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Also refer:
SIC-25 *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*, IFRIC 23 *Uncertainty over Income Tax Treatments*

Effective Date
Periods beginning on or after 1 January 1998

IAS 12 *Income Taxes*

CURRENT TAX

- Recognise liability for unsettled portion of tax expense
- Recognise an asset to the extent amounts paid exceed amounts due
- Tax loss which can be used against future taxable income can be recognised as an asset (deferred tax asset).

CURRENT TAX MEASUREMENT

Measure the asset/liability using the tax rates that are enacted or substantially enacted at the reporting date.

Disclose current tax expense (income) related to Pillar Two income taxes.

REBUTTABLE PRESUMPTION - FOR INVESTMENT PROPERTY AT FAIR VALUE UNDER IAS 40

Presumption - for investment properties at fair value, deferred tax is calculated assuming the recovery of the carrying amount of the investment property, will ultimately be entirely through sale - regardless of whether this is actually managements intention or not.

Presumption is rebutted and the carrying amount will ultimately be recovered through use over the life of the asset rather than sale:

If the asset is depreciable; and

The asset is held in order to consume the assets benefits over the life of the asset.

Land - land is not depreciable and therefore the recovery of land is always through sale.

DEFINITIONS - TEMPORARY DIFFERENCE AND TAX BASE

Temporary difference: Difference between the carrying amount of an asset/liability and its tax base.

Tax base of an asset
- Is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset
- If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

Tax base of a liability
Is its carrying amount Less any amount that will be deductible for tax purposes in respect of the liability in future periods.

Tax base of income received in advance
- Is its carrying amount
- Less any revenue that will not be taxable in the future.

TEMPORARY DIFFERENCES

Taxable temporary differences will result in taxable amounts in future when the carrying amount of an asset is recovered or liability is settled.

Deductible temporary differences will result in deductible amounts in future when the carrying amount of an asset is recovered or a liability is settled.

DEFERRED TAX

Deferred tax liabilities
Recognise liabilities for all taxable temporary differences, except to the extent it arises from:
- Initial recognition of goodwill; or
- Initial recognition of an asset/liability that does not affect accounting or taxable profit, the transaction is not a business combination and at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.
- Liabilities from undistributed profits from investments in subsidiaries, branches and associates, and interests in joint ventures where company can control the timing of the reversal.

Deferred tax assets
Recognise for deductible temporary differences, unused tax losses, unused tax credits to the extent that taxable profit will be available against which the asset can be used, except to the extent it arises from the initial recognition of an asset/liability that:
- Is not a business combination;
- does not affect accounting/taxable profit; and
- does not give rise to equal taxable and deductible temporary differences.

Recognise for deductible temporary differences arising from investments in subsidiaries and associates to the extent it is probable the temporary difference will reverse in the foreseeable future and there will be available tax profit to be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available (i.e. the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profits will be available against which the unused tax losses or unused tax credits can be utilised).

Disclose that the entity has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

DEFERRED TAX - MEASUREMENT

- Measure the balance at tax rates that are expected to apply in the period in which the asset is realised or liability settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period
- Deferred tax assets and liabilities are not discounted
- The applicable tax rate depends on how the carrying amount of an asset or liability is recovered or settled
- Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity or other comprehensive income, or a business combination
- Current tax and deferred tax are charged or credited directly to equity or other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, directly to equity or other comprehensive income.

SIC-25 *Income Taxes: Changes in the Tax Status of an Entity or its Shareholders*

ISSUE

- The issue is how an entity accounts for the tax consequences of a change in its tax status or that of its shareholders
- A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an entity's equity instruments or upon the restructuring of an entity's equity. It may also occur upon a controlling shareholder's move to a foreign country. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future
- A change in the tax status of an entity or its shareholders may have an immediate effect on the entity's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity's assets and liabilities.

CONSENSUS

- A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised outside profit or loss
- The current and deferred tax consequences of a change in tax status are included in net profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income
- Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in net profit or loss), are charged or credited directly to equity
- Those tax consequences that relate to amounts recognised in other comprehensive income are recognised in other comprehensive income.

Effective Date
Periods beginning on or after 1 January 2019
(earlier application permitted)

IFRIC 23 *Uncertainty over Income Tax Treatments*

MEASUREMENT

IFRIC 23 addresses the following issues:

- Whether an entity should consider uncertain tax treatments separately;
- The assumptions an entity should make about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances

SCOPE

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

DEFINITIONS

- 'Tax treatments' refers to the treatments used by an entity that it plans to use in its income tax filings
- 'Taxation authority' refers to the body or bodies that decide whether tax treatments are acceptable under tax law. This might include a court
- An 'uncertain tax treatment is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law

CONSENSUS

1.UNIT OF ACCOUNT

IFRIC 23 requires an entity to treat uncertain tax treatments separately or together depending on which method better predicts the resolution of the uncertainty.

2.EXAMINATION BY TAX AUTHORITIES

When measuring current and deferred income tax assets and liabilities IFRIC 23 requires an entity to assume that a taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations.

3.DETERMINATION OF TAX ITEMS

IFRIC 23 requires an entity to make an assessment of whether it is probable a taxation authority will accept an uncertain tax treatment. If it is probable the treatment will be accepted then taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rate should be consistent with the treatment used or planned to be used in its income tax filings. If it is not probable the position will be accepted, then an entity reflects that uncertainty in one of two ways depending on which method better predicts the resolution of the uncertainty:

- An expected value approach; or
- The most likely approach

4.CHANGES IN FACTS AND CIRCUMSTANCES

The accounting for uncertain tax treatments requires an entity to make estimates and judgements about whether the relevant taxation authority will accept the position taken by the entity in its tax filings. IFRIC 23 requires those estimates and judgements to be reassessed if the facts and circumstances on which those estimates and judgements are based change, or as a result of new information that affects the estimates and judgements. The effects of such changes should be reflected by applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and treated as a change in accounting estimate. In addition IAS 10 Events after the Reporting Date should be applied to determine whether such a change that occurs after the reporting period is an adjusting or non-adjusting event.

EXAMPLES

In applying consensus 3:

- Assume an entity has claimed deductions in its taxation filing related to transfer pricing and concluded it is not probable the taxation authority will accept the deductions claimed. If the entity expects the taxations authority's decision on one transfer pricing matter would affect, or be affected by, the other transfer pricing matters, then it would calculate a probability-weighted average of the possible outcomes arising from an investigation by the tax authorities in measuring income tax assets and liabilities (i.e. an expected value approach).
- Assume an entity may has claimed a current tax deduction of 100% of the cost of an intangible asset, but expects the taxation authority to accept only a 10% deduction in each of the next 10 years, the entity would measures its current tax position in the year of purchase based on a current tax deduction equal to only 10% of cost and its deferred tax position would assume a tax base of the asset equal to 90% of cost and not 0% (i.e. the most likely approach).

DISCLOSURE

- Judgements made in determining taxable profit or loss (paragraph 122 of IAS 1 Presentation of Financial Statements;
- Information about the assumptions and estimates made (paragraphs 125-129 of IAS 1)
- Potential effect of an uncertainty tax treatment as a tax-related contingency (paragraph 88 of IAS 12)

TRANSITION

An entity may use either

- retrospectively by restating comparatives if possible without hind sight; or
- retrospectively with the cumulative effect recognised by adjusting the opening balance of retained earnings on the date of initial application (i.e. the start of the accounting period in which IFRIC 23 is fist applied). In this case comparatives would not be restated.

Differences
Permanent Differences

Differences that will **never reverse over time** because they arise due to items being either **tax-exempt** or **non-deductible** under tax laws.

A. Income Recognized in Accounting but Not Taxable

1.Interest income from government securities subject to final tax

1. 20% final tax on interest from peso-denominated time deposits and other deposit substitutes (Sec. 24(B)(1))
2. 15% final tax for non-residents (Sec. 25(A)(2))

2.Dividend income from domestic corporations

1. Exempt from regular tax for corporate taxpayers (Sec. 27(D)(4))
2. Subject to **10%** final tax for individuals (Sec. 24(B)(2))

3.Foreign exchange gains (if unrealized)

1. Unrealized forex gains are recognized under **PFRS** but are not taxable until realized

4.Gain on sale of capital assets subject to final tax

1. Sale of **stocks not traded in the PSE**: **15%** CGT (Sec. 27(D)(2))
2. Sale of **real property (not used in business)**: **6%** CGT (Sec. 27(D)(5))

5.Income from tax-exempt entities (e.g., PEZA-registered enterprises)

1. Enterprises with **Income Tax Holiday (ITH)** under PEZA or BOI incentives pay **0%** tax

6.Government grants/subsidies

1. Not taxable if classified as a **capital grant** (e.g., Build-Operate-Transfer projects)

Differences
Permanent Differences

B. Expenses Recognized in Accounting but Not Deductible for Tax

1. **Entertainment, Amusement, and Recreation (EAR) Expenses** (Sec. 34(A)(1)(iv))

   Deductible only up to:

   - **0.50% of net sales** (for sellers of goods)
   - **1.00% of net revenue** (for service providers)

2. **Representation and gift expenses**
   - Subject to the same EAR limits above
3. **Fines, penalties, and surcharges on tax deficiencies**
   - 25% surcharge for late filing (Sec. 248(A))
   - 20% annual interest on tax deficiencies (Sec. 249(A))
4. **Bribes, kickbacks, and illegal payments**
   - Expressly **non-deductible** under tax rules
5. **Life insurance premiums where the company is the beneficiary**
   - Not deductible under **Sec. 34(A)(4)**
6. **Expenses related to tax-exempt income**
   - E.g., expenses related to **interest income already subject to final tax**
7. **Non-deductible political contributions and lobbying expenses**
   - Political contributions are **not deductible** (Sec. 34(H))
8. **Stock option expenses**
   - Deductible **only upon exercise** (not when granted)

Differences
Permanent Differences

C. Tax Deductions Not Recognized in Accounting

1.Optional Standard Deduction (OSD) (Sec. 34(L))

- Corporations: **40% of gross income** (instead of itemized deductions)

2.Excess depreciation deduction

Maximum allowed:

- **Vehicles used by executives**: **Depreciation limited to Php 2,400,000 per vehicle** (RR 12-2012)

3.NOLCO (Net Operating Loss Carry-Over)

- Allowed up to **3 years** (Sec. 34(D)(3)), but extended to **5 years for losses in 2020-2021** (RA 11534, CREATE Law)

Differences
Temporary Differences

Differences in **timing** between accounting and tax reporting, which will **reverse in future periods**.

A. Revenue Recognized in Accounting Before It Becomes Taxable

1.Accrued income or interest receivable
- Recognized in books but **taxed only when received**

2.Unbilled revenue (e.g., construction contracts using POC method)
- PFRS: Recognized over time
- Tax: Taxed when billed/collected

3.Deferred revenue under PFRS but taxable when received
1. E.g., prepaid **membership fees, tuition fees, and subscription income**

Differences
Temporary Differences

B. Revenue Taxed Before It Is Recognized in Accounting

1.Advance rental income

- Taxed upon receipt but amortized in books over lease term

2.Prepaid service income

- Taxed when received but earned over time in accounting

Differences
Temporary Differences

C. Expenses Recognized in Accounting Before They Are Deductible for Tax

1. **Depreciation expense differences**
    - **PFRS**: Useful life based on economic benefits
    - **Tax**: BIR limits (e.g., 2.4M cap for executive vehicles)
2. **Warranty expenses**
    - **PFRS**: Recognized as provision
    - **Tax**: Deductible only when actually incurred
3. **Bad debts (Allowance for Doubtful Accounts)**
    - Deductible **only upon actual write-off** (Sec. 34(E))

Differences
Temporary Differences

D. Expenses Deductible for Tax Before Recognized in Accounting

1.Prepaid expenses

- Tax: Deductible upon payment
- Accounting: Amortized over benefit period

2.Accelerated depreciation (allowed under tax rules but not PFRS)

- BIR may allow shorter useful lives, creating temporary difference

3.Deferred tax assets (e.g., NOLCO)

- NOLCO deductible for tax but not yet recognized in books

Ease of Paying Taxes Act
(Republic Act No. 11976)

1. **Transition to Invoices:**
   - All taxpayers are required to issue **Invoices** for sales of goods and services starting **April 27, 2024**.
2. **Handling Unused Official Receipts:**
   - Taxpayers with unused ORs have the option to:
     a. **Convert ORs to Invoices:** This involves striking out "Official Receipt" and stamping "Invoice" or a similar term. These converted documents can serve as primary invoices until **December 31, 2024**, after which they may only be used as supplementary documents.
     b. **Use ORs as Supplementary Documents:** Unused ORs can be utilized as supplementary receipts, provided they are stamped with the phrase "THIS DOCUMENT IS NOT VALID FOR CLAIM OF INPUT TAX."

Ease of Paying Taxes Act
(Republic Act No. 11976)

3. **System Reconfiguration:**
    - For taxpayers using **Cash Register Machines (CRMs), Point-of-Sale (POS) systems, or electronic invoicing software**, the transition from issuing ORs to Invoices is considered a minor system enhancement. This change does not require prior BIR approval.

4. **Submission of Inventory:**
    - Taxpayers must submit an inventory of unused ORs to the BIR by **July 31, 2024**, detailing the number of booklets and corresponding serial numbers.

Implications:

- **Uniform Documentation:** The shift to using Invoices standardizes the documentation process for sales transactions, simplifying compliance and record-keeping.
- **Input Tax Claims:** Only valid Invoices can be used to substantiate input tax claims. Supplementary documents, such as unconverted ORs, are not valid for this purpose.

Ease of Paying Taxes Act
(Republic Act No. 11976)

For VAT-Registered Persons:

- A VAT-registered person is required to issue a duly registered **VAT Invoice** for every sale, barter, exchange, or lease of goods or properties, as well as for every sale, barter, or exchange of services, regardless of the transaction amount.

For Non-VAT-Registered Persons:

- A Non-VAT-registered person is required to issue a duly registered **Non-VAT Invoice** for every sale, barter, exchange, or lease of goods or properties, and for every sale, barter, or exchange of services valued at **Five Hundred Pesos (₱500.00)** or more.
- If the buyer requests an Invoice, the seller must issue one regardless of the transaction amount.
- If the aggregate amount of all sales transactions at the end of the day, each amounting to less than ₱500.00, exceeds the ₱500.00 threshold, an Invoice must be issued.

Q&A

Legacy CPA Resource Center

Regarding NOLCO, pwede bang hindi na magpresent pa ng DTA for this, since NOLCO is valid for 3 years lang naman?

When Can You Avoid Presenting DTA for NOLCO?

You **should NOT** recognize a DTA if:

✅ Your company has **no clear forecasted taxable income** within the next 3 years.

✅ The company has **a history of continuous losses** with no turnaround strategy.

✅ There are **uncertain or volatile business conditions** affecting profitability.

✅ There are **tax law limitations or restrictions** that could prevent NOLCO utilization.

📌 **In this case, the NOLCO is disclosed as an off-balance sheet item (e.g., in the notes to the financial statements) instead of being recognized as a DTA.**

Q&A

Is recognition of MCIT to be recorded in the books as DTA? Ive seen one of big 4 audit firm, recognizing MCIT as DTA because the company operated at a loss. SO in the books, Ive seen three DTAs: 1. from MCIT, 2. from NOLCO and 3 from temporary differences

Q&A

Legacy CPA Resource Center

Tax Asset	Recognition Required?	Recognition	Recognize?	Treatment
MCIT (Minimum Corporate Income Tax Carryover)	✅ Recognize DTA if the company expects to earn **taxable income within 3 years** to offset MCIT against Regular Corporate Income Tax (RCIT).	**Probable future taxable income** within **3 years** to use the MCIT credit.	❌ If the company has a **history of continuous losses** with **no projected taxable income** within 3 years.	**Dr. DTA - MCIT** **Cr. Income Tax Expense (or Payable)**
NOLCO (Net Operating Loss Carryover)	✅ Recognize DTA if the company is **likely to generate taxable income** before NOLCO expires (**3 years**).	**Strong probability** of earning taxable income within the next **3 years**.	❌ If the company has **no clear projections of taxable profit**, or if past losses indicate low probability of recovery.	**Dr. DTA - NOLCO** **Cr. Income Tax Expense (or Payable)**
Temporary Differences (e.g., depreciation, accrued expenses, provisions)	✅ Recognize DTA if the temporary differences will result in **deductible amounts in the future** (e.g., deferred expenses, warranty provisions).	**Probable realization of tax benefit** in future periods when the temporary difference reverses.	❌ If future taxable income is **uncertain or unlikely**, affecting the realization of tax benefits.	**Dr. DTA - Temporary Differences** **Cr. Deferred Tax Income (or Payable)**

Q&A

Legacy CPA Resource Center

Can you provide examples of situations where deferred tax is recognized in P/L versus when it should be reported in OCI?

Type of Deferred Tax Item	Recognized in P/L?	Recognized in OCI?
Depreciation Timing Differences	✅ Yes	❌ No
NOLCO Utilization	✅ Yes	❌ No
Allowance for Doubtful Accounts	✅ Yes	❌ No
Lease Accounting Differences	✅ Yes	❌ No
Revaluation of PPE	❌ No	✅ Yes
Actuarial Gains/Losses (Pension)	❌ No	✅ Yes
FVOCI Investments	❌ No	✅ Yes

Q&A

Legacy CPA Resource Center

How to record BIR assessed Sales for 2023, we already paid the corresponding Output and income tax related to it, is it to be recorded as prior period adjustment charged to RE or to be expensed on the year paid

Scenario	Accounting Treatment	Journal Entry Impact
Material understatement of sales (prior period error)	Prior Period Adjustment	Adjust Retained Earnings (RE) and restate financials
Immaterial understatement or dispute settlement	Expense in the year paid	Recognize in **current year** as a tax-related expense

- **Consult auditors** to determine if the error is material and requires prior period adjustment.
- **Provide disclosure** in financial statements explaining the nature of the adjustment.

Q&A

Legacy CPA Resource Center

can company claim dep exp on exec car worth 3M limited to 2.4M cap under BIR regulations?

Under **BIR Revenue Regulations No. 12-2012**, which provides the **rules on deductibility of expenses**, the acquisition cost of an **executive car** is **limited to ₱2.4 million** for **depreciation expense purposes**.

📌 Treatment of Executive Car Depreciation:

Car Acquisition Cost	Depreciation Expense Allowed?
≤ ₱2.4M	Full depreciation expense allowed
> ₱2.4M (e.g., ₱3M)	Only **₱2.4M** can be capitalized for depreciation, while the excess **₱600K is non-deductible**

📌 How to Compute Depreciation for a ₱3M Executive Car?

- If the company **uses straight-line depreciation** over **5 years**:
  - **Allowable Basis:** ₱2.4M ÷ 5 years = **₱480K per year**
  - **Excess ₱600K is permanently non-deductible** for tax purposes.

Question & Answer