Deferred Income Taxes (ASC 740: DTA & DTL) Master Cheat Sheet

Temporary vs. Permanent Differences, Balance Sheet Asset/Liability Method & Valuation Allowances

1. TEMPORARY VS. PERMANENT BOOK-TAX DIFFERENCES

Category & Cause	Accounting Definition & Reversal	Typical Real-World Examples
Deferred Tax Asset (DTA) **(Future Tax Deduction)**	Book Income < Taxable Income today. Taxes paid early; creates future tax savings when reversing.	• Warranty liability expense (deducted when paid) • Bad debt expense (allowance vs. direct write-off) • Unearned revenue taxed upon cash receipt • Net Operating Loss (NOL) carryforwards
Deferred Tax Liability (DTL) **(Future Tax Payment)**	Book Income > Taxable Income today. Taxes deferred to future periods; creates future tax liability.	• Accelerated MACRS tax depreciation > Book SL dep. • Prepaid expenses deducted immediately on tax return • Installment sales gain recognized immediately for book
Permanent Differences **(No Reversal → No DTA/DTL)**	Transactions recognized for book but NEVER for tax (or vice versa). Affects **Effective Tax Rate** only.	• Municipal bond interest (tax-exempt) • Fines and penalties (non-deductible) • 50% business meals limitation • Life insurance proceeds on key executives

2. DTA/DTL BALANCE SHEET PRESENTATION & VALUATION ALLOWANCE

ASC 740 Rule	Standard Accounting Principle	Journal Entry Architecture
Balance Sheet Netting Rule	All DTAs and DTLs within the same tax jurisdiction are netted and classified as **Non-Current** on Balance Sheet.	Current vs. Non-current distinction eliminated under US GAAP ASU 2015-17.
Valuation Allowance (Contra-DTA)	Required if it is **more likely than not (> 50% probability)** that some or all DTA will not be realized before expiration.	**Dr. Income Tax Expense (Deferred)** **Cr. Allowance to Reduce DTA (Contra-Asset)**
Income Tax Expense Formula	**Income Tax Expense = Current Tax Payable ± Change in Deferred Tax Assets/Liabilities**	Matches tax expense to financial accounting pre-tax accounting income.