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The Effect of Deferred Tax Expenses on Firm Peformance : Case Study of Manufacturing Firm

تأثير مصاريف الضرائب المؤجلة على أداء المؤسسة: دراسة لحالة شركة تصنيع

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Abstract

The influence of the value of deferred tax expense on firm performance is recognized giving the opportunity for managers to practice earning. The aim of this paper is to determine the negative impact of deferred ta on firm performance using a case study with a leader manufacturer in Algeria "General Emballage". The income statement sheets over three years show that corporate income tax plays negatively the economic profitability of the firm.

Keywords : deferred tax, firm performance, economic profitability, Corporate income tax.

ملخص

تأثير قيمة المصاريف الضريبية المؤجلة على أداء الشركة يتيح الفرصة للمديرين لممارسة الربح. الهدف من هذه المقالة هو تحديد الأثر السلبي للضرائب المؤجلة على أداء الشركة باستخدام دراسة حالة مع الشركة الرائدة في الجزائر General Emballage.

تبين كشوف بيان الدخل على مدى ثلاث سنوات أن ضريبة دخل الشركات تلعب سلبيا على الربحية الاقتصادية للشركة.

الكلمات المفتاحية: الضريبة المؤجلة، اداء الشركة، الربحية الاقتصادية، ضريبة دخل الشركات.

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1. INTRODUCTION

Deffered tax assets and liabilities arise when the tax treatment of an item is temporary different from its financial accounting treatment (DePamphilis, 2018, p235). It is common knowledge that accounting for deferred taxes is relatively effort- and time-consuming and, hence, relatively costly (Moula, 2016). The *Commission of the European Communities*, for example, concludes in its *Communication from the Commission on a simplified business environment for companies in the areas of company law, accounting and auditing* in 2007 (COM, 2007, p18) that "[…] *accounting for deferred taxes* […] *is very burdensome for companies in general*". The high accounting costs arise due to the fact that accounting for deferred taxes is rather complex and requires a high level of coordination. Since the primary purpose of deferred tax accounting is to inform about future tax benefits, an analysis of the relation of currently disclosed deferred taxes to financial performance as the value of the firm is crucial for assessing whether deferred tax accounting actually meets its intended purpose.

For financial statement tax accounting, every company in Algeria in making financial statements is required to follow the rules of the International Financial Accounting Standards (IFRS) in order to produce credible and informative financial reports to investors and creditors. In addition, the company is also required to prepare an income statement based on tax rules. A number of differences between IFRS and tax rules produce two types of income, namely pre-tax profit (calculation of accounting profit according to IFRS) and taxable income (calculation of fiscal profit, according to fiscal rules). The difference between accounting earnings and taxable income can cause difficulties in determining the amount of profit, so that it can affect the financial statements and cause an imbalance in the final balance. Therefore, it is necessary to adjust the balance between accounting profit and fiscal profit fiscal reconciliation. Temporary differences between accounting earnings and profits give rise to deferred tax expense. Financial performance is the most controversial area in financial accounting based on the background raised above, the research title raised in this study is " The

Effect of Deferred Tax Expenses and on Firm Peformance: Case Study of Manufacturing Firm ".

The formulation of the problem can be presented as follows:

Does the deffered tax expenses affect firm perdormance?

1.1. Deffered Tax Expenses

Deferred tax expense expresses the dynamic view of taxation which is occuring when the time difference causes negative correction resulting in tax expense according to commercial accounting greater than the tax expense according to the tax regulations (Waluyo, 2012). The dynamic view of taxation means the differences in recognition of the amount of time in commercial accounting compared with fiscal (Kusumaningra, 2017). For example in the case of accelerated tax depreciation, where taxable income is deferred into the future (as compared to book income) by tax depreciation rates that exceed book depreciation rates. Conversely, deferred tax assets arise generally as a result of earlier expensing for financial accounting than for tax purposes .

Deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities, respectively, on the balance sheet (IAS 1.56). Moreover, deferred tax assets and deferred tax liabilities are only offset if “the entity has a legally enforceable right to set off current tax assets against current tax liabilities” and to the extent that the deferred taxes relate to the same taxation authority and the same taxable entity (or different taxable entities that intend a simultaneous clearing of the relevant positions) (IAS 12.74). Discounting deferred taxes is prohibited (IAS 12.53).

1.2. deferred tax and firm performance

Rohaya et al. (2010) revealed an association between income tax and profitability of corporate institutions.A sample of 7,306 companies was taken from the hotels and restaurants sector, includes 6,594 in business services and 1,484 in transport manufacturing sectors, for the accounting periods 1995 to 2000. The conclusion was that corporate income tax

adversely affects the profitability of corporate institutions. Other studies (De Mooij & Ederveen, 2001 ; Gadzo, Gatsi, & Kportorgbi, 2013) found a negative relationship between corporate taxation and financial performance therefore it is valid to develop a hypothesis that;

There is a negative association between corporate tax and financial performance of firms.

Therefore, the tax which is a profit deduction available to be shared with investors or invested by the company, will be sought by management to be minimized in order to optimize the amount of the company's net profit (Purnamasari, 2019). In this case, there is an indication of performance in the tax planning process, as well as the deferred tax burden is one approach that can be used to detect the existence of earnings management practices carried out by company management (Ali & Kamardin, 2018). Suandy (2011) explains that if the purpose of tax planning is to engineer so that the tax burden can be reduced as low as possible by utilizing existing but different regulations for the purpose of making laws, then tax planning seeks to maximize income after tax (after tax return) because tax is a profit deduction available, both to be shared with shareholders and to be reinvested.

2. RESAERCH METHODOLOGY

The research method used in this study is quantitative research methods and other research methods namely associative descriptive research. The object in this study is to analyze the effect of deffered tax on firm performance using a case study of Manufacturing Firm that is ranked as leader in packaging sector “General Emballage”. Its three units are located respectively in Bejaia (Akbou, where the research is conducted), Oran and Setif, which are invloved in manufacturing and processing cardboard. Since the accounting result is the first step in calculating the tax result, the table of income statements is shown in the following table. We note that all monetary numbers in the whole paper are considered in DZD.

Table 1. Income statements for the period surveyed

Désignation	2016	2017	2018
Ventes et produits annexes	3 195 696 131,28	3 728 312 153,16	5 326 160 218,80
Variation stocks produits finis et en cours	4 331 403,00	5 053 303,50	7 219 005,00
Production immobilisée	15 742 540,44	18 366 297,18	26 237 567,40
Subventions d'exploitation	7 781 280,12	9 078 160,14	12 968 800,20
I - PRODUCTION DE L'EXERCICE	**3 223 551 354,84**	**3 760 809 913,98**	**5 372 585 591,40**
Achats consommés	2 041 693 954,56	2 381 976 280,32	3 402 823 257,60
Services extérieurs et autres consommations	212 761 174,68	248 221 370,46	354 601 957,80
II -CONSOMMATION DE L'EXERCICE	**2 254 455 129,24**	**2 630 197 650,78**	**3 757 425 215,40**
III - VALEUR AJOUTEE D'EXPLOITATION (I - II)	**969 096 225,60**	**1 130 612 263,20**	**1 615 160 376,00**
Charges de personnel	277 698 654,72	323 981 763,84	462 831 091,20
Impôts, taxes et versements assimilés	42 192 946,08	49 225 103,76	70 321 576,80
IV - EXCEDENT BRUT D'EXPLOITATION	**649 204 624,80**	**757405395.60**	**1 082 007 708,00**
Autres produits opérationnels	1 670 374,80	1 948 770,60	2 783 958,00
Autres charges opérationnelles	8 761 303,44	10 221 520,68	14 602 172,40
Dotations aux amortissements, provisions et pertes de valeur	194 978 829,60	227 475 301,20	324 964 716,00

Reprise sur pertes de valeur et provisions	25 934 614,56	30 257 050,32	43 224 357,60
V - RESULTAT OPERATIONNEL	**473 069 481,12**	**551 914 394,64**	**788 449 135,20**
Produits financiers	8 141 635,08	9 498 574,26	13 569 391,80
Charges financières	69 703 966,44	81 321 294,18	116 173 277,40
VI - RESULTAT FINANCIER	**- 61562 331,36**	**71822719.92**	**- 102603 885,60**
VII - RESULTAT ORDINAIRE AVANT IMPOTS (V + VI) (ROAIi)	**411 507 149,76**	**480 091 674,72**	**685 845 249,60**
Impôts exigibles sur résultats ordinaires (IEi)	76 128 822,71	87 856 776,47	127 910 139,05
Impôts différés (Variations) sur résultats ordinaires (IDi)	-	-	-
VIII – RESULTAT NET DES ACTIVITES ORDINAIRES	**335 378 327,05**	**392 234 898,25**	**557 935 110,55**

The table of reinstatements and deductions is illustrated as follows:

Table 2. Reinstatements and deductions for the period surveyed

	Designations	Amount
Reinstatements	Property expenses not directly allocated to operations	130 000.00
	Share of non-deductible advertising gifts	232 140 .00
	Non deductible reception fee	14 200.00
	Non deductible contributions and donations	26 430.00
	Non deductible depreciation	1 321 000.00
	Corporate Income Tax	127 910 139 .05
	Fines and penalities	17 894.00
	Other reinstatements	326 870.00
	TOTAL	**129 978 673 .05**
Deductions	Capital gain on disposal of fixed assets	3 248 255.00
	Rents excluding financial expenses	998 700.00
	Other deductions	455 570.44
	Turnover on export prorated	5 776 137.50

Prorata exemption ANDI	4 223 862.50
TOTAL	**14 702 525.44**

From the tables above, the tax result=557935110.60+129978673.10-14702525.44=**673 211 258.20 DA**. Tax result 673211258.20 > Accounting result 557935110.60 and Reinstatements > Deductions. Therefore, the corporate income tax (CIT) with 19% of the acconting result (because it is an industrial firm) is equal to **127910139.05 DA**.

The amount of down payments that General Emballage would have had to pay within the deadlines fixed by the law (cf. Art. 365-6 of CIDTA) is of a total of **79071098.82 DA**. The calculation of the settlement balance of CIT (Sb CIT) is based on the following equation:

CIT to pay= CITIBS - the sum of the down payments

Sb CIT = 127 910 139.1 - 79 071 098.82 = 48 839 040.23 DA.

The tax package of General Emballage for the accounting years 2016, 2017 and 2018 is summarized in the following table:

Table 3. Tax Package of General Emballage (2016, 2017, 2018)

		2016	2017	2018
I. Net profit (income statement)	**Profit**	**3335378327.05**	**392234 898.25**	**557935110.55**
	Loss	**00**	**00**	**00**
II. Reinstatements				
Property expenses not directly allocated to operations		**130 000.00**	**130 000.00**	**130 000.00**
Share of non-deductible dvertising gifts		**128 970.00**	**129 870.00**	**232 140.00**
Non deductible reception fee		**12 500.00**	**13 560.00**	**14 200.00**
Non deductible contributions		**26 500.00**	**25 600.00**	**26 430.00**

and donations				
Non-deductible provisions		**00**	**00**	**00**
Non deductible depreciation		**1 230 000.00**	**1 543 000.00**	**1 321 000.00**
Non deductible research costs share		**00**	**00**	**00**
Rents excluding financial products (lessor) (Art 27-CFL 2010)		**00**	**00**	**00**
Corporate income tax	**Payable tax on result**	**76 128 822.71**	**87 856 776.47**	**127 910 193.05**
	deferred tax (variation)	**00**	**00**	**00**
Fines and penalities		**12 365.00**	**16 820.00**	**17894.00**
Other reinstatements		**352 300.00**		**326 870.00**
Total		**78021457.71**	**90141426.47**	**129978673.05**
III. Deductions				
Capital gain on disposal of fixed assets (cf. Art. 173 of CIDTA)		**5 196 835.52**	**7 544 290,00**	**3 248 255.00**
Income from distributed profits subject to CIT or expressly exempted (cf. Art. 147 bis of CIDTA)		**00**	**00**	**00**
Rent excluding financial charges (Lessee) (cf. Art 27-CFL 2010)		**1 143 200.00**	**1 043 250,00**	**998 700.00**
Other deductions (leave payments and provisioned premiums)		**381 735.00**	**1 384 698,02**	**455 570.44**
Turnover on export prorated 4,06 %		**3 310 455.00**	**5 776 137,50**	**5 776 137.50**
Prorata exemption ANDI		**2 689 545.00**	**4 223 862,50**	**4 223 862.50**

Total		**12 721 770.52**	**19 972 238,02**	**14 702 525.44**
IV. Deducted prior deficits (cf. Art. 147 of CIDTA)				
Déficit de l'année 20		**00**	**00**	**00**
Total des déficits à déduire		**00**	**00**	**00**
Tax Result (I+II-III-IV)	**Profit**	**400678014.24**	**462404086.70**	**673211258.16**
	Loss	**00**	**00**	**00**

3. RESULTS AND DISCUSSION

The relationship between tax result and economic profitability will give an insight about the impact of CIT on firm perfomance. Hence, the first step formulates an analysis of tax-accounting discrepancies over the three years concerned in this study (from 2016 to 2019). To do this, the following table determine, for each year, the differences between the taxable result and the accounting result of the ordinary activities of General Emballage.

Table 4. Disparity between accounting and tax result aver three years

	2016	2017	2018
Tax Result (TRi)	400 678 014.24	462 404 086,70	673211258.16
Accounting Result (ARi)	335 378 327.05	392 234 898,25	557935110.55
Disparity (D)	65 299 678.2	70 169 187.8	115 276 148

We note that the disparity between the tax result and the accounting result reaches its maximum in 2018 with a value of 115276148 DA. This difference is essentially justified by the large amount of non-deductible depreciation. However, in 2016, the gap is smaller. To conclude on the overall situation of the deviations for the whole period considered, we proceed to calculate the average of the deviations of the period (Moula, 2016):

$$\bar{E} = \frac{\sum_{i=1}^{N} (RF_i - RC_i)}{N}, \text{ pour } N = 3, \bar{E} = 83\,581\,671\,\text{DA}$$

The difference between the tax result and the accounting result of the company General Emballage is important, so the need for the application of the tax deferral method (deferred tax for the treatment of temporary differences (deductible or taxable)). This difference is illustrated in the following table for the 2018.

Table 5. Determivation of deferred tax assest and liability

Time differences	Base	Tax	deferred Tax Asset / Liability
Non deductible depreciation	1230000	**233700**	**Asset**
Other deductions (leave payments and provisioned premiums)	381735	**72 529.65**	**Liability**
Total	848265	**161170.35**	**Asset**

The deferred tax that we have tried to determine from the apparent time differences in the table of determination of the fiscal result (2018) is equal to 161170.35 DA.

The second step of the analysis concerns the analysis of differential tax in the financial statements of the company. Therefore, the analysis of the financial statements of the company General Packaging makes it possible to become aware of the materiality of the tax in the broad sense including the current tax and the deferred tax in the annual accounts. Tax can thus be perceived as a real lever on net income, one of the main indicators of capital companies. By way of illustration, here are some examples showing the significant nature of the tax in the income statement of General Emballage. For the entire period under review, income tax (tax payable + tax differs) represents 23% of net income.

It is common knowledge that tax result is the basis on which the

corporation tax is calculated, since the multiplication of the tax result by the tax rate. General Emballage has achieved a similar positive tax result for CIT because the accounting result is increasing in parallel. The more wealth the company generates, the more it pays taxes. Growth observed for both the CIT and the tax result of 68% respectively since 2016.

Finally, the last step provides the link "effect" between CIT and firm performance through profitability analysis.

The return generated by the industrial activity is presented in the following table. It is indicated a rate of 27% in 2016, 29% in 2017 and 35% in 2018 according to capital committed for the exploitation.

Table 6. Profitability measurement

Ratio	formula	2016	2017	2018
economic rate of return	operating result/economic asse	30%	34%	44%

Economic profitability is an indicator for measuring firm performance in creating value. For this, it compares the after-tax income from the operation of the company (operating profit) to the means implemented to generate its income (equity + debt). Economic profitability does not take into account the financial structure of the company, that is to say, or where its funding comes from. The better the economic return, the better the company is.

Economic profitability can be equal to financial profitability if the company does not use indebtedness. The formula for calculating financial profitability is the same as that for economic profitability, except that the economic asset is based solely on equity.

Comparing economic profitability to financial profitability. So we can know the positive or negative role of debt on the performance of the company.

For a manager point of view, it is essential to use these calculation to consider deeply social profitability ratios through productivity. The following statements are as follows (see Table 7):

i. The share of consumption in the value of production General Emballage actually recorded a stable rate of 70% during the three financial years (see equation (1)): a situation which confirms the commercial profitability.

ii. In order to highlight the real share of the company's consumptions on its turnover, equation (2) presents the ratio of reference. The results show a stable rate of 71% of consumption; which confirms our conclusions that the company commits its financial resources to the operation; in its financial charges and its investment strategies.

iii. The value added generated by the turnover, indicated by equation (3), is raised to 30% during the three years, which means that the production cycle creates wealth. This value could sufficiently cover its expenses related to its economic model (e.g., wages, taxes, investments).

iv. Personnel costs reflect the share of the remuneration allocated to each employee involved in the formation of the VA (refer to Equation (4)). It is 29% during the three fiscal years; which means that the company involves its employees in the allocation of its wealth.

Enter your results in this section, summarize the collected data and the analysis performed on those data relevant to the discourse that is to follow. After presenting the results, you are in a position to evaluate and interpret their implications, especially with respect to your original hypotheses.

Table 7. Social performance at General Emballage

Equation N°	Formula	Amount (%)

(1)	$\frac{Consumption}{Production}\times 100$	70
(2)	$\frac{Consumption}{Turnover\ excluding\ tax}\times 100$	71
(3)	$\frac{Added\ value}{Turnover\ excluding\ tax}\times 100$	30
(4)	$\frac{Staff\ costs}{Added\ value}\times 100$	29

After analyzing the activity of General Emballage, namely, the self-financing capacity, the analysis of the ratios of economic (and financial) profitability, and social profitability ratios through productivity during the three years 2016, 2017 and 2018, we note that the operating business is profitable. The company is able to ensure the remuneration of the contributors of capital, labor and investment.

to provide conclusive answers to our hypothesis previously formulated, it is necessary to compare the evolution of the CIT and the evolution of the profitability of the company. The company recorded positive and growing rates of return with an average of 68% during the valuation period. As for the economic rate of return, its average increase during the same period is 27%. As a result, we can attest to the almost double increase in CIT relative to the profitability of the company. The analysis shows the negative impact of the tax on the performance of the company, and despite positive performance indictors. So, we can validate our research hypoyhesis.

4. CONCLUSION

In order to achieve a tax result, it is necessary to go through the calculation of the net accounting result, and to carry out extra-accounting adjustments. These are either reinstatements or deductions. Given the different levels of results, there are different levels of profitability. The most cited is: economic profitability, the latter concerns the assets of the company. The analysis of the activity and the profitability of a company constitutes the starting point of any diagnosis, it allows to appreciate the firm performance and its the releasing the profit. The illustrated case study from General Emballage has allowed us to see that accounting and taxation are homogeneous disciplines; one completes the other as we mentioned in our literature search. It is on the basis of the accounting result that the taxable income must be determined: the accounting result is the starting point of the tax result. This passage highlights, for any company, the most expensive positions and the most profitable of a part, and to compare its evolution from previous years of the other part. It is very useful for economic and financial management, as well as to evaluate the profitability of General Packaging.

The analysis of income statements has allowed us to become aware of the materiality of tax in the broad sense including the current tax and the deferred tax in the annual accounts. The tax can be perceived as a real lever on the net result, one of the main indicators of capital enterprises. The difference between the accounting result and the tax result is significant, hence the need to apply the deferred tax method (deferred tax) for the treatment of temporary differences (deductible or taxable later).

Results on firm perfoamnce showed a negative impact through corporate income tax during the financial period surveyed (from 2016 to 2018) at General Emballage.

The deferred tax burden has a positive and not significant effect on the probability of companies conducting earnings management, meaning that

every increase in deferred tax expense, then the probability of companies doing earnings management will increase.

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