Eleonora S. Geyer[1]

PROBLEMS OF DEFERRED TAXES REPRESENTATION IN ACCOUNTING

The article considers the problems related to the choice of a method for calculating the deferred taxes and their estimation. Appropriateness of using the balance sheet liability method is proved. The necessity to remove the discrepancies in legislative documents of Ukraine to allow the formation of qualitative information in financial statements and establish the interrelation between accounting and taxation is grounded.

Keywords: *accounting; taxation; deferred taxes; financial statements.*

Елеонора С. Гейєр

ПРОБЛЕМИ ВІДОБРАЖЕННЯ ВІДСТРОЧЕНИХ ПОДАТКІВ У БУХГАЛТЕРСЬКОМУ ОБЛІКУ

У статті розглянуто проблеми, пов'язані з вибором методу розрахунку відстрочених податків та їх оцінюванням. Доведено доцільність використання методу зобов'язань за балансом. Обґрунтовано необхідність усунення суперечностей у законодавчих документах України, що уможливить формування якісної інформації у фінансовій звітності та встановлення взаємозв'язку між бухгалтерським обліком та оподаткуванням.

Ключові слова: *бухгалтерський облік; оподаткування; відстрочені податки; фінансова звітність.*

Табл. 2. Літ. 10.

Элеонора С. Гейер

ПРОБЛЕМЫ ОТРАЖЕНИЯ ОТСРОЧЕННЫХ НАЛОГОВ В БУХГАЛТЕРСКОМ УЧЕТЕ

В статье рассмотрены проблемы, связанные с выбором метода расчета отсроченных налогов и их оценкой. Доказана целесообразность использования метода обязательств по балансу. Обоснована необходимость устранения противоречий в законодательных документах Украины, что даст возможность формирования качественной информации в финансовой отчетности и установления взаимосвязи между бухгалтерским учетом и налогообложением.

Ключевые слова: *бухгалтерский учет; налогообложение; отсроченные налоги; финансовая отчетность.*

Problem statement. Under the market management conditions, there is an essential increase in the role of accounting information for taxation and tax management levers in the process of national economics reforming. Lack of attention given to these issues in the past resulted in discrepancies and inconsistency of the current legislation.

Tax legislation requirements differ from those of recognition and evaluation of assets, liabilities, incomes and expenses established by the accounting standards. The existing contradictions create such a situation, when the values represented in financial statements and liabilities of enterprises related to tax payments do not correspond to each other.

Deviations occurring between accounting and tax indicators should be distributed between accounting periods. The effect of deviations is a difference between the

[1] Mykhailo Tugan-Baranovskyi Donetsk National University of Economics and Trade, Ukraine.

accrued expenses on profit tax of an accounting period and actually paid amount of tax. Distribution of taxes by accounting periods results in occurrence of the "deferred taxes" indicator and representation of respective information in financial statements (Hendriksen et al., 2000). In its turn, this influences the amounts of real money flows of an enterprise.

Recent publications analysis. The issues of interrelation of accounting and taxation systems, identification and accounting of differences in taxes and deferred taxes and their representation in the accounting were studied by domestic and foreign scientists: S. Golov (2007), V. Pankov and V. Lavpushina (2008), E. Hendriksen and M. van Breda (2000) and others. But today, in the context of implementation of international financial reporting standards (IFRS) in Ukraine, changes in tax legislation, there remain unresolved numerous issues of deferred taxes accounting, and the choice of a method for calculation thereof and evaluation are important among them.

The objective of the article is the comparative analysis of existing methodological approaches to recognition and evaluation of deferred taxes, substantiation of directions for improvement of methododological framework of deferred taxes accounting as an element of accounting and taxation interrelation.

Key research findings. Income tax determined in financial statements often does not coincide with the tax payable to the budget for the same period. For the users of financial statements to be able to evaluate the tax effects of such differences, the deferred tax liabilities and assets are recognized in the balance sheet.

Deferred income taxes are the income tax payment liabilities or income tax assets, which will be paid or reimbursed in future due to the existence in the accounting period of differences between accounting valuation of assets, liabilities and tax basis thereof.

One of the problems of deferred taxes accounting is the choice of a calculation method. The world practice experienced essential changes in opinions on this issue: a deferral method, an income statement liability method, a balance sheet liability method were applied (Pankov and Lavpushina, 2008).

The deferral method provides for accumulation of information in the differences in taxes regarding income and expense, i.e. the difference between accounting and taxable income, "excess" or "saved" in the current period. Tax effect is determined in the period when difference occurs using the effective tax rate and does not depend on future rates.

The income statement liability method is based upon the differences in time (which are not similar to temporary differences) and effective tax rate, and appropriate correction is to be made after the rate changes. It means that the rate is used, at which further tax payments or reimbursements are expected.

When using the balance sheet liability method, the future income tax payment liability is determined based upon the assumption on future income and expense that will occur due to assets and liabilities, which the enterprise has at the present moment (under the balance sheet). Per each asset and liability, the difference between their balance and tax value is determined, and deferred tax liabilities and assets are accrued thereon. In this regard, the income tax rates that will be effective in the future period are used. The purpose of this method is to show both assets and liabilities of the enterprise in the balance sheet of future tax payments.

There is also a method of deferred tax non-recognition or tax neutrality – identity of financial and tax accounts, which was carried out by the USA and Western European countries in the past. The practice showed the failure to comply with the balance of interests of state, tax-payers and financial markets, which resulted in separation of the accounts into financial and tax ones, and it became necessary to show the deferred taxes in the financial statements (Previts, 2010). Today, this necessity is recognized by the IFRS, standards of the USA (GAAP), Great Britain and many other countries, including Ukraine.

At first the USA and Great Britain applied the deferral method, but it did not ensure authenticity of data because it failed to account for changes in tax rates. Since 1987 the USA have been using the liability method (Golov, 2007). The deferred method is still used in Great Britain and Ireland. Australia, New Zealand, Canada and other countries that used to apply British standards transferred to the IFRS in 2000.

The accountants' practice development in the landlocked countries of Western Europe proceeded differently than in the USA and Great Britain. The accounting system in European countries is closely connected with taxation. The profit and loss statement was almost equated with the income tax return, and a tax neutrality policy was conducted. There was no place for deferred taxes in this system, thus essentially simplifying accounting. However, such "neutral" accounting has become subordinate to tax planning interests and was systematically misrepresented having lost its authenticity (Previts et al., 2010).

The desire to approximate the rules resulted in creation of IFRS. In 1979 the IAS 12 "Income Taxes" was brought into being, which regulates the deferred taxes accounting (IAS 12 "Income Taxes", 1979). The first version of the standard allowed applying both the balance sheet liability method, and the deferral method. In simple cases (for example, the difference in depreciation of fixed assets) both methods were equivalents, and in more complicated ones (accounting of intangible assets, pension liabilities, lease) their results were incommensurable. From 1996, the new revision of IAS 12 provides for the balance method only.

As far as the recognition of assets and liabilities is preconditioned by receipt and retirement of economic benefits from their sale or usage, which is expected to be in future, the standard determines that companies have to evaluate tax consequences of such future operations. Monetary value of such payments or receipts in case of retirement of an asset or liability is recognized in the balance sheet as deferred tax assets or liabilities.

Enterprises calculate differences as of the date of the balance sheet preparation. The product of the sum of temporary differences subject to tax and the tax rate is recognized in the balance sheet as a deferred tax liability. The product of the sum of temporary differences subject to deduction and the tax rate is a deferred tax asset. Besides, the deferred tax assets may be recognized as a result of tax losses of current and future periods carried forward, but only if an enterprise plans to receive sufficient profit in future. For calculations, the valid rate is the one, at which it is expected to affect future payments (reimbursements) of the tax (IAS 12, 1979).

The Accounting Provision (Standard) 17 "Income tax" being in effect in Ukraine since 2001 is based upon the IFRS 12. Tax differences are calculated by means of comparison between the accounting and tax value of assets and liabilities. Deferred taxes are calculated at the rates, at which the enterprise expects them to be realized in future (Accounting Provision (Standard) 17 "Income tax", 2000).

Calculation of the income tax based upon the difference between income and expense is more common that is why the deferral method is deemed to be the most illustrative. However, despite of its being intricate, the balance sheet liability method provides more overall and reliable estimate to the value of deferred tax assets and liabilities of the enterprise.

Characteristic of the deferred tax calculation methods and their application in the world practice are shown in Table 1.

Table 1. **Characteristic of the deferred tax calculation methods and their application in the world practice**

Method	Characteristic of the method	Where and when applied
Deferral method	Deferred taxes occur as a result of difference between accounting and taxable income. The effective tax rate is applied.	US GAAP – from 1967 till 1987, IFRS – from 1979 until 1998, Russian Accounting Standards – from 2003 until 2010, UK GAAP – from 1975 until 2000.
Income statement liability method	Is based upon differences in time and effective tax rate, but if the rate changes, the appropriate correction is to be made.	UK and Irish GAAP from 2000 to present day, Russian Accounting Standards – from 2010.
Balance sheet liability method	The difference between balance and tax value of assets and liabilities is determined, the income tax rates, which will be effective in future periods, are used.	US GAAP – from 1992, IFRS – from 1998, Ukrainian Accounting Provisions (Standards) – from 2001, accounting standards of Canada, Australia, New Zealand, Hong-Kong etc.
Method of non-recognition of deferred taxes	Indicators of financial and tax statements coincide, deferred taxes are not represented.	National Standards of Western European countries – from 1970.

Source: Golov, 2007; Wikipedia.

Different approaches to calculation of deferred taxes (the deferral method and the liability method) are closely connected with each other because they result from applying the static and dynamic balance theory essentially influencing the methodology of profit determination.

The balance sheet is a representation of the financial standing of the enterprise on a certain date, and profit and loss statement represents movement of company's resources (in the form of incomes and expenses) for a definite period of time. Financial standing is formed as a result of resources movement in previous periods and influences their future changes.

According to the dynamic interpretation of a balance sheet by E. Schmalenbach, "the balance sheet contains data on prospective and actual deferred expense (asset) and deferred income (liability) of the enterprise" (Oberbrinkman, 2003). The aforesaid is confirmed by the determination of assets and liabilities (which are the elements of the balance sheet), according to which assets and liabilities occur as a result of previous events and lead to change of economic benefits in future.

Though a balance sheet represents the financial standing of an enterprise on a certain date, such standing is formed as a result of resources movement for all previous periods and may influence economic benefits in future periods. So, one may say that the balance sheet includes the performance of an enterprise for a longer period of time than the profit and loss statement, which is executed only for the accounting period (year). That is why the liability method allows for more detailed calculation of the value of deferred tax assets and liabilities on a certain date.

Replacement of the deferral method by the liability method in the world practice was anticipated. In practice, application of the deferral method caused difficulties, and also often led to situation when the balance sheet showed amounts of deferred tax assets or liabilities, which did not correspond to the real amount of future economic benefits or outflow of resources in the form of tax payments, and did not correspond to the determinations of assets and liabilities established by IFRS. As a result, such principles of financial accounting preparation as prudence, reliability and others, were not complied, it means that accounting did not represent the real financial standing of an enterprise.

After the Accounting Provision (Standard) 17 "Income Tax" (AP(S)17) was brought into being in Ukraine, enterprises became obliged to show deferred taxes in their financial statements, and a new accounting item appeared.

According to scientists, the AP(S)17 "Income Tax" is in general compliant with IFRS 12 "Income Taxes" (Golov, 2007), but it does not provide a clear procedure for the representation in the financial statement of expenses and liabilities on the income tax, though it provides for application of the balance sheet liability method.

The notion "differences in taxes" are also used in the Tax Code of Ukraine and in the Accounting Provision "Differences in taxes". These documents regulate the procedure for determination and accounting of differences in taxes closely connected with deferred taxation.

The problem under consideration is complicated by the execution of tax legislation requirements, inconsistency of normative documents: not only of those that establish taxation and accounting regulations (Accounting Provisions (Standards) and Tax Code of Ukraine), but also of those regulating accounting, between each other (Accounting Provision (Standard) 17 "Income Tax" and Accounting Standards "Differences in taxes"). The normative documents indicated are based upon the different methods for deferred taxes calculation (Table 2):

- Tax Code of Ukraine and Accounting Standards "Differences in taxes" – are based upon the deferral method, i.e. upon determination of differences between income and expense under the Profit and Loss Account (Tax Code of Ukraine, 2010; Accounting Standards "Differences in taxes", 2011);
- Accounting Provision (Standard) 17 "Income Tax" – is based upon the balance sheet liability method, which provides for determination of the difference between the balance and tax value of assets and liabilities (Accounting Provision (Standard) 17 "Income Tax", 2000).

Application of different methods, which is expressed in the opposite definition of basic notions used by the normative documents, leads to serious inconsistencies. For example, determination of temporary differences in taxes in Accounting Provision (Standard) 17 and in the Tax Code differ essentially; a notion of permanent differences, which is given in the Tax Code, was discarded from the text of Accounting Provision (Standard) 17 as early as in 2003; the forms and methods of accounting record keeping regulated by the Tax Code and Accounting Standard "Differences in taxes", which do not comply with requirements of the Accounting Provisions (Standard) 17.

Table 2. **Regulatory control over accounting of differences in taxes and deferred taxes**

Normative document	Established methods for calculating differences in taxes and deferred taxes
Tax Code of Ukraine dated 02.12.2010 no. 2755-VI	Determination of temporary and permanent differences in taxes is based upon the deferral method, i.e. upon differences between incomes and expenses under the Profit and Loss Account.
Accounting Provision "Differences in taxes" approved by the order of the Ministry of Finance of Ukraine dated 25.01.2011 no. 27	The terms "permanent differences in taxes", "temporary differences in taxes" are used, establishes classification by kinds of incomes and expenses, is based upon the deferral method (under the Profit and Loss Account).
Accounting Provision (Standard) 17 "Income Tax" approved by the order of the Ministry of Finance of Ukraine dated 28.12.2000 no. 353	Considers only temporary differences, is based upon the balance sheet liability method, which provides for determination of differences between the balance and tax value of assets and liabilities.
International Accounting Standard 12 "Income Taxes"	Based upon the balance sheet liability method; provides for determination of only temporary differences as of those between book and tax value of assets and liabilities.

Source: Tax Code of Ukraine, 2010; Accounting Standards "Differences in taxes", 2011; Accounting Provision (Standard) 17 "Income Tax", 2000.

Application of different methods for determination of differences in taxes and deferred taxes causes a set of problems as for their recognition, classification and value, formation of respective accounting information:

1) absence of a uniform interpretation in the normative documents of basic terms, the essence of difference in taxes; causes of their occurrence; the essence of deferred taxes;

2) establishment of fundamentally different classifications of differences in taxes for the purpose of accounting and for the purpose of taxation;

3) ambiguity of approaches to the evaluation of differences in taxes and deferred taxes;

4) impossibility to use the Accounting Standard "Differences in taxes" as a methodological framework for accounting of taxes differences;

5) absence of application mechanism, evaluation of the essence and influence on the taxable item:

- methods for determination of taxes differences of the accounting period;
- procedure of delimitation of temporary differences in taxes between the periods;
- influence of differences in taxes on the taxable item;

6) discrepancies in the methods for presentation of information on differences in taxes and deferred taxes in the accounting system and accounting registers;

7) disagreement of the requirements to disclosure of information on differences in taxes and deferred taxes and in financial and tax accounts (balance sheets, Profit and Loss Account, notes to annual financial statements, corporate profits tax statement).

The reviewed normative documents establish the directly contrary approaches thereto: the AP(S) 17 provides for comparison of the balance and tax base of assets and liabilities, and the Tax Code provides for comparison of accounting and tax income and expense. That is why Ukrainian enterprises may not find the way out of this situation and by all means avoid accounting of deferred taxes and their representation in financial statements, which undermines its quality.

Alignment of the current regulations in the Tax Code of Ukraine with Accounting Provisions (Standards) regarding accounting of tax differences is impossible without essential changes in the tax legislation.

Methodological approaches to deferred tax accounting established by the Tax Code are in conflict not only with the Accounting Provisions (Standards), but also with IFRS, which are actively implemented in Ukraine. That is why the solution of the existing problems requires immediate changes in the Tax Code, agreement of deferred tax accounting methods as an element of interrelation between accounting and taxation.

Disagreement of the issue under investigation influences the deferred tax evaluation. Correctness of evaluation thereof also determines the authenticity of financial statements. According to IFRS, the following factors are to be accounted for:

- deferred tax assets and liabilities are to be evaluated using tax legislation and tax rates that will be effective at the moment of demand realization or discharge of liabilities;
- evaluation of deferred taxes is to display how an enterprise plans to discharge the book value of its liabilities or reimburse the book value of assets, which means that the tax rate that will be effective and the tax base are to be in line with the kind of anticipated profit;
- on each accounting date, the amount of deferred taxes shown in the balance sheet, is to be reviewed and, if necessary, corrected with a respective record;
- inclusion of deferred taxes into long-term assets (liabilities) requires the consideration of the possibility and expediency of their discounting;
- rationality of accounting contemplates reduction in quantity of differences in taxes, which have tax consequences, by means of their requalification.

As far as IFRS 12 provides more complete and careful regulation for recognition, evaluation and change of deferred taxes than the Accounting Provision (Standard) 17 does, establishes wider requirements to information disclosure, this necessitates adding appropriate recommendations to the AP(S) 17.

The research findings allowed coming to the following **conclusions**.

1. The comparative analysis of the deferred tax calculation methods applied in domestic and international practice shows the tendency to abandon the deferral method in favor of the balance sheet liability method due to failure to comply with consistency and decreased authenticity of financial statements. All reviewed factors and circumstances proved that it is reasonable to apply the liability method for the determination of deferred tax amounts.

2. IFRS 12 "Income Taxes", as well as the AP(S) 17 being applied in Ukraine nowadays, are based upon the balance approach and are intended to ensure the interrelation between accounting and taxable income. The standards set forth the rules for calculation of tax differences, as well as deferred tax assets and liabilities based upon the data in a balance sheet.

3. The deferral method established by the Tax Code of Ukraine and Accounting Standard "Differences in taxes" for calculation of differences in taxes and deferred taxes, creates a mess, contradicts international and national accounting standards and makes it impossible to form a high quality truthful accounting information.

4. The accuracy of deferred tax evaluation with account for all factors is of great importance, and this also defines the authenticity of financial statements. Disagreement of approaches to methods for calculating the deferred taxes affects their evaluation. The Accounting Provision (Standard) 17 "Income Tax" is to consider the approaches to evaluation of deferred taxes on each accounting date, the cases of their review, correction and requalification.

5. The problems considered may be solved by means of replacement in the Tax Code of Ukraine of the deferred method by the balance sheet liability method, cancellation of the Accounting Standard "Differences in taxes", making amendments to the Accounting Provision (Standard) 17 "Income tax" in the form of clear recommendations regarding deferred tax evaluation in financial statements. Absence of disagreements in legislation, providing enterprises with the right to choose at their discretion forms and methods of keeping accounting records of tax differences and deferred taxes, will render it possible to form high quality reliable information in financial statements and establish the interrelation between accounting and taxation. Development of the methodology that will be in line with the concept of deferred taxes and will take into account the specific featires of national accounting and taxation systems is a prospect of follow-up studies.

References:

Податковий кодекс України від 2.12.2010 №2755-VI // zakon.rada.gov.ua.

Про затвердження Положення (стандарту) бухгалтерського обліку 17 «Податок на прибуток»: Наказ Міністерства фінансів України від 28.12.2000 №353 // zakon.rada.gov.ua.

Про затвердження Положення бухгалтерського обліку «Податкові різниці»: Наказ Міністерства фінансів України від 25.01.2011 №27 // zakon.rada.gov.ua.

Міжнародний стандарт бухгалтерського обліку 12 «Податки на прибуток»: Міжнародний документ від 01.01.2012 // zakon.rada.gov.ua.

Голов С.Ф. Бухгалтерський облік в Україні: аналіз стану та перспективи розвитку: монографія. – К.: Центр учбової літератури, 2007. – 522 с.

Обербринкманн Ф. Современное понимание бухгалтерского баланса / Пер. с нем. Я.В. Молоток, С.А. Романовой; Под ред. Я.В. Соколова. – М.: Финансы и статистика, 2003. – 416 с.

Определение понятия «отложенные налоги» // ru.wikipedia.org.

Панков В.В., Лаврушина В.Б. Методы учета отложенных налогов // Международный бухгалтерский учет.– 2008.– №11. – С. 42–46.

Хендриксен Э.С., ван Бреда М.Ф. Теория бухгалтерского учета / Пер. с англ.; Под ред. Я.В. Соколова. – М.: Финансы и статистика, 2000. – 576 с.

Previts, G.J., Walton, P.P., Wolnizer, P.A. (2010). Global History of Accounting, Financial Reporting and Public Policy: Europe. Emerald Group Publishing. 302 p.

Стаття надійшла до редакції 11.08.2013.