

ILLUSTRATION AND ACCOUNTING ENTRIES

For clarification and to guide the concerned taxpayers in recording and reporting retirement benefits expense, hereunder are illustrations involving retirement benefits together with the corresponding accounting entries.

Facts:

Company A maintains a fund to cover the pension plan of its employees. During the taxable year (TY) 2023, it reported pension expense of P1,200,000.00 on its profit or loss statement, P100,000.00 net remeasurement loss on its other comprehensive income, P1,000,000.00 contributions to pension fund and P1,500,000.00 benefits paid to retirees.

Based on the foregoing, the following are the entries for Company A to record the same in its books:

Particulars	Debit	Credit
Pension Expense	P 1,200,000.00	
Remeasurement Loss	P 100,000.00	
Pension Liability		P 300,000.00
Cash		P 1,000,000.00

To record the deferred tax entry on the temporary difference on pension expense (assuming corporate income tax rate of 25%), the following are the entries:

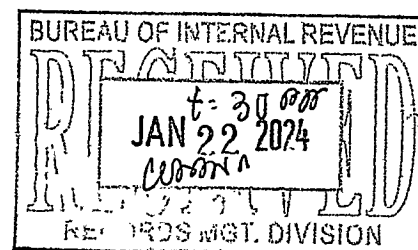
Scenario No. 1: Company A's pension fund is a Tax Qualified Plan and the normal cost of the contributions to the fund based on latest actuarial valuation report is P800,000.00.

Particulars	Debit	Credit
Deferred Tax Asset (P180,000 x 25%)	P 45,000.00	
Income Tax Benefit – Deferred		P 45,000.00

Computation:

Pension Expense (Accounting Treatment)		1,200,000.00
Pension Expense (Tax Treatment)		
Normal Cost	800,000.00	
Excess of Normal Cost (1,000,000-800,000)/10	20,000.00	820,000.00
Difference		380,000.00

Pension Expense (Accounting Treatment)	1,200,000.00	
Actual Amount of Contribution to the Fund	1,000,000.00	
Permanent Difference	200,000.00	
Actual Amount of Contribution to the Fund	1,000,000.00	
Pension Expense Recognized for TY 2023	820,000.00	
Temporary Difference	180,000.00	



Scenario No. 2: Company A's pension fund is not a Tax Qualified Plan, therefore the amount of pension expense to be recognize for tax purposes is P1,500,000.00 benefits paid to retirees. The difference between the pension expense recognize under Accounting Treatment and Tax Treatment is classified as Permanent Difference, hence no deferred tax entry is required.