

GENERAL PRINCIPLES OF CURRENT AND DEFERRED TAX SET OUT

- AASB requires companies account for current and future tax consequences of:
 - Current transaction and events
 - recovery and settlement of asset/ liabilities
- income tax expense comprised of:**
 - current tax liabilities
 - movement in deferred tax liabilities and assets
 - movement in deferred tax liabilities/ assets included in other comprehensive income
- Example:** revaluation of land
 - Dr land \$100 000
 - Cr revaluation reserve \$70 000
 - Cr deferred tax liability \$30 000
 - Disclosure requirements to disclose tax related to OCI entries

TAXABLE PROFIT VERSUS ACCOUNTING PROFIT

	ACCOUNTING	TAX
Basis of accounting	Full Accruals Model	Partial Accruals Model <i>Some cash basis, no valuations, (dis)incentives</i>
Equations	Revenue – Expenses = Accounting profit <i>AASBs and the Corporations Act are key sources that determine the appropriate accounting treatment of transactions</i>	Taxable income (TI) – tax deductions (TD) = Taxable profit <i>The Income Tax Assessment Act determines the tax treatment of transactions</i>

ITEM	ACCOUNTING	TAX
Employee benefits – eg annual leave <i>Provisions (e.g. for warranties) are treated in the same way as employee benefits</i>	Liability recognised and expense accrued when debt owed to employees	Recognised as TD when leave is paid to employees
Prepaid expenses <i>Insurance, rent, interest, royalties etc paid in advance</i>	Recorded as an asset when pre-paid and expensed as incurred	Recognised as TD when paid
Cash received in advance of services	Liability recognised for unearned revenue and then allocated to revenue as services are performed	Recognised as TI when cash received
Bad/doubtful debts	Allowance raised as contra asset and expense recorded when debt considered doubtful	Recognised as a TD when debts are written off as bad
Fines and penalties and entertainment costs	Recognised as an expense when payable	Not deductible
Depreciation of a depreciable asset	Recognised as expense based on useful life of asset <i>Common for assets to be depreciated over a shorter life for tax purposes than for accounting purposes</i>	Recognised as TD based on predetermined rates
R&D costs (expense)	Recognised as an expense based on the amount of the expenditure	Concessional deduction allowed equal to 125% of the expenditure
Development costs (intangible asset)	Capitalised (asset) and amortised	Recognised as TD when paid
Tax losses	No recognition <i>Subject to conditions e.g. Reduced by exempt income</i>	Carried forward and offset against future TI

- Company income tax determined by taxable profit
- Differences** between account v taxable profits due to:
 - Accrual items; valuation adjustment; tax incentive
 - tax treatment of times follows the cash flow
 - accounting treatment is based on accounting standards and principle of accrual accounting
 - results in assets/ liabilities having carrying amounts for accounting purposes that differ to notional values for IT
- Payment of income tax:**
 - PAYG system in quarterly instalment
 - companies lodge quarterly business activity statement and pay tax calculated as:
 - Tax = Instalment income x instalment rate** (tax department supply annually)
- Current tax liability represents last quarterly payment and adjustments to reflect annual tax income may differ from sum of quarterly returns

CALCULATING CURRENT TAX

Reconciliation approach:

Reconciling items	Adjustment to profit before tax
1. Revenues or gains that are not equal to assessable incomes	Subtract
2. Expenses or losses that are not equal to deductions	Add back
3. Assessable incomes that are not equal to revenues or gains	Add in
4. Deductions that are not equal to expenses or losses	Subtract