PREDICTIVE VALUE OF THE DEFERRED TAXES GENERATED BY THE SUBVENTIONS FOR INVESTMENTS – ESSENTIAL ELEMENT FOR PRESENTING THE INFORMATION IN THE FINANCIAL STATEMENTS

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Abstract

Most information underlying the decision to invest at the level of a company, are provided by the accountancy, this becoming today a common language with respect to the businesses on the international markets, and the accountancy normalization was extrapolated from the national level to the international level, due to the needs concerning the comparability and the transparency of the entities financial statements, without considering the geopolitical area where they were built. These issues justify the approaches for improving both accounting treatments and the procedures for elaborating and presenting data within the financial statements such that the users to benefit from credible and transparent information. One of the major issues arising with respect to the performance of an entity aims to prepare a unique situation on the company performance, namely:"the statement of the comprehensive income", having as primordial objective the facility of forecasting the performance, within which the deferred taxes generated by the subventions for investments are an essential element with an important predictive value.

In this context, starting from the main differences between the provisions of the national, Anglo-Saxon accounting regulations and those of the international reference system with respect to the predictive value of the deferred taxes and continuing with the occurrence and evolution of the deferred taxes generated by the subventions for investments, the study proposes to highlight the predictive value of the deferred taxes generated by the subventions for investments, provided o the users by the information of annual financial statements.

Key words: *predictive value, corporate tax, deferred tax, subventions for investments, IAS, temporary differences.*

JEL Classification: *M40, M41, M48, M49*

1. Introduction

Most information included within the financial statements is used by their users in order to forecast both the financial statement as well as the further performance of a company. Analyzing the evolution of the notion "*comprehensive income*" from the origins to the present, we may state that this indicator currently holds the status of *main indicator for measuring the financial performance* of a company [3] and designs new sizes of its performances analysis. The motivation from which we started in the approach concerning the predictive value of the deferred taxes generated by the subventions for investments, for the users of the accounting information, is dissipated in at least the following directions: the major importance of the accounting information about this economic category in the entity activity, the economic background dominated both by accounting and tax regulations in a constant change and last but not least the development of the multinational companies. In this context, the users of information from the annual financial statements are mainly interested in the performance of the company established based on the ***comprehensive income***, within which ***the presentation of the deferred taxes, including of those generated by the subventions for investments, leads to the correct information of the recipients.*** From this perspective, the utility of separating the tax in a part related to the current exercise and another part related to the further exercises results from the fact that the company is warned about payments (debts) or proceeds (receivables) of corporate tax, thus providing the possibility of "looking into the future". [1]

2. Predictive value of the financial information – national, international and Anglo-Saxon interferences

Favoring the formulation of forecasts by the users of the accounting information is one of the purposes charactering the accounting treatments specific both to the European and Anglo-Saxon countries, even if there are different cultural and social features of those countries. This process occupies a remarkable place within International Financial Reporting Standards [IFRS]. Thus, according to the ***International Accounting Standard [IAS] 1 "Presenting the financial statements"***, the information needed for achieving the objective related to the financial statements, together with other information presented in the explanatory notes to the financial statements, helps the users to estimate the further flows of entity treasury and especially their location in time and their level of certitude. [9]

The International Accounting standards Board [IASB] – the international body for accounting normalization – in the project of improving some standards, including IAS 1, started in June 2001, replaced the term of "performance" with hat of "comprehensive income" (Reporting Comprehensive Income) according to the terminology of the accounting rule ***FAS 130 issued in 1997*** by the Financial Accounting Standards Board of USA [FASB], according to which other elements of the comprehensive income (deferred taxes being one of its components) are presented either in a single situation reflecting the comprehensive performance of an entity, or in a second situation of incomes or in a situation of changes in the ownership equity, together with the transactions with the owners. [7] – [9]

In this context, if in the previous version of IAS 1 imposed the presentation of a statement on revenues and expenses including elements from these categories which were recognized in the account of profit or loss, and the elements of revenues and expenses which were not recognized in profit or loss should be presented in the statement on changes of the ownership equities resulting from the transactions with the owners, ***currently IAS 1 includes provisions favoring the formulation of forecasts by the users of the accounting information*** by the fact that: [9]

- the total global comprehensive income presented in the financial statements;
- the revenues and expenses shall be presented in a single statement, namely: "The statement of the comprehensive income" or in two statements: "The individual statement of revenues and expenses" and the "Statement of the comprehensive income", but separately from the changes in the ownership equities resulted from the transactions with other parties than the owners, such that in the set of financial statements we may find the presentation of the comprehensive income, as appropriate, in a single statement or in two statements;
- the components of other elements of the income shall be presented in its statement, context in which other IFRSs provide components of other elements of the comprehensive income which are not recognized in the profit or loss;
- changes of the ownership equities resulted from transactions with the owners shall be presented separately from the changes in the ownership equities resulting from the transactions with other parties than the owners, the followed purpose being related to the utility of the obtained information (by aggregating the elements with joint features and separating the elements having different features).

Similarly to the model of the European approach, at the national level [5] he implementation of the Directive no. 2013/34/EU was achieved by the Order of the Ministry of Public Finances for approving the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements ***[OMFP] no. 1802 of 29 December 2014,*** and according to the provisions of the art. 32 "(1) the financial information have the capacity of helping the users in making some decisions if they have a predicative value, confirmation value or both; (2) the financial information have a predictive value if they may be used as entries in the processes applied by users for forecasting the further results. For having a predictive value the financial information shall not represent a forecast or prognosis. The financial information with predicative value are used by users for conducting the own predictions; (3) the predictive value and the value of confirming the financial information are closely related. The information having a predictive value often has also a confirmation value. For example, the information about the revenues for the current year, which may be used as basis for forecasting the revenues for the further years, may be compared with the forecasts conducted the previous years, for the current exercise. The results of these comparisons may help the users to correct and to improve the processes used for conducting these forecasts." [8]

The British accountancy also gives a remarkable place to ***the provisions favoring the forecasts by the users of the accounting information.*** Thus, the ***Accounting Standards Board [ASB]*** was the first body of accounting normalization, which, in the approach of the ***Financial Reporting Standard [FRS] 3*** concerning the publication of the financial information, ***adopted in 1992 the notion of "comprehensive income"*** within the statement of total recognized gains and losses ***reflecting the total of profits and losses, rather found than achieved.*** [6]

Starting from the issues previously reported, we consider as opportune and necessary to focus the study on the presentation of a practical example by means of which we shall highlight the predictive value of the financial information about the deferred taxes generated by the subventions for investments. As the current financial position and the last comprehensive income represent the starting points for conducting the forecast concerning the financial position and the performance of an entity, the predictive value of the information is conferred on them. [2]

Thus, an objective within the study on the predictive value of the deferred taxes generated by the subventions for investments consisted of studying the possibility of accounting these deferred taxes as a result of the existence of the subventions for investments, and by a practical example we shall also highlight the evolution of the deferred taxes generated by the subventions for investments. Thus, by recording the subventions for investments, temporary differences may occur, situation leading to receivables/debts concerning the deferred tax, recognizing the value of these taxes favoring the formulation of forecasts by the users of the accounting information about payments (debts) or proceeds (receivables) of the corporate tax.

3. Study on the deferred taxes generated by the subventions for investments

As the current financial position and the past overall result represent the starting point for conducting the forecasts concerning the financial position and the performance of an entity, the predictive value of the information is conferred even by them. [2]

In this context, an objective within the study on the predictive value of the deferred taxes generated by the subventions for investments consisted of studying the possibility of accounting these deferred taxes following the existence of the subventions for investments, and by means of a practical example, we shall highlight the occurrence and evolution of the deferred taxes generated by the subventions for investments. Thus, by registering the subventions for investments, temporary differences may appear, situation leading to receivables/debts concerning the deferred tax, the recognition of these taxes value leading to favoring the forecasts formulation by the users of the accounting information about payments (debts) or revenues (receivables) of the corporate tax. [9]

Example: In order to conduct an investment project financed by non-reimbursable funds, we consider that a company signed an financing agreement of a fix asset (cutting machine) in the amount of lei 200.000, at the end of current year (N), which is already procured, and starting on the year (N+1) is amortized based on the linear amortization method during the useful life period, estimated to 4 years. From the fiscal point of view, the useful life duration is still of 4 years. The annual accounting amortization of the procured fix asset is of lei 200.000/4 years = lei 50.000, and the annual tax amortization is still lei 200.000 / 4 years = lei 50.000.

- **For the year N:**

For meeting the proposed goal, we shall firstly proceed to establish the *receivable concerning the deferred tax related to the year N*, as follows:

- Tax basis = Accounting value + Further deductible amounts – Further taxable amounts = lei 200.000 + lei 0 – lei 200.000 = lei 0;
- Temporary deducible value = Accounting basis – Tax basis = lei 200.000 – lei 0 = lei 200.000;
- Total receivable with the deferred corporate tax = Temporary deductible difference x 16% = lei 200.000 x 16% = lei 32.000;
- The initial receivable with the deferred corporate tax = lei 0;
- The revenues with the deferred corporate tax = Total receivable with the deferred corporate tax – Initial receivable with the deferred corporate tax = lei 32.000.

Consequently, when the financing agreement enters into force, in the statement of the year N the amount approved for investment from non-reimbursable funds shall be recognized.

4451 "Governmental subventions"	=	**4751** "Governmental subventions for investments"	200.000

Moreover, as a result of the calculations performed by the company, in the statement of the year N shall also include the receivables on the deferred corporate tax in the amount of lei 32.000 which shall affect the profit and loss account:

4412 "Deferred corporate tax"	=	**792** "Revenues of the deferred corporate tax"	32.000

- **For the year N+1:**

As at the end of the financial year N+1 the entity may also recover from the accounting value of the subvention for investments an amount of lei 150.000 (lei 200.000 total accounting amount – lei 50.000 taxable amount represented by the share of the subventions for investments passed to the revenues, corresponding to amortizations calculated for the year N+1) and given that the its related tax bases is of lei 0, there shall appear some temporary deductible difference from the

amount of lei 150.000, and in the statement of the year N+1 shall be recognized as total receivables on the deferred corporate tax in amount of lei 24.000, calculated as follows:

- Accounting basis = Accounting value = lei 150.000;
- Tax basis = Accounting value + Further deductible amounts – Taxable further amounts = lei 150.000 + lei 0 – lei 150.000 = lei 0;
- Temporary deductible difference = Accounting basis – Tax basis = lei 150.000 – lei 0 = lei 150.000;
- Total receivable with the deferred corporate tax = Temporary deductible difference x 16% = lei 150.000 x 16% = lei 24.000;
- Initial receivable with the deferred corporate tax = lei 32.000;
- Expenses with the deferred corporate tax = Initial receivable with the deferred corporate tax – Total receivable with the deferred corporate tax = lei 32.000 – lei 24.000 = lei 8.000.

In this situation, the company shall proceed to the registration of the accounting amortizations calculated in the amount of lei 50.000, of the revenues in the amount of lei 50.000 represented by the taxable value related to the share of the subventions for investments recorded to the revenues, according to the amortization calculated in the year N+1, as well as of a debt concerning the deferred tax in the amount of lei 8.000, which shall affect the loss and profit account, situations implying the following records:

- Reflection of the tax related to the financial year N+1:

6811 "Exploitation expenses concerning the immobilizations amortization"	**=**	**2813** "Amortization of the installations and means of transportation"	50.000

- Passing over the revenues the subvention received according to the annual amortization:

4751 "Governmental subventions for investments"	**=**	**7584** "Revenues from subventions for investments"	50.000

- Highlighting the debt concerning the deferred corporate tax:

692 "Expenses with the deferred corporate tax"	**=**	**4412** "Deferred corporate tax"	8.000

- **For the year N+2:**

As at the end of the financial year N+2 the company has to recover from the accounting value of the subvention for investments an amount of lei 100.000 (lei 200.000total accounting value – lei 100.000 the taxable amount represented by the share of subventions registered to the revenues according to the amortization calculated during the years N+1 and N+2) and its related tax basis is of lei 0 – lei 100.000 = lei 0) there shall appear some temporary deductible differences in the amount of lei 100.000 (lei 100.000 accounting basis – lei 0 tax basis), and in the statement of the year N+1 there shall be recognized total receivables concerning the deferred corporate tax in the amount of lei 16.000;

- Accounting basis = Accounting value = lei 100.000;
- Tax basis = Accounting value + Further deductible amounts – Taxable further amounts = lei 100.000 + lei 0 – lei 100.000 = lei 0;
- Temporary deductible difference = Accounting basis – Tax basis = lei 100.000 – lei 0 = lei 100.000;
- Total receivable with the deferred corporate tax = Temporary deductible difference x 16% = lei 100.000 x 16% = lei 16.000;
- Initial receivable with the deferred corporate tax = lei 24.000;
- Expenses with the deferred corporate tax = Initial receivable with the deferred corporate tax – Total receivable with the deferred corporate tax = lei 24.000 – lei 16.000 = lei 8.000.

As for the year N-1, in this situation too, the entity shall proceed to the registration of the accounting amortization calculated in the amount of lei 50.000, of the revenues in the amount of 50.000 represented by the taxable value related to the share of subventions for investments registered to the revenues, according to the amortization calculated in the year N+2, as well as of a debt concerning the deferred tax in the amount of lei 8.000, which shall affect the loss and profit amount.

- **For the year N+3:**

As at the end of the financial year N+3 the company still has to recover from the accounting value of the subvention for investments an amount of lei 50.000 (lei 200.00 total accounting value – lei 150.000 the taxable amount represented by the share of subventions for investments registered to the revenues, according to the amortization calculated in the years N+1, N+2 and N+3) and its related tax basis is of lei 0 (accounting value + further deductible amounts – further taxable amounts = lei 50.000 + lei 0 – lei 50.000 = lei 0) there shall appear some temporary deductible differences in the amount of lei 50.000 (lei 50.000 accounting basis – lei 0 tax basis), and in the statement of the year N+3 there shall be recognized total receivables concerning the deferred corporate tax in the amount of lei 8.000 (lei 50.000 x 16%), calculated as follows:

- Accounting basis = Accounting value = lei 50.000;
- Tax basis = Accounting value + Further deductible amounts – Taxable further amounts = lei 50.000 + lei 0 – lei 50.000 = lei 0;
- Temporary deductible difference = Accounting basis – Tax basis = lei 50.000 – lei 0 = lei 50.000;
- Total receivable with the deferred corporate tax = Temporary deductible difference x 16% = lei 50.000 x 16% = lei 8.000;
- Initial receivable with the deferred corporate tax = lei 16.000;
- Expenses with the deferred corporate tax = Initial receivable with the deferred corporate tax – Total receivable with the deferred corporate tax = lei 16.000 – lei 8.000 = lei 8.000.

In this situation, the company shall proceed to the registration of the accounting amortizations calculated in the amount of lei 50.000, of the revenues in the amount of lei 50.000 represented by the taxable value related to the share of the subventions for investments recorded to the revenues, according to the amortization calculated in the year N+3, as well as of a debt concerning the deferred tax in the amount of lei 8.000 (lei 16.000 – lei 8.000), which shall affect the loss and profit account

- **For the year N+4:**

As at the end of the financial year N+4 the company has not to recover from the accounting value of the subvention for investments (the accounting amortization of the fix asset being recovered in the years N, N+1, N+2, N+3 and N+4), and given that the revenues in amount of lei 200.000 represented by the taxable value of the subventions for investments was registered to the revenues, according to the amortization calculated for the years N, N+1, N+2, N+3 and N+4, there are no temporary differences, and in the statement of the year N+4 there shall not be recognized debts/receivables concerning the deferred corporate tax, as follows:

- Accounting basis = Accounting value = lei 0;
- Tax basis = Accounting value + Further deductible amounts – Taxable further amounts = lei 0 + lei 0 – lei 0 = lei 0;
- Temporary deductible difference = Accounting basis – Tax basis = lei 0
- Total receivable with the deferred corporate tax = Temporary deductible difference x 16% = lei 0 x 16% = lei 0;
- Initial receivable with the deferred corporate tax = lei 8.000;
- Expenses with the deferred corporate tax = Initial receivable with the deferred corporate tax – Total receivable with the deferred corporate tax = lei 0.000 – lei 0 = lei 8.000.

In this situation, the company shall proceed to the registration of the accounting amortizations calculated in the amount of lei 50.000, represented by the taxable value related to the share of the subventions for investments recorded to the revenues, according to the amortization calculated in the year N+4, as well as of a debt concerning the deferred tax in the amount of lei 8.000, which shall affect the loss and profit account.

For the period subject to the study, the influence in the year result of the receivables / debts concerning the deferred tax is indicated in the table no. 1:

Table no. 1 Influence of the deferred tax in the net result of the year - lei -

Year	Deferred tax Receivable / (Debt)	Influence of the deferred tax in the net result of the year (+ profit / – loss)
N	32.000	+ 32.000
N+1	(8.000)	- 8.000
N+2	(8.000)	- 8.000
N+3	(8.000)	- 8.000
N+4	(8.000)	- 8.000
Total	0	0

Thus, the recognition of these taxes value leads to favoring the forecasts formulation by the users of the accounting information about revenues (receivables) or payments (debts) of the corporate tax, their net statement being given in the table no. 2:

Table no. 2 Statement of receivables/debts from the deferred tax - lei -

Year	Deferred tax related to the current year: Receivable / (Debt)	Balance of the deferred tax related to the current year: Receivable / (Debt)
N	32.000	32.000
N+1	(8.000)	24.000
N+2	(8.000)	16.000
N+3	(8.000)	8.000
N+4	(8.000)	-

4. Conclusions

If we consider that the national accounting regulations may provide the comparability of the information provided by the financial reports of the companies if the users of that information are only internal, when the interest sphere includes the external users, the potential investor shall generally take into account the impact of the accounting differences related to the deferred taxes, and especially, in the proposed study, the taxes generated by the subventions for investments.

In this context, the entities may address, due to the international harmonization, to a diversity of users, and for grounding the economic and financial decisions the interested users shall deeply know the entity financial statement, including the payments (debts) or proceeds (receivables) of corporate tax, thus providing the possibility of "looking into the future". Thus, by providing some exact information aiming to make correct decisions, to achieve the objective of *predictive value* of the accounting information included in the financial statements related to the *deferred taxes* generated by the subventions for investments.

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