

INCOME TAXES: IAS 12

Definition

- **Deferred tax liabilities** are the amounts of income taxes payable in future periods due to taxable temporary differences
- **Deferred 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

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 deferred tax liabilities and deferred 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 **deferred tax liability** is recognized for all **taxable temporary difference**
- Deferred 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
- When different tax rates apply to different levels of taxable income (i.e. small business rate and general rate) , deferred tax assets and liabilities are measured using the **average rates** that are expected to apply
- Deferred tax liabilities shall not be discounted

Deductible Temporary Differences

- A **deferred tax asset** is recognized for all **deductible temporary differences** to the extent that it is **probable** that taxable income will be available so that you can deduct future amounts
- Deferred 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
- When different tax rates apply to different levels of taxable income (i.e. small business rate and general rate) , deferred tax assets and liabilities are measured using the **average rates** that are expected to apply
- Deferred tax assets shall not be discounted

Unused tax losses and unused tax credits

- A deferred tax asset is recognized for **unused tax loss carryforwards and unused tax credit carryforward** as long as it is **probable** 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 deferred 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 deferred tax assets

Recognition of current and deferred tax

- Current and deferred tax is recognised as **income or an expense** and included in profit or loss
- Current tax and deferred tax shall be recognised outside **profit or loss (i.e. in other comprehensive income)** if the tax relates to items that are recognised outside profit or loss (i.e. depreciable capital assets measured using the revaluation model)

Presentation

- You can offset current tax asset and current tax liabilities only if:
 - a) You have legal right to offset; and
 - b) You intent to settle on a net basis
- An entity will normally have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to **income taxes levied by the same taxation authority** and the taxation authority permits the entity to make or receive a **single net payment**

- You can offset deferred tax assets and deferred tax liabilities only if:
 - a) the entity has a legally enforceable right to offset; and
 - b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority

Comparison with ASPE

- Income Taxes is covered under ASPE 3465
- under ASPE, the taxes payable method is allowed
- under ASPE, deferred income tax is called future income tax
- under ASPE, the future income tax asset/liabilities can be current or long-term depending on the asset which the temporary difference relates to
 - under IFRS, all deferred tax asset/liability are always non-current