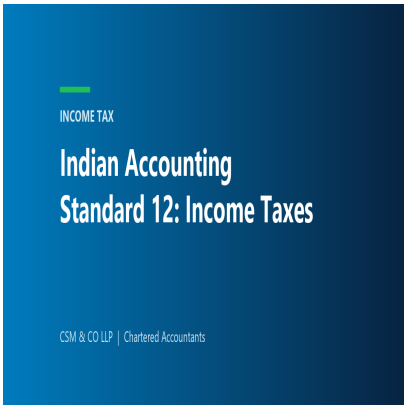

Indian Accounting Standard 12: Income Taxes

Description

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Quick summary

- Ind AS 12 prescribes how current tax and deferred tax are accounted for, using the balance sheet approach.
- Deferred tax is recognised on temporary differences between the carrying amount of an asset or liability and its tax base.
- Deferred tax liabilities are recognised on all taxable temporary differences, with limited exceptions such as initial recognition of goodwill.
- Deferred tax assets are recognised only to the extent that future taxable profit will probably be available.

How Ind AS 12 deferred tax is worked out

1. Find the carrying amount of the asset or liability in the balance sheet

?

2. Find its tax base

?

3. Compute the temporary difference between the two

?

4. Taxable temporary difference: recognise a deferred tax liability (apart from the exceptions)

?

5. Deductible temporary difference: recognise a deferred tax asset only if future

taxable profit is probable

?

6. Measure at the tax rate expected when the asset is realised or the liability is settled

?

7. Present and disclose the components of tax expense

Income taxes as per the Indian Accounting Standard 12 include both domestic and foreign taxes, which are based on taxable profits. It also includes withholding taxes.

Introduction

The objective of this standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for current and future tax consequences of:

- Future settlement of carrying amount of assets and liabilities that are recognised in the balance sheet of an organisation. If it is probable that the settlement of the carrying amount will result in a variance of tax amount which should then be recognised as deferred tax.
- Events and transactions that are recognised in the current period. The treatment for the tax related to the events will be the same as the events.

Ind AS 12 is based on the Balance Sheet approach. It requires recognising tax consequences of the difference between the carrying amounts of assets and liabilities and their tax base.

What is Tax expense or Income?

Tax expense or Tax income is the aggregate amount included in the determination of profit or loss in respect of current tax and deferred tax. *Current tax* is the amount of income taxes payable/recoverable in respect of the current profit/ loss for a period.

Deferred Tax liability is the amount of income tax payable in future periods with respect to the taxable temporary differences.

Deferred tax asset is the income tax amount recoverable in future periods in respect to the deductible temporary differences, carry forward of unused tax losses, and carry forward of unused tax credits.

Temporary differences are the differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Tax Base of an asset or liability is the amount attributed to the asset or liability for tax purposes.

Recognition of current tax assets and current tax liabilities

- Taxes to the extent unpaid for current and prior periods will be recognised as a liability. If the amount already paid for current and prior periods exceeds the actual amount due, then it will be recognised as an asset.
- A tax loss that can be used to recover current tax of a previous period is recognised as an asset in the

period in which tax loss occurred.

Recognition of deferred tax liabilities

Deferred tax liability will be recognised for all taxable temporary differences. However, the following are exceptions to the same:

- The initial recognition of goodwill.
- The initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit at the time of the transaction. A recent amendment to Ind AS 12 removes this exception where the transaction gives rise to equal taxable and deductible temporary differences (for example leases and decommissioning obligations). Check the current text of the standard for the applicable date.

Recognition of deferred tax assets

A deferred tax asset will be recognised for all the deductible temporary differences, provided it is probable that the taxable profit will be available for utilisation of deductible temporary differences. A deferred tax asset is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit at the time of the transaction (subject to the amendment mentioned above).

Measurement of current and deferred tax assets/liabilities

Current tax assets or liability will be measured as the amount expected to be recovered or paid to the tax authorities at the tax rate and laws that have been enacted or subsequently enacted by the end of the reporting period. Deferred tax assets or liability will be measured at the expected tax rates in the period in which the asset is realised or liability paid based on the tax laws that have been enacted or subsequently enacted at the end of the reporting period.

Presentation of current and deferred tax assets and liabilities

An entity shall offset current tax assets and liabilities only if it is legally entitled to and it intends to settle on a net basis or to realise assets and settle liabilities simultaneously. It can offset deferred tax assets and liabilities if:

- It has the legal right to offset current tax assets and liabilities.
- The deferred tax assets and liabilities relate to the income taxes levied by the same taxation authorities on same entities or on entities that intend to settle current tax assets and liabilities on a net basis or to realise assets and settle liabilities simultaneously.

Disclosure of current and deferred tax assets and liabilities

The major components of tax expense or income will be disclosed separately.

Allocation

As per this standard, an entity must account for tax consequences in the same way as it accounts for the transactions and other events. Therefore, if the transaction and other events are recognised in profit and loss,

then the related tax consequences should also be recognised in profit and loss. If the transaction and event is recognised outside profit and loss that is in other comprehensive income or directly in equity, then the tax consequence will also be recognised outside the profit and loss that is in other comprehensive income or directly in equity.

Frequently asked questions

What approach does Ind AS 12 follow?

Ind AS 12 follows the balance sheet approach. It recognises the tax consequences of differences between the carrying amount of assets and liabilities and their tax base.

What is a tax base?

The tax base of an asset or liability is the amount attributed to it for tax purposes.

When is a deferred tax asset recognised under Ind AS 12?

For deductible temporary differences, only when it is probable that taxable profit will be available against which they can be used.

How is Ind AS 12 different from AS 22?

AS 22 uses the income statement approach based on timing differences, while Ind AS 12 uses the balance sheet approach based on temporary differences.

Official sources

- MCA: Indian Accounting Standard 12, Income Taxes
- ICAI: Compendium of Accounting Standards

Related reading

- AS 22 Accounting for Taxes on Income
- Deferred Tax Asset and Deferred Tax Liability

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Date
11/10/2026
Date Created
21/04/2025
Author
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