APPROVED
by Resolution No. 7 of 13 October 2004 of the Standards Board of the Public Establishment the Institute of Accounting of the Republic of Lithuania
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24 BUSINESS ACCOUNTING STANDARD "INCOME TAX"

("Valstybės žinios" (Official Gazette), 2004, No. 180-6695; 2007, No. 75-2979).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how corporate income tax and other taxes based on taxable profit (thereinafter, income tax) shall be accounted for and presented in financial statements applying the accrual principle.

2. This Standard shall be applied in measuring, recording in accounting, and presenting in financial statements income tax of the reporting period and deferred income tax. The Standard establishes how the effect of economic transactions and events on income tax shall be presented in accounting

3. This Standard is not compulsory for entities which under laws:

3.1. are allowed to prepare a condensed balance sheet, condensed income statement and condensed explanatory notes;

3.2. are required to prepare a complete balance sheet, complete income statement and complete explanatory notes, if their amounts of deferred income tax are not material.

II. KEY DEFINITIONS

Taxable profit (tax loss) – a profit or loss for a reporting period determined in the manner established by tax laws, based on which current income tax is calculated.

Taxable temporary differences – temporary differences that will result in a higher taxable profit compared to accounting profit (lower tax loss compared to accounting loss) in future reporting periods.

Accounting profit (loss) – a profit or loss for a reporting period presented in an income statement before deducting income tax expenses (adding income tax income).

Current income tax – income tax determined in respect of the taxable profit.

Deferred tax – a deferred tax liability and (or) a deferred tax asset.

Deferred tax liabilities – the amounts of income tax payable in future reporting periods that arise due to taxable temporary differences.

Deferred tax income – income arising from recognition of deferred tax assets or utilisation of deferred tax liabilities during a reporting period.

Deferred tax expenses – expenses arising from recognition of deferred tax assets or utilisation of deferred tax liabilities during a reporting period.

Deferred tax assets – the amounts of income tax receivable in future reporting periods that arise due to deductible temporary differences and the carryforward of unused tax losses.

Deductible temporary differences – temporary differences that will result in a lower taxable profit compared to accounting profit (higher tax loss compared to accounting loss) in future reporting periods.

Temporary differences – differences between the carrying amount of an asset or liability and its tax base. Temporary differences may be either taxable or deductible.

Income tax expenses (income) – the aggregate amount of current income tax and deferred tax presented in the income statement.

Tax base of an asset or liability – the amount at which an asset or liability is measured for tax purposes in the manner established by tax laws.

III. RECOGNITION OF CURRENT TAX LIABILITIES AND CURRENT TAX ASSETS

4. Income tax amount unpaid during the current and prior reporting periods is recognised as a liability.

5. An excess payment of income tax during the current or prior reporting periods is recognised as an asset.

IV. RECOGNITION OF DEFERRED TAX LIABILITIES AND DEFERRED TAX ASSETS

6. Deferred income tax (thereinafter, deferred tax) is a tax that is expected to be paid or recovered due to differences in the carrying amounts of assets and liabilities and their tax bases used for determining taxable profit. Such differences are called temporary differences. If in the process of determining income tax the carrying amount of an asset or liability differs from its tax base, either a deferred tax liability and (or) a deferred tax asset are recognised. They are determined by comparing the carrying amount of an asset or a liability and its tax base.

7. Some temporary differences arise when for the purpose of calculating accounting profit income or expenses are recognised in one reporting period, and for the purpose of calculating taxable profit they are recognised in another reporting period.

8. Temporary differences also arise in other circumstances:

8.1. an asset is revalued, but its tax base remains the same;

8.2. upon acquisition of a business or reorganisation of entities by way of merger the acquisition cost of acquired assets and liabilities is determined of the basis of their fair value, while their tax base remains the same;

8.3. at the initial recognition of an asset or liability its carrying amount differs from the initial tax base of such asset or liability.

9. If for the purpose of determining the accounting profit of a reporting period some amounts are recognised as expenses (income), while for the purpose of determining the taxable profit of the same period they are recognised as non-allowable deductions (non-taxable income), but there are no differences in the carrying amount of an asset or liability and its tax base, no temporary differences arise. For example, a part of representation expenses recognised as a non-allowable deduction is not a temporary difference.

10. Temporary differences may be either taxable or deductible.

11. Taxable temporary differences lead to deferred tax liabilities, deductible temporary differences to deferred tax assets.

V. TAXABLE TEMPORARY DIFFERENCES

12. If the carrying amount of an asset is higher or the carrying amount of a liability is lower than its tax base, taxable temporary differences arise which result in a deferred tax liability.

13. A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

13.1. goodwill for which amortisation is not deductible for tax purposes;

13.2. the initial recognition of an asset or liability in a transaction which is neither an acquisition of a business nor a reorganisation of entities by way of merger; and at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

14. Examples of taxable temporary differences that result in deferred tax liabilities include:

14.1. Temporary differences arising when the accelerated depreciation method is used for determining taxable profit, whereas the straight-line depreciation method is used for determining accounting profit, thus resulting in the carrying amount of the asset being higher than its tax base.

14.2. Upon revaluation of an asset, when its carrying amount increases, whereas the tax base remains the same.

14.3. Upon acquisition of a business or reorganisation of entities by way of merger, when the cost of acquired assets and liabilities is set at their fair value and as a result net assets value increases, whereas the tax base in some cases remains the same.

14.4. At the initial recognition, an asset’s carrying amount is higher or a liability's carrying amount is lower than its initial tax base. Some amounts are recognised in accounting and presented in the balance sheet as assets or liabilities, whereas for tax purposes their tax base is equal to zero. In the process of development activities incurred costs are recognised as intangible assets that have no tax base because for tax purposes these costs are recognised as allowable deductions in the reporting period when they are incurred. The difference in the carrying amount of development activities that will be recognised as expenses in future reporting periods and its zero tax base is a taxable temporary difference that results in a deferred tax liability.

VI. DEDUCTIBLE TEMPORARY DIFFERENCES

15. If the carrying amount of an asset is lower or the carrying amount of a liability is higher than its tax base, deductible temporary differences arise which result in a deferred tax asset.

16. A deferred tax asset shall be recognised for all deductible tax differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from:

16.1. a portion of negative goodwill related to future losses and expenses that is not recognised as income for tax purposes;

16.2. the initial recognition of an asset or liability in a transaction that is neither an acquisition of a business nor a reorganisation by way of merger; and at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

17. Examples of deductible temporary differences that result in deferred tax assets include:

17.1. Upon revaluation of an asset and its measurement at fair or net realisable value, when the value of the asset decreases and thus its carrying amount becomes lower than its tax base.

17.2. Upon acquisition of a business or reorganisation of entities by way of merger, when the cost of acquired assets and liabilities is set at their fair value and as a result net assets value decreases, whereas the tax base in some cases remains the same.

17.3. At the initial recognition, an asset’s carrying amount is lower or a liability's carrying amount is higher than its initial tax base. Some amounts have a tax base, whereas in accounting they are neither recognised as assets or liabilities nor presented in the balance sheet. For the purpose of determining accounting profit, personnel training costs are recognised as expenses in the period when they are incurred, whereas for tax purposes in certain cases they may affect taxable profit (tax loss) only in future reporting periods. The difference in the tax base of personnel training costs, that is equal to the amount of deductible allowances of future reporting period, and their zero carrying amount is a deductible temporary difference that results in a deferred tax asset.

18. When temporary differences are related to investments in subsidiaries, associates or jointly controlled entities, deferred tax shall be recognised according to the requirements of section VIII of this Standard “Investments in subsidiaries, associates and jointly controlled entities”.

19. Economic benefit from a deferred tax asset due to a decrease in taxes will flow to an entity when, and only when, the entity expects to earn enough taxable profit in the future, and deductible temporary differences could be deducted from that taxable profit as allowable

deductions. Therefore, the deferred tax asset shall be recorded in accounting when, and only when, the entity reasonably expects to earn enough taxable profit in the future. In calculating deferred tax, one shall also consider a decrease or reversal of taxable temporary differences in future reporting periods.

VII. DEFERRED TAX ASSET ARISING FROM UNUSED TAX LOSSES

20. Taxable losses can be carried forward to other reporting periods in the manner established by tax laws. A deferred tax asset shall be recognized for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

21. The criteria for recognition of deferred tax assets arising from the carryforward of unused tax losses are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is evidence that future taxable profit may not be available. Therefore, if an entity has suffered losses, it presents a deferred tax asset arising from unused tax losses only to the extent that the entity has taxable temporary differences that will decrease or reverse in the future, or there is a convincing other evidence that sufficient taxable profit will be earned against which unused tax losses can be utilised.

22. In estimating the probability that taxable profit will be earned in future reporting periods against which unused tax losses could be utilised, an entity shall consider the following criteria:

22.1. whether it has sufficient taxable temporary differences;

22.2. whether it can reasonably expect to earn taxable profit before the unused tax losses expire;

22.3. whether the unused tax losses result from such causes (or circumstances) that are unlikely to recur in future reporting periods.

VIII. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

23. When the carrying amount of an investment in subsidiaries, associates or jointly controlled entities differs form its tax base, temporary differences arise. Such differences normally arise when investments in subsidiaries, associates or jointly controlled entities are presented in separate financial statements under the equity method, whereas their tax base remains the same.

24. For the purpose of consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities presented in these financial statements to their tax base that is determined on the basis of tax bases of each entity of the group.

25. If taxable temporary differences arise, the entity shall recognise a deferred tax liability, except for cases when these two conditions are met:

25.1. the entity is able to control the timing of the reversal of temporary differences;

25.2. it is probable that temporary differences will not reverse in the foreseeable future.

26. If deductible temporary differences arise, the entity shall recognise a deferred tax asset only to the extent that it is reasonably probable that:

26.1. the temporary differences will reverse in the foreseeable future;

26.2. taxable profit will be earned against which these temporary differences can be deducted as allowable deductions.

IX. MEASUREMENT OF INCOME TAX

27. Current income tax shall be measured applying income tax rates established by tax laws.

28. Deferred tax assets and liabilities shall be measured at the income tax rate that is

expected to apply to reporting periods when temporary differences, due to which deferred tax arose, will reverse.

29. Even though in certain cases the carrying amount of an asset or liability may be determined by discounting (e.g., the recoverable amount of a non-current tangible asset when its value decreases), deferred tax assets and liabilities shall not be discounted.

30. At each balance sheet date, an entity shall review and re-estimate deferred tax assets. If in future reporting periods taxable profit is not available to the extent that all unused taxable losses could be used, deferred tax assets shall be reduced or derecognised.

X. RECOGNITION OF CURRENT INCOME TAX AND DEFERRED TAX IN THE INCOME STATEMENT

31. Current income tax and deferred tax expenses (income), that arise from economic transactions recorded in income and expenses accounts, are presented in the income statement as income tax expenses (income). In cases when current income tax and deferred tax expenses (income) arise from economic transactions recorded in equity accounts and not included in the income statement, they are presented in the manner established by section XI of this Standard.

32. The carrying amount of a deferred income tax may change even though there is no change in the amount of the related temporary differences. This may occur, for example, in these cases:

32.1. when tax rates or tax laws change;

32.2. upon re–estimation of the recoverability of deferred tax assets;

32.3. when expected manner of using the asset changes.

33. When the carrying amount of a deferred tax changes due to the reasons described in paragraph 32 of the Standard, the resulting difference is presented in the income statement, except for cases when it is related with the transactions previously recorded in equity accounts and excluded from the income statement.

XI. RECOGNITION OF CURRENT INCOME TAX AND DEFERRED TAX IN EQUITY

34. Current income tax and deferred tax expenses (income) shall be recorded in respective equity accounts if they are related to economic transactions recorded in equity and excluded from the income statement.

35. Examples of economic transactions that are recorded in equity are:

35.1. a change in the carrying amount of a non-current asset resulting from its revaluation;

35.2. an adjustment to the opening balance of retained earnings resulting from either a change in accounting policies or correction of a material error using the retrospective method;

35.3. exchange differences arising on the translation of financial statements of a foreign entity upon consolidation.

36. If a deferred tax liability is recognised due to revaluation of an asset, in accounting revaluation reserve (results) is recorded or increased by the amount of the increase in the value of the asset less the deferred tax liability.

XII. OFFSETTING INCOME TAX ASSETS AND LIABILITIES

37. An entity shall offset income tax prepayment and (or) an excess payment of income tax and payable income tax liability.

38. Deferred tax assets and deferred tax liabilities shall be offset when, and only when, they are related to the same taxation authority.

XIII. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

39. In the balance sheet current payable income tax or its excess payment shall be presented separately from other assets and liabilities.

40. Deferred tax assets and liabilities shall be presented separately from current payable income tax or its excess payment.

41. Deferred tax assets and liabilities shall be recognised as non-current.

42. In complete explanatory notes the following components shall be disclosed when presenting information about material components of income tax expenses (income):

42.1. current income tax expenses;

42.2. adjustments of income tax of prior periods presented in accounting in the current reporting period;

42.3. the amount of deferred tax expenses (income) related to the origination and reversal of temporary differences, detailing material amounts;

42.4. the amount of deferred tax expenses (income) related to the changes in tax rates or income tax law, separated into material amounts;

42.5. the amount of benefit arising from previously unrecognised tax losses or temporary differences of prior reporting periods, by which current income tax expenses are reduced;

42.6. deferred tax expenses (income) arising from the write-down (or reversal of a previous write-down) of a deferred tax asset;

42.7. the amount of income tax expenses (income) related to changes in accounting policies and correction of material errors that were applied prospectively.

43. In addition, complete explanatory notes shall disclose:

43.1. the aggregate amount of the current income tax and deferred tax, related to transactions recorded in equity accounts;

43.2. income tax expense (income) related to extraordinary items recognised during the reporting period;

43.3. the change in income tax rate (rates) during the reporting period;

43.4. the amount and expiry date of deductible temporary differences and unused tax losses, for which deferred tax asset was not recognised;

43.5. a material effect of changes in income tax rates or tax laws on the current income tax and deferred tax, if they are adopted or announced after the balance sheet date.

XIV. FINAL PROVISIONS

44. Upon the first-time application of this Standard, an entity shall apply its provisions retrospectively in accordance with the requirements of 7 Business Accounting Standard “Changes in Accounting Policies, Accounting Estimates, and Correction of Errors”.

45. The revised version of this Standard shall be effective for financial statements covering periods beginning on or after 1 January 2008. The revised version may be applied in preparing financial statements for 2007.