

RBI/2008-09/494

DNBS.PD/ CC.No. 142 / 03.05.002 /2008-09

June 9, 2009

All NBFCs

Dear Sir,

Accounting for taxes on income- Accounting Standard 22- Treatment of deferred tax assets (DTA) and deferred tax liabilities (DTL) for computation of capital

NBFCs were advised vide [DNBS \(PD\) C.C. No. 124/ 03.05.002/ 2008-09](#) dated July 31, 2008 that in terms of Accounting Standard 22, the tax effects of timing differences are included in the tax expense in the statement of profit and loss as deferred tax assets (DTA) (subject to the consideration of prudence) or as deferred tax liabilities (DTL) in the balance sheet.

Further that the balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose and that DTA being an intangible asset, should be deducted from Tier I Capital.

2. In this connection it is further clarified that

- a) DTL created by debit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year should be included under 'others' of "Other Liabilities and Provisions."
- b) DTA created by credit to opening balance of Revenue Reserves or to Profit and Loss account for the current year should be included under item 'others' of "Other Assets."
- c) Intangible assets and losses in the current period and those brought forward from previous periods should be deducted from Tier I capital.

d) DTA computed as under should be deducted from Tier I capital:

(i) DTA associated with accumulated losses; and

(ii) The DTA (excluding DTA associated with accumulated losses) net of DTL. Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (i) nor added to Tier I capital.”

3. NBFCs shall comply with all instructions as above and also contained in the circular dated July 31, 2008 in this regard meticulously.

Yours sincerely

(P Krishnamurthy)
Chief General Manager-In-Charge