

IAS12 - Income Tax

In order to understand deferred tax, it is important to first understand the terminology give below & rules 1 to 4. [adapted unisa]

Definitions

- (a) Accounting profit is the net profit or loss for a period before deducting tax expense.
- (b) Taxable profit/(tax loss) is the profit or loss for a period upon which income tax is payable to the SA Revenue Service. This figure is calculated by adjusting the accounting profit with the rules established by the tax authorities.
- (c) Tax expense/tax income is the aggregate amount disclosed in the statement of comprehensive income (SCI) as income tax expense/income. This includes current tax and deferred tax.
- (d) Current tax is the amount of income taxes payable/(recoverable) in respect of the taxable profit/(tax loss) for the year. This is the tax calculated according to the rules and regulations of the SA Revenue Service and ignores the accounting principle of matching income and expenses.
- (e) Deferred tax liabilities are the taxes provided in the statement of financial position (SFP) for the amount of income taxes payable in future periods in respect of taxable temporary differences.
- (f) Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:
- deductible temporary differences;
 - the carry forward of unused tax losses; and
 - the carry forward of unused tax credits.
- (g) The following definitions must be applied when determining the tax base of an item:
The tax base of an asset or liability is the amount attributable to that asset or liability for tax purposes.

The tax base of an asset is the amount that will be deductible for tax purposes in future against any taxable economic benefits that will flow to the entity when it recovers/settles the carrying amount of the asset.

The tax base of a liability is the carrying amount of the liability, less any amount, that will be deductible for tax purposes in respect of that liability in future.
The tax base of the liability € revenue received in advance € is its carrying amount less any amount of revenue that will not be taxable in future.

(h) Temporary differences are differences between the tax base of an asset or liability and the carrying amount of the asset or liability in the statement of financial position. The tax base represents the amount at which the asset and liability would be included in the statement of financial position for tax purposes (i.e. calculated based on the application of tax rules) and the carrying amount is the amount for accounting purposes at which the asset and liability is accounted for (i.e. using accounting rules) in the statement of financial position.

(i) Temporary differences may either be:

(a) taxable temporary differences which are temporary differences that will result in taxable amounts in determining taxable profit/(tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. This will happen when:

Rule 1: Carrying amount of the asset $>$ tax base of the asset
= DEFERRED TAX LIABILITY (SFP)
OR

Rule 2: Carrying amount of the liability $<$ tax base of the liability
= DEFERRED TAX LIABILITY (SFP)

(b) deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit/(tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. This will happen when:

Rule 3: Carrying amount of the asset $<$ tax base of the asset
= DEFERRED TAX ASSET (SFP)
OR

Rule 4: Carrying amount of the liability $>$ tax base of the liability
= DEFERRED TAX ASSET (SFP)