General intro to deferred tax and Pillar 2

Loss making companies

Scenario:	XCo makes -100 EBT in year 1 and 100 EBT in year 2	
	Tax rate	15%

	Fin Year 1	Fin Year 2	
EBITDA	-100	100	
Depreciation	0	0	
EBT	-100	100	
Current tax	0	0	
DefTax asset	15	-15	(reversal DefTax asset)
FANIL	-85	85	

1 Local tax: Start with FANIL. Add back all tax = EBT
2 Make other book to tax adjustments, like different depreciation periods.
3 Calculate current tax based on above. Put into Fin. Accounts
4 Add Def. Tax effects from book to tax adjustm. To fin. Accounts
5 Def.Tax asset = tax saved on future profits

	Tax Year 1	Tax Year 2	P2 Year 1	P2 Year 2
FANIL	-85	85	-85	85
Add back tax	-15	15	-15	15
	-100	100		
Tax loss cfwd	0	-100		
EBT/GloBE Inc.	-100	0	-100	100
Current tax	0	0		
Adj.Cov. Tax			-15	15
GloBE ETR			15,00%	15,00%

1 Pillar 2: Start with FANIL. Add back all tax.
2 Make art. 3 and other adjustments.
3 Calculate GloBE income
4 Start with all taxes in P&L.
5 Make art. 4 and other adjustments.
6 Calculate Adjusted Covered Taxes.
7 Calculate ETR.

Key take aways:

Your current tax in your fin. P&L = your tax in your tax return.

Year 1 - Commercial journal entries		
Dt Costs (P&L)	100	
Ct Bank (B/S)		100
Dt DefTax (B/S)	15	
Ct DefTax (P&L)		15

Year 1 - Comm B/S		
Dt DefTax	15	
Ct Equity		-85
Ct Bank		100

Year 2 - Commercial journal entries		
Dt Bank (B/S)	100	
Ct Income (P&L)		100
Dt DefTax (P&L)	15	
Ct DefTax (B/S)		15

Year 2 - Comm B/S		
Dt DefTax	0	
Ct Equity		0
Ct Bank		0

Accelerated tax depreciation

Scenario:	XCo buys asset for 100. Depreciate in 2 year for financial purposes and 1 for tax						
	Tax rate	15%					
	Fin Year 1	Fin Year 2					
EBITDA	200	200				1	Local tax: Start with FANIL. Add back all tax.
Depreciation	-50	-50				2	Make other book to tax adjustments, like addit. Depreciation.
EBT	150	150				3	Calculate current tax based on above. Put into Fin. Accounts
Current tax	-15	-30				4	Add Def. Tax effects from book to tax adjustm. To fin. Accounts
DefTax liability	-7,5	7,5	(reversal DefTax liability)			5	Def.Tax liability = tax due on additional depr. For tax in year 1
FANIL	127,5	127,5					
	Tax Year 1	Tax Year 2	P2 Year 1	P2 Year 2		1	Local tax: Start with FANIL. Add back all tax = EBT
FANIL	127,5	127,5	127,5	127,5		2	Make art. 3 and other adjustments.
Add back tax	22,5	22,5	22,5	22,5		3	Calculate GloBE income
	150	150				4	Start with all taxes in P&L.
Additional depr.	-50	50				5	Make art. 4 and other adjustments.
EBT/GloBE Inc.	100	200	150	150		6	Calculate Adjusted Covered Taxes.
Current tax	15	30				7	Calculate ETR.
Adj.Cov. Tax			22,5	22,5			
GloBE ETR			15,00%	15,00%			
Key take aways:							
Your current tax in your fin. P&L = your tax in your tax return.							

Year 1 - Commercial journal entries		
Dt Bank(B/S) Ct Sales (P&L)	200	200
Dt Assets (B/S) Ct Bank (B/S)	100	100
Dt Depreciation (P&L) Ct Assets (B/S)	50	50
Dt Current Tax (P&L) Ct Tax due (B/S)	15	15
Dt DefTax (P&L) Ct DefTax (B/S) on 50	7,5	7,5
Year 1 - Comm B/S		
Dt Bank (200-100)	100	
Dt Assets (100-50)	50	
Ct Equity (200-50-15-7,5)		127,5
Ct Tax due		15
Ct DefTax		7,5
Year 2 - Commercial journal entries		
Dt Bank (B/S) Ct Sales (P&L)	200	200
Dt Depreciation (P&L) Ct Assets (B/S)	50	50
Dt Current Tax (P&L) Ct Tax due (B/S)	30	30
Dt DefTax (B/S) Ct DefTax (P&L)	7,5	7,5
Year 2 - Comm B/S		
Dt Bank (100+200)	300	
Dt Assets (50-50)	0	
Ct Equity (127,5+200-50-30+7,5)		255
Ct Tax due (15+30)		45
Ct DefTax (7,5-7,5)		0

Bad debt provisions disallowed for tax purposes

Scenario: XCo makes a bad debt provision in year 1 of 100, which is not allowed for tax purposes

In year 2, the debtor goes bankcrupt and XCo can take the write down for tax.

Tax rate 15%

	Fin Year 1	Fin Year 2	
EBITDA	200	200	
Bad debt prov	-100	0	
EBT	100	200	
Current tax	-30	-15	
DefTax asset	15	-15	(reversal DefTax asset)
FANIL	85	170	

1 Local tax: Start with FANIL. Add back all tax = EBT
2 Make other book to tax adjustments, like reversing bad debt.
3 Calculate current tax based on above. Put into Fin. Accounts
4 Add Def. Tax effects from book to tax adjustm. To fin. Accounts
5 Def.Tax asset = tax refundable on future write down receivables

	Tax Year 1	Tax Year 2	P2 Year 1	P2 Year 2
FANIL	85	170	85	170
Add back tax	15	30	15	30
	100	200		
Reverse bad debt	100	-100		
EBT/GloBE Inc.	200	100	100	200
Current tax	30	15		
Adj.Cov. Tax			15	30
GloBE ETR			15,00%	15,00%

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Key take aways:

Your current tax in your fin. P&L = your tax in your tax return.

Year 1 - Commercial journal entries		
Dt Debtors (B/S) Ct Sales (P&L)	200	200
Dt Prov.bad debt (P&L) Ct Prov.bad debt (B/S)	100	100
Dt Current Tax (P&L) Ct Tax due (B/S)	30	30
Dt DefTax (B/S) Ct DefTax (P&L)	15	15

Year 1 - Comm B/S		
Dt Debtors	200	
Dt DefTax	15	
Ct Equity (200-100-30+15)		85
Prov.bad debt		100
Ct Tax due		30

Year 2 - Commercial journal entries		
Dt Debtors (B/S) Ct Sales (P&L)	200	200
Dt Current Tax (P&L) Ct Tax due (B/S)	15	15
Dt DefTax (P&L) Ct DefTax (B/S)	15	15
Dt Prov.bad debts (B/S) Ct Debtors (B/S)		

Year 2 - Comm B/S		
Dt Debtors (200+200-100)	300	
Dt DefTax (15-15)	0	
Ct Equity (85+200-15-15)		255
Prov.bad debt (100-100)		0
Ct Tax due (30+15)		45