



भारतीय रिज़र्व बैंक  
**RESERVE BANK OF INDIA**

www.rbi.org.in

**RBI/2013-14/412**

**DBOD. No.BP.BC.77/21.04.018/2013-14**

**December 20, 2013**

The Chairmen and Managing Directors / Chief Executive Officers of  
all Commercial Banks (excluding Regional Rural Banks)

Dear Sir,

**Deferred Tax Liability on Special Reserve created under Section 36(1) (viii) of  
the Income Tax Act, 1961**

Please refer to our mailbox clarification dated November 6, 2009 with respect to the 'Special Reserve' created by banks under Section 36(1) (viii) of Income Tax Act, 1961 (hereinafter referred to as 'Special Reserve'), in terms of which, only the net amount of such Special Reserve (net of tax payable) should be taken into account for the purpose of computation of Tier-I capital.

2. In this context, it has been observed that some banks are not creating deferred tax liability (DTL) on Special Reserve as per Accounting Standard 22: '*Accounting for taxes on Income*' (AS 22) on the grounds that they do not intend to withdraw from such Reserve in the future. In many cases banks have formalised such intent by having resolutions passed by their Boards or Committees to this effect.

3. The matter regarding creation of DTL on Special Reserve has been examined and banks are advised that, as a matter of prudence, DTL should be created on Special Reserve.

4. For this purpose, banks may take the following course of action:

- a) If the expenditure due to the creation of DTL on Special Reserve as at March 31, 2013 has not been fully charged to the Profit and Loss account, banks may adjust the same directly from Reserves. The amount so adjusted

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may be appropriately disclosed in the Notes to Accounts of the financial statements for the financial year 2013-14.

b) DTL for amounts transferred to Special Reserve from the year ending March 31, 2014 onwards should be charged to the Profit and Loss Account of that year.

5. In view of the requirement to create DTL on Special Reserve, banks may reckon the entire Special Reserve for the purpose of computing Tier-I Capital.

Yours faithfully

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(Chandan Sinha)

Principal Chief General Manager