

S02.02-AS-07

Deferred tax assets and liabilities

List of related reporting headings

ASSETS

	EN	FR
A48100	Deferred tax assets	Actifs d'impôts différés
A49810	Deferred tax assets - Provision	Actifs d'impôts différés - Provision
STOT-A480	Deferred tax asset - Net	Actifs d'impôts différés - Net

LIABILITIES

	EN	FR
L48500	Deferred tax liabilities	Passifs d'impôts différés
L48700	Deferred tax liabilities on withholding tax	Passifs d'impôts différés sur retenues à la source
STOT-L480	Deferred tax liabilities	Passifs d'impôts différés

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1. Definitions

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred taxes are calculated by tax entity.

The recognition of deferred tax enables to link the accounting effect and the tax effect in the same period.

See also the note to the consolidation financial statements related to [11. Income taxes](#).

(IAS 12, par 51)

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Carrying amount:

The carrying amount of an asset or liability (CAA or CAL) is the value for which the asset or liability concerned is accounted for in the consolidated balance sheet (after eliminations).

Tax value:

- Tax base of an asset (TBA): Represents the amount that will be deductible from taxable income of the future periods regarding this asset.
- Tax base of a liability (TBL): Represents the carrying amount less any amount that will be deductible from future taxable income regarding this liability.

(IAS 12, par 5): **Deferred tax liabilities** are the amounts of income taxes payable in future periods in respect of [taxable temporary differences](#).

(IAS 12, par 5): **Deferred tax assets** are the amounts of income taxes recoverable in future periods in respect of:

- a. [deductible temporary differences](#);
- b. *the carryforward of unused tax losses; and*
- c. *the carryforward of unused tax credits.*

(IAS 12, par 5): Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either:

- a. **taxable temporary differences**, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or
- b. **deductible temporary differences**, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.



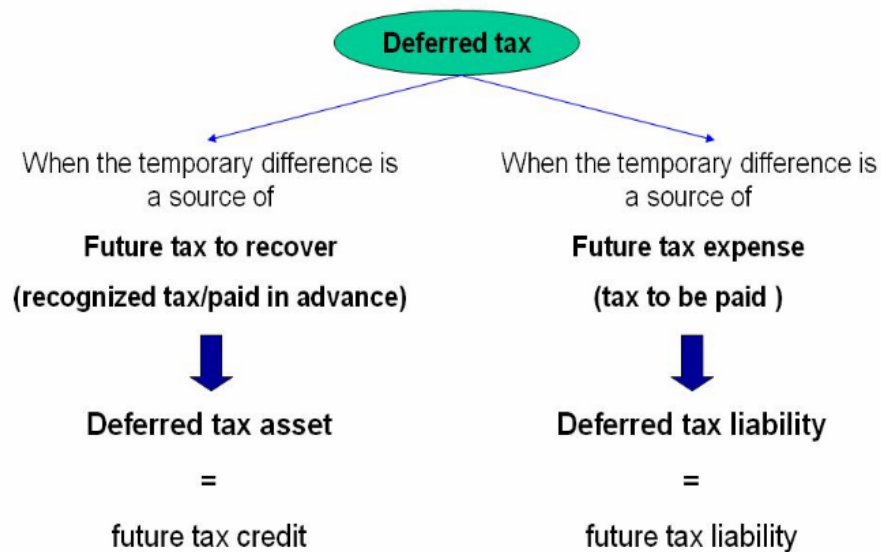
Note

Permanent differences do not lead to the computation of deferred taxes as these differences will never reverse.

(IAS 12, par 5): The **tax base** of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Current and deferred tax for the period: See the note to the consolidation financial statements related to **11. Income taxes** .

2. Deferred tax asset versus deferred tax liability



Basis of calculation :



3. Recognition and measurement criteria for temporary differences

3.1. Taxable temporary differences

When should a deferred tax liability be recognized?

(IAS 12, par 15)

A deferred tax liability shall be recognised for all taxable temporary differences,

EXCEPT to the extent that the deferred tax liability arises from:

- a. the initial recognition of goodwill (for which impairment is not deductible for tax purposes); or see also IAS 12, par 21A, referring to IAS 12, par 15(a)
- b. the initial recognition of an asset or liability in a transaction which:
 - is not a business combination; and

- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax liability shall be recognised in accordance with paragraph 39.

(IAS 12, par 39)

An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

(IAS 12, par 21A)

Subsequent reductions in a deferred tax liability that is unrecognised because it arises from the initial recognition of goodwill are also regarded as arising from the initial recognition of goodwill and are therefore not recognised under paragraph 15(a).

For example, if in a business combination an entity recognises goodwill of CU100 that has a tax base of nil, paragraph 15(a) prohibits the entity from recognising the resulting deferred tax liability.

If the entity subsequently recognises an impairment loss of CU20 for that goodwill, the amount of the taxable temporary difference relating to the goodwill is reduced from CU100 to CU80, with a resulting decrease in the value of the unrecognised deferred tax liability.

That decrease in the value of the unrecognised deferred tax liability is also regarded as relating to the initial recognition of the goodwill and is therefore prohibited from being recognised under paragraph 15(a).

Taxable temporary differences representing future tax expense, are source of deferred tax liability (DTL) when:

- $CAA > TBA$ = awaited economic benefits exceed awaited tax deductions => Future tax expense DTL
- $CAL < TBL$ = awaited tax deductions are lower than taxable amounts => Future tax expense DTL

Examples of taxable temporary differences

- When the income is included in accounting profit in one period but is included in taxable profit in a different period ($CAA > TBA$), or
- When the expense is deductible in taxable profit in one period but is included in accounting profit in a other period ($CAL < TBL$)
- Allocation of cost of acquisition to identifiable assets ($CAA > TBA$)
- Assets are revalued and no equivalent adjustment is made for tax purposes ($CAA > TBA$)
- See also [these examples](#).

3.2. Deductible temporary differences

When should a deferred tax asset be recognized?

(IAS 12, par 24)

A **deferred tax asset** shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44.

(IAS 12, par 44)

An entity shall recognise a deferred tax asset for all deductible temporary differences arising from **investments in subsidiaries, branches and associates, and interests in joint arrangements**, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

(IAS 12, par 34)

A deferred tax asset shall be recognised for the **carryforward of unused tax losses and unused tax credits** to the extent that it is **probable** ★ that future taxable profit will be available against which the **unused tax losses** ★★ and **unused tax credits** can be utilised.

★ "Probable" (IAS 12, par 36)

An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

- whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire (1);
- whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire (1);
- whether the unused tax losses result from identifiable causes which are unlikely to recur; and

- d. whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

(1); By "before they expire", it is to be understood "**WITHIN A 5-YEAR PERIOD**" as the Group has fixed to 5 year the delay in recovering latent tax elements (loss, etc ...) and NOT until the expiration of the use of such latent elements.

★★ "Unused tax losses" (IAS 12, par 35)

(...) the existence of unused tax losses is strong evidence that future taxable profit may not be available.

Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

(...).

Deductible temporary differences, future tax to recover and source of deferred tax asset (DTA).

This is the case when:

- $CAA < TBA$ = the awaited economic benefits is lower than the awaited tax deductions => Future tax to recover DTA
- $CAL > TBL$ = awaited tax deductions exceed awaited economic benefits => Future tax to recover DTA
- Existence of unused tax losses and unused tax credits = awaited tax deductions (condition: it is probable that future taxable profit will be available) => Future tax to recover DTA

Reassessment of unrecognized deferred tax assets:

(IAS 12, par 37)

At the end of each reporting period, an entity reassesses unrecognized deferred tax assets ★. The entity recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria (...).

★ The carrying amount of deferred tax assets is reviewed.

Examples of deductible temporary differences

- When the expense is included in accounting profit in one period but is deducted in taxable profit in a different period, or
- When the income is taxable in taxable profit in one period but is included in accounting profit in a different period
- Allocation of cost of acquisition to identifiable liabilities
- Assets are revalued and no equivalent adjustment is made for tax purposes
- See also [these examples](#).

3.3. Exceptions

Goodwill

- Initial recognition of goodwill: Recognition of deferred tax prohibited
- Subsequent treatment of non-tax deductible goodwill: Do not recognize deferred tax
- Subsequent treatment of tax deductible goodwill: Recognize deferred tax on temporary differences

Investments in subsidiaries, branches and associates

(IAS 12, par 38)

Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest.

Such differences may arise in a number of different circumstances, for example:

- a. the existence of undistributed profits of subsidiaries, branches, associates and joint arrangements;
- b. changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and
- c. a reduction in the carrying amount of an investment in an associate to its recoverable amount.

No deferred tax if the parent is able to control the timing of the reversal of the temporary difference and if it is probable that the temporary difference will not reverse in a foreseeable future:

- No deferred tax to be recorded on an impairment of an investment or a provision for liabilities and charges unless a sale of the investment is scheduled.
- Deferred tax is to be recorded on the undistributed profits of a company, when the parent does not control the distribution.

3.4. Particular case: Business combinations

(IAS 12, par 19)

With limited exceptions, the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently.

For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 66).

(IAS 12, par 26c)

The following are examples of deductible temporary differences that result in deferred tax assets:

(c) with limited exceptions, an entity recognises the identifiable assets acquired and liabilities assumed in a business combination at their fair values at the acquisition date. When a liability assumed is recognised at the acquisition date but the related costs are not deducted in determining taxable profits until a later period, a deductible temporary difference arises which results in a deferred tax asset.

A deferred tax asset also arises when the fair value of an identifiable asset acquired is less than its tax base. In both cases, the resulting deferred tax asset affects goodwill (see paragraph 66); (...)

(IAS 12, par 66)

As explained in paragraphs 19 and 26(c), temporary differences may arise in a business combination. In accordance with IFRS 3, an entity recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria in paragraph 24) or deferred tax liabilities as identifiable assets and liabilities at the acquisition date.

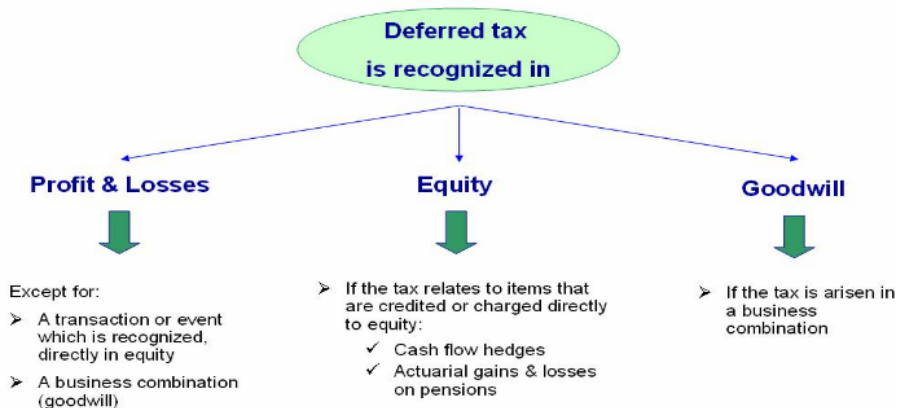
Consequently, those deferred tax assets and deferred tax liabilities affect the amount of goodwill or the bargain purchase gain the entity recognises. However, in accordance with paragraph 15(a), an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill.

At the acquisition date, certain assets may be underestimated. A reevaluation will be necessary to increase the carrying amount of these assets to their fair value, but their tax base remains at cost to the previous owner. A taxable temporary difference arises.

How to treat, during an acquisition, the unused tax losses acquired?

If the criteria of probability to recover the losses exists, deferred tax asset arising from the unused tax losses shall be recognized at the integration of the entity acquired in the consolidation perimeter.

4. Recognition of deferred tax



Evolution of the tax rate from one period to another: same treatment as for the related transaction (Equity or P/L)

5. Offset of deferred tax

(IAS 12, par 71)

An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:

- a. has a legally enforceable right to set off the recognised amounts; and
- b. intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(IAS 12, par 74)

An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

- a. the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- b. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - i. the same taxable entity; or
 - ii. different taxable entities which intend:
 - either to settle current tax liabilities and assets on a net basis,
 - or to realise the assets and settle the liabilities simultaneously (...)

6. Measurement

(IAS 12, par 46)

Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

(IAS 12, par 47)

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

(IAS 12, par 51)

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The rate to be retained: **effective rate**, almost voted by tax authorities.

- The rate applied must theoretically be the effective rate at the closing of the period (of the country in which the tax is paid by entity)
- Thus, for the deferred tax, the tax rate and the tax rules to be retained are those resulting from tax law at the closing date and which will be applicable when the future difference will be carried out.
 - When the tax law at the closing of the period mentions the change in tax rate in the future, the deferred tax rate will be different from the current tax rate of the period.
 - When there is no new evolution in tax law (no change in the tax rate and the tax rules applicable), the entity should use the effective tax rate and tax rules in force at the closing date, whatever its future evolution.

Example:

In year Y, a very significant current tax rate decrease, occurred in a country. The tax rate decreased from 41,25% to 37,08%. This entailed, for many companies which were in "normative" tax position, significant deferred tax expense related to their tax bases.

Taking the case of a subsidiary located in that country: This company has a net deferred tax base of 1 MEUR as at Dec 31, Y-1, fully recognized in balance sheet. As at Dec 31, Y, the deferred tax base decreased at 900 kEUR:

- As at Dec 31, Y-1, the subsidiary recognized a DTA of 1 MEUR x 41,25% = 412.500 EUR in balance sheet.
- As at Dec 31, Y, the subsidiary recognized a DTA of 900 kEUR x 37,08% = 333,720 EUR in balance sheet, through a expense of 412.500 – 333.720 = **78.780 EUR** , which is explained by:
 - the utilization of deferred tax base of 100 kEUR x 37,08% = 37.080 EUR, and
 - the tax rate decrease of 1 MEUR x (41,25% - 37,08%) = 41.700 EUR

Economic approach / normative / prudent

In the Dec 31, Y-1, accounts, if the date of consolidated financial statements settlement was subsequent to the vote of tax decrease, the tax rate of 37,08% and the DTA of 370.800 EUR should have been retained.

In the opposite case, with tax rate decrease not yet voted but in discussion at the closing date, a correct accounting adjustment would have consisted of recording a provision for tax credit of 41.700 EUR. Indeed, the realization of this DTA was not completed at the closing date but, to be prudent, a provision against this DTA would have been recorded.

7. Deferred tax adjustments

There are 4 triggering events that can lead to adjustments to deferred taxes:

- transition from a situation of negative tax result to a positive tax result (e.g.: through restructuring of activities, launching of a new line of business, etc...);
- change in the legal perimeter (e.g.: merger, sale of a profitable line of business, etc...);
- change in the local tax rules;
- transition from a situation of positive tax result to a negative tax result due to any event creating a rupture in the trends.

8. Disclosure in the consolidated financial statements

Main disclosure items on a yearly basis (IAS 12, par 80)

- Current tax expenses (income)
- Deferred tax expenses (income)
- Tax proof : reconciliation between the theoretical tax expense and the expense recorded in the P/L
- Variation of gross deferred tax on the period (counterpart in P/L, in equity)
- Split of deferred tax by nature and maturity
- Analysis of unrecognized deferred tax asset: as a consequence, all the deferred tax assets and liabilities are to be recorded whether recognized or not.
- Justification of deferred tax assets recognition when the entity went through a recent tax loss

Tax proof

Definition and objectives

The tax proof enables to verify the exhaustiveness of the taxable base by analyzing the permanent character of the differences. It enables to identify the non taxable profit or taxed at reduced rate.

Utilization as a control tool

- Ensure the correct calculation of the tax of the period: It enables to identify the unused tax losses of the period (analysis of the future profits)
- Detect opportunities to recognize the DTA relating to the tax losses: identify the tax losses and temporary differences of previous periods, utilized in the current period, which DTA were not previously recognized.

Some examples of sources of variation

- A tax rate change during a period
- The tax rate specifications (reduced or increased tax rate)
- The tax rate differences for foreign subsidiaries
- A final tax adjustment (after tax audit)
- A correction of a local error
- The allowance or reversal of provision on the DTA of period
- ...and some other particular cases that can obviously occur.