Note 23: Income Taxes

We report our provision for income taxes in our Consolidated Statement of Income based upon transactions recorded in our consolidated financial statements regardless of when they are recognized for income tax purposes, with the exception of repatriation of retained earnings from our subsidiaries, as noted below.

In addition, we record an income tax expense or benefit in other comprehensive income or directly in shareholders' equity when the taxes relate to amounts recorded in other comprehensive income or shareholders' equity. For example, income tax expense (recovery) on hedging gains (losses) related to our net investment in foreign operations is recorded in our Consolidated Statement of Comprehensive Income as part of unrealized gains (losses) on translation of net foreign operations.

Current tax is the amount of income tax recoverable (payable) in respect of the taxable loss (profit) for a period. Deferred income tax assets and liabilities are measured at the tax rates expected to apply when temporary differences reverse. Changes in deferred income tax assets and liabilities related to a change in tax rates are recorded in income in the period the tax rate is substantively enacted, except to the extent that the tax arises from a transaction or event which is recognized either in other comprehensive income or directly in shareholders' equity. Current and deferred taxes are only offset when they are levied by the same taxing authority, levied on the same entity or group of entities and when there is a legal right to offset.

Included in deferred income tax assets is $126 million ($nil in 2016) related to Canadian tax loss carryforwards that will expire in 2037, $1,091 million ($1,328 million in 2016) related to U.S. tax loss carryforwards that will expire in various amounts in U.S. taxation years from 2029 through 2034 and $16 million ($15 million in 2016) related to U.K. tax loss carryforwards that are available for use indefinitely against relevant profits generated in the U.K. On the evidence available, including management projections of income, we believe that there will be sufficient taxable income generated by our business operations to support these deferred tax assets. The amount of tax on temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in our Consolidated Balance Sheet as at October 31, 2017 is $282 million ($240 million as at October 31, 2016). Deferred tax assets have not been recognized in respect of these items because it is not probable that realization of these assets will occur.

Income that we earn in foreign countries through our branches or subsidiaries is generally subject to tax in those countries. We are also subject to Canadian taxation on the income earned in our foreign branches. Canada allows a credit for certain foreign taxes paid on this income. Upon repatriation of retained earnings from certain foreign subsidiaries, we would be required to pay tax on certain of these earnings. As repatriation of such earnings is not planned in the foreseeable future, we have not recorded the related deferred income tax liability.

Taxable temporary differences associated with investments in certain subsidiaries, branches, associates and interests in joint ventures for which deferred tax liabilities have not been recognized are $12 billion as at October 31, 2017 ($11 billion in 2016).

Provision for Income Taxes

(Canadian $ in millions)	**2017**	2016	2015
Consolidated Statement of Income			
Current			
Provision for income taxes for the current period	**1,254**	927	685
Adjustments in respect of current tax for prior periods	**18**	8	18
Deferred			
Origination and reversal of temporary differences	**80**	183	253
Effect of changes in tax rates	**(2)**	(2)	(15)
Previously unrecognized tax loss, tax credit or temporary difference of a prior period	**(54)**	(15)	(5)
	1,296	1,101	936
Other Comprehensive Income and Shareholders' Equity			
Income tax expense (recovery) related to:			
Gains (losses) on remeasurement of pension and other employee future benefit plans	**157**	(156)	51
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	**21**	64	(63)
Reclassification to earnings of (gains) on available-for-sale securities	**(36)**	(11)	(24)
Gains (losses) on remeasurement of own credit risk on financial liabilities designated at fair value	**(53)**	(55)	43
Gains (losses) on cash flow hedges	**(322)**	4	188
Reclassification to earnings of (gains) losses on cash flow hedges	**21**	6	(14)
Hedging of unrealized (gains) losses on translation of net foreign operations	**8**	10	(167)
Share-based compensation	**(12)**	–	–
Total	**1,080**	963	950

Certain comparative figures have been reclassified to conform with the current year's presentation.

Components of Total Provision for Income Taxes

(Canadian $ in millions)	**2017**	2016	2015
Canada: Current income taxes			
Federal	**470**	434	352
Provincial	**272**	248	191
	742	682	543
Canada: Deferred income taxes			
Federal	**2**	(120)	131
Provincial	**–**	(67)	71
	2	(187)	202
Total Canadian	**744**	495	745
Foreign: Current income taxes	**281**	220	103
Deferred income taxes	**55**	248	102
Total foreign	**336**	468	205
Total	**1,080**	963	950

Certain comparative figures have been reclassified to conform with the current year's presentation.

Set out below is a reconciliation of our statutory tax rates and income taxes that would be payable at these rates to the effective income tax rates and provision for income taxes that we have recorded in our Consolidated Statement of Income:

(Canadian $ in millions, except as noted)		**2017**		2016		2015
Combined Canadian federal and provincial income taxes at the statutory tax rate	**1,768**	**26.6%**	1,525	26.6% (1)	1,410	26.4%
Increase (decrease) resulting from:						
Tax-exempt income from securities	**(409)**	**(6.2)**	(367)	(6.4)	(378)	(7.1)
Foreign operations subject to different tax rates	**22**	**0.3**	13	0.3	(34)	(0.6)
Change in tax rate for deferred income taxes	**(2)**	**–**	(2)	–	(15)	(0.3)
Previously unrecognized tax loss, tax credit or temporary difference of a prior period	**(54)**	**(0.8)**	(15)	(0.3)	(5)	(0.1)
Income attributable to investments in associates and joint ventures	**(103)**	**(1.5)**	(47)	(0.8)	(44)	(0.8)
Adjustments in respect of current tax for prior periods	**18**	**0.2**	8	0.1	18	0.3
Other	**56**	**0.9**	(14)	(0.3)	(16)	(0.3)
Provision for income taxes and effective tax rate	**1,296**	**19.5%**	1,101	19.2%	936	17.5%

(1) The combined statutory tax rate changed during the year as a result of legislation that became substantively enacted with respect to the year.

Certain comparative figures have been reclassified to conform with the current year's presentation.

Notes

Components of Deferred Income Tax Balances

(Canadian $ in millions)

Deferred Income Tax Assets (1)	Allowance for credit losses	Employee future benefits	Deferred compensation benefits	Other comprehensive income	Tax loss carryforwards	Other	Total
As at October 31, 2015	1,019	382	431	(31)	1,324	674	3,799
Benefit (expense) to income statement	(149)	8	30	–	7	23	(81)
Benefit (expense) to equity	–	34	–	(51)	–	–	(17)
Translation and other	13	–	1	–	12	(5)	21
As at October 31, 2016	883	424	462	(82)	1,343	692	3,722
Benefit (expense) to income statement	**(118)**	**12**	**102**	**–**	**(18)**	**106**	**84**
Benefit (expense) to equity	**–**	**(14)**	**–**	**112**	**–**	**12**	**110**
Translation and other	**(55)**	**(6)**	**(19)**	**(3)**	**(92)**	**(36)**	**(211)**
As at October 31, 2017	**710**	**416**	**545**	**27**	**1,233**	**774**	**3,705**

Deferred Income Tax Liabilities (2)	Premises and equipment	Pension benefits	Goodwill and intangible assets	Securities	Other	Total
As at October 31, 2015	(454)	(33)	(316)	9	(108)	(902)
Benefit (expense) to income statement	(160)	(3)	65	2	11	(85)
Benefit (expense) to equity	–	122	–	–	–	122
Translation and other	1	3	(2)	1	(1)	2
As at October 31, 2016	(613)	89	(253)	12	(98)	(863)
Benefit (expense) to income statement	**(83)**	**5**	**(23)**	**11**	**(18)**	**(108)**
Benefit (expense) to equity	**–**	**(143)**	**–**	**–**	**–**	**(143)**
Translation and other	**32**	**(3)**	**15**	**(2)**	**(1)**	**41**
As at October 31, 2017	**(664)**	**(52)**	**(261)**	**21**	**(117)**	**(1,073)**

(1) Deferred tax assets of $2,865 million and $3,101 million as at October 31, 2017 and 2016, respectively, are presented on the balance sheet net by legal jurisdiction.
(2) Deferred tax liabilities of $233 million and $242 million as at October 31, 2017 and 2016, respectively, are presented on the balance sheet net by legal jurisdiction.

During the year ended October 31, 2017, we were reassessed by the Canada Revenue Agency ("CRA") for additional income taxes and interest in an amount of approximately $116 million in respect of certain 2012 Canadian corporate dividends. Previously, during the year ended October 31, 2016, we were reassessed by the CRA for additional income taxes of approximately $76 million in respect of certain 2011 Canadian corporate dividends. In its reassessments, the CRA denied dividend deductions on the basis that the dividends were received as part of a "dividend rental arrangement." The tax rules dealing with dividend rental arrangements were revised in the 2015 Canadian Federal Budget, which introduced rules that applied as of May 1, 2017. It is possible that we may be reassessed for significant income tax for similar activities in 2013 and subsequent years. We remain of the view that our tax filing positions were appropriate and intend to challenge any reassessment.

The U.S. government is currently working on comprehensive tax reform legislation. The final legislation is currently unknown and any changes in tax law will be incorporated in our financial statements when they are enacted.