

Exposure Draft

National Accounting Standard for Commercial Organizations No 3

Current Tax

General Provisions

1. This standard has been prepared in accordance with Article 6 of the Accounting Law of the Republic of Azerbaijan and based on International Accounting Standard 12 -Income Taxes.
2. This standard is intended to improve the quality and consistency of reporting current taxation in financial statements.
3. This standard should be implemented, taking into account additional provisions contained in the Rules of Bookkeeping and also in Explanations and Recommendations of its application.
4. In the case of contradictions between effective normative-legal acts and NASCO 3 this standard will prevail.

Objective

5. The objective of this standard is to prescribe the accounting treatment for current tax, connected with the transactions, balances and other events of the current period that have an impact on current tax and that are recognised in an entity's financial statements.

Scope

6. This standard applies to accounting for current tax both the financial statements of commercial organisations and to the consolidated financial statements of a group.
7. The scope of current taxation also includes all domestic and foreign taxes which are based on taxable profits and related taxes, such as withholding taxes, payable by a reporting entity as well as its subsidiaries, associates and joint ventures.
8. This standard does not deal with the methods of accounting for government grants or investment tax credits, however, it does deal with the identification of temporary differences that may arise from such grants or tax credits.

Definitions

9. The terms used in this standard have the following meanings:

Accounting Profit (loss) – the net profit or loss for a period before deducting the tax expense.

Taxable Profit (tax loss) – the profit or loss for a period, determined in accordance with the rules established by the tax authorities, upon which the taxes are calculated.

Tax Expense (Tax Income) – the aggregate amount included in the determination of profit or loss for the period in respect of current and deferred tax.

Current Tax – the amount of tax estimated to be payable or recoverable in respect of taxable profit or loss for a reporting period, along with adjustments to estimates in respect of previous periods.

Temporary Differences – the differences between the carrying amount of an asset or liability in the balance sheet and its tax base that result from the inclusion of income and expenditure in tax calculations in different periods other than those which were recognised in financial statements.

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Permanent Differences – the differences between the accounting profit as stated in the financial statements and the taxable profit that arises because certain types of income and expenditure are not taxable or disallowable or because certain tax charges or allowances have no corresponding amount in the financial statements.

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

Recognition

Recognition of current tax liabilities and current tax assets

10. Current tax for current and prior periods should, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess should be recognised as an asset.
11. The benefit relating to a tax loss that can be carried back to recover current tax from a previous period shall be recognized as an asset.
12. Current tax for current and prior periods should be measured at amounts expected to be paid (or recovered) using the tax rates that have been enacted or substantively enacted by the tax legislation.
13. Current tax should be recognised in the Income Statement, except to the extent that it is attributable to a gain or a loss that is or has been recognised directly in equity or arises from a business combination.
14. Where a gain or loss has been recognised directly in equity, the tax attributable to that gain or loss should also be recognised directly in equity.
15. Outgoing dividends paid and proposed (or declared and not yet payable), interest and other amounts payable should be recognised at an amount that:
 - (a) includes any withholding taxes; but
 - (b) excludes any other taxes, not payable wholly on behalf of the recipient.
16. Incoming dividends, interest and other income receivable should be recognised at an amount that:
 - (a) Includes any withholding taxes; but
 - (b) Excludes any other taxes that may not be used to set off against the recipient's income tax charge.
17. The effect of any withholding tax should be taken into account as part of the tax charge.
18. Subject to the provisions of paragraphs 12 and 13, income and expenses should be included in the pre-tax results on the basis of the income and expenses actually receivable or payable. No adjustment should be made to reflect a notional amount of tax that would have been paid or relieved in respect of the transaction if it had been taxable, or allowable for tax purposes, on a different basis.
19. Current tax assets and current tax liabilities should be presented separately from other assets and liabilities in the balance sheet.
20. An enterprise should offset current tax assets and current tax liabilities in case if, the enterprise:
 - (a) Has a legally enforceable right to set off the recognised amounts; and
 - (b) Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.
21. The current tax expense (or income) related to the profit or loss from ordinary activities should be included in the tax expense presented on the face of the Income Statement.
This will be covered by NASCO 4
22. The following major components of the current tax expense (or income) for the period in the Income Statement should be disclosed separately:
 - (a) Republic of Azerbaijan taxation; and
 - (b) Foreign taxation
23. Both Republic of Azerbaijan taxation and foreign taxation should be analysed to distinguish tax estimated for the current period and any adjustments in respect of prior periods.
The amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense should be disclosed separately;

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24. The taxation payable in the Republic of Azerbaijan should be disclosed before and after double taxation relief.
The following should also be disclosed separately:
- (a) The aggregate current tax relating to items that are charged or credited to equity;
 - (b) Current tax expense relating to extraordinary items recognised during the period;
 - (c) An explanation of the relationship between the current tax expense (or income) and the accounting profit in the form of a numerical reconciliation of the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed;
 - (d) An explanation of changes in the applicable tax rate(s) compared to the previous accounting period.
25. The accounting practices set out in this National Accounting Standard become operative concurrently with the National Accounting Standard for Commercial Organizations 3 “Current Taxation” to be approved in accordance with the procedure, established by the Ministry of Finance of the Republic of Azerbaijan.