Accounting for Income Taxes

Accounting for Income Taxes

1. **Current Tax**
    - The amount of income tax payable/recoverable in respect of the current period's taxable profit, calculated using tax rules (which often differ from accounting rules).
2. **Deferred Tax**
    - Arises from temporary differences between the carrying amount of an asset/liability in the financial statements and its tax base.
3. **Deferred Tax Liabilities**
    - Arise when taxable profit will be higher in the future than accounting profit (e.g., accelerated tax depreciation).
4. **Deferred Tax Assets**
    - Arise when taxable profit will be lower in the future (e.g., unused tax losses), recognized only when future taxable profit is probable.
5. **Effective Tax Rate**
    - The actual tax expense as a percentage of accounting profit, which can differ from the statutory rate due to permanent differences and tax incentives.
6. **Why It Matters**
    - Proper tax accounting ensures financial statements fairly reflect the true tax obligations of a business, avoiding surprises for investors and regulators.