AS 22: Accounting for Taxes on Income - Quick Revision

Objective:

Taxable Income vs. Accounting Income:

1. Differences due to Permanent Differences and Timing Differences.
2. Permanent Differences: Non-reversible differences in taxable and accounting income.
3. Timing Differences: Reversible differences originating in one period, affecting subsequent periods.
4. Deferred Tax Asset (DTA) – Accounting Profit < Taxable Profit: Extra tax paid leading to future tax saving.
5. Deferred Tax Liability (DTL) - Accounting Profit > Taxable Profit: Tax saved in current year leading to higher future taxes.

Definition:

1. Accounting Income: Net profit/loss before tax.
2. Taxable Income: Income as per tax laws, determining income tax.
3. Tax Expense: Current tax + deferred tax in profit/loss statement.
4. Current Tax: Tax payable for the period.
5. Deferred Tax: Tax effect of timing differences.

Recognition:

1. Tax Expense: Current tax + deferred tax in profit/loss.
2. Permanent Differences: No deferred tax assets/liabilities.
3. Timing Differences Tax Effects: Included in tax expense and recorded as deferred tax assets/liabilities.
   - Reasonable Certain -> Sufficient Income in Future → DTA
   - Virtually Certain (In case of carried forward losses or unabsorbed depreciation) -> Sufficient Income in Future → DTA

Re-assessment and Review:

- Reasonable Certainty/ Virtually Certain → No → Not recognised DTA → Now If Reasonable certain/ Virtually Certain -> now recognised DTA
- Reasonable Certainty/ Virtually Certain → Yes → Recognised DTA → Now If not Reasonable Certain/ Virtually Certain -> Written-down DTA

Relevant Explanation to AS 22:

Tax Holiday Exemption (Sections 80-IA, 80-IB, 10A, 10B):

a. No DTA/DTL for timing differences reversing during exemption period.

b. DTA/DTL for differences reversing after exemption period.

c. First-originated timing differences considered first to reverse.

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