

## Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12

### Background:

Financial Reporting Standards Implementation and Interpretation Committee (FRSIIC) issues this Guideline in consultation of the Accounting Standards Committee on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12 *Income Taxes*.

The objective of this Guideline is to provide an interpretation on the application of tax rates which is substantively enacted in the measurement of current tax and deferred tax for the financial reporting period ended after 26<sup>th</sup> March 2021.

The new Guideline is applicable to the current circumstances and shall not be used as a general guideline for all future periods when circumstances are not the same.

This Guideline replaces the Guideline on Application of Tax Rates in Measurement of Deferred Tax in 2015.

### Analysis

The analysis is based on LKAS 12 – *Income Taxes*.

#### Paragraph 46 of LKAS 12

**Current tax liabilities (assets)** for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Paragraph 47 of LKAS 12

**Deferred tax assets and liabilities** shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Paragraph 48 of LKAS 12

Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

### Recommendation

Current tax and Deferred tax shall be measured based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. However, sufficient guidance has not been provided on “substantive enactment/substantively enacted” in LKAS 12.

‘Substantively enacted’ means the Bill introducing the change being taken up at the Parliament for the First Reading. The Bill was placed on the Order Paper of the Parliament for the First Reading on 26<sup>th</sup> March 2021. Accordingly, Financial Statements having a period end after 26<sup>th</sup> March 2021, should use such proposed tax rules and rates in the Bill for determination of current tax and deferred tax.