INCOME TAXES: ASPE 3465

Definition

- **Future income tax liabilities** are the amounts of income taxes payable in future periods due to taxable temporary differences
- **Future income tax assets** are the amounts of income taxes recoverable in future periods due to deductible temporary difference, unused credit/loss carry forwards
- **Temporary difference** is the difference between the book value and the tax base of an asset or liability
  - **Taxable temporary difference** = temporary differences that will result in future taxable income when the asset is recovered or the liability is settled
  - **Deductible temporary =** temporary difference that will result in future tax deductions when the asset is recovered or the liability is settled

Accounting policy

- An enterprise shall make an **accounting policy choice** to account for income taxes using either:
  a) the **taxes payable method**; or
  b) the **future income taxes method**

Taxes payable method

- Under the taxes payable method, only current income tax assets and liabilities are recognized
- Current tax payable = current liability; current tax recoverable = current asset
- Tax loss carried back to recover past taxes = current asset

Future income taxes method

Tax Base

- **The tax base of an asset** = amount that will be deductible for tax purposes; if the recovery of the asset will not have any tax consequences, the tax base is the carrying amount
  - For **Depreciable Capital Property**; tax base = Undepreciated Cost of Capital (UCC)
  - For **Inventory**; tax base = carrying amount
  - For **Accounts Receivables**; tax base = Carrying Amount
  - For **Loan Receivable**; tax base = Carrying amount
  - For **Dividends Receivable** by a Canadian resident corporation; tax base = Carrying Value (since a dividend is **deducted** under Division C in arriving at taxable income)

- **The tax base of a liability** = carrying amount of the liability **less** amount deductible for tax purposes in future periods
  - For current liabilities with accrued expenses deducted on an accrual basis for tax purpose; tax base = carrying amount
  - For current liabilities with accrued expenses deducted on a cash basis for tax purpose; tax base = NIL
  - For Fines/penalty liability; tax base = carrying amount (since fines/penalties are not deductible)
  - For loan payable; tax base = carrying amount

Recognition of current tax liabilities and current tax assets

- current tax payable (receivable) for the current and prior periods is recognized as a current liability (asset) at the amount expected to be paid (recovered) to (from) the tax authorities
- tax loss that are carried back to recover past taxes are recognized as a current asset

Recognition of future income tax liabilities and future income tax assets

- If the carrying value of asset > tax base of asset; there will be a taxable **temporary difference**
- If the CV of asset/liability = tax base of asset/liability; there will be **no temporary diff.**
- If the CV of the asset < tax base of asset; there will be a **deductible temporary diff.**
- If the tax base of the liability = NIL; there will be a **deductible temporary diff.**

Taxable Temporary Difference

- A **future income tax liability** is recognized for all **taxable temporary difference**
- Future income tax liability = taxable temporary difference * tax rate expected to apply to the period when the asset is realised or the liability is settled
- Use the tax rates that have been enacted
    - It is appropriate to use a substantively enacted income tax rates only when there is persuasive evidence that:
        a) the government is able and committed to enacting the proposed change in the foreseeable future; and
        b) when the change relates to the current year, the enterprise expects to be assessed based on the announced tax rates
- Future income tax liabilities shall not be discounted

Deductible Temporary Differences

- A **future income tax asset** is recognized for all **deductible temporary differences** to the extent that it is **more likely than not** to be realized
- Future income tax asset = deductible temporary difference * tax rate expected to apply to the period when the asset is realised or the liability is settled
- Use the tax rates that have been enacted
- Future income tax assets shall not be discounted

Unused tax losses and unused tax credits

- A future income tax asset is recognized for **unused tax loss carryforwards and unused tax credit carryforward** as long as it is **more likely than not** that there will be sufficient future taxable income to use these carryforward balances
- Keep in mind that the existence of unused tax losses may be strong evidence that future taxable profit may not be available
- When an entity has a history of recent losses, the entity recognises a future income tax asset arising from unused tax losses or tax credits only to the extent of temporary differences or there is convincing other evidence that sufficient taxable profit will be available
- At the end of each reporting period, an entity reassesses unrecognised future income tax assets

Presentation

Income tax expense

- Current and future income tax is recognised as **income or an expense** in profit or loss
- Income tax expense related to Net income before discontinued operations should be presented separately on the income statement

Income tax asset/liability

- Income tax assets/liabilities should be presented **separately** from other assets/liabilities
- Current income tax assets/liabilities should be **presented separately** from future income tax assets/liabilities
- The **classification of future income tax asset/liability as a current asset/liability or long-term asset/liability** is based on the asset that the temporary differences relate to
  a) If a future income tax asset is due to a temporary difference of an **equipment**; then the **future income tax asset will be a long term asset**
  b) If the future income tax liability is due to the temporary difference due to **A/R**, then the **future income tax liability will be a current liability**

Offsetting

- You can offset **current tax asset** and **current tax liabilities** only if they relate to the **same taxable entity** and the **same taxation authority**
- **Future income tax liabilities** and **future income tax assets** can be offset if they relate to the **same taxable entity** and the same **taxation authority**
- The current portion of future income tax balances **shall not** offset any future income tax balances classified as non-current

Comparison with IFRS

- Income Taxes is covered under IAS 12
- under IFRS, the taxes payable method is NOT allowed
- under IFRS, future income tax is called deferred income tax
- under IFRS, all deferred tax asset/liability are always non-current
- under IFRS, the offsetting rules are slightly different