AS 22

Accounting for Taxes on Income

Tax is directly proportional to profit

Accounting Profit ≠ Profit as per Tax Laws

Companies Act 2013	Income Tax Act 1961 (PGBP)
Accrual Basis	Actual Basis (based on provisions)

Tax expense (Accounting) to be recognised during the year

Tax Expense = Current Tax + Deferred Tax

Current Tax	Deferred Tax: Difference between	
Tax on Profit as per Income Tax Act 1961	tax expense on an accrual basis (i.e, tax on accounting profit)	tax expense as per Income Tax Act 1961 (i.e, the tax actually paid)

only on account of timing difference

AS 22 brings in MATCHING CONCEPT

Differences between Accounting Profit and Tax Profit.

Temporary or Timing	Permanent or Non-Timing
Deferred Tax	Deferred Tax
Originates in one period and capable of reversal in the subsequent periods	Originates in one period and does not reverse subsequently

Examples:
* Depreciation Rate
* Depreciation Method
* Section 43B

Examples
* Expense Disallowed u/s 40A(2)
* Expense Disallowed u/s 40A(3)

Minimum Alternate Tax u/s 115JA and 115JB

* MAT is calculated on Book Profit
* MAT Rate ≠ Normal Tax Rate
* Tax to be paid is higher of MAT or Tax on Normal Profit
* If MAT > Normal Tax, then such excess amount paid is considered as MAT Credit and carried forward and adjusted against tax paid in excess of MAT in future years.

Deferred Tax Situations

Profit	Tax	Treatment
AP > TP (AI) (TI)	Tax on AI > Tax as per Tax laws	Deferred Tax Liability
AP < TP (AI) (TI)	Tax on AI < Tax as per Tax laws	Deferred Tax Asset
Loss as per Accounts < Profit as per Tax laws	Tax on AI < Tax as per tax laws 0	Prudence Deferred Tax Asset only when there is viability of profits in the future
Profit as per Accounts > Loss as per Tax laws	Tax on AI > Tax as per tax laws 0	Deferred Tax Liability MAT is payable

MAT has no impact on Deferred Tax Liability

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Note

When loss according to tax laws exists and prudence on DTA recognition is found valid, i.e, reasonable certainty of sufficient profits in coming years, then DTA should be recognised in the year of loss, computed as under

Loss X Tax Rate

Accounting logic

Any loss in, say, year 1 would mean no tax liability in the year and the law also allows carry forward of such losses for the next 8 years. In the next year, when there is a profit, the loss that is carried forward is set off before calculating tax, meaning savings in tax expenses.
Such savings belong to Year 1 and not Year 2. So, DTA should be recognised in the year of loss.
[Debit DTA and credit P&L A/c]
Further, the entry is reversed in Year 2 when loss is set-off.

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Tax Logic

In the event of loss, tax according to accounting is zero, but tax according to tax laws is negative.

Tax as per accounting		Tax as per Tax Laws
0	>	-ve.

Pay NEVER, Save LATER ⇒ Deferred Tax Asset.
(next year, you would pay lesser)