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DEFERRED TAX IN THE HUNGARIAN NATIONAL AND INTERNATIONAL ACCOUNTING REGULATIONS

Judit Füredi-Fülöp
associate professor, University of Miskolc, Institute of Finance and Accounting
3515 Miskolc, Miskolc-Egyetemváros, e-mail: judit.furedifulop@uni-miskolc.hu

Klaudia Murányi
assistant lecturer, University of Miskolc, Institute of Finance and Accounting
3515 Miskolc, Miskolc-Egyetemváros, e-mail: klaudia.muranyi@uni-miskolc.hu

Mária Várkonyiné Juhász
associate professor, University of Miskolc, Institute of Finance and Accounting
3515 Miskolc, Miskolc-Egyetemváros, e-mail: maria.varkonyine.juhasz@uni-miskolc.hu

Abstract
With the amendments of the Accounting Act of 2024, a new set of concepts was added to the Hungarian accounting vocabulary, the clear inducer of which is the harmonization of the global minimum tax. Deferred tax is therefore a new concept in the Hungarian accounting system, but it has long been an important element in international accounting systems. In our article, we present the theory of this in a descriptive manner, and then examine its operation through numerical example. Deferred tax is not a new concept in the IAS/IFRS framework; however, with its inclusion in the Accounting Act, entities that have not previously prepared their financial statements in accordance with international standards now have the option to apply it. In the theoretical section, we will examine how deferred tax may appear in individual financial statements, followed by a review of its practical application.

Keywords: *accounting, IFRS, deferred tax*

1. Deferred tax in the IAS/IFRS system

The regulation of IAS/IFRS differs in several areas from hungarian national accounting rules, and one of these differences and specialties is the issue of profit tax and deferred tax regulated by IAS12, the central problem of which is that if the periods of accounting and taxation of recognized income and expenses differ from each other, a tax difference arises. If the shown tax difference induces a claim or liability that can be deducted from the tax base in the following period, we are talking about deferred tax.

The IAS 12 Income Taxes standard therefore deals with the accounting of income taxes. In the IFRS system, in addition to the actual tax - i.e. the amount of profit tax payable in connection with the taxable profit for the given period - the deferred tax also appears as a tax expense. To understand deferred tax, it is important to know the concept of temporary difference, which is the difference between the book value of an asset or liability and the tax base determined under IAS 12. (Lakatos et al., 2018)

The tax base of an asset is the amount that can be deducted for tax purposes from the taxable economic benefits that accrue to the economic entity when the asset's book value is realized. The tax

base of a liability is the carrying amount of the liability, less the amount that will be tax deductible in respect of the liability in future periods.

Typical transition differences:

- depreciation,
- customer impairment,
- provisions,
- development reserve,
- accrued losses from previous years. (Madarasi, 2014)

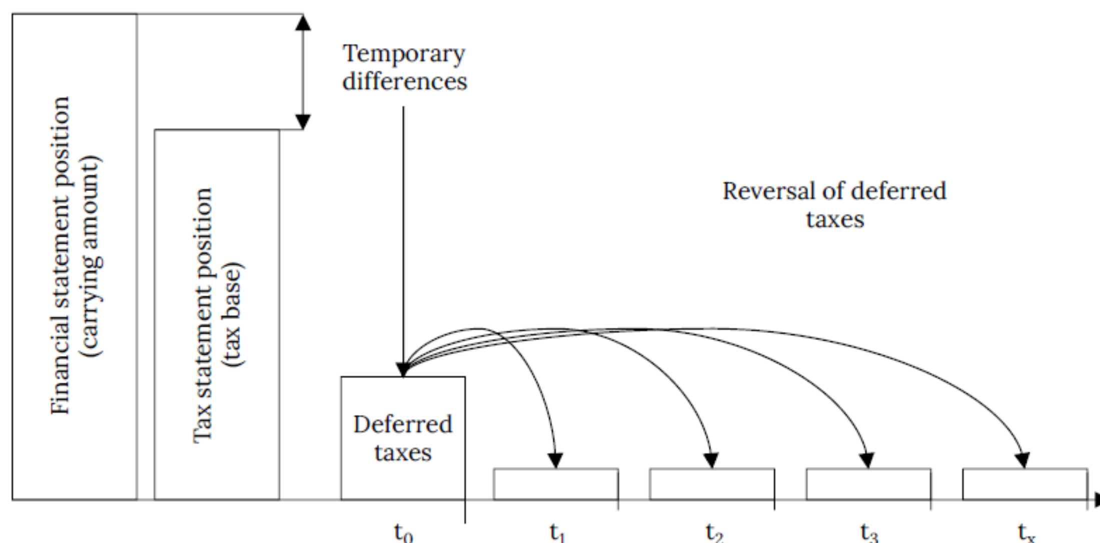

Figure 1. *Deferred tax identification and reversal (Görlitz, 2022)*

We can talk about two types of temporary differences.

- Taxable temporary differences are the differences that result in a taxable amount in determining the taxable profit of the future periods in which the book value of the asset or liability is recovered or settled.
- Deductible temporary differences are differences that result in deductible amounts from the taxable profits of future periods when the carrying amount of the asset or liability is recovered or settled.

Table 1 illustrates the nature of temporary differences in relation to the tax base and book value.

Table 1. *Nature of temporary differences in relation to tax base and book value*

	Assets	Liabilities
Book value > Tax base	taxable	deductible
Book value < Tax base	deductible	taxable

The value of the deferred tax must be determined as the product of the temporary difference and the tax rate, which is a liability in the case of a taxable difference, and a claim in the case of a deductible difference. (Pataki et al., 2020.)

Types of deferred tax:

- Deferred tax receivable: the part of the tax that is refunded in a later reporting period,
- Deferred tax liability: another part of the tax to be paid in a later reporting period.

In the balance sheet, the closing value of the deferred tax asset or liability is - typically - shown in aggregate. A permanent difference due to differences that will not return in the future (for example, fines) does not generate deferred tax.

The following must be disclosed separately from other balance sheet items in the IFRS report:

- The amount of actual and deferred tax receivables and liabilities
- Deferred tax assets must be shown among fixed assets and deferred tax liabilities among long-term liabilities in a net way, i.e. combined, depending on the sign, as an asset or a liability.

Based on the standard guidance of IAS 12 Income Taxes, the change in the deferred tax must - in general - be accounted for in the net result. If a specific item affects other comprehensive income or equity, the related tax effects must also be displayed accordingly.

2. Deferred tax in the hungarian annual report

The amendment to the Accounting act contains the conceptual definitions and other content regulations necessary for the accounting introduction of the deferred tax institution. Accordingly, the following concepts are modified and defined in the law:

- Profit tax: the corporate tax, as well as the corresponding tax on pre-tax profit.
- Balance sheet date tax rate: the tax rate that was announced on the balance sheet date and will apply to the following business year(s) in which the deferred tax asset or deferred tax liability is realized.

In the concept of deferred tax, its purpose is to show the future tax positions that arise from the temporary effect of the accounting valuation of the assets and liabilities shown in the report on the profit tax base.

The background of this legislative amendment clearly lies in the harmonization of the global minimum tax. Hungarian accounting practices must also adapt to the changing regulatory and market environment, integrating these factors into practice, such as ESG considerations. (Madarasi, 2023) Another equally important factor is the adoption of AI, driven by technological advancements. (Hegedűs, 2021)

Deferred tax was included in the Hungarian accounting law as an option, i.e. it depends on an accounting policy decision whether the company presents its effect in his financial report. If it is used, the company must - depending on its sign - show both the deferred tax receivable and the deferred tax liability. If chosen, it could already be applied to the 2023 report, but the company can also decide later to present the deferred tax liabilities and claims in addition to the actual tax liability determined on the basis of the corporate tax law.

The deferred tax asset or tax liability presented on the basis of the decision is the combined effect of the assets and resources or individual tax base reduction rights (deferred losses or tax benefits) presented in the financial statements of the given year on the profit tax base of the following tax years, which must be calculated using the average profit tax rate of the following years. In the case of deferred tax, we are actually talking about the future tax effect of the chosen or legally prescribed accounting valuations of assets and resources, i.e. the tax effects resulting from differences in accounting and tax regulations.

Deferred tax assets arise in the case of tax refundable in the following tax years, and deferred tax liability arises in the case of tax payable in the following tax years.

The deferred tax asset or tax liability must be recalculated on each balance sheet date, and the combined change compared to the deferred tax asset or tax liability shown in the previous business year must be shown in a separate Deferred tax differences line in the income statement under Tax liabilities.

However, it is important to emphasize that not all accounting and tax differences can be taken into account as deferred tax items. When dealing with differences, we must distinguish between temporary differences and permanent differences. As deferred tax items, only profit tax base modifying items that have a temporary effect on the tax base, i.e. they will be reversed in the following years, can be taken into account. One-time, definitive profit tax base adjustment items, such as "costs not incurred in the interest of the business" (e.g. fines), cannot be taken into account when calculating deferred tax.

Based on the provisions of the Accounting Act, the calculated value of the deferred tax asset consists of the following items:

- the tax effect of items accounted for as a reduction of pre-tax profit and reducing the profit tax base in the following business year(s), calculated at the tax rate on the balance sheet date,
- the tax effect of the items already accounted for as an increase in the profit tax base and to be accounted for in the next business year(s) as an increase in pre-tax profit, calculated at the tax rate on the balance sheet date,
- if the acquisition value of an asset or liability differs from the value accepted by the profit tax law, the tax effect of the (remaining) difference calculated at the balance sheet date tax rate, by which the profit tax base of the following business year(s) must be reduced,
- the tax effect of the accrued loss existing on the balance sheet date (which can be used as a reducing item against the positive profit tax base of the following business years) calculated at the balance sheet date tax rate, and
- the amount of tax benefits that can be claimed from the profit tax in the following business year(s) to the extent that the prescribed conditions for the use of the tax benefit have already been met on the balance sheet date; (Act C of 2000 Section 3 (16))

As we have already mentioned, in the case of deferred tax assets, it is an essential element that only such deferred tax assets can be taken into account in their book value, which are expected to be realized in the basis of temporary differences and profit tax in the following business years, i.e. only expected returns, can be used against future positive tax bases for deferred losses or deferred tax receivables can be taken into account for tax benefits.

The calculated value of the deferred tax liability is made up of the following:

- the tax effect of the items that increase the income tax base in the following business year(s), calculated as an increase in pre-tax profit, calculated at the tax rate on the balance sheet date,
- the tax effect of the items already accounted for as a reduction of the income tax base and to be accounted for in the next business year(s) as a reduction of pre-tax profit, calculated at the tax rate on the balance sheet date, and
- if the acquisition value of an asset or liability differs from the value accepted by the income tax law, the tax effect of the (remaining) difference calculated at the tax rate on the balance sheet date, by which the profit tax base of the following business year(s) must be increased. (Act C of 2000 Section 3 (16))

In the case of a deferred tax liability, the book value is the same as the calculated value of the deferred tax liability.

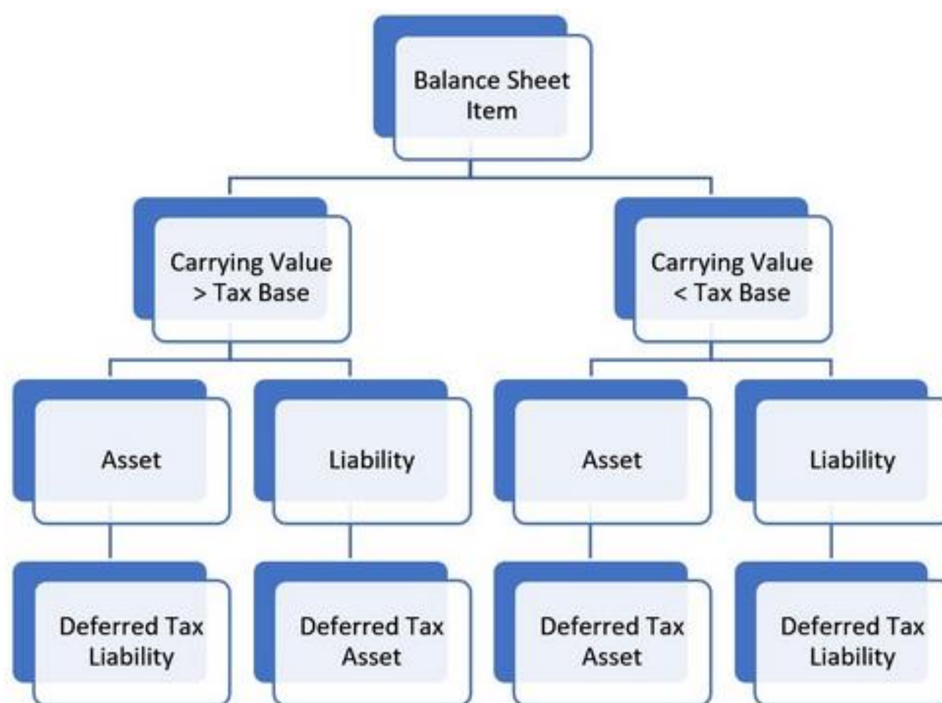

Figure 2. *Determination of deferred tax (Soladea, 2022)*

Regarding the presentation of deferred tax in the financial report, the general principles apply, i.e. similar to other types of taxes, in which case tax receivables and tax liabilities from the same tax authority must be presented in a consolidated, net manner, deferred tax receivables and tax liabilities are also consolidated in the balance sheet or on the asset or liability side must be included according to its balance.

Of course, in parallel with the concept of deferred tax appearing in the accounting law, both the balance sheet scheme and the income statement scheme according to the accounting law are changed, since the deferred tax assets that arise on a consolidated basis must be separated among Fixed assets, while the deferred tax liabilities that arise on a consolidated basis must be presented on a separate line under Long-term liabilities.

Table 2. *New items of the balance sheet of version "A" of the annual report*

A. Fixed assets
IV. Deferred tax assets
F. Creditors
II. Long-term liabilities
10. Deferred tax liabilities

At the same time, the change in the balance of deferred tax assets and deferred tax liabilities for the current year appears as a deferred tax difference in the profit and loss account, with the exception of the initial cost of deferred tax assets and deferred tax liabilities accounted for against retained earnings.

Table 3. *Change in the income statement of the annual report*

C. Profit or loss before tax (+A+B)
X. Tax expense
X/1. Deferred tax differential (±)
D. Profit after tax (±C–X±X/1)

The Accounting Act already required the disclosure of deferred tax items in the combined (consolidated) annual report, therefore, in order to avoid duplication, it is necessary to stipulate that if the disclosure of deferred tax is applied in the combined (consolidated) annual report, only items not shown as corporate tax differences due to consolidation can be shown as deferred tax receivables and deferred tax liabilities. Accordingly, the income statement scheme of the combined (consolidated) annual report has also changed:

Table 4. *Deferred tax in the combined (consolidated) annual report*

X. Tax expense
X/A. (Calculated) corporate tax differential arising from consolidation (±)
X/B. Deferred tax differential (±)

Deferred tax (deferred tax assets and deferred tax liabilities) must be reassessed (calculated) on the balance sheet date of each business year. Therefore, in the supplementary annex, the changes in relation to significant items must be presented item by item, broken down into legal titles.

The application of deferred tax in Hungarian accounting is optional, it is not mandatory to present it. According to the change in the law, it could already be applied to the 2023 report, but it is possible to decide in favor of it at a later date, however, the condition for its application is that this decision must be recorded in the accounting policy.

It is recommended to take advantage of this option for those companies for whom it is important to present the true picture of the future tax effects of the given accounting assessments. It is worth considering this option for the domestic member companies of the multinational company group, if only for the reason that - in line with international practice, in which deferred tax is common practice - the differences between the figures of the report prepared according to the domestic regulations and the IFRS or other accounting frameworks provided for consolidation can be reduced by applying them.

At the same time, we should note that due to international accounting valuation principles are different from Hungarian accounting, it is not nearly certain that the same deferred tax asset or liability will arise in the case of a given company in the accounts prepared according to Hungarian accounting and, for example, IFRS. (WTS, 2024)

3. The practical application of deferred tax

Regarding the method of calculating deferred tax, several calculation methods can be used in practice:

- On the one hand, those assets, provisions, liabilities, as well as unused accrued losses and tax benefits, which will have an impact on the tax base of the following years, can be taken into account individually. The value of the cumulative difference of these items multiplied by the expected profit tax rate will be the deferred tax claim or tax liability.
- On the other hand, the method of comparing the accounting balance sheet and the tax balance sheet can also be used, with this method it can be more clearly seen that we are not typically

talking about the adjusting items of the profit tax base for a given year when we determine the value of the deferred tax. When applying this method, the accounting and tax balance values of each item in the report are placed next to each other. The accounting book value of all assets and liabilities and their value according to the tax law are placed next to each other, and the deferred tax asset or tax liability is calculated for these accumulated differences between the accounting and tax values with the expected profit tax rate.

It is important to note that while IAS 12 derives deferred tax assets or liabilities from specific elements of the balance sheet, the Hungarian Accounting Act does not include such a provision. Instead, it allows the calculation to be based on the pre-tax profit determined in the income statement.

The above differences may be caused by temporary differences between items accounted for as a reduction/increase in profit or loss before tax and reducing/increasing the profit tax base in the following business year(s) (such as depreciation, impairment of receivables, provisions, provision for developments, etc.), these temporary differences are therefore expected to be realized in the profit tax base in the following business year(s). Deferred losses from previous years may also have effects on the profit tax base that are expected to be realized in the following business year(s), and tax benefits at the time of acquisition create a right (claim) that will be repaid in the following business years.

On the balance sheet date, the tax calculated on temporary differences is the calculated value of the deferred tax asset or deferred tax liability, depending on its sign. During the calculation, the announced profit tax rate that will apply to the following business year(s) in which the deferred tax claim or deferred tax liability is realized must be used. (Pataki et al., 2021.)

However, from the calculated value of the deferred tax asset or deferred tax liability, only that which is expected to be realized in the subsequent business year(s) can be published in the report (this is the book value of the deferred tax asset or deferred tax liability). Therefore, the calculated value of deferred tax assets and deferred tax liabilities must be reevaluated every business year due to changes in the business environment. Such a change could be, for example, a change in the profit tax rate, a new profit tax title being introduced, or the company's future activities are expected to become unprofitable and the deferred loss cannot be claimed, etc. Different tax rates may apply to the profit or loss before tax, in which case the average profit tax rate must be taken into account when evaluating the book value of the deferred tax asset or deferred tax liability.

After the netting of deferred tax assets and deferred tax liabilities, a deferred tax asset or tax liability is formed to be included in the company's balance sheet for the given year, the change of which compared to the value of the previous year modifies the amount of tax actually payable in the income statement (in the case of a deferred tax claim, it is reduced, while in the case of a deferred liability, it is increased).

Deferred tax receivable is therefore the refundable part of the tax in the reporting period of the next business year(s), while the deferred tax liability is the part of the tax payable in the reporting period of the next business year(s). As a general rule, the book value of the deferred liability is equal to the value of the deferred tax liability. However, the book value of the deferred tax asset may be less than its value. It is important that a deferred tax claim can be set off if it is certain that in the following business year(s) the company will achieve a taxable result against which, for example, the deferred loss or the amount of the tax benefit can be claimed.

Differences that do not return in the following business year(s) (for example, costs not incurred in the interest of the business) should not be taken into account when calculating deferred tax.

From the point of view of practical application, it should be emphasized that in case of application of deferred tax in the first business year, it is necessary to proceed as if the company had always used

the presentation of deferred tax. The opening book value of the deferred tax asset and deferred tax liability, which would have already existed on the balance sheet date of the previous year, must be included in the balance sheet against the retained earnings, while when the application of the deferred tax is terminated, the book value of the deferred tax asset or deferred tax liability of the business year of termination is must be deducted against retained earnings. When the deferred tax is applied in the first business year, only those deferred tax receivables and deferred tax liabilities that would have been shown on the balance sheet date of the previous business year, if the company had always applied the deferred tax in accordance with the provisions of the Accounting Act, can be shown against the retained earnings.

For the increase in retained earnings resulting from the deferred tax asset (its value according to the balance sheet), a tied-up reserve must be formed from the retained earnings in order that it does not affect the amount of the free retained earnings, and therefore cannot form the basis of dividends, among other things. (Botka, 2024)

Example: In the business year 20X0, the company incurred an accrued loss of HUF 1,000 million in corporate tax. The corporate tax rate for the company is 9%. (deferred tax asset - accrued loss) (In the example, corrections to the corporate tax base are omitted, so the profit or loss before tax is also the tax base for corporate tax.)

Table 5. *Example -income statement*

Income statement	20X0	20X1	20X2
C. Profit or loss before tax	(1,000)	1,000	1,000
X. Tax expense		0	0
X/1. Deferred tax differential ±	(90)	45	45
D. Profit after tax	(910)	955	955

Table 6. *Example -Balance sheet*

Balance sheet	20X0	20X1	20X2
A/IV Deferred tax assets	90	45	0
D/IV/ Retained earnings	(90)	(910)+45	(910)+955+45
D/V/ Tied-up reserve	90	45	
D/VII/ Profit or loss for the year	(910)	955	955
F/III/ Current liabilities			

The calculated value of the deferred tax asset: HUF 1,000 million x 9% = HUF 90 million. The company is expected to operate profitably in the following business years, so its claim will be repaid, therefore the deferred tax asset book will be HUF 90 million in the 20X0 business year according to its value, which can be shown in the report as a deferred tax receivable.

In 20X1, the company uses HUF 500 million from the deferred loss as an item to reduce the corporate tax base, so its tax liability is reduced by HUF 45 million (HUF 500 million x 9%). The opening calculated and book value of the deferred tax asset is HUF 90 million, of which HUF 45 million was used in the current year, so the closing calculated and book value of the deferred tax asset will be HUF 45 million (HUF 90 million - HUF 45 million). The report shows HUF 45 million in deferred tax assets.

In 20X2, the company uses HUF 500 million from the deferred loss as an item to reduce the corporate tax base, so its tax liability is reduced by HUF 45 million (HUF 500 million x 9%), the opening calculated and book value of the deferred tax asset is HUF 45 million , of which HUF 45 million was

used in the current year, so the final calculated and book value of the deferred tax asset will be zero (HUF 45 million - HUF 45 million).

4. Conlusions

The rules for accounting for deferred tax must be applied to the report prepared for the business year starting in 2024, but depending on the Company's decision, it can also be applied to the report for the business years starting in 2023. As a result of the amendment, Hungarian and international regulations have converged, but differences still remain between IFRS and the Accounting Act.

The aim of our article is to descriptively present the recent legislative amendment, which is currently seen as novel, even though elements outlined in the international standard have long been in use in practices where reports are prepared in accordance with IAS/IFRS. Given that deferred tax is an optional feature in Hungarian accounting (for companies not following IAS/IFRS for bookkeeping and reporting) and that the legislative change already allowed its application for 2023 financial statements. We suggest further research direction to examine its practical adoption and reflection in financial reports. Examining accounting practices can provide a basis for analyzing economic and financial implications, such as how deferred tax affects corporate financial reporting, investor decision-making, and broader economic indicators. For this reason, in this article, we disregard a comparative analysis with the accounting treatments of other countries, as there is still limited experience with its application in individual financial reports.

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