

Accounting Treatment of Deferred Taxes According to the Requirements of the Financial Accounting System (SCF) and International Accounting Standard 12 (IAS 12): A Case Study of AGRODIVE Company

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Abstract:

Deferred taxes remain a highly debated topic among professionals and academics, particularly regarding the provisions of International Accounting Standard IAS 12 on income taxes and the Algerian Financial Accounting System (SCF). This study aims to clarify the accounting and tax treatment of deferred taxes by Algerian economic institutions and its impact on the institution's results, financial position, and tax burden. This is explored through a case study of AGRODIV, a public economic institution, demonstrating how the company handled deferred taxes for the years 2019/2020.

Keywords: Deferred taxes; IAS 12; income taxes; Financial Accounting System; tax burden.

Introduction

The economic conditions experienced worldwide and the continuous transformation in

international trade—marked by the search for new global markets and the dominance of multinational companies—have been driven by the World Trade Organization (WTO), which imposes standards and requirements that must be followed. To keep up with these developments, in the accounting realm, there has been an effort to harmonize accounting systems across countries to provide accurate and reliable financial information. This allows for making informed decisions by various users of financial statements issued by companies. This is the goal pursued by the International Accounting Standards Board (IASB) through the issuance and continuous updating of accounting standards (IAS/IFRS) as new needs arise.

In Algeria, this transformation led to significant reforms in accounting, culminating in the Financial Accounting System (SCF) implemented in 2007 and officially applied in 2010. This system is derived from international accounting standards.

The SCF addressed various topics of contemporary accounting interest that were previously unfamiliar under the National Accounting Plan, one of which is deferred taxes. The SCF places great importance on deferred taxes due to the differences between accounting principles and tax rules, which result in temporary and permanent differences. Deferred taxes focus on temporary differences in determining both accounting and tax results for revenues and expenses. The aim is to eliminate the effects of these temporary differences on the net accounting result, providing a true representation of the company's financial position.

Research Problem:

The main research question of this study is:

How are deferred taxes accounted for according to the requirements of the Financial Accounting System and International Accounting Standard 12?

Since this topic raises several questions regarding the emergence, treatment, and handling of deferred taxes—both from an accounting and tax perspective—based on the rules of both the accounting and tax systems, we can derive the following sub-questions:

- Do economic institutions apply deferred taxes according to the Financial Accounting System?
- Do economic institutions recognize all events that give rise to deferred taxes?
- Are deferred taxes significant in determining the tax burden?
- Do economic institutions face challenges in applying deferred taxes?

Research Importance:

The importance of this study lies in addressing a newly emerging topic that requires field study to understand how economic institutions are dealing with this issue and to contribute to clarifying and simplifying it.

Research Objectives:

Through this research, we aim to achieve the following objectives:

- Provide a comprehensive and clear understanding of deferred taxes.
- Determine the extent to which Algerian economic institutions comply with the application of deferred taxes.
- Understand the methods of accounting and tax treatment of deferred taxes.
- Highlight the importance of deferred taxes and their impact on improving the quality of financial statements.
- Identify the temporary differences between accounting principles and tax rules in the treatment of deferred taxes and how to eliminate their effects on the net result.

1. Deferred Taxes Under International Accounting Standard (IAS) 12: Income Taxes:

Before discussing deferred taxes under the Financial Accounting System, it is important to consider them under IAS 12, as the SCF is directly derived from this standard. In 1979, the International Accounting Standards Committee (IASC) issued International Accounting Standard "IAS 12" related to accounting for income taxes. It was implemented in January 1981 and subsequently amended in 1996, with the last amendment in 2000 (Obert, 2008, p. 144).

1.1. Purpose and Scope of the Standard and Key Definitions:

First: Purpose of the Standard:

The taxes shown in the financial statements, in accordance with IFRS, must be related to the operations of the financial period. Therefore, different taxes are spread over time through accounting adjustments (operations affecting the tax result) referred to as the deferred tax method (Ellech, 2010, p. 6).

Thus, IAS 12 aims to clarify the accounting treatment of taxes on the result, focusing on the following points (Barbe & Didelot, 2010, p. 314):

1. How current and future tax obligations, as per tax law, are recognized in the accounting records:
 - Future recovery (or settlement) of the carrying amount of assets (liabilities) that were accounted for in the company's balance sheet;
 - Operations and events of the period that were recognized in the company's financial statements.
2. The accounting treatment of deferred taxes arising from unused tax losses and credits;
3. How income taxes are presented in the financial statements;
4. The required disclosures related to income taxes.

Second: Scope of the Standard:

The standard applies to the accounting treatment of income taxes, which include (Kaci, 2011, p. 69):

- All domestic and international taxes due on taxable income;
- Taxes paid by subsidiaries, associates, and joint ventures in the context of profit distributions to the parent company preparing consolidated financial statements.

2. Deferred Taxes Under the Financial Accounting System (SCF):

1.2. Differences Between Accounting Result and Tax Result:

The independence and sovereignty of tax law from accounting law inevitably lead to fundamental differences, particularly in the sense that accounting and taxation do not align in their treatment of some revenues and expenses. Not all expenses recorded in accounting under category 06 are considered tax-deductible, just as not all revenues recorded in category 07 are subject to tax. This results in differences between accounting and taxation, whether permanent or temporary, with only the latter giving rise to deferred tax assets and liabilities. Deferred taxes are an accounting technique introduced by the SCF to eliminate the effects of temporary differences between accounting and taxation on the net accounting result for the period, thereby always maintaining an accurate representation of the company's financial position (Article 141, Similar Taxes, 2022).

The reasons for the emergence of deferred taxes can be attributed to the application of several accounting principles introduced by the SCF, which can be summarized as follows (Rejah, 2021, pp.

- **Independence of accounting periods**, where each year bears its own expenses and revenues, as well as all events that occur within that year.
- **Priority of economic substance over legal form**, meaning the transaction is viewed based on its economic impact rather than its legal nature.
- **Matching principle**, where revenues are matched with the expenses incurred to generate them.
- **Going concern and accrual assumptions**, where the company is assumed to continue its activities without any indications of bankruptcy or cessation, and transactions are recorded as they occur, without waiting for cash flows.
- **Liability accounting**, where the company records all transactions that affect it financially and have economic substance, linking them to the year in which they occurred.
- **Priority of tax rules over accounting rules**, meaning the SCF is applied provided it does not conflict with current tax legislation.

2.2. Nature of Deferred Taxes

According to the Financial Accounting System (SCF), deferred taxes are defined as either a deferred tax asset (taxes to be recovered in future years) or a deferred tax liability (taxes payable

in future years). These arise due to differences in treatment between accounting standards and tax laws. From this definition, the following can be concluded (Samaan, 2022, p. 203):

- Deferred taxes are calculated based on current tax rates applied according to the nature of the company’s activities.
- Deferred taxes are either paid during the financial year to be recovered in subsequent periods or deducted during the financial year to be paid in future periods.
- Deferred taxes result from differences in accounting treatment versus tax treatment for both expenses and revenues that form the company’s results.

3.2. Types of Deferred Taxes:

There are two main types of deferred taxes:

A. Deferred Tax Assets:

These are amounts of taxes paid during the current year that are recoverable in future periods. They arise from temporary deductible differences when determining taxable income for future periods. These amounts are added to the current accounting result to determine the taxable result. According to the SCF, these are recorded in account 133 (Deferred Tax Assets) on the debit side, with account 692 (Deferred Tax Liability on Assets) on the credit side.

B. Deferred Tax Liabilities:

These are amounts of taxes on profits that are payable in future periods, resulting from temporary taxable differences when determining taxable income for future periods. These amounts are subtracted from the current accounting result to determine the taxable result. According to the SCF, these are recorded in account 134 (Deferred Tax Liabilities) on the credit side, with account 693 (Deferred Tax Liability on Liabilities) on the debit side.

To further clarify, the following table highlights differences between types of deferred taxes (Samaan, 2022, p. 204):

Type of Deferred Tax	Explanation
1. Deferred Tax Liabilities	Accounting depreciates development costs over a certain period, while taxation considers them as expenses (accounting depreciation value is less than the tax depreciation value).
2. Deferred Tax Assets	The accounting depreciation period is shorter than the tax depreciation period, resulting in a temporary difference (accounting depreciation is greater than tax depreciation).

Type of Deferred Tax	Explanation
3. Deferred Tax Liabilities	The accounting depreciation period is longer than the tax depreciation period, resulting in a temporary difference (accounting depreciation is less than tax depreciation).
4. Deferred Tax Liabilities	Revenues are recorded for accounting purposes to determine the accounting result, while they are excluded for tax purposes to determine the taxable result (accounting value is greater than the taxable result).
5. Deferred Tax Assets	Expenses are recorded for accounting purposes to determine the accounting result, but they are excluded for tax purposes to determine the taxable result (accounting value is greater than tax value).
6. Deferred Tax Assets	Carried-forward losses are considered deferred tax assets because the company can recover the tax related to them from future taxable profits.
7. Deferred Tax Assets	Deferred revenues are distributed over several years for accounting purposes, but they are fully taxable in the year received (the distributed portion for accounting purposes is less than the total tax revenue).
8. Deferred Tax Assets	Low-value items are recorded as expenses for accounting purposes, but they must be depreciated for tax purposes (accounting value of expenses is greater than tax depreciation).
9. No Deferred Taxes	Both accounting and taxation agreed on treating a loss in value similarly, recording it as an expense in the accounting records and considering it as a tax-deductible expense.

4.2. Accounting and Tax Treatment of Deferred Taxes According to the SCF

Deferred taxes arise from temporary differences between the Financial Accounting System (SCF) and the Algerian tax system, which is subject to changes through financial laws.

A. Temporary Differences:

Temporary differences refer to the discrepancies between accounting and taxation, which result from the fact that some revenue or expense items are included in taxable income at a different time than they are included in accounting income. These differences arise during a specific accounting period and are settled or recovered in future accounting periods, resulting in deferred taxes, whether as deferred tax assets or deferred tax liabilities. Examples under Algerian tax law include:

- **Financial Expenses, Royalties, and Fees:**

For bank interests, agio, other financial expenses, royalties from patents, licenses, trademarks, and technical assistance fees, their deduction from the current income is conditional on actual payment during the financial year according to tax rules. However, the SCF mandates recording these expenses based on the period during which they were incurred, without considering the actual payment date (Samaan, 2022, p. 206).

- **Operating and Balance Subsidies:**

Tax law includes operating and balance subsidies provided by the state or local authorities in the results of the financial year in which they are collected. In contrast, the SCF requires that public operating subsidies be recorded as revenues (account 74) in the period when they are earned, without requiring the actual collection as a condition for recognizing the revenue (Samaan, 2022, p. 208).

- **Investment Subsidies:**

Until the end of 2020, the tax law required investment subsidies for acquiring depreciable assets to be included in the results of the current financial year at the date of payment, then amortized proportionally over the following financial years, aligned with depreciation over five years. However, the 2021 Finance Law links subsidies for acquiring depreciable assets to the financial result based on the depreciation period, while subsidies for acquiring non-depreciable assets are spread evenly over five years. If the assets are sold, the portion of the subsidy not yet amortized is deducted from the net book value of depreciable assets or the purchase price of non-depreciable assets to calculate the taxable capital gain or deductible capital loss. The SCF, on the other hand, records them as deferred revenues (accounts 131 or 132) and then transfers them to the result using account 754 (Investment Subsidies Amortized to the Financial Year).

- **Differences Between Accounting Depreciation and Tax Depreciation:**

The method, duration, or basis of depreciation applied by an entity for accounting purposes may not necessarily align with those specified for tax purposes. The SCF allows entities to choose the depreciation method and duration that suit their investment strategies, while tax depreciation is governed by tax law (which imposes conditions for applying certain depreciation methods). Additionally, the SCF introduced a new method—depreciation based on production units—which is not recognized for tax purposes, creating temporary differences that result in deferred taxes.

- **Provisions and Impairment Losses Not Tax-Deductible:**

The SCF permits entities to create provisions for risks and expenses to cover potential future risks and to recognize impairment losses on asset items if their recoverable value is less than their net book value, applying the prudence principle. However, tax law does not allow the deduction of these provisions and impairment losses (Samaan, 2022, p. 217).

- **Capitalizable Development Expenses:**

Algerian law considers development expenses as deductible expenses for the financial year in which they are incurred, subject to a cap. The tax law limits the deduction to 10% of taxable profit, with a maximum of 100,000,000 DZD. However, the SCF records capitalizable development expenses if certain conditions are met and allows them to be amortized, creating temporary differences that result in deferred tax liabilities.
- **Deductible but Unpaid Tax Expenses:**

Tax law requires that deductible tax expenses be actually paid to the tax authorities during the financial year. The SCF, however, records expenses when they are incurred, without requiring payment, leading to temporary differences between accounting and taxation, especially for public works and service companies, where the tax obligation arises upon receipt of payment. This results in deferred tax assets, as there is a temporary difference between invoiced and received revenue.
- **Payable Expenses in Future Periods:**

The SCF allows recording expenses incurred during the accounting period, even if the accounting document is not available, as per the accrual principle. These expenses are recorded at year-end to charge them to the current year's result, but payment is made in future periods when the accounting document is received. Tax law, however, generally requires expenses to be supported by accounting documents for tax deductibility. If not, they must be added back to the accounting result, with deferred tax assets recorded and reduced in future periods once the document is available. A common example is accrued leave pay (Samaan, 2022, p. 223).
- **Low-Value Items:**

Tax law allows items valued at no more than 60,000 DZD (excluding VAT) to be treated as deductible expenses for the relevant financial year. The SCF, however, does not set a specific threshold for low-value items, leaving it to entities to estimate their value as they see fit, potentially creating temporary differences between accounting and tax treatment. The previous threshold, before the 2022 Finance Law, was 30,000 DZD.
- **Losses from Previous Years:**

Tax law allows companies to carry forward losses for up to four years. If a loss is recorded in one financial year, it is carried over to the following year and deducted from that year's taxable profit. If the profit is insufficient, the remaining loss is carried over for up to four years. The SCF, however, records losses in account 11 (Carryforward) without considering them as a deductible expense from future profits (Samaan, 2022, p. 227).
- **Fixed Assets Acquired for Free:**

The SCF records fixed assets received for free at their fair value at the time of acquisition and allows them to be depreciated based on their useful life. However, for tax purposes, this transaction should have a neutral effect, meaning that the value of these assets is not taxable, and their depreciation is not tax-deductible.

- **Significant Income and Expenses from Previous Periods:**

According to the SCF, significant income and expenses from previous periods are recorded in account 11 (Carryforward) to correct material errors. Tax law, however, considers income from previous periods as taxable in the current year, which creates deferred tax liabilities for taxes that should have been paid in previous years (Samaan, 2022, p. 231).

- **Revaluation of Depreciable Assets:**

The SCF allows companies to revalue tangible and intangible assets at their fair or market value, and depreciation is calculated based on the revalued amounts. The surplus resulting from the revaluation is recorded on the credit side of account 105 (Revaluation Surplus). However, Algerian tax law requires that the surplus depreciation resulting from revaluation be included in the taxable income as non-deductible expenses, creating deferred tax liabilities for future taxes due on these non-deductible depreciation amounts.

5.2. Definition of the Tax Burden:

A. Concept of the Tax Burden at the Macro Level:

The tax burden rate reflects the overall impact of tax policy on the behavior of individuals in society. The general theory of tax burden aims to identify forms of taxation that minimize distortions in economic and social life, thereby enhancing efficiency. The tax burden studies the effects of taxes on the prices of goods or production factors. When a tax is imposed, there is a limit to what the taxpayer can bear. If the tax burden exceeds this limit, the taxpayer will seek ways to avoid paying it. Therefore, there is an optimal tax burden that generates substantial revenue for the public treasury while being acceptable to the taxpayer and within their capacity to bear (Naq, 2020, p. 7).

The tax burden can be divided into the following types (Naq, 2020, p. 8):

- **General Tax Burden:** Represents the total taxes as a proportion of the gross domestic product (GDP) and can be expressed as a gross or net tax burden.
- **Individual Tax Burden:** Can be measured by the individual's share of taxes relative to their share of national income.
- **Tax Burden by Economic Sector:** Based on a study by French researchers Tanbote and Brosheand, which examined the direct tax burden on various social groups according to their economic activities.

B. Calculating the Tax Burden at the Company Level:

The concept of tax burden falls under the income statement, determined before calculating the net result by applying the following formula:

Net Accounting Result = Ordinary Accounting Result Before Taxes – Income Tax (Account 695) ± Change in Deferred Taxes (Accounts 692 and 693).

Therefore, the tax burden is calculated as:

Tax Burden = Income Tax (Account 695) \pm Change in Deferred Taxes (Accounts 692 and 693).

3. Case Study of Deferred Taxes in AGRODIV:

1.3. Introduction to AGRODIV Company:

The Hodh Sefei Grains Branch is a subsidiary of the AGRODIV group and an extension of the former Riyadh Sefei and Sambak companies. As part of the sector's reorganization and following the resolution of the State Participation Council No. 146/04, dated November 5, 2015, the Hodh Sefei Grains Branch was established by AGRODIV during an extraordinary general assembly held on June 7, 2016, with operations starting on January 1, 2016.

The branch specializes in processing both hard and soft wheat, producing and marketing semolina, flour, pasta, and milling by-products. It has significant production and milling capacities, as outlined below (internal documents, 2022). The branch employs 1,122 workers, including 540 permanent positions and 582 temporary positions, categorized as follows: 234 executives, 353 supervisory staff, and 535 operational staff.

In terms of production, the company saw upward growth in 2017, registering the following (internal documents, 2022):

- 1,150,177 quintals of semolina,
- 1,205,253 quintals of flour,
- 3,715 quintals of pasta,
- 1,158,194 quintals of milling by-products (bran).

Turnover in 2019: 8.945 million DZD

Legal status: A joint-stock company with a social capital of 891,310,000 DZD.

2.3. Accounting Treatment of Deferred Taxes in the Hodh Sefei Grains Branch of

AGRODIV Group: Through a field study of the company, we identified cases that led to the creation of deferred taxes for the financial years 2019 and 2020 at the Hodh Sefei Grains Branch. We focused on the balance sheet and the income statement for these two years and did not include the 2021 financial year, as the company had not yet completed its financial statements at the time of our field internship.

A. Deferred Taxes for the 2019 Financial Year:

The 2019 financial year is the subject of this study, focusing on deferred tax assets. The company recognized several cases of deferred tax assets in 2019, as follows:

1. Employee Variable Expenses:

This refers to the management allowance for executives, determined by the general assembly and varying according to profits for each financial year. A provision is made for this allowance in 2019, which is settled after the general assembly determines the

final amount in 2020. The total allowance for the three executives was estimated at 5,769,792.00 DZD, for which a provision was made. Since it is not paid in 2019, it is not tax-deductible and must be reintegrated into the taxable result. This temporary difference results in a deferred tax asset calculated as follows:

Deferred Tax Asset = $5,769,792.00 \times 19\% = 1,096,260.48$ DZD, recorded at the end of the year.

2. Annual Leave Provision:

For the second half of 2019, annual leave is granted in the first half of 2020. The annual leave is calculated for the reference year from 01/07/2019 to 30/06/2020, and employees receive it in 2020. A provision for six months of 2019 is made for the annual leave allowance, amounting to 2,671,682.89 DZD (half of the total annual leave allowance for all employees, which was 5,343,365.78 DZD).

3. Back Pay for Paid Leave:

This includes back pay for exceptional leave outside of annual leave. Many employees had not taken all or part of their annual leave for years prior to 2019, leaving an outstanding liability for the company to settle. The total back pay was estimated at 1,216,626.94 DZD, for which a provision was made, resulting in a deferred tax asset to be settled in 2020.

4. Retirement Benefits Provision:

This provision covers future or near-future retirement benefits for employees eligible in 2018. The total provision for retirement benefits for 2019 was 10,461,177.15 DZD. The difference between 2019 and 2020 provisions (an increase of 3,661,685.32 DZD) is adjusted, resulting in a deferred tax asset of $3,661,685.32 \times 19\% = 695,754.41$ DZD.

5. Auditor's Fees Provision:

The company, as a joint-stock company, is required to appoint an external auditor. The auditor's annual fee for 2019 was estimated at 1,000,000 DZD, which is not tax-deductible, creating a temporary difference and a deferred tax of $1,000,000 \times 19\% = 190,000$ DZD.

These cases were recorded as deferred tax assets in the company's accounting records according to the following journal entries:

Amount	Date	Description	Debit Account	Credit Account	Notes
5,769,792.00	31/12/2019	Provision for Employee Expenses	4686000	6310020	Recognition of Variable Employee Expenses for Executives

Amount	Date	Description	Debit Account	Credit Account	Notes
1,096,260.48	31/12/2019	Deferred Tax on Variable Employee Expenses for Executives	692	133	Deferred Tax Asset
1,000,000.00	31/12/2019	Auditor Fees	4011100	6222300	Auditor Services
190,000.00	31/12/2019	Deferred Tax on Auditor Fees	692	133	Deferred Tax Asset
5,769,792.00	31/12/2019	Provision for Exceptional Leave Expenses	4281000	6310510	15 Days of Exceptional Leave Expenses
231,159.12	31/12/2019	Deferred Tax on 15 Days of Exceptional Leave Expenses	692	133	Deferred Tax Asset
2,671,682.89	31/12/2019	Provision for Annual Leave Payables	4281000	6310510	Back Pay for Annual Leave Paid in 2020
507,619.75	31/12/2019	Deferred Tax on Annual Leave Back Pay Paid in 2020	692	133	Deferred Tax Asset
2,671,682.89	31/12/2019	Retirement Bonus Provision	1531000	6871530	Adjustment for Retirement Bonus
695,754.41	31/12/2019	Deferred Tax on Retirement Bonus	692	133	Deferred Tax Asset

B. Settlement of Deferred Taxes for the 2020 Financial Year

During 2020, the company settled the deferred tax assets from 2019 by canceling them due to the actual payment of all expenses for which the previous provisions were made. (It is important to note that the company uses negative numbers to cancel entries.) The cancellation date was July 31, 2020, coinciding with the general assembly's meeting, which is authorized to issue the cancellation decision. These cases of deferred tax asset cancellations were recorded in the provision books according to the following accounting entries:

Amount	Date	Description	Debit Account	Credit Account	Notes
-5,769,792.00	31/07/2020	Provision for Employee Expenses	4686000	6310020	Cancellation of Variable Employee Expenses
-1,096,260.48	31/07/2020	Deferred Tax Asset	692	133	Cancellation of Deferred Tax on Employee Expenses
-1,000,000.00	31/07/2020	Auditor Fees	4011100	6222300	Cancellation of Auditor Fees
-190,000.00	31/07/2020	Deferred Tax Asset	692	133	Cancellation of Deferred Tax on Auditor Fees
-5,769,792.00	31/07/2020	Provision for Exceptional Leave Expenses	4281000	6310510	Cancellation of 15 Days of Exceptional Leave Expenses
-231,159.12	31/07/2020	Deferred Tax Asset	692	133	Cancellation of Deferred Tax on Exceptional Leave Expenses
-2,671,682.89	31/07/2020	Provision for Annual Leave Payables	4281000	6310510	Cancellation of Annual Leave Payables Paid in 2020
-507,619.75	31/07/2020	Deferred Tax Asset	692	133	Cancellation of Deferred Tax on Annual Leave Payables
6,033,583.48	31/12/2020	Provision for Retirement Bonus	7863000	1531000	Adjustment of Retirement Bonus Provision
1,146,380.87	31/12/2020	Deferred Tax Asset	133	692	Reduction in Deferred Tax on Retirement Bonus

Analysis of the Income Statement Table

As mentioned earlier in the theoretical section regarding the company's tax burden, analyzing the income statement for the year 2019 (see Appendix No. 07) shows that the financial year's production was estimated at **7,837,941,177.17 DZD**, and consumption was **6,062,396,601.63 DZD**, resulting in a value-added of **1,632,344,506.41 DZD**. The total operating surplus was **743,396,119.12 DZD**, the operating result was **475,705,449.57 DZD**, and the financial result was **4,155,487.69 DZD**. Thus, the ordinary result before taxes was **479,860,937.26 DZD**, and the net result was **319,850,504.83 DZD**. As is known, corporate income tax is imposed on the taxable result, which is calculated using the tax table (part of the tax package) No. 9 as follows:

Taxable Result= 343401644 =160114117- 183665256+ 319850504.83 dz

Corporate Income Tax (IBS) = 343,401,644 \times 19% = 65,246,312 DZD

From this table, the change in deferred taxes of **15,129,090 DZD** was reintegrated (it is important to note that this amount applies to the entire branch, including its subsidiaries, whereas what is discussed in the second section only concerns the branch headquarters, i.e., the general directorate).

Thus, the company's tax burden for 2019 was as follows:

80375402 = 15129090 + 65246312 dz.

Conclusion

The Financial Accounting System (SCF) achieved a high level of alignment with International Accounting Standards (IAS/IFRS), which are flexible in issuing new accounting standards or amending existing ones to address accounting issues arising from changing economic, commercial, and financial circumstances. In contrast, the SCF has remained unchanged since its inception and is characterized by rigidity.

After more than ten years of SCF implementation, various issues and concerns have been raised by economic institutions and accounting practitioners, calling for clarification and application methods for some of the concepts, principles, rules, and new accounting entries introduced by the system. As a result, a working group was established to conduct a general assessment of SCF implementation and address all concerns faced by professionals and economic institutions, with the aim of updating it to keep pace with the developments in international accounting standards.

On January 21, 2019, the working group began holding a seminar at the Aurassi Hotel, attended by executives from the National Accounting Council, accounting professionals, supervisory bodies such as the Accounting Council, the General Inspectorate of Finance, university professors, and economic institutions. The goal was to inform them about the start of the work and invite them to contribute by enriching the key points that needed to be addressed. Naturally, deferred taxes were one of the key issues discussed in depth. However, the work has not yet been completed due to the ongoing COVID-19 pandemic, which has caused continuous delays, with the hope of resuming it this year.

Deferred taxes, one of the innovations introduced by the SCF and mainly derived from IAS 12, arise from the differences between the SCF and the tax system. These differences between accounting profit and tax profit necessitate the transition from the accounting result to the tax result to determine taxable profit. This leads to permanent and temporary differences, with the latter being the main cause of deferred taxes.

The accounting result serves as the primary tool for calculating the tax result and the tax base through which corporate income tax is calculated. The company records all expenses, even if they are not tax-deductible, and reduces revenues that are not taxable to determine the tax result. Deferred taxes play a key role in determining and distributing the tax burden, as stipulated by accounting principles (the principle of period independence, the accrual basis, and the matching principle), which were discussed

in detail in the theoretical section and supported by the practical section of the study. The study sought to understand the importance of deferred taxes in determining the tax burden.

Field Results

Through the field study, we reached the following conclusions:

- Most economic institutions do not apply the deferred tax technique according to the financial accounting system; only public institutions use it, while private institutions do not apply it at all.
- Many economic institutions do not recognize all events that generate deferred taxes due to the need for verification of their occurrence and consideration as a temporary difference.
- Deferred taxes play a significant role in determining the tax burden.
- Economic institutions face difficulties in applying deferred taxes.
- The company uses negative amounts to record entries in the journal to cancel the deferred taxes recorded in the previous year, which contradicts the requirements of the financial accounting system.

Recommendations

- There is a need to evaluate and improve the financial accounting system to keep pace with international accounting standards by incorporating various amendments and interpretations.
- Continuous and specialized training for accounting practitioners at all levels should be prioritized, including specialized training on key standards that form the foundation of the financial accounting system, while considering the latest updates.
- Auditors should ensure that institutions are required to apply all aspects of the financial accounting system, including deferred taxes.
- Efforts should be made to reduce the gap and differences between the financial accounting system and tax laws, as evidenced by recent changes in tax laws, particularly the 2022 Finance Law.
- The National Accounting Council should issue guidance and opinions periodically on various causes and temporary differences that lead to the creation of deferred taxes.

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