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Deferred tax under IAS 12 in the chosen Czech and Russian companies

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Abstract

In this article, the biggest Czech and Russian firms preparing and presenting their financial statements in accordance with IFRS were chosen referring to well-known Czech and Russian stock indices. Then, a system of quantitative characteristics was set and the firms' deferred taxes were analyzed. Differences between Czech and Russian firms were identified in taxpayers' strategies and deferred tax indicators related to tax legislative. However, characteristics in the sphere of financial accounting were mainly comparable, which proves effectiveness of IFRS in standardizing of accounting data.

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1. Introduction

Despite the fact that deferred tax is regulated by IAS 12 "Income Taxes", each country has its national rules, laws and practices relating to the reporting of deferred taxes that can vary significantly from IFRS.

Deferred tax is also influenced by the importance of tax accounting in different countries. As will be shown in the Literature Review, this paper intends to fill the gap in studies on the deferred taxes from the point of view of comparativeness of data reported under IFRS. To make the result more clear, the author decided to choose countries with different tax and accounting legislation, especially regarding the deferred taxes. According to IFRS, deferred taxes arise from temporary differences that can be calculated by comparing a carrying amount of an asset or liability

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with its tax base (IASB, 2009). This method is called “comprehensive balance sheet method”. One of the European countries, which use the IFRS for the consolidated financial reporting but where local accounting standards and local tax legislation are often obligatory, is the Czech Republic. On the contrary, in the countries where tax accounting plays a significant role (an example of such country is the Russian Federation), tax and accounting incomes and expenses are compared to reach the same goal (Ministry of Finance of the Russian Federation, 2015). The choice of these two countries can also be explained with the fact that the author’s main scope of interests being researched in her PhD thesis is tax accounting in the mentioned countries due to the growing importance of standardizing of financial accounting not only among the European countries but also among Europe’s trade and business partners all over the world.

Thus, the aim of this paper is to demonstrate that the IFRS provide comparable financial data despite the differences in national tax and accounting legislation. The results of the research can be used especially by the users of financial statements who need to pay their attention to the following facts:

- Reports under IFRS can provide the users with relevant and comparable information about the deferred taxes.
- At the same time, the deferred taxes as such are greatly influenced by local tax legislation.

The paper is focused on the analysis of deferred taxes of companies, which operate in countries with different tax systems but prepare their consolidated financial statements according to the same standards (IFRS). The expected result is that reporting under IFRS, contrary to local accounting and reporting standards, provides comparable data in spite of substantial differences in tax and accounting legislation.

We can also assume that deferred tax liabilities play an important role and are used more frequently than deferred tax assets in both states. This statement arises from the practice of implementation of IAS 12, but also from national tax regulations.

The aim of the paper is also to verify effectiveness of tax optimization using the effective tax rate (total tax expense divided by taxable income).

2. Literature review

IFRS are generally used by multinational companies and groups of enterprises preparing their consolidated financial statements. Therefore, the majority of researches in this area focus on comparing of rules set by IFRS and local accounting standards in a particular country. For the Czech Republic, the mentioned subject regarding the corporate tax was analyzed, for example, in the recent paper by S. Jiraskova and J. Molin where the authors describe the process of the adoption of the IFRS in selected European countries and analyze taxation under IFRS and local tax legislation (Jiraskova and Molin, 2015). L. Mejzlik, M. Arltova and D. Prochazka described the usage of IFRS for tax purposes as a “win-win-win” situation for the taxpayers, the tax authorities and the foreign investors (Mejzlik, Arltova, Prochazka et al., 2015). D. Prochazka and J. Molin have also examined taxation under IFRS and local legislation for small open economy (Prochazka and Molin, 2014). The relationship between financial and tax accounting in the Czech Republic in the light of the IFRS was studied by B. Blechova, J. Janouskova, and S. Sobotovicova who demonstrated variable mutual ratio between the economic result and the tax base in different sectors of business activity in their analysis (Blechova, Janouskova, and Sobotovicova, 2013). The impact of the IFRS on key financial ratios for selected European countries including the Czech Republic was described by D. Kubickova and I. Jindrichovska (Kubickova and Jindrichovska, 2012).

Deferred tax as such is often analyzed by the Korean researchers who put strong emphasis on the Korean economics and Korean stock exchange and analyze the influence of the deferred taxes on a firm’s market value or their importance and relevance for the investors’ decisions (Kim and Choul, 2004; Choi, 2009; Kim, 2015). At the same time, the Web of Science database consists considerably fewer papers dealing with the deferred taxes in Europe. For example, one of the recent European studies compares IASB and FASB regarding the accounting of the deferred taxes (Costa and Pais, 2015). However, the studies on the problem of the deferred taxes in the Czech Republic in comparison with non-EU countries has not been indexed in the Web of Science and Scopus databases so far. Similarly, the mentioned databases do not contain information about studies in the area of the deferred taxes in the Russian Federation in comparison with the EU or the USA. Nevertheless, papers and articles describing the

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