

**Statement of
Financial Accounting Standards
No. 22**

Revised on 11 November 1999

Translated by

**Chung-Yuan Hsu, Professor
(National Chengchi University)**

Second revised on 22 September 2005

Translated by

**Chung-Yuan Hsu, Professor
(National Chengchi University)**

Financial Accounting Standards Committee

Statement of Financial Accounting Standards No.22

Income Taxes

I Introduction

- (1) This Statement establishes the accounting standards for income taxes for business enterprises.
- (2) The scope of this Statement includes income taxes payable or refundable for the current period, and the income tax consequences of the following items:
 - (a) revenues, expenses, gains, or losses recognized in different periods for pretax financial income versus taxable income;
 - (b) other events that create differences between the tax bases and the book values of assets and liabilities; and
 - (c) loss carryforwards and income tax credits that reduce income taxes payable in future years.
- (3) The purpose of income tax accounting is to:
 - (a) recognize income taxes payable or refundable for the current period; and
 - (b) recognize deferred tax assets or liabilities for the items that have future income tax effects and are reported on the financial statements or the income tax return.

II Definitions

(4) The definition for the terminologies used in this Statement is as follows:

- (a) *Income tax expense (benefit)*: the sum of current income tax expense (benefit) and deferred income tax expense (benefit).
- (b) *Current income tax expense*: the amount of income taxes payable for the current period, calculated based on the taxable income.
- (c) *Current income tax benefit*: the decrease in income taxes payable or the increase in income taxes refundable for the current period as a result of loss carryforwards or income tax credits.
- (d) *Deferred income tax expense (benefit)* : the amount of changes in the deferred tax liabilities and assets (net of allowance) for the period.
- (e) *Taxable amounts*: the items, according to the tax laws, that will increase future taxable income. These items include taxable revenue and gains, or expenses and losses not deductible for tax purposes.
- (f) *Deductible amounts*: the items, according to the tax laws, that will decrease future taxable income. These items include expenses and losses deductible for tax purposes or tax-exempt revenues and gains.
- (g) *Tax basis*: assets or liabilities recognized according to the tax laws.
- (h) *Temporary difference*: a difference between the tax basis of an asset or liability and its book value that will result in taxable or deductible amounts in future years when the recorded asset or liability is recovered or settled, respectively. In addition, temporary difference also includes certain items recognized in the financial statements that cannot be

identified with a particular asset or liability, but will result in future taxable or deductible amounts according to the tax laws.

- (i) *Taxable temporary difference*: temporary differences that result in taxable amounts in future years when the related asset or liability is recovered or settled, respectively.
- (j) *Deductible temporary difference*: temporary differences that result in deductible amounts in future years when the related asset or liability is recovered or settled, respectively.
- (k) *Deferred tax consequences*: the future effects on income taxes as measured by the provisions of the enacted tax laws resulting from temporary differences, loss carryforwards, and income tax credits.
- (l) *Deferred tax asset*: the deferred tax consequences attributable to deductible temporary differences, loss carryforwards, and income tax credits.
- (m) *Deferred tax liability*: the deferred tax consequences attributable to taxable temporary differences
- (n) *Interperiod tax allocation*: the process of recording an asset or liability for the deferred tax consequences resulting from temporary differences, loss carryforwards, and income tax credits at the end of the current year, and recognizing the related income tax expense or benefit in future periods.
- (o) *Intraperiod tax allocation*: the process of allocating the tax expense (benefit) of an accounting period to the major items in the income statement (for example, income or loss from continuing operations, extraordinary gains or losses) and the items that, according to Paragraph 32, should be directly debited or credited to stockholders' equity.
- (p) *Taxable entity*: the entity that, according to the tax laws, should

file its own income tax return. For example, a parent company and its subsidiary are different taxable entities. As for the filing status of a company's head office and its branch office, it will depend on whether they are governed by the same tax jurisdiction. If a branch is located overseas, then the head office and its branch office are different taxable entities; if a branch is located domestically, then they are the same taxable entity.

- (q) *Joint venture*: a business enterprise formed from the investments by a few investors for their mutual benefits and to carry out specific businesses or plans. Each investor owns less than 50% of the equity and is actively involved in operating the business.
- (r) *Pretax financial income*: the net income for the period before deducting income taxes, determined in accordance with the Generally Accepted Accounting Principles.
- (s) *Taxable income*: the net income for the period before deducting income taxes, determined in accordance with the Tax Laws and Regulations, upon which income taxes are payable or refundable.

III Explanation

- (5) For a business enterprise to recognize deferred tax assets or liabilities for the future deferred tax consequences, it must expect that the related items and events will result in future tax consequences. However, because (1) the tax payment or refund that results from a particular tax return is a joint result of all the items included in that return, (2) taxes that will be paid or refunded in future years are the joint result of events of the prior, current and future years, and (3) information available about the future is limited; therefore, estimates and approximations may be used to measure and recognize deferred tax assets or liabilities.
- (6) Due to the constraints described in the preceding paragraph, the

following basic principles are applied in accounting for income taxes:

- (a) recognition of tax assets or liabilities for the current period based on the estimated income taxes payable or refundable as calculated on the tax return for the current period;
 - (b) recognition of deferred tax assets or liabilities for the future tax consequences resulting from temporary differences, loss carryforwards, and income tax credits;
 - (c) measurement of current and deferred tax liabilities or assets as required by the enacted tax laws (including tax rates), but the effects of future changes in the tax laws are not anticipated; and
 - (d) if available evidence show that a deferred tax benefit will not be realized, then a valuation allowance account should be established to reduce that portion of the deferred tax asset.
- (7) Income taxes currently payable or refundable for a particular year usually include the tax consequences of most events that are recognized in the financial statements for that year. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains, and losses, differences arise between:
- (a) the amount of taxable income and pretax financial income for a year; and
 - (b) the tax bases of assets or liabilities and their reported amounts in the financial statements.

The above differences can be combined into four categories:

- (a) permanent difference
- (b) temporary difference

- (c) difference resulting from a direct debit or credit to a stockholders' equity item
 - (d) difference resulting from loss carryforwards.
- (8) If as a result of tax, social, and economic policy considerations, differences occur between the reporting basis in the financial statements and the enacted tax laws, and such differences affect only the taxable income of the current period, then they are permanent differences. Because these differences will not result in future taxable or deductible amounts, no interperiod tax allocation is needed. Examples include:
- (a) Revenue recognized for financial reporting purposes but not for tax purposes. For example, the gains from marketable securities are reported as income in the financial statements, but the enacted tax laws suspend the tax on securities gains. In addition, when a corporation invests in a non-tax exempt corporation, its investment income is, according to tax laws, not taxable, but such income is recognized as a component of pretax financial income.
 - (b) Revenue recognized for tax purposes but not for financial reporting purposes. For example, according to the tax laws, when a uniform sales invoice is erroneously issued and voided, but the seller fails to retain the customer's copy and to prove that there was no actual sale, then the sale should be recognized for tax purposes. However, according to substance, the sale should not be recognized for financial reporting purposes.
 - (c) Expenses recognized for financial reporting purposes but not for tax purposes. For example, the portion of entertainment expenses and donations that exceeds the statutory limit is not recognized for tax purposes, but is recognized as expenses for financial reporting purposes.
- (9) When a business enterprise prepares its financial statements

according to generally accepted accounting principles, it assumes that the reported assets or liabilities will be recovered or settled according to their book values. Based on this assumption, the temporary difference caused by the difference between the tax basis and the book value of an asset or liability will result in a taxable or deductible amount when the reported asset or liability is recovered or settled, respectively. Examples include:

- (a) Revenue or gains that are recognized in the current period, but are taxable in the following periods. For example, exposed assets or liabilities at the balance sheet date are adjusted by the current rate as of the balance sheet date, and the resulting exchange gain from adjustment is recognized as current period gains, according to the Statement of Financial Accounting Standards No. 14 *Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements*. However, according to the tax laws, such unrealized exchange gain is taxable only when it is realized in the future, thus resulting in a future taxable amount.
- (b) Expenses or losses that are recognized in the current period, but are deductible in the following periods. For example, the cost of product warranty should be estimated and expensed at the time of sale for financial reporting purposes. According to the tax laws, however, such expenses are deductible only when they have been actually incurred, thus resulting in a future deductible amount.
- (c) Revenue or gains that are taxable in the current period, but are recognized in the following periods. For example, according to the tax laws, when a payable is past due for more than two years, it should be reclassified into other revenue. However, the corporation may, with consideration of its policy or the possibility of payment, choose to reclassify the payable to revenue at a later period for financial reporting purposes, thus resulting in a future deductible amount.
- (d) Expenses or losses that are deductible in the current period,

but are recognized in the following periods. For example, a corporation, in depreciating its plant assets, uses the fixed-percentage-of-book-value method for tax purposes and the straight-line method for financial reporting purposes. In the early years, depreciation expenses recognized for tax purposes are higher than those recognized in the financial statements, thus resulting in a future taxable amount.

- (e) When a company uses the purchase method in a business merger, the assets and liabilities of the purchased company are recorded at their fair market values for financial reporting purposes. For tax purposes, however, the purchased company's assets and liabilities are recognized at their original book values. The above differences will result in future taxable or deductible amounts.

Examples (a) to (d) above illustrate the differences in the timing of recognition of revenues, expenses, gains, or losses as regulated by tax laws and generally accepted accounting principles, respectively. Such divergence results in temporary differences between taxable income and pretax financial income and, also creates differences between the tax basis of an asset or liability and its book value. Example (e) above illustrates other situations that result in the temporary difference between the tax basis of an asset or liability and its book value. For all of the above examples, the differences result in taxable or deductible amounts when the reported amount of an asset or liability in the financial statements is recovered or settled, respectively.

- (10) Some of the taxable or deductible amounts, which result from temporary differences, cannot be clearly identified with a particular asset or liability in the financial statements. For example, the appropriation of cash to the employees' benefits fund, which is based on a fixed percentage of a company's capital, is reported as an expense for the current year. According to the tax laws, however, the expense should be deferred and amortized in the following years. Consequently, a deductible amount occurs and such difference cannot be clearly identified with a specific asset or liability in the financial statements.

- (11) The items that are directly debited or credited to stockholders' equity can be, according to their nature, classified into two groups:
- (a) Those items that directly affect stockholders' equity and are not included in the computation of net income. Therefore, they do not affect pretax financial income for the current period, but are, according to the tax laws, included in taxable income. Consequently, pretax financial income and taxable income differ (this constitutes a permanent difference by its nature.) For example, a donation from a non-nature-person shareholder may be reported as an increase in paid-in capital. According to the tax laws, however, such a donation is included in taxable income, thus resulting in a difference.
- (b) Those items that, according to the tax laws, are not included in taxable income, but the difference between tax basis and the book value of the related asset or liability has occurred (this constitutes a temporary difference by its nature). When the related asset or liability is recovered or settled, a taxable or deductible amount will result. For example, assume that the gains from sale of equity investments are taxable and the losses from sale of equity investments are deductible. The corporation's unrealized loss on its available-for-sale financial assets is not deductible for tax purposes. Therefore, its tax basis remains unchanged, but the carrying amount of the investment is reduced. Consequently, the tax basis and the book value of the asset differ. When the long-term investment is sold (recovered), a deductible amount will occur and, therefore, a deferred tax asset is recognized in the current period.
- (12) According to tax laws, a corporation that meets specific conditions can utilize its tax losses carryforward from the past five years as approved by the tax authorities to offset its taxable income. That is, the net loss of the current year can be carried forward for the next five years to reduce future taxable income. Such loss carryforward is only applicable to the computation of taxable income, not to pretax

financial income. Therefore, this results in difference between pretax financial income and taxable income.

- (13) Taxable temporary differences, as a result of past transactions or events, will result in taxable amounts and increase income taxes payable when the related asset or liability is recovered or settled, respectively. According to the enacted tax laws, a corporation cannot avoid payment of its income tax liability, therefore, the deferred tax consequences of a taxable temporary difference meet the definition of a liability and should be properly recognized as a deferred tax liability.
- (14) Deductible temporary difference, as a result of past transactions or events, will result in deductible amounts and decrease income taxes payable when the related asset or liability is recovered or settled, respectively. Loss carryforward and income tax credit, as a result of past transactions or events, will reduce an enterprise's future income taxes payable. Therefore, the deferred tax consequences of these items, which all possess future economic benefits, meet the definition of an asset and should be properly recognized as a deferred tax asset. However, if the available evidence shows that the economic benefits of a deferred tax asset are reduced or become unrealizable, a valuation allowance account should be established to reduce the carrying amount of the deferred tax asset.
- (15) The realization of future tax benefits from deductible temporary differences, loss carryforwards, and income tax credits is dependent on whether there are sufficient amounts of taxable income in the periods when the temporary differences reverse or in the periods allowed by the tax laws. The sources of future taxable income usually include:
- (a) the normal taxable income resulting from future revenues minus expenses;
 - (b) the future reversal of the existing taxable temporary differences; and

- (c) the taxable income as a result of tax planning. For example, an enterprise may accelerate realization and recognition of taxable income or choose to delay commencement of its tax-exempt period in order to utilize its loss carryforwards and income tax credits that will soon expire.

For the sources of future taxable income listed above, if one or more sources of income are sufficient enough to support a conclusion that a valuation allowance account for the deferred tax asset is not necessary, then the other sources of income need not be considered. However, all of the above sources of taxable income should be considered in determining the amount of the valuation allowance.

- (16) An enterprise may, sometimes, intentionally choose certain prudent and feasible alternatives that would prevent loss carryforwards and income tax credits from expiring unused and would result in realization of deferred tax assets. These alternatives are referred to as strategies for tax planning. An enterprise should consider its strategies for tax planning when determining the amount of valuation allowance for deferred tax assets, and should also include the significant expenses or losses that may result from implementation of such strategies.
- (17) When an enterprise evaluates the realization probability of a deferred tax asset, both positive and negative evidences are considered. If it is more than 50% probable that a deferred tax asset will not be realized after considering all evidences, then a valuation allowance account is needed.

Examples of positive evidence include the following:

- (a) existing sales contracts or orders that, based upon existing sales prices and cost structures, will produce sufficient taxable income to realize the deferred tax asset;
- (b) an excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset;

- (c) a history of strong earnings power indicating that the loss is an aberration (for example, the effect of an extraordinary loss) rather than a continuing condition.

Examples of negative evidence include the following:

- (a) operating losses incurred in recent years
- (b) a history of loss carryforwards and income tax credits expiring unused
- (c) losses expected in early future years;
- (d) existing contingencies that may adversely affect the entity's operations and profit levels on a continuing basis in future years
- (e) a carryforward period remaining for operating losses and tax credits that is so close to expiration and would affect realization of tax benefits.
- (18) When investing in a foreign subsidiary or joint venture, if the available evidence shows that the investing company did and will reinvest its share of the investee company's undistributed earnings on a long-term basis and would not reimburse the investee company's losses, so that the temporary difference between the book value of long-term investment in equity securities and its tax basis will in effect exist indefinitely, then a deferred tax liability or asset should not be recognized. However, when the circumstances change which indicate that a portion or all of the investee company's undistributed earnings will be distributed, then the investing company should estimate the taxes on its share of earnings distribution.
- (19) Considering that there is a going-concern assumption in accounting, income tax is an operating cost of an enterprise, and since a deferred tax liability or asset meets the definition of an asset or a liability,

respectively, an interperiod tax allocation of deferred tax consequences is necessary.

- (20) An enterprise should, based on the matching and the full disclosure principles, make intraperiod tax allocation to simultaneously show the tax consequences of major income components and the items that are directly debited or credited to stockholders' equity, in order to show the amounts net-of-tax. Therefore, financial statement users can understand the net effect of each income component and of each of the items directly debited or credited to stockholders' equity.
- (20-1) Since the shareholders' imputation tax credit amount is part of the total amount of dividends, and is an important relevant information for investors making investment decisions, therefore, it is appropriate to disclose the "shareholders imputation tax credit" account balance as of balance sheet date, and the expected (actual) imputation tax credit ratio for earnings distributions of the current (last) year. Furthermore, because the ex-dividend dates for cash dividends and stock dividends may be different, the imputation tax credit ratios for cash dividends and stock dividends should be disclosed separately.

IV Accounting standards

Interperiod tax allocation

Recognition and measurement

- (21) An enterprise should recognize the deferred tax asset or liability resulting from temporary differences, loss carryforwards, and income tax credits. Income tax expense (benefit) for each period is the sum of income taxes currently payable (refundable) and deferred income tax expense (benefit).
- (22) The procedures for determining deferred tax liability or asset are as follows:
- (a) identify:

- (i) the types and amounts of existing temporary differences; and
 - (ii) the nature and amounts of loss carryforwards and income tax credits, and their expiration dates.
- (b) calculate the amount of deferred tax liability for taxable temporary differences using the enacted tax rates;
 - (c) calculate the amount of deferred tax asset for deductible temporary differences and loss carryforwards using the enacted tax rates;
 - (d) calculate the amount of deferred tax asset for income tax credits; and
 - (e) if the available evidence indicates that it is more than or equal to 50% probable that a portion or all of the deferred tax asset will not be realized, then that portion or all of the amount should be recognized in total in a valuation allowance account to reduce the deferred tax asset.
- (23) When measuring a deferred tax liability or asset, the enacted tax rates for the periods in which the deferred tax liability or asset is expected to be settled or realized should be used. But if the tax rates for the periods of expected settlement or realization are not formally enacted into law, then the enacted tax rate for the nearest period should be used. When measuring a deferred tax asset, if the available evidence shows that a portion or all of the deferred tax asset will not be realized before expiration, then that portion or all of the deferred tax asset and its valuation allowance should be computed using the enacted tax rate for the last period before expiration. However, if the tax rate for the last period before expiration is not formally enacted into law, then the enacted tax rate for the nearest period should be used.
- (24) An enterprise should, based on all available evidence (including

positive and negative evidence), assess the necessity of establishing a valuation allowance account for deferred tax assets. When judging the positive and negative effect of the evidence, the reliability of the evidence should be considered. If negative evidence exists, then sufficient and appropriate positive evidence is needed to avoid establishing the valuation allowance account.

- (25) When the changes in circumstances affect the judgment on the realizability of deferred tax assets, the valuation allowance account should be adjusted and the adjustment charged to income tax expense (benefit) for income from continuing operations. But when a business merger is accounted for under the purchase method, the adjustment to the valuation allowance account for deferred tax assets should be accounted for as explained in Paragraph 28.

When the available evidence shows that the deferred tax asset will not be realized (for example, income tax credits expiring unused), the deferred tax asset and its valuation allowance account should be written off.

- (26) When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be reported as an adjustment to income tax expense (benefit) for income from continuing operations currently.
- (27) When an enterprise changes from a tax-exempt entity to a taxable entity, it should recognize the deferred tax liability or asset of related temporary differences at the date of change. When the change is from a taxable entity to a tax-exempt entity, the deferred tax liability or asset should be written off at the date of change. The recognition or write-off of the deferred tax liability or asset should be reported as an adjustment to income tax expense (benefit) for income from continuing operations currently.

Business merger

- (28) When a business merger is accounted for under the purchase method, the purchased company should recognize a deferred tax liability or asset for the differences between the fair values of assets and liabilities and their tax bases, loss carryforwards, and income tax credits.

Long-term investment in equity securities

- (29) If a company can control the timing of the reversal of temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset should not be recognized. However, when the circumstances change which indicate that a portion or all of the investee company's undistributed earnings will be distributed, the investor company should estimate the taxes on its share of earnings distribution. If taxes were estimated on the investor company's share of the undistributed earnings, but no distribution is expected in the foreseeable future, then the related taxes should be eliminated. The estimation and elimination of the above taxes should be reported as an adjustment to income tax expense (benefit) for income from continuing operations currently.

Intraperiod tax allocation

- (30) The income tax expense (benefit) should be allocated to income from continuing operations, income from discontinued operations, extraordinary items, the cumulative effect of changes in accounting principles, and the items debited or credited directly to stockholders' equity according to Paragraph 32.

The income tax expense allocated to income from continuing operations should include the following items:

- (a) tax consequences of income (loss) from continuing operations before income taxes for the period;

- (b) according to Paragraph 25, tax consequences resulting from a change in judgment about the realizability of deferred tax asset;
- (c) according to Paragraph 26, tax consequences resulting from changes in the tax laws; and
- (d) according to Paragraph 27, tax consequences resulting from a change in the enterprise's tax status.

The allocation method for the first item above is as follows.

- (a) If there is income from continuing operations, then the lowest tax rate should be used to compute the income tax expense for income from continuing operations, then the other items are combined with income from continuing operations and the resulting increase or decrease in income tax expense is reported as income tax expense (benefit) for those items. If some of the other items are losses and the others are gains, then the gains should first be added to income from continuing operations to compute the income tax expense. The resulting increase in income tax expense is attributable to these gains and should be allocated to each of the gains on the basis of their relative amounts. The loss items are then deducted from the sum of income from continuing operations and the gain items to recalculate the income tax expense. The resulting decrease in income tax expense is the income tax benefit attributable to these losses and should be allocated to the losses based on their relative amounts. (The above allocation method can also be done by first adding the loss items back to net income, then deducting the gain items from the sum.)
- (b) If there is a loss from continuing operations, then the income tax expense (benefit) should be deducted from the tax consequence of net income (loss) excluding loss from continuing operations to determine the tax consequence of loss from continuing operations. That is, the income tax

expense for the items other than continuing operations is first computed, then the loss from continuing operations are included, and the resulting decrease in income tax expense is the tax benefit of loss from continuing operations. If the sum of the items other than continuing operations is also a loss, then the tax benefit of loss from continuing operations will be the amount of the deferred tax asset realizable through loss carryforwards, that is, the tax savings resulting from loss from continuing operations carried forward to the next five years.

- (31) When making an intraperiod tax allocation for the deferred tax expense or benefit resulting from a temporary difference, an enterprise should consider income statement items or the items directly debited or credited to stockholders' equity that result in temporary differences and allocate the deferred tax expense or benefit to these items. The income tax benefit resulting from the loss carryforward should be recognized in the year of loss and accounted for according to the rules stated under the third item of the preceding paragraph.
- (32) The income tax expense (benefit) for the following items should be debited or credited directly to related components of stockholders' equity:
- (a) prior period adjustments;
 - (b) unrealized gains or losses that are not included in net income for the period, but are reported directly in the stockholder's equity section, for example, *foreign exchange adjustment* as required in SFAS No.14 *Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements*, and
 - (c) an increase or decrease in capital surplus, for example, the after-tax income of donations from the non-nature-person shareholders credited directly to capital surplus.

Financial statement presentation and disclosure

- (33) A deferred tax liability or asset should, according to the classification of its related liability or asset, be classified as current or noncurrent. However, a deferred tax liability or asset that is not related to a liability or asset for financial reporting (including deferred tax assets related to loss carryforwards and income tax credits), should be classified as current or noncurrent according to the expected reversal date of the temporary difference.
- (34) When an enterprise prepares its financial statements, the current deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount; and similarly for the noncurrent deferred tax liabilities and assets. However, the deferred tax liabilities and assets that belong to different taxable entities may not be offset against each other.
- (35) An enterprise's financial statements should disclose the following items:
- (a) the total of all deferred tax liabilities;
 - (b) the total of all deferred tax assets;
 - (c) the balance of the valuation allowance for deferred tax assets, and its net change during the period; and
 - (d) the types of temporary differences, loss carryforwards, and income tax credits that give rise to significant portions of deferred tax liabilities and assets and their individual tax consequences. Non-public corporations may omit disclosure of the tax consequences.
- (36) For intraperiod tax allocation, income or loss from continuing operations should be reported separately as *income (loss) from continuing operations before income taxes*, *income tax expense (benefit)*, and *income (loss) from continuing operations*. The other items should be presented net of their allocated income taxes, and the income tax expense or benefit of each item should also be disclosed.

- (37) The significant components of income tax expense (benefit) attributable to continuing operations should be disclosed in the financial statements or footnotes.

For example:

- (a) current income tax expense or benefit;
- (b) the 10% additional income tax for undistributed earnings;
- (c) deferred income tax expense or benefit (not including the tax consequences of items (d) to (h) below);
- (d) income tax credits;
- (e) tax benefit from loss carryforwards;
- (f) according to paragraph 28, the adjustment to deferred tax assets resulting from a business merger;
- (g) adjustments to a deferred tax liability or asset for changes in tax laws or a change in tax status of the enterprise; and
- (h) adjustment to a valuation allowance because of a change in circumstances that causes a change in the judgment about the realizability of the related deferred tax asset.

However, the insignificant amounts included in the items listed above can be combined.

- (38) A public enterprise should disclose a reconciliation of the following two items:
- (a) the income tax expense (benefit) for income (loss) from continuing operations as reported in the financial statements; and
 - (b) according to the enacted tax laws, the current income tax

expense (benefit) attributable to continuing operations.

The nature and total of each significant reconciling item should be disclosed.

- (39) An enterprise's financial statements should disclose the following items:
- (a) the balance of existing unused loss carryforwards and income tax credits and their expiration dates;
 - (b) according to Paragraph 28, the portion of goodwill reduced as a result of revaluing the valuation allowance for deferred tax asset;
 - (c) the balance of shareholders imputation tax credit account as of balance sheet date;
 - (d) the balance of retained earnings from the year 1997 and before, and from the year 1998 and after, respectively;
 - (e) The expected imputation tax credit ratios for the distribution of cash dividends and stock dividends, respectively, for the following year; and
 - (f) The actual imputation tax credit ratios for the distribution of cash dividends and stock dividends, respectively, for the current year.

V Notes

- (40) An enterprise should, at its initial adoption of this Statement, compute the tax consequences of its existing temporary differences, loss carryforwards, and income tax credits and report them as an income tax expense or benefit of the year, and also recognize a deferred tax liability or asset. However, if an enterprise has made interperiod tax allocations prior to the initial adoption of this Statement, it should adjust its reported deferred tax liabilities and

assets to meet the requirements of this Statement and the resulting adjustment should be reported as an income tax expense or benefit of the current year.

(41) Deleted

(42) After this Statement becomes effective, the unused portion of income tax credits, as explained in Paragraphs 8 and 9 of SFAS No.12 *Accounting for Income Tax Credits*, should be recognized as a deferred tax asset with an appropriate amount of valuation allowance in the year that the income tax credits occurred (not the year they are actually used).

(43) This Statement was issued on June 30, 1994 . This Statement was first revised on November 11, 1999 and second revised on September 22, 2005.

The first revised provisions of this Statement shall be effective for financial statements with fiscal years ending on or after December 31, 2000. Early adoption is encouraged.

The second revised provisions of this Statement shall be effective for financial statements with fiscal years beginning on or after January 1, 2006. Early adoption is not permitted.

The retroactive adjustment is not permitted for those who had adopted the original provisions.

The provisions of this Statement need not be applied to immaterial items.