Deferred Tax

Accounting & Finance

Why the tax charge in the accounts is not the tax bill.

Deferred tax recognises the future tax consequences of temporary differences.

Deferred tax = Temporary difference × Tax rate

Capital allowances exceed depreciation Tax paid later.	**Deferred tax liability**
Provision not yet deductible Relief comes later.	**Deferred tax asset**
Permanent difference Never reverses.	**No deferred tax**

THE COMMON MISTAKE

× **Treating all differences as temporary**

✓ **Permanent differences create none**

A disallowed fine is never deductible. It changes the current charge but has no future effect to defer.

Deferred tax assets are recognised only where future taxable profit makes recovery probable.