RANGE OF DATA REPORTED TO THE REQUIREMENTS OF THE IAS 12 AND IMPACT OF THE IFRS ADOPTION FOR TAX PURPOSES IN THE TAX COLLECTION OF THE CZECH REPUBLIC

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Abstract

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An issue of relationship between corporate income tax and accounting is one of the most discussed at present. Until recently the tax base was derived from the accounting profit defined in the Czech accounting law. But from 2004 there are companies which have to use IFRS in bookkeeping and financial reporting and from the perspective of the Czech accounting law they do not care about Czech accounting regulation. On the other hand Czech tax regulation has not accepted this change in the field of European accounting harmonization and still directs to pay tax on the basis of Czech accounting regulation for all entities. Fear of adverse change in tax collection is one of the main reasons why the Czech Tax Administration does not allow to pay income tax under profit or loss patterned on IFRS. The most important goal of this work is to characterize the relationship between accounting profit or loss under IFRS and the tax base of income and to find out the impact of taxation under profit in accordance with IFRS in total tax collection. Basic sample of all analyses consists of 35 accounting entities which mandatorily use IFRS and this sample was also confronted with a list of 106 major payers of income tax published yearly by the Ministry of Finance of the Czech Republic for the needs characterization of the relationship of profit under IFRS and the tax base of income.

International Financial Reporting Standards, tax base of income, tax collection, relation between tax and accounting, Czech Tax Administration, accounting profit or loss, effective tax rate

Currently in the Czech Republic according to the Accounting law (§ 19, part 9) some entities are required to apply for accounting and financial reporting International Financial Reporting Standards (IFRS): *Accounting entities, which are issuers of a securities registered on a securities market in some of the member state of European Union, will use International financial reporting standards for bookkeeping and financial reporting.* There is also described use of IFRS in case of consolidation: *Consolidating entities, which are issuers of a securities registered on a securities market in some of the member state of European Union, will use International financial reporting standards for preparation of the consolidated financial statements and annual report.*[1] On the other hand Czech tax legislation derives tax base of income for all entities from accounting profit or loss without influence of IFRS, but just on the basis of the Czech accounting regulation. The aim of this work is firstly to analyse the extent of reported data especially in the area of current

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1   § 23a, part 1 of the Accounting law No. 563/1991

income tax of entities reporting under IFRS but also find the relationship between accounting profit or loss and tax base for companies which were in 2010, according to information published by the Ministry of Finance of the Czech Republic, the major payers of income tax in relation to the tax amount paid, and at the same time used IFRS in their accounting and financial reporting. All data was primarily collected from the database of the Czech National Bank.[2]

MATERIALS AND METHODS

Reporting rules in the area of current and deferred tax can be found in IAS 12 Income taxes. The following text highlights some of the rules set out in IAS 12, which are relevant for this work. According to IAS 12, an entity has the right to report on a net basis current tax receivable and payable tax liability when they relate to income taxes collected by the same taxation authority and the taxation authority permits the entity to pay or receive a net amount (after compensation). Accounting entities are required to disclose the relationship between tax expense/income and accounting profit or loss in such the way that users of financial statements can understand important facts influencing this relationship or may influence it in the future. Explanation of the relationship between tax expense (income) and accounting profit (loss) should be described one (or both) of the following two ways:

a) a numerical reconciliation of tax expenses (incomes) and accounting profit or loss multiplied by the applicable tax rate, simultaneously it is necessary to provide information about the tax base or,

b) numerical reconciliation of effective tax rate and the nominal tax rate, together with disclosure of the base on which the applicable tax rate applies. The Effective Tax Rate (ETR) is the ratio of tax expense (deferred and current) and accounting profit.

Basic sample for the research consists of all companies located in the Czech Republic that were required to use IFRS in 2009, as in 2010 – but excluding territorial self-governing units, state enterprises and companies in liquidation. Based on the above mentioned criteria basic sample involves 35 companies – it means 35 financial statements for one period.

RESULTS

Analysis of the reported data was concentrated on explanation the relationship between profit or loss and tax expense to meet the condition of IAS 12 dealing with the ability of users of financial statements to understand the relevant facts affecting

I: *One form of disclosure of the relationship between accounting profit or loss and income taxes in accordance with the rules of IAS 12*

Income taxes (in mil. CZK)	Period	
	2010	2009
Current tax	150	250
Deferred tax	50	−30
TOTAL	200	220

	Period	
	2010	2009
Accounting Profit	1 000	1 500
Nominal tax rate	19%	20%
Theoretical amount of tax	190	300
Effect of non-deductible expenses	80	20
Effect of non-taxable incomes	−50	−10
Effect of other deductible items and tax reduction	−70	−60
Effect of increasing or reducing of temporary differences	51,5	−30
Effect of change in tax rate	−1,5	0
Tax expenses	200	220
Effective tax rate	25%	15%

this relationship. It was also verified disclosure of the effective tax rate.

81% of the 35 accounting entities clearly explain the relationship between profit/loss and tax expense/income, the other 19% of companies provides information only about the tax amount and tax rate but no further information. All 28 companies that disclosed this relationship were using the method shown in Table 1 in both years.

Effective tax rate is the share of total income tax expense and accounting profit, but the total tax expense consists of current and also deferred tax. Companies with zero current tax (total amount of income tax consists of only deferred tax) and companies reporting loss were excluded from the basic sample for the needs of ETR analysis – reduced sample consists of 29 accounting entities in both

II: *Analysis of effective tax rate*

ETR of 29 companies	2009	2010
Average of the whole sample	17,3%	16,0%
Nominal tax rate	20%	19%
difference	−2,7%	−3,0%
ETR according to types of companies (number)	**2009**	**2010**
	Average of ETR	
Financial institutions (13)	21,9%	21,7%
Production and energy companies (11)*	15,5%	12,7%

* 5 companies do not fall into any of the groups or in terms of their business focus they can not be aggregated

2   Available at https://oam.cnb.cz

years. The effective tax rate provides in financial statements more than half (53%) of the companies in both years. Effective tax rate had been calculated on basis of information obtained from financial statements in case of its absence.

Average effective tax rate (AETR) of the whole sample is on the level 17.3% in 2009 and 16% in 2010. The AETR for financial institutions is higher than the valid nominal tax rate. This may be influenced by several factors - the existence of a small number of tax deductions and adjustments in the non-deductible expenses and the fact that the vast majority of banking institutions did not use the tax reduction or other tax optimization tool which directly reduce the absolute amount of tax payable. We also can not forget the impact of deferred tax. Although there was 1% decline of year on year nominal tax rate, the AETR of financial institutions decreased by only 0.2%. The average accounting profit of financial institutions decreased by 5.5%, but the average income tax expense increased by 13.8%, despite the above mentioned decrease in nominal tax rate, between 2009 and 2010. On the other hand the average accounting profit of other group of companies decreased by 8.5% and average income tax expense decreased by 11% again between 2009 and 2010. While the average effective tax rate of

III: *The share of tax collection of major issuers of securities in the total collection of the income tax in 2009 and 2010*

data in billion CZK	Income tax collection	
	2009	**2010**
Total	119,7	123,9
Of which the 15 major issuers of securities	25,4	22,9
Share	**21%**	**18%**

production and energy companies is significantly lower than the nominal tax rate especially in 2010.

Companies obligatorily using IFRS for the financial statements do not need to create accounts in accordance with Czech accounting legislation. But it is clear that they will deal with the problem in determining the tax base, because according to § 23, part 2 point a) the Law of income tax they have to determine the tax base based on "the result (profit or loss) always without the influence of International Financial Reporting Standards." Further research aims to answer whether there is any relationship between the tax base or current tax and accounting profit under IFRS and what change would become in tax collection of mentioned companies if they could use for taxation accounting result under IFRS. List of 35 issuers mandatory using IFRS was

IV: *Analysis of the relationship between current tax and profit under IFRS for the 15 in terms of income tax collection major issuers of securities*

	2009			2010		
	Current tax (in mil. CZK)	**Accounting profit (in mil. CZK)**	**Effective current tax rate (ECTR)**	**Current tax (in mil. CZK)**	**Accounting profit (in mil. CZK)**	**Effective current tax rate (ECTR)**
ČEZ	10 305	54 805	**0,18803**	7 340	42 321	**0,173436**
Česká pojišťovna	1 499	8 785	**0,170632**	1 206	12 388	**0,097352**
Česká spořitelna	2 810	14 090	**0,199432**	2 431	14 317	**0,169798**
Škoda auto	1 363	4 381	**0,311116**	2 728	11 215	**0,243246**
Raiffeisen bank	534	2 522	**0,211737**	685	2 320	**0,295259**
Dalkia Česká republika	562	3 080	**0,182468**	513	5 567	**0,09215**
Telefonica O2	3 163	15 611	**0,202614**	2 430	15 729	**0,154492**
Komerční banka	2 196	12 584	**0,174507**	2 278	14 417	**0,158008**
ČSOB	*652*	*23 156*	***0,028157***	*1 182*	*13 572*	***0,087091***
Unicredit bank Czech republic	601	3 382	**0,177705**	597	3 473	**0,171897**
Severočeské doly	684	3 932	**0,173957**	388	2 750	**0,141091**
Phillip Morris	565	2 712	**0,208333**	564	2 992	**0,188503**
Východočeská plynárenská	*28*	*786*	***0,035623***	*89*	*1112*	***0,080036***
Česká exportní banka	*108*	*168*	***0,642857***	*145*	*217*	***0,668203***
Českomoravská stavební spořitelna	372	2 421	**0,153656**	312	2 489	**0,125352**
Average of ECTR (AECTR)			**0,204055**			**0,189728**
Nominal tax rate			*0,20*			*0,19*
DIFFERENCE			**0,004055**			**−0,00027**
CORRELATION COEFFICIENT			**0,921**			**0,968521**

confronted with a list of 106 major payers of income tax published yearly by the Ministry of Finance of the Czech Republic. Some of places on the list are not filled any particular company, because not all companies wish to be published. The research shows that there are listed 12 issuers of the 35 in the list of 106 major payers of income tax in 2010. And after seeing the amount of current tax paid in 2010 it is highly probable that three issuers of securities (Východočeská plynárenská, Česká exportní banka and Moravian Building Society) refused publication. The other 20 companies mandatorily using IFRS did no reach such an amount of current tax in the year 2010 to be included in the list.

12 of 15 entities (companies mandatory using IFRS) occupied position in the first third of the list. The following table shows the share of income tax collection of major issuers of securities in the total collection of the income tax for 2009 and 2010.

Tax collection of 15 in terms of income tax the most significant entities mandatory using IFRS is in both years about one fifth of state budget revenues in corporate income tax. The other 20 issuers of securities can be excluded for further analyses because of their tax collection is 0.3% of total income tax collection in 2009 and 0.2% in 2010.

The table above shows the absolute amount of tax paid, the profit achieved under IFRS and the effective current tax rate for the most significant taxpayers obligatorily using IFRS. Average effective current tax rate (AECTR) of this group is almost identical to the nominal tax rate in both years. At the same time we can say that the relationship of profit under IFRS and income tax paid meet basic assumption applied in the tax system. The correlation coefficient shows a relatively close linear dependence between two variables – profit growth means increase of current income tax. There are three companies with significantly different ECTR – Česká exportní banka reached the high level of ECTR due to creation of non-deductible receivables adjustments and otherwise companies Východočeská plynárenská a ČSOB achieved lower level of ECTR thanks to significant amount of non-taxable income or profit transfer.

The table V shows tax base calculated on the basis of information from financial statements of selected companies. Tax base of income is adjusted accounting profit for non-deducted expenses, non-taxable income and other deductible items but before using tax discount or other tax benefits, which directly reduce the amount of current tax. Again we can see a relatively close linear dependence between tax base and accounting profit. Accounting profit under IFRS is on average higher than the tax base of 1.6 billion CZK. If these companies had paid tax based on accounting profit under IFRS in 2009 and 2010, tax collection would have increased by about 326 million CZK in 2009 and 305 million in 2010.

DISCUSSION

Companies which have to use IFRS in their bookkeeping have to calculate the profit in compliance with the Czech accounting regulation too. *The current legislation governing deferred tax intent was to take as much as possible from the International*

V: *Analysis of the relationship between the tax base and profit under IFRS for the 15 in terms of income tax collection major issuers of securities*

Company	mil. CZK			
	2009		2010	
	Tax base	Accounting profit	Tax base	Accounting profit
ČEZ	51 525	54 805	38 632	42 321
Česká pojišťovna	7 495	8 785	6 347	12 388
Česká spořitelna	15 085	14 090	12 795	14 317
Škoda auto	6 515	4 381	14 621	11 215
Raiffeisen bank	2 670	2 522	3 605	2 320
Dalkia Česká republika	2 815	3 080	2 705	5 567
Telefonica O2	15 815	15 611	12 789	15 729
Komerční banka	10 995	12 584	12 005	14 417
ČSOB	3 260	23 156	6 221	13 572
Unicredit bank Czech republic	3 005	3 382	3 142	3 473
Severočeské doly	3 445	3 932	2 089	2 750
Phillip Morris	2 825	2 712	2 968	2 992
Východočeská plynárenská	140	786	468	1 112
Česká exportní banka	540	168	763	217
Českomoravská stavební spořitelna	1 860	2 421	1 642	2 489
Average difference	−1 628		−1 606	
CORRELATION COEFFICIENT	0,928646		0,96756	

Accounting Standards, specifically from IAS 12 Income Taxes, but this initiative was neither further developed nor adapted to the Czech circumstances.[3]

On the one hand these companies invest a lot of money in change of accounting software, in training of their management and accounting employees and have to entirely change their method of accounting: *Different concepts of both accounting systems do not interfere in results only of analytical balances accounts, but frequently in the initial operational records of inventory, fixed assets, receivables and liabilities, the reported revenues, etc., which can be solved by restructuring the financial statements or trial balance difficult to solve.[4]*

But on the other hand they face no small problem, because they must still calculate the profit simultaneously under Czech accounting law to fulfil the requirement of Czech tax law and pay right amount of income tax to the appropriate taxing authority. Fear of adverse change in tax collection is one of the main reasons why the Czech Tax Administration does not allow to pay income tax under profit or loss patterned on IFRS. But result from one of several analyses above shows that the tax collection in terms of tax payment significant accounting entities mandatorily using IFRS would most likely change positively, if they could use profit or loss under IFRS as a way-out of taxation.

This statement is supported by the fact that Austrian and German experts have realized a research which aimed to analyse the impact of adoption of IFRS profit or loss as a way-out for taxation on tax collection. The authors chose for their work several countries - the Czech Republic, Austria, Belgium, Hungary, Ireland, Latvia, Poland and Slovakia. Conclusion of the study says that, apart from Ireland, all other countries in the case of using IFRS for taxation would record a slight tendency to increase the tax base and therefore tax collection. *We find that there is a large dispersion of effective company tax burdens between the considered countries. An exclusive harmonisation of the tax base by introducing IAS/IFRS as a starting point, however, will not significantly reduce the current EU-wide differences of effective company tax burdens. According to our results, the effective tax burden tends to slightly increase in all countries except for Ireland because IAS/IFRS-based tax accounting would broaden the tax base compared to current national accounting rules.[5]*

Conversely Prof. Müllerova ushers to the discussion on the adoption of the profit according to IFRS as the tax base following: *Is it really appropriate to determine the tax base built on accounting (either domestic or international) with required complex treatment? Czech accounting has not a principle of authority, but rather the principle of true and fair view. The adherence of this principle causes the recognition of costs related to company´s activities compliance with basic accounting principles (especially the prudence) that are not acknowledged by tax authority. In addition, it can be assumed that the influence of globalization will proceed with the harmonization of accounting rules and Czech accounting regulations will increasingly converge with internationally accepted accounting standards. Would it be thus preferable to clearly define the subject of taxes without direct binding to the accounting?*

CONCLUSIONS

81% of the 35 accounting entities which mandatory use IFRS and comply with the criteria clearly explain the relationship between profit/loss and tax expense/income in 2009 and 2010, the other 19% of companies provides information only about the tax amount and tax rate but no further information. All 29 companies that disclosed this relationship were using the method shown in Table I in both years.

The analysis focused on disclosure the effective tax rate was carried out on a reduced sample – 29 companies. The effective tax rate provides in financial statements more than half of the companies in both years. Average effective tax rate selected entities is 17.3% in 2009 and 16% in 2010. The average effective tax rates are therefore both in 2009 and in 2010 under valid nominal tax rate. Sample of 29 companies was further divided into two groups, 5 companies is not possible in terms of their business focus to aggregate. The AETR of first group - financial institutions – is higher than the nominal tax rate applicable in a given year. The AETR of financial institutions decreased by 0.2% between 2009 and 2010, despite the fact, that the nominal tax rate decreased by 1%. The average accounting profit of financial institutions decreased by 5.5%, but the average income tax expense increased by 13.8%. On the other hand the average accounting profit of production and energy companies decreased by 8.5% and average income tax expense decreased by 11% again between 2009 and 2010. The average effective tax rate of these companies is significantly lower than the nominal tax rate especially in 2010.

List of 35 issuers mandatorily using IFRS was confronted with a list of 106 major payers of income tax published yearly by the Ministry of Finance of the Czech Republic. The research shows that there are listed 12 issuers of the 35 in the list of 106 major payers of income tax in 2010. And after seeing

3   SKÁLOVÁ, J., 2012: Deferred Tax Arising from Mergers and Divisions. *Czech financial and accounting journal*, 2012, 3: 28–41. ISSN 1802-2200.
4   MEJZLÍK, L., 2006: Possibility and risks in conversion of Czech financial statements to IFRS. *Czech financial and accounting journal*, 2006, 1: 84–97. ISSN 1802-2200.
5   H., O, SPENGEL, CH., STETTER, T., WENDT, C., 2005: EU Company Taxation in Case of a Common Tax Base: A Computer-based Calculation and Comparison Using the Enhanced Model of the European Tax Analyzer. *Zentrum für Europäische Wirtschaftsforschung (ZEW), Manheim*, Discussion Paper No. 5–37, 2005, available at ftp://ftp.zew.de/pub/zew-docs/dp/dp0537.pdf.

the amount of current tax paid in 2010 it is highly probable that three issuers of securities refused publication. The other 20 companies mandatorily using IFRS did not reach such an amount of current tax in the year 2010 to be included in the list. Tax collection of 15 in terms of income tax the most significant entities mandatorily using IFRS is in both years about one fifth of state budget revenues in corporate income tax. Average effective current tax rate of these 12 issuers of securities is almost identical to the nominal tax rate in both years. The correlation coefficient shows a relatively close linear dependence between two variables – profit growth means increase of current income tax.

The final analysis of this study shows the relationship between profit under IFRS and the tax base – accounting profit under IFRS is on average higher than the tax base of 1.6 billion CZK. If these companies had paid tax based on accounting profit under IFRS in 2009 and 2010, tax collection would have increased by about 326 million CZK in 2009 and 305 million in 2010. Conclusions of this study do not confirm fears of Czech Tax Administration, which is afraid of reducing tax collection in the event of the IFRS adoption as the basis for taxation.

SUMMARY

This work is focused on the analysis of the range of reported data in the area of income taxes by issuers of securities, who are required to use IFRS in bookkeeping and financial reporting. There were used separate financial statements of these companies for two periods – 2009 and 2010. The most important goal of this work is to characterize the relationship between accounting profit or loss under IFRS and the tax base of income and to find out the impact of taxation under profit in accordance with IFRS to total tax collection. List of 35 issuers mandatorily using IFRS was confronted with a list of 106 major payers of income tax published yearly by the Ministry of Finance of the Czech Republic. The research shows that there are registered 12 issuers of the 35 in that list of 106 major tax payers and their tax collection creates about one fifth of state budget revenues in corporate income tax in both years. Finally, the main part of this work shows how tax collection would change assuming that the 12 major companies obligatorily using IFRS could use as the way-out for taxation accounting profit under IFRS instead of profit according to Czech accounting regulation.

Acknowledgement

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