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Ministry of Finance of the Republic of Azerbaijan

# **NATIONAL ACCOUNTING STANDARD FOR COMMERCIAL ORGANISATIONS №3**

## **"CURRENT TAX"**

## CONTENTS

General Provisions.....	3
Definitions .....	3
Recognition .....	4
Measurement .....	4
Presentation.....	5
Tax expense .....	5
Disclosure .....	5
Effective date .....	5
Appendix 1 – Comparison with IAS 12 Income Tax.....	6

# National Accounting Standard for Commercial Organizations No 3

## Current Tax

### General Provisions

#### Purpose of the Standard

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan Republic and is based on International Accounting Standard 12 – Income Tax

#### Objective

2. 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

- 3 This standard applies to accounting for current tax both the financial statements of commercial organisations and to the consolidated financial statements of a group.
- 4 The scope of current taxation includes all domestic and foreign taxes which are based on taxable profits. Current taxation also includes and related taxes, such as withholding taxes, payable by a reporting entity as well as its subsidiaries, associates and joint ventures.
- 5 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.
6. This standard should be implemented, taking into account additional provisions contained in the Rules of Bookkeeping.
7. In the case of contradictions between effective normative-legal acts and NASCO 3 this standard will prevail.

### Definitions

- 8 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 net 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.

**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 are not taxable and certain

types of expenditure are not allowed as deductions in arriving at taxable profit 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.

**Investment tax credit** – certain share of investment expenditure incurred on capital stock that can be deducted from tax liabilities on profit tax.

## Recognition

### Recognition of current tax liabilities and current tax assets

- 9 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.
- 10 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.

### Income statement

- 11 Current tax expense (or income) 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.
- 12 Current tax shall be debited or credited directly to equity if the current tax relates to items that are credited or charged, in the same or a different period, directly to equity.
- 13 Outgoing dividends paid and / or proposed (declared and not yet payable) should be recognised in the Balance Sheet as reduction of retained earnings at an amount that includes any withholding taxes; but excludes any other taxes, not payable on behalf of the recipient of the dividend. Interest and other amounts payable should be recognised as an expense in the Income statement at an amount that includes any withholding taxes; but excludes any other taxes, not payable on behalf of the recipient of the interest or other amounts.
- 14 Incoming dividends, interest and other income receivable should be recognised at an amount that includes any withholding taxes but excludes any other taxes that may not be used to set off against the recipient's income tax charge.
- 15 The effect of any withholding tax suffered should be taken into account as part of the current tax . The effect of any withholding tax paid to the tax authorities on behalf of third parties should not be taken into account as part of current tax.
- 16 Subject to the provisions of paragraphs 13 and 14, income and expenses should be included in the pre-tax results on the basis of the income and expenses actually receivable or payable without any adjustments.

## Measurement

- 17 Current tax liabilities (assets) for current and prior periods should be measured at amounts expected to be paid to (or recovered from) the taxation authorities, using the tax rates that have been enacted by the tax legislation.

## Presentation

### Tax assets and tax liabilities

- 18 Current tax assets and current tax liabilities should be presented separately from other assets and liabilities in the balance sheet.
- 19 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.

## Tax expense

### Tax expense (income) related to profit or loss from ordinary activities

- 20 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.

## Disclosure

- 21 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
- 22 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;
- 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.
- 24 The taxation payable in the Republic of Azerbaijan should be disclosed before and after double taxation relief.
- 25 The following should also be disclosed separately:
- (a) The aggregate current tax relating to items that are charged or credited to equity;
  - (b) 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;
  - (c) An explanation of changes in the applicable tax rate(s) compared to the previous accounting period.

## Effective date

- 26 This Standard will be effective when it is approved by the Ministry of Finance of the Republic of Azerbaijan.

## Appendix 1 – Comparison with IAS 12 Income Tax

This National Accounting Standard for Commercial Organisations (NASCO) 3 – Current Tax is drawn primarily from International Accounting Standard (IAS) 12 (2006) – Income Tax. The main differences between NASCO and IAS 12 are as follows:

- The General Provisions set out in paragraph 1 is added to NASCO and relate the standard to the Accounting Law of the Republic of Azerbaijan. IAS 12 does not contain such section.
- Paragraphs 3 to 4 of NASCO 3 define the scope of the organisations required to apply the standard as set out in the Accounting Law of the Republic of Azerbaijan.
- IAS 12 combines the accounting treatment of both Current Tax and Deferred Tax. NASCO 3 relates to only Current Tax therefore all paragraphs in IAS 12 that relate to Deferred Tax are not present in NASCO.
- There are additional definitions in NASCO that are not present in IAS 12. These relate to permanent tax differences and investment tax credits and have been added for completeness and ease of understanding of the NASCO.
- In a number of paragraphs, IAS 12 refers to different tax practices in “many tax authorities” and “many jurisdictions” and, in so doing, carefully chooses words that can be applied in all such jurisdictions. NASCO 3 is unique to Azerbaijan and does not have to consider the tax practices in other countries. Therefore the wording in these clauses has been amended to make it clear that the NASCO applies only to entities within Azerbaijan. In so doing, the wording is simpler and more understandable.
- New presentation paragraphs have been added to NASCO 3 that are not present in IAS 12 and have been included to reflect the Tax Code of Azerbaijan. In particular Azerbaijan and foreign taxes have to be separately disclosed and the impact of double taxation relief has also to be disclosed. Without such disclosures, users would have an incomplete understanding of the nature of current tax of an entity.
- Certain examples and explanations that are present in IAS 12 do not appear in NASCO 3. The Explanations document that accompanies all NASCOs will contain all explanations and recommendations required.
- There are no other significant differences between NASCO 3 and IAS 12