

Chapter 15

INCOME TAXES (IAS 12)

1. Current tax

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

2. Recognition

Current tax should be recognised based on the year-end estimate of the tax payable. The income tax expense though profit or loss is adjusted for any under/over provision from the prior year.

Example 1 – Current tax

The following trial balance (extract) relates to Clarion as at 31 March 2015:

	\$'000	\$'000
Current tax		400

The following notes are also relevant:

A provision for current tax for the year ended 31 March 2015 of \$3.5 million is required.

The balance on current tax in the trial balance represents the under/over provision of the tax liability for the year ended 31 March 2014.

Prepare extracts from the statement of profit or loss for Clarion for the year ended 31 March 2015 and from the statement of financial position as at the same date with regards tax.



3. Deferred tax

Deferred tax arises because;

Accounting profit (PFY) $\neq$ Taxable profit (PCTCT)

The reasons for this can be split into two categories:

- **Permanent differences**

Items that would have been used in calculating accounting profit but would NOT be used in calculating taxable profit e.g. some entertaining expenses

- **Temporary differences**

Items that would have been used in calculating accounting profit and taxable profit but in different accounting periods e.g. depreciation/tax allowances.

IAS 12 considers only temporary differences and it arises on temporary differences between the carrying value of an asset or liability and its tax base.

Example 2 – Tracy (ignoring deferred tax)

Tracy purchased an item of property, plant and equipment on 1 January 20X5 for \$5 million. It was estimated that it had a useful economic life of 5 years but according to the tax authority had a 50% tax allowance in its first year and 20% reducing balance thereafter.

Tracy made an accounting profit of \$2m for the year, which is expected to continue unchanged for the next two years.

Income tax rate 20%

Ignoring deferred tax calculate the profits after tax for Tracy for each of the three years ending 31 December 20X5 to 20X7.

