSURES

Disclosures are very integral to any Standard. Income tax has become further more complicated and therefore until and unless proper disclosure is provided it will be very difficult for users of financial statements to make use of them.

The major components of tax expense (income) should be disclosed separately:

(a) current tax expense (income);
(b) any adjustments recognised in the period for current tax of prior periods;
(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;
(f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;
(g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset; and

(h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with Ind AS 8, because they cannot be accounted for retrospectively.

EXAMPLE 60

Sample of Disclosure

Income tax recognised in profit and loss

Tax expense comprises:

- Current tax expense in respect of current year
- Adjustments recognised in the current year in relation to the current tax of prior years
- Deferred tax expenses relating to the origination and reversal of temporary differences
- Effect of changes in tax rates and laws
- Write downs (reversals of previous write-downs) of deferred tax assets
- Tax expense / (income) associated with changes in accounting policies that cannot be accounted for retrospectively

Total tax expense relating to continuing operations

Income tax recognised directly in equity

- Current tax
    - Share issue costs
    - Share buy back costs
- Deferred tax:
    - Arising on transactions with equity participants
    - Initial recognition of the equity component of compound financial instruments
    - Share issue and buy back expenses deductible over 5 years
    - Excess tax deductions related to share based payments

Total income tax recognised directly in equity

Income tax recognised in other comprehensive income

- Current tax
- Deferred tax
    - Arising on income and expenses recognised in other comprehensive income
    - Translation of foreign operations
    - Cash flow hedges
    - Property revaluations
- Reclassification from equity to profit and loss
    - Relating to cash flow hedges
    - On disposal of foreign operations

Total income tax recognised in other comprehensive income

Reconciliation of tax expense for the year to accounting profit

The expense for the year can be reconciled to accounting profit as follows:

- Profit from continuing operations
- Income tax expense calculated at x% (30%)
- Effect of revenue that is exempt from taxation
- Effect of expenses that are not deductible in determining taxable profit
- Effect of concessions (research and development and other allowances)
- Impairment losses on goodwill that are not deductible
- Effect of revaluation of assets for taxation purposes
- Effect of unused tax losses and tax offsets not recognised as deferred tax assets
- Effect of deferred tax balances due to change in income tax from xx% to xy%
- Adjustments recognised in the current year in relation to the current tax of prior years
- Income tax recognised in profit and loss

The tax rate for the year 20x3 and 20x4 reconciliations above is the corporate tax rate of 30% payable by corporate entities in XYZ Land on taxable profits under the tax law in that jurisdiction.

EXAMPLE 61

Sample of Deferred tax Disclosure

Deferred tax balances **(CU)**

20x4	Opening balance	Recognised in profit and loss	Recognised in other comprehensive income	Recognised directly in equity	Reclassified from equity to profit and loss	Closing balance
Temporary differences						
Cash flow hedges						
OCI of Associates						
Property revaluations						
Finance leases						
Intangible assets						
FVTPL financial assets						
Deferred revenue						
Provisions						

Other financial liabilities						
Closing balance						

An entity uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Mostly, the most meaningful rate is the domestic rate of tax in the country in which the entity is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). On the other hand, for an entity which operates in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction.

EXAMPLE 62

In 20x4, an entity has accounting profit in its own jurisdiction (country A) of CU 1,500 (20x3: CU 2,000) and in country B of CU 1,500 (20x3: CU 500). The tax rate is 30% in country A and 20% in country B. In country A, expenses of CU 100 (20x3: CU 200) are not deductible for tax purposes.

Reconciliation to the domestic tax rate (CU)

	20x3	20x4
Accounting Profit	2,500	3,000
Tax at the domestic rate of 30%	750	900
Tax effect of expenses that are not deductible for tax purposes	60	30
Effect of lower tax rates in country B	(50)	(150)
Tax Expense	760	780

The average effective tax rate is the tax expense (income) divided by the accounting profit.