

CHAPTER 18: INCOME TAXES

Introduction

The focus of Chapter 18 is on accounting for the corporation's current and future/deferred income tax expense. It is also on measuring and recognizing the tax assets and tax liabilities that are reported on its Balance Sheet due to temporary differences. (The concept of temporary differences is analyzed below.) The focus of the chapter is not on preparing a T2 Income Tax Return. While brief consideration is given in the chapter to the Taxes Payable Method (only permissible under ASPE), the bulk of the chapter hones in on application of the Future/Deferred Income Tax Method (permissible under ASPE; mandated by IFRS). **The purpose of this method is to align Income Tax expense reported on the corporation's Income Statement with Accounting Income as opposed to with Taxable Income.** Given this context, the balance of these notes focuses only on the application of the Future/Deferred Tax Method. Before proceeding it is worth distinguishing between terminologies used as per ASPE versus IFRS; these terminologies are shown in Figure 1.

Figure 1: ASPE vs. IFRS

ASPE	IFRS
Future Income Tax Method	Deferred Income Tax Method
Future Tax Asset	Deferred Tax Asset
Future Tax Liability	Deferred Tax Liability
Future Tax Expense	Deferred Tax Expense
Future Tax Benefit	Deferred Tax Benefit

Accounting Income versus Taxable Income

Accounting Income is essentially Income Before Income Taxes. It appears on the corporation's Income Statement:

Figure 2: Accounting Income

Sales	xxx
Cost of Goods Sold	(xxx)
Gross Profit	xxx
Operating and Administrative Expenses	(xxx)
Operating Income	xxx
Finance Expenses	(xxx)
Accounting Income (Earnings before Income Tax)	<u>xxx</u>

Accounting income is derived from the corporation's application of ASPE/IFRS – that is, accounting standards based on accrual accounting and fair-value accounting. The corporation does not apply the cash-basis of accounting to determine Accounting Income. To illustrate this point, the corporation accrues warranty expense at year-end (or at the point-of-sale) as per its application of the expense approach. The resulting warranty expense and associated liability appear on the corporation's Income Statement and Balance Sheet, respectively. As you will recall from Chapter 13, the corporation will, in most cases, not satisfy the entire warranty obligation in the period, wherein the warranty obligation/expense is recognized for financial reporting purposes. But eventually the corporation will satisfy the warranty obligation - at this point it will consume resources and incur particular costs.

This simple example shows how an accounting expense is recognized at a different point in time than when the corporation disburses the related cash. It also shows how application of accrual accounting yields a different income figure from the one that would result from the application of the cash-basis of accounting. The corporation, in this specific case, reports relatively lower income in the year it accrues the warranty expense relative to the income it would report if it were to apply the cash-basis of accounting, being as the warranty-related expense would not be reported in the current year as per cash-accounting.

As noted above, Accounting Income factors out of accrual accounting.¹ But Taxable Income for the most part is the result of cash-accounting. Bearing this in mind, it can be noted: Taxable Income \neq Accounting Income. The corporation reports Taxable Income on a T2 Corporate Income Tax Return by applying the provisions of the Income Tax Act. The corporation's Taxable Income – with few exceptions – is based on the cash-basis of accounting. In other words, the Canada Revenue Agency (hereafter CRA) requires the corporation to report cash collected and cash disbursed as taxable income and tax deductions, respectively. There are some exceptions though. As an example, Capital Cost Allowance (CCA) is the means by which Canadian businesses may claim depreciation expense for calculating taxable income under the Income Tax Act (Canada). CCA reported on the corporation's T2 Income Tax Return is a non-cash expense. Another example: the CRA does not permit corporations to deduct particular cash-expenses, like golf club dues, from income reported on the T2.

Calculating Income Tax Expense

The most significant thing to bear in mind at the present point is that Current Income Tax Expense – as it is reported on the Income Statement – is based on Taxable Income. The purpose of adjusting Accounting Income to Taxable Income is manifold though. One - and as stated directly above - Current Income Tax Expense as reported on the Income Statement is derived from Taxable Income (i.e., Taxable Income x Tax Rate). Two, Income Tax Payable (i.e., the amount of income tax the corporation remits to the government) is also a function of Taxable Income (i.e., Income Tax Payable = Current Income Tax Expense = Taxable Income x Tax Rate). Three, the adjustment process requires you to identify Temporary Differences. Once they are identified, then you can record the requisite journal entries to recognize Deferred/Future Tax Assets/Liabilities on the Balance Sheet and the associated Deferred/Future Tax Expenses/Benefits on the Income Statement.

The adjustment process is depicted graphically in Figure 3, whereby it is shown that Temporary Differences and Permanent differences are added to/deducted from Accounting Income to derive Taxable Income. It is worth emphasizing that all amounts in Figure #3 are pre-tax amounts.

Figure 3: Adjusting Accounting Income to Taxable Income

Accounting Income (Earnings before Income Taxes)	xxx
+ Temporary Differences	xxx
- Temporary Differences	(xxx)
+ Permanent Differences	xxx
- Permanent Differences	(xxx)
Taxable Income	xxx

Follow these steps to adjust Accounting Income to Taxable Income:

Step #1: Identify Accounting Income (Earnings before Income Taxes)

This figure will be provided to you.

Step #2: Adjust Accounting Income in lieu of Temporary Differences

Temporary Differences relate to situations, whereby revenues and/or expenses are recognized at different points in time for accounting purposes than for income tax purposes. The corporation prepares an Income Statement and a T2 Income Tax Return each year; the Income Statement comprises revenue and expenses; the T2 tax return comprises taxable revenue and tax deductions. Temporary differences result in discrepancies between revenue reported on the corporation's Income Statement and revenue reported on its T2 Income Tax Return; temporary differences also result in discrepancies between expenses reported on the corporation's Income Statement and deductions claimed on the T2 Income Tax return. A temporary difference occurs whenever any one of the 4

¹ Increasingly it is based on fair-value estimates.

situations depicted in Figure 4 arises. Before continuing it is worth noting that: $|A-B|$ = the absolute value² of the difference between A and B. (A and B are defined in Figure 4.)

Figure 4: Temporary Differences: Adjusting Accounting Income to Taxable Income

Accounting Income (A)	Taxable Income (B)	Example	A vs B	Reconciliation Process
Situation 1 Corporation deducts a specific amount of expense on the Income Statement; let the amount of said expense be = A	Tax authorities require the corporation to deduct a <u>lower</u> amount of expense on its T2 tax return than on its Income Statement; let the amount of said tax deduction be = B	Accrued expense with no cash-outflow	$A > B$	Add $ A-B $ to Accounting Income to derive Taxable Income Temporary difference <u>increases</u> Taxable Income
Situation 2 Corporation deducts a specific amount of expense on the Income Statement; let the amount of said expense be = A	Tax authorities require the corporation to deduct a <u>higher</u> expense amount on its T2 tax return than on its Income Statement; let the amount of said tax deduction be = B	Depreciation expense < CCA	$A < B$	Deduct $ A-B $ from Accounting Income to derive Taxable Income Temporary difference <u>reduces</u> Taxable Income
Situation 3 Corporation recognizes a specific amount of revenue on its Income Statement; let the amount of said revenue = A	Tax authorities require the corporation to recognize <u>less</u> revenue on the T2 tax return than on the Income Statement; let the amount of said taxable revenue = B	Earned installment sales; no cash collected	$A > B$	Deduct $ A-B $ from Accounting Income to derive Taxable Income Temporary difference <u>reduces</u> Taxable Income
Situation 4 Corporation recognizes a specific amount of revenue on its Income Statement; let the amount of said revenue = A	Tax authorities require the corporation to recognize <u>more</u> revenue on the T2 tax return than on the Income Statement; let the amount of said taxable revenue = B	Unearned sales revenue; cash collected	$A < B$	Add $ A-B $ to Accounting Income to derive Taxable Income Temporary difference <u>increases</u> Taxable Income

(Continued on next page.)

² Absolute value describes the distance of a number on the number line from 0 without considering which direction from zero the number lies. The absolute value of a number is never negative.

Figure 5: Details on Temporary Differences Depicted in Figure #4

	Examples
Situation 1 Accrued expense with no cash-flows made	A corporation accrues interest expense at year-end on any outstanding debt, whereby it prepares a journal entry to record interest expense and interest payable. The expense reduces income reported on the Income Statement. But the corporation has not incurred a cash expense. It eventually will, but, not this year. The amount of interest expense reported on the Income Statement must be added to Accounting Income to yield Taxable Income for the reason that the CRA will not allow the corporation to claim this non-cash expense on the T2 Income Tax Return.
Situation 2 Depreciation expense < CCA	The corporation purchases a capital asset on the very last day of the fiscal year at 11:59 PM! The corporation, therefore, reports no depreciation expense on the Income Statement. But the CRA permits the corporation to depreciate the asset for tax purposes, whereby the allowable CCA deduction = Cost of Asset x CCA rate x ½. The corporation must deduct the value of the CCA deduction from Accounting Income to derive Taxable Income.
Situation 3 Earned installment sales; no cash collected	The corporation agrees to complete a project for one of its clients on credit. The corporation <u>completes</u> the work and then prepares a journal entry, whereby it debits some type of account/note receivable and credits earned sales revenue. The sales revenue appears on the Income Statement, being as the corporation has earned it. But the client has not paid the corporation anything for the work. Consequently the accounting revenue is not reported on the corporation's T2 Income Tax Return. The amount of this accounting revenue must be deducted from Accounting Income to derive Taxable Income.
Situation 4 Unearned sales revenue; cash collected	The owner of the Montreal Canadiens sells season tickets to fans. The fans pay money to watch games played over the course of two calendar years (i.e., the regular season is split between two calendar years). Revenue is only recognized on the Income Statement – for accounting purposes - after the Montreal Canadiens play games (i.e., earn the revenue). Consequently a portion of the proceeds associated with the season ticket sales are treated as unearned revenue at year-end on the Montreal Canadiens' Balance Sheet because the Montreal Canadiens' season does not coincide with the calendar year. But the CRA requires the Montreal Canadiens to pay tax on all cash proceeds it received from season-ticket-holders. The amount of the unearned revenue must be added to Accounting Income to derive Taxable Income.

Step #3: Record Journal Entries in a Reflection of Temporary Differences

As you adjust Accounting Income to Taxable Income in the manner depicted above, it makes sense to concurrently prepare the requisite journal entries to account for the temporary differences. Temporary differences not only impact the corporation's income tax expense (as reported on the Income Statement) but they also impact the value of tax assets and/or tax liabilities reported on the corporation's balance sheet. The accumulated tax effects of these differences are recognized on the balance sheets as Future/Deferred Income Tax Assets/Liabilities. It is worth emphasizing that the reversing entries recorded in the future to remove Future/Deferred Income Tax Assets/Liabilities from the corporation's balance sheet impact the value of income tax expense recorded on the corporation's income statement in the future. To sum up: (1) Temporary differences impact the amount of income tax expense reported not only on this year's income statement but also the amount of income tax expense reported in subsequent periods when the reversing entries are made; and (2) Temporary differences are reported on the Balance Sheet as Future/Deferred Income Tax Assets/Liabilities until they are removed at some future point(s) when the appropriate reversing entry(s) is made.

Before continuing, it is worth repeating that the focus of the chapter is on the application of the Future/Deferred Income Tax Method, and the purpose of the Future/Deferred Method is to report Total Income Tax Expense on the Income Statement, whereby Total Income Tax Expense is a function of Accounting Income rather than Taxable Income. Figure 7 shows that Total Income Tax Expense is comprised of (1) Current Income Tax Expense/Benefit and (2) Future/Deferred Income Tax Expense/Benefit. Logically, Current Income Tax Expense/Benefit ≠ Total Income Tax Expense/Benefit. Herein lies the issue. Application of the Future/Deferred Tax Method derives a value for Total Income Tax Expense/Benefit that is different than the amount of Current

Income Tax Expense/Benefit. The value of Current Income Tax Expense/Benefit represents what the corporation remits to the tax authorities. But it does not represent the value of Total Income Tax Expense/Benefit reported on the Income Statement. (Recall from directly above: Current Income Tax Expense/Benefit \neq Total Income Tax Expense/Benefit.) To sum up, Total Income Tax Expense reported on the Income Statement \neq Income Tax remitted to the government and this discrepancy results from the corporation's application of the Future/Deferred Tax Method.

The corporation remits an amount of income tax to the government and the amount of said tax is based on Taxable Income. In the event Taxable Income $>$ Accounting Income, the corporation pays a relatively higher amount of tax to the government than it would pay to the government if it were to pay tax based on Accounting Income. In a sense, it is overpaying its taxes. This overpayment (i.e., Deferred/Future Tax Asset) can be regarded as a prepaid expense and a prepaid expense is always recognized as an asset on the balance sheet. On the other hand, whenever the corporation's Taxable Income $<$ Accounting Income, the corporation pays a relatively lower amount of tax to the government than it would pay to the government if it were to pay tax based on Accounting Income. In a sense, it is underpaying its taxes. This underpayment (i.e., Deferred/Future Tax liability) can be regarded as a future obligation and a future obligation is recognized as a liability on the balance sheet.

You can also apply these two points to prepare the journal entries to account for temporary differences:

- (1) If a temporary difference is added to Accounting Income to derive Taxable Income, then a Deferred/Future Tax Asset is recognized on the balance sheet. (See Journal Entry #1 below.)
- (2) If a temporary difference is deducted from Accounting Income to derive Taxable Income, then a Deferred/Future Tax Liability is recognized on the balance sheet. (See Journal Entry #2 below.)

The above two points are depicted graphically in this illustration:

Accounting Income	xxx		Deffered/Future Tax Asset	xxx	Journal Entry #1
			Deffered/Future Tax Benefit	xxx	
+ Temporary Difference	xxx	→	Deffered/Future Tax Expense	xxx	Journal Entry #2
- Temporary Difference	(xxx)	→	Deffered/Future Tax Liability	xxx	
+ Permanent Diiffence	xxx	→	No Journal Entry		
- Permanent Difference	(xxx)	→	No Journal Entry		
Taxable Income	xxx	→	No Journal Entry		

There are 5 points that warrant significant emphasis here:

- (1) The amounts recognized in journal entries #1 and #2 are equal to the temporary difference multiplied by the tax-rate in effect in the future period, wherein the temporary difference is reversed. Expressed algebraically: the value of each journal entry = $(|A-B|)(\text{Tax Rate})$.
- (2) There is a debit side and a credit side to journal entries #1 and #2. This means that whenever you recognize a Deferred/Future Tax Asset/Liability on the Balance Sheet, you are concurrently recognizing a Deferred/Future Tax Expense/Benefit on the Income Statement.
- (3) ASPE requires Future Tax Assets/Liabilities to be recognized as either current or long-term assets/liabilities. To illustrate this point, a temporary difference between CCA and depreciation expense is classified as a long-term item on the Balance Sheet, being as capital assets exhibit a long-term time-horizon. Conversely a temporary difference related to any expense accrued on outstanding debt is classified as a current item on the Balance Sheet for the reason that interest payable is a short-term consideration. On the other hand, IFRS requires, in all cases, Deferred Tax Assets/Liabilities to be recognized as long-term items on the Balance Sheet.
- (4) Tax rates change. When they do, multiply the temporary difference by the tax rate in effect during the future period, wherein the temporary difference will be reversed. Often the corporation's future tax rate \neq its

current tax rate; apply the future tax rate now to determine the value of the temporary difference as reported on the Balance Sheet and the Income Statement.

- In those cases where a future tax rate change is enacted now, it is necessary to immediately adjust the carrying value of any tax asset/liability affected by the tax rate change. Recall: Apply the tax rate in effect in the period, wherein the reversing entry is made.
- If specific items will be reversed when the new tax rate comes into effect, then it is necessary to adjust their carrying values by an amount equal to the difference between (1) the old tax rate multiplied by the temporary differences, and (2) the new tax rate multiplied by the temporary differences. Prepare journal entry #3 when the value of a deferred/future tax asset increases as a result of a future tax rate change; prepare journal entry #4 when the value of a deferred/future tax asset decreases as a result of a future tax rate change; prepare journal entry #5 when the value of a deferred/future tax liability increases as a result of a future tax rate change; prepare journal entry #6 when the value of a deferred/future tax liability decreases as a result of a future tax rate change.

Journal Entry #3

<i>Deferred/Future Tax Asset</i>	<i>xxx</i>	
<i>Deferred/Future Tax Benefit</i>		<i>xxx</i>

Journal Entry #4

<i>Deferred/Future Tax Expense</i>	<i>xxx</i>	
<i>Deferred/Future Tax Asset</i>		<i>xxx</i>

Journal Entry #5

<i>Deferred/Future Tax Expense</i>	<i>xxx</i>	
<i>Deferred/Future Tax Liability</i>		<i>xxx</i>

Journal Entry #6

<i>Deferred/Future Tax Liability</i>	<i>xxx</i>	
<i>Deferred/Future Tax Benefit</i>		<i>xxx</i>

- (5) Temporary differences are temporary!! Any amounts originally accounted for as Deferred/Future Tax Assets/Liabilities on the Balance Sheet are eventually reversed; that is they are removed from the Balance Sheet. There are two possibilities here: First, a Deferred/Future Tax Asset is removed from the Balance Sheet, giving rise to Journal Entry #7. (The temporary difference was recognized on the Balance Sheet in a prior year.) Second a Deferred/Future Tax Liability is removed from the Balance Sheet, giving rise to Journal Entry #8. (Again the temporary difference was recognized on the Balance Sheet in a prior year.) It is worth emphasizing that not only is it necessary to prepare journal entries #7 and #8 but it is also necessary to recognize the reversals as temporary differences when you are adjusting Accounting Income to Taxable Income (see Figure 3). To illustrate this point, journal entry #7 would see the pretax-amount of the temporary difference deducted from Accounting Income to derive Taxable Income; journal entry #8 would see the pretax-amount of the temporary difference added to Accounting Income to derive Taxable Income.

Journal Entry #7

<i>Deferred/Future Tax Expense</i>	<i>xxx</i>	
<i>Deferred/Future Tax Asset</i>		<i>xxx</i>

Journal Entry #8

<i>Deferred/Future Tax Liability</i>	<i>xxx</i>	
<i>Deferred/Future Tax Benefit</i>		<i>xxx</i>

Step #4: Adjust Accounting Income in lieu of Permanent Differences

Refer back to Figure 3; you will note that Accounting Income is not only adjusted in lieu of temporary differences; it is also adjusted in lieu of permanent differences. A *permanent difference* is any difference between Accounting Income and Taxable Income that will not be reversed in future periods. No journal entries are recorded to account for permanent differences in the way they are recorded to account for temporary differences. Significantly, permanent differences do not impact tax accounts reported on the corporation's Balance Sheet and they do not change income tax expense reported on the Income Statement in the way temporary differences do.

Nevertheless, it is still necessary to adjust Accounting Income for any permanent differences to derive Taxable Income. Here are three examples of permanent differences:

1. Golf Club Dues: These dues are deducted on the income statement but the CRA does not permit corporations to deduct these dues on the T2 Income Tax Return.
 - Adjustment: Golf clubs dues are added to Accounting Income to derive Taxable Income.
2. Meals and Entertainment: These costs are deducted on the income statement but the CRA only permits the corporation to deduct 50% of these costs on the T2 Income Tax Return.
 - Adjustment: Add 50% of meals and entertainment to Accounting Income to derive Taxable Income.
3. Government Penalties: These penalties are deducted on the income statement but the CRA does not permit the corporation to deduct them on the T2.
 - Adjustment: Add government penalties to Accounting Income to derive Taxable Income.

Step #5: Calculate Current Income Tax Expense and Income Taxes Payable

Once you have derived Taxable Income in the manner depicted above, then you are ready to calculate the corporation's income taxes payable and current income tax expense. (Please note: The corporation's current income tax expense and income taxes payable are both equal to zero if the corporation generates a loss in the current year.) Apply this formula to calculate current income tax expense and income taxes payable:

$$\text{Current Income Tax Expense} = \text{Income Taxes Payable} = \text{Taxable Income} \times \text{Income Tax Rate}$$

Prepare this journal entry to record the corporation's current income tax expense:

<i>Current Income Tax Expense</i>	<i>xxx</i>	
<i>Income Taxes Payable</i>		<i>xxx</i>

One important note here: The word current has been underlined in the text above. The reason it is underlined is because application of the Future/Deferred Tax Method gives rise to two income tax components: (1) Current and (2) Future/Deferred. These two components are classified separately on the income statement as depicted in Figure 7.

Figure 7: Partial Income Statement

Accounting Income	xxx
Income Tax:	
Current Tax Expense (or Benefit)	xxx
Future/Deferred Tax Expense (or Benefit)	<u>xxx</u>
Net Income	xxx

Step # 6: Account for Loss Carryovers

Current income tax expense is equal to the amount calculated above (i.e., taxable income x tax rate). As noted, current income tax expense will be zero when the corporation generates a loss in the current year. But when a corporation incurs a loss it is eligible to carry the loss backwards up to three years³ and forwards up to 20 years – provided that specific conditions are satisfied as per the ASPE and IFRS frameworks, respectively. In a nutshell, ASPE permits the loss to be carried forward if the benefit associated with the current loss meets the definition of an asset (i.e., the benefit is more likely than not to be realized by the corporation) (i.e., probability > 50%). The IFRS criterion is virtually identical to the one set forth in ASPE. That is, IFRS permits a loss to be carried forward up to 20 years provided that the potential benefit associated with applying the current's year's loss against future income is probable (i.e., probability > 50%).

In the event the corporation applies a current year loss against previous taxable income, it will receive a rebate from the applicable tax authorities, and this rebate will be equal to the amount of the current year loss applied against any prior year taxable income multiplied by the tax rate in effect in the prior year. The current year loss may offset a single prior year's taxable income OR up to all three years' taxable income depending on the magnitude of the current year loss in relation to the magnitude of the prior years' taxable income amounts. This journal entry is entered whenever a current year loss is applied retroactively:

<i>Income Tax Receivable</i>	<i>xxx</i>	
<i>Current Income Tax Benefit</i>		<i>xxx</i>

Please note: This is the only case that will give rise to a Current Income Tax Benefit being reported on the corporation's income statement. The Current Benefit appears as a Current item under the income tax section of the Income Statement. You should never see both a Current Income Tax Benefit and a Current Income Tax Expense reported on the same Income Statement for the reason that Current Income Tax Expense is only recorded when a corporation is profitable; a profitable corporation will not have a current period loss to carry backwards.

In the event a portion (or all) of the corporation's current year loss is not used up against prior year taxable income, then the corporation can carry the loss forward, thereby, reducing future taxable income. As noted above, it must be probable that the benefit associated with the current year loss can be used to offset future taxable income. The following journal entry is prepared when it is probable that either a portion or all of the current year loss can be applied to offset taxable income in a future year(s):

Journal Entry #9

<i>Deferred/Future Tax Asset</i>	<i>xxx</i>	
<i>Deferred/Future Tax Benefit</i>		<i>xxx</i>

There are 4 points that warrant emphasis here:

- (1) The value of the above entry will be an after-tax amount, whereby the loss carry-forward is multiplied by the future tax rate; that is, the tax rate in effect in the year, wherein the loss is applied against future taxable income.
- (2) The Deferred/Future Tax Benefit will appear on this year's Income Statement; it will be included in the deferred/future portion of the Income Tax Section of the Income Statement (refer back to Figure 7); the deferred/future benefit will increase the corporation's current year Net Income. (Recall: A benefit is a credit expense.)
- (3) The Deferred/Future Tax Asset will appear on the corporation's Balance Sheet. It bears some resemblance to a temporary difference reported on the Balance Sheet. This means that eventually the Deferred/Future Tax Asset is removed from the Balance Sheet. The following journal entry is made when it is removed from the

³ Unless specified otherwise you can assume the loss is applied first against the earliest taxable income (i.e., year: negative 3).

Balance Sheet in a reflection of the loss carryforward being applied against taxable income in the subsequent year:

Journal Entry #10

<i>Deferred/Future Tax Expense</i>	<i>xxx</i>	
<i>Deferred/Future Tax Asset</i>		<i>xxx</i>

- (4) The above entry not only sees the Deferred/Future Tax Asset removed from the Balance Sheet but it also sees a Deferred/Future Tax Expense reported on the Income Statement in the subsequent year. This expense will be classified as part of Deferred/Future amounts in the income tax section of the income statement.

Step #7: Calculate Future/Deferred Income Tax Expense/Benefit

Figure 7 shows that the income tax reported on the income statement is split into current and future/deferred components. The analyses above shows how to calculate current income tax expense/benefit. Future/Deferred Income Tax Expense is simply the sum total of all deferred/future tax expense/benefit amounts. These amounts can be retrieved from the journal entries summarized in Figure 8.

Figure 8: Journal Entries Impacting Deferred/Future Income Tax Expense

Journal Entries 1, 2	Accounting for temporary differences
Journal Entries 3, 4 5, 6	Accounting for a future tax rate change
Journal Entries 7 and 8	Removing deferred/future tax assets/liabilities from the Balance Sheet (reversals)
Journal Entry 9	Recognizing a benefit associated with a loss carryforward
Journal Entry 10	Reversing (using up) the benefit of a loss carryforward from a prior year loss