„Zeszyty Teoretyczne Rachunkowości”
tom 94 (150), 2017, s. 131–143

Stowarzyszenie Księgowych
w Polsce

The impact of deferred tax on company valuations in the case of mergers

*VIOLA SEBESTIKOVA**, *KATERINA KRZIKALLOVA***

Abstract

The aim of the paper is to fill the gap in the literature related to the disclosure of relevant deferred tax value in accounting under a merger in relation to the valuation of the participating companies. Apart from a description, methods of analysis, synthesis, and comparison are used in this paper as well. The model example shows possible methods of accounting solutions and their influence on the value of assets with a different approach to this solution. Non-disclosure of deferred tax in the opening balance sheet could have a negative impact on the economic decision-making of the acquiring company. The aim of this paper is also to raise the debate at the international level about the extent to which deferred tax should be reflected in the expert valuation of companies or whether it is a purely accounting problem.

Keywords: accounting, deferred income tax, companies valuation, equity, merger, net assets.

Streszczenie

Wpływ odroczonego podatku dochodowego na wyceny przedsiębiorstw w przypadku połączenia

Celem artykułu jest wypełnienie luki w literaturze w zakresie sprawozdawczości finansowej dotyczącej ujawnień wartości odroczonego podatku dochodowego w związku z wyceną spółek po połączeniu. W artykule, oprócz opisu, wykorzystano również metody analizy, syntezy i porównania. Zamieszczony w artykule przykład przedstawia możliwe sposoby rozliczania odroczonego podatku dochodowego w kontekście ich wpływu na wartość aktywów. Nieuwzględnienie podatku odroczonego w bilansie otwarcia mogłoby mieć negatywny wpływ na decyzje ekonomiczne spółki przejmującej. Celem artykułu jest również wywołanie międzynarodowej debaty w zakresie tego, czy odroczony podatek dochodowy powinien być odzwierciedlany w wycenie wartości przedsiębiorstw, czy jest to problem wyłącznie księgowy.

Słowa kluczowe: rachunkowość, odroczony podatek dochodowy, wycena przedsiębiorstw, kapitał, połączenie, aktywa netto.

* Prof. Ing. Viola Sebestikova, PhD, full professor, VSB – Technical University of Ostrava, Faculty of Economics, Department of Accounting and Taxes, the Czech Republic, viola.sebestikova@vsb.cz

** Ing. Katerina Krzikallova, PhD, assistant professor, VSB – Technical University of Ostrava, Faculty of Economics, Department of Accounting and Taxes, the Czech Republic, katerina.krzikallova@vsb.cz

ISSN 1641-4381 *print* / ISSN 2391-677X *online*

http://www.ztr.skwp.pl
DOI: 10.5604/01.3001.0010.4998

Introduction

In accounting theory, there is no doubt about the importance of deferred tax, the purpose of which is to correct the influence of due income tax on the profit or loss, and thus on the company's equity. Although the concept and content of deferred tax has a certain history, development, and experience in the Czech Republic, it cannot be said that, in its practical application, it is a self-evident and seamless part of current financial statements. Its acceptance and proper consideration are all the more difficult in the opening balance sheets of acquiring companies that, as a result of a merger, acquire the assets of another, acquired company.

Even though deferred tax appeared in Czech accounting for the first time in the early 1990s, it became more widely known to the public accounting audience when the Czech Republic joined the European Union. Since that time, all accounting entities that are obliged to draw up financial statements in the full format also have to account the deferred tax. This is an important turning point in the accounting methodology, as deferred tax eliminates distortions of accounting profit or loss due to the impact of different tax conditions for the inclusion of accounting expenses or revenues to the income tax base (Accounting Act, 1991).

By contrast, due income tax is defined as an obligatory payment that is in accordance with the law levied to individuals or companies by the government (Musgrave, Musgrave, 1989).

Research by Murdoch, Krause, and Guy (2015) using-time series data from Compustat firms (North American) determined that deferred income tax expense enhances the ability of current income tax expense to predict future tax payments for approximately 40% of firms across all three forecast horizons (i.e. one-, two-, and three-year horizon). Another empirical study, reflecting the approaches of American Accounting Law to International Financial Reporting Standards, conducted among publicly traded US firms found that classifying of all deferred taxes as noncurrent (non-due) may adversely affect the usefulness of the financial statements for equity investors (Bauman, Shaw, 2016).

One study conducted in the Czech Republic (Žárová, 2016) focused on deferred tax disclosure, including an evaluation of deferred tax items recognized in the balance sheet of only fifteen selected companies that are listed and registered on the Prague Stock Exchange (PSE). Similarly, Purina (2016), in her analysis, compared the approaches and impacts of the influence of national legislations on deferred tax on several Czech and Russian firms. Therefore, none of the studies includes the issue of deferred tax in the case of mergers. For more about the implementation of International Financial Reporting Standards in national (in this case Czech) legislature see Krajňák (2015) or Hakalová, Pšenková, and Losová (2014).

The purpose of this more theoretically focused article is to highlight the complexity, the wider context, in relation to the necessity of company valuation and the use of deferred tax as a tool regulating the fair value equity of the acquiring company.

1. Principle and concept of deferred tax

The accounting methodology for deferred tax in the Czech Republic is based on the current concept of IAS 12 Income Taxes. Particular attention is paid to:

– the correct recognition of income tax expense in the Profit and Loss Statement, which in most cases differs from the expense associated with the incurrence of a due income tax liability, i. e. from the current tax income;
– the tax consequences of underlying transactions that will be reflected both in paying income tax from future incomes, and in the Profit and Loss Statement, are recognized in the form of deferred tax expense or deferred tax income.

In terms of the methodology of the deferred tax calculation, the balance sheet liability method is used. The liability method expresses the procedure where the deferred tax in relation to the profit or loss recorded in the accounting will be applied in later accounting periods using the income tax rate applicable in future periods (Žárová, 2010) in a period when the tax liability (asset) is applied. The balance sheet approach means that the liability method is based on temporary differences, by which the differences between the tax base of the asset (or liabilities) and the amount of assets (or liabilities) are recognized in the balance sheet. According to IFRS, as pointed out by Vácha (2012), the temporary differences may include both time differences applied in the final financial statements and differences that have not passed through the profit and loss statement (e.g. revaluation of assets in the case of contribution or conversion). The basis for calculating the deferred tax is the fact that we rely on the balance sheet and confront the tax and accounting value of the balance sheet items of those assets and liabilities that may be subject to differences (Šebestíková, 2011).

The deferred tax calculated from these differences will be applied (paid or saved) in future periods. The aim should be to recognize the tax effects resulting from that in the balance sheet as accurately as possible, i.e. to report the future tax liability or asset. At the same time, the expenditure (or the expenditure savings) on the deferred income tax is recognized in the profit and loss statement, which according to Šrámková and Janoušková (2008) also has another meaning in terms of comparing the effective tax rate (the proportion of income taxes – due and deferred – and profit before tax) and income tax rates under the Income Tax Act (the proportion of due income tax and profit before tax).

Where the calculated due income tax is lower than the total income tax liability would be (after excluding consistent differences), by reasons of the principle of prudence, the tax liability (deferred) has to be calculated from the part of the accounting profit that was not included in the calculation of due income tax. A source for the future application is created in the form of a deferred tax liability. The creation of this source credited on the deferred tax expenditure in the current period will cause the limitation of the distribution of the parts of profit that were not subject to due income tax to funds created from the profit, or among shareholders.

The subsequent text of the contribution does not take into account the deferred tax asset that is exceptionally accounted for provided that there is a sufficiently high tax base in the future against which this asset could be applied.

By accounting the deferred tax, i.e. increasing due income tax (without payment obligation in the period of its calculation) through the expense on deferred income tax, we recognize the actual expense on the income tax that corresponds with accounting expenditures and revenues. This more real accounted income tax expense is going to be included in the profit or loss after taxation and it therefore affects the amount of equity. This indirect impact is reflected throughout the whole accounting of deferred tax, and equity is thus indirectly corrected depending on annual changes of temporary differences.

In addition to the mentioned direct impact of deferred tax on equity, there are other cases where deferred tax is accounted directly against equity; this system appears in the case of entities that have an obligation to revaluate their assets and liabilities (securities). That follows from the accounting methodology of their revaluation consisting in a direct change of equity (balance sheet valuation of other securities on fair value), which is also the reason for applying of the deferred tax liability directly against items of the equity (not debited to expenditures). A similar procedure is to be applied when there is an obligation to revaluate assets and liabilities in the case of transformations. Since liabilities cannot be revaluated according to Czech regulations (with some exceptions), we will not take them into account from the perspective of deferred tax. The differences between the accounting and the fair value of the revalued asset are recorded in the acquiring company by a separate item of equity (gains and losses from revaluation in the course of transformations of business corporations). However, in the case of transformations, tax neutrality is required by law. The carrying amount of the transferred assets is usually the tax base for calculating the due income tax payable on the assets acquired in this way, which the legal successor will continue. The future tax effect can be expected to be higher in cases where the assets' value determined by the expert is higher than the carrying amount, i. e. value of equity. However, this effect cannot be reflected through due income tax (the obligation of maintaining tax neutrality), therefore, there is a need to deal with the deferred tax resulting from the difference between the tax base and the valued asset by the expert, which, according to Czech regulations, may or may not also be based on a fair valuation of individual components of the assets. We will focus on the interaction between the value of the expert valuation of the net asset and the importance of the deferred tax in the next part of the paper, which deals with the merger of businesses.

2. Merger and the value assessment of assets

A merger represents a relatively complicated process, the result of which is the dissolution of one company without liquidation, and the transfer of its assets to a legal successor. This is one of the forms of transformations whose the legal framework is the law on the transformation of commercial companies and cooperatives in the Czech Republic.

The transfer of assets represents the transfer of all the assets and liabilities of the company being dissolved to an existing (or newly established) acquiring company. Its duty, among others, is to deal directly with the equity holders in relation to this transaction. The settlement is made in the form of exchanging original shares for new shares, i.e. acquiring the company's shares. An important role is played by establishing the right exchange ratios, which depends on the amount of capital determined by an independent expert. The value of assets varies around the carrying amount of the equity, which represents not only the registered capital but also other items of equity (retained earnings, capital funds, funds from profit) that also relate to shareholders and represent both a change against the initial value of the capital they invested (registered capital) and the preservation of the assets (Vomáčková, 2009).

Determining the fair value of assets based on the expert's report (an expert in asset valuation or company valuation) is an important part of the merger process. A report is always required if the acquiring company's registered capital increases due to a merger with the assets of the acquired company. The reason for this is takeover of assets without compensation, therefore, it is not possible to take into account the price negotiated by the agreement. Even in the case of companies whose shares are traded on a regulated market, the market price of shares cannot be relied upon. In many cases, actually, the valuation based on the current value of shares may not correspond to the market value of the equity (Mařík et al., 2011, p. 210). Therefore, the Transformation Act also regulated the obligation of having an expert valuation in transformations. An exception to this obligation is when no new shares are issued, e.g. in the case of a parent merger with a wholly owned subsidiary company. The Accounting Act follows the obligation of expert valuation according to the Act on Transformations. This Act requires the valuation of its assets and liabilities at fair value with the presentation in the opening balance sheet of the acquiring company in cases where an obligation to value the assets of an acquired company occurs during a merger. At the same time, there is a dual possibility of there being a valuation of the individual assets of the acquired company (individual valuation, taking over the accounting valuation). Unlike IFRS, where it is possible to value the assets only by the fair value.

The Czech regulations have allowed for a flexible determining of the record day since 2012. The record day may be set at the beginning of the merger process or at its end, on the day of the merger registration in the public register at the latest. This is, among others, the reason why expert valued assets are always reflected in the opening balance sheet of the acquiring company. However, the moment at which the asset is valued is always the date of the last final annual or extraordinary financial statement prepared by the acquired company before the merger project has been prepared. This day is referred to as the Valuation Balance Sheet day, regardless of whether it is an annual, extraordinary, or final statement. Due to the complications in accounting caused by the freedom of determining the record day, from the point of view of our problem – expert valuation and deferred tax – we will focus on the historically oldest and the easiest case of determining the record day, i.e. when this day (1 January) follows on from the financial statement (31 December), which is, from the point of view of a merger, both the final financial statement and from the point of view of valuation it is the balance sheet date for the valuation as well.

3. Expert valuation and deferred tax

The most commonly used methods for a company's valuation are income methods based on income analysis (the discounted cash flow method – DCF, method of capitalized net returns, method of economic value added – EVA, or combined income methods). This group of methods is based on the consistent use of the knowledge that the value of the asset is determined by the expected benefit to its holder. In the case of the economic goods to which the enterprise belongs, the expected incomes are these benefits (Mařík et al., 2011, p. 163).

The discounted cash flow is the most widely used method of valuation. The cash flows are a real income and therefore a real expression of the benefit from the goods held and they precisely reflect the theoretical definition of the value (Mařík et al., 2011, p. 164).

As mentioned before, the main reason for deferred tax creation is time differences. Apart from these differences, in the case of mergers or non-monetary deposits in companies, we can come across a unique form of temporary differences that form the base for deferred tax. They arise from the obligation to value assets and liabilities at fair value while maintaining tax continuity between the acquired and the acquiring company. Consideration of the deferred tax is important in relation to its equity, which is transformed by the expert valuation into a form of assets (so-called net assets). When determining its amount, the experts usually take into account the future tax liability arising from the revaluation, but in the end they will not reflect it. However, in accounting, the value of assets has to be adjusted, usually reduced, by the potential liability. The expert valuation of assets is predominantly higher than the equity recognized in the accounting before the revaluation, and therefore the future tax liability should not increase the acquiring company's own resources on which the exchange rate is based; eventually, they should be distributed to the shareholders. It is therefore important that this item should not be included in the equity and thus not result in an unfair increase in equity. As mentioned by Botek (2014), it is a very unpopular accounting solution in terms of decreasing the equity of the acquiring company in practice.

Nevertheless, if we want accounting to be built on a consistent basis, deferred tax cannot be disregarded. From the logic of the deferred tax issue in the case of mergers, as Skálová and Čouková (2009) also state, it is the case when the book value of the asset is increased to fair value, but the tax base remains at the original purchase price, i.e. the unchanged amount. Assets in which such differences arise are included in the calculation of deferred tax in such a way that, in the case of items that are recorded directly on the credit side or debit side of the account of equity, the deferred tax is also recorded on the opposite side of the equity, particularly the item of other net profit or loss of previous years (the valuation difference item is not decreased from revaluation in mergers).

3.1. The expert valuation without individual valuation of assets of the acquired company

Returning to the problem of the expert valuation versus direct tax, it is a relatively problematic field from a practical point of view. In principle, a procedure should be applied depending on the method used by the expert. In the case of the most commonly used valuation method based on the present value of future DCF, tax effects should be taken into account when calculating assets. Thus, the primary task before including the assets in the acquiring company's opening balance sheet is to determine whether or not the income tax has been accounted for in the cash flow in the expert valuation. The expert can then take into account the aspects of creating deferred tax and calculate the planned income tax on the basis of these titles in the financial plan. It can be stated that, in most cases, this valuation model always takes the tax into account. Then it depends on the agreement of the expert, accountant, or auditor whether the deferred tax reflecting future tax effects has already been taken into account in the expert's report. In practice, there are cases where, in the final section of the expert's report, one item indicates the market value of the company, which is equal to the value of the assets. There is no valuation of individual components of assets, and deferred tax is not taken into account. This is a global, gross procedure for determining the value of assets.

In the case of determining only the market value of a company without revaluation of assets, the only difference arising from an expert valuation is the difference between the value of the asset and the carrying amount of the equity recognized in the balance sheet that needs to be recorded in the opening balance sheet. This is especially true in equity, in the item of the balance sheet – revaluation difference from the revaluation in the course of the transformation. Considering the balance sheet principle, the difference is recognized in equity as a valuation difference of the acquired asset.

Due to the lack of available relevant statistical data about deferred tax in the case of mergers in the Czech Republic, the authors have decided to demonstrate this problem on the following model example.

The way of recognizing the amount of equity in the opening balance sheet (net of future tax effects) is shown in Table 1. The value of equity before revaluation is 80, the value of assets 120, the valuation difference from the revaluation is 40. In the opening balance sheet, we face the problem of how to deal with the tax effect in accounting (for the simplification we expect a 20% income tax). We make the settlement by reducing the revaluation difference, i.e. by reducing the equity after a revaluation at the level of the potential tax liability corresponding to an increase in revenue expected by the expert. The procedure results from the fact that if there are no time differences, the deferred tax has be recognized against equity (see Table 1, col. 4, 5).

Table 1. Influence of deferred tax on equity (without individual revaluation)

Balance sheet items	**Balance Sheet Items before Revaluation**	**Opening balance sheet**		
		Opening balance sheet without deferred tax	**Opening balance sheet with deferred tax**	**Opening balance sheet with deferred tax**
1	**2**	**3**	**4**	**5**
Long term assets	100	100	100	100
Gains and losses from revaluation in the course of acquiring assets	–	40	40	(+10) 50
Receivables	50	50	50	50
Assets	**150**	**190**	**190**	**200**
Equity	80	80	80	80
Gains and losses from revaluation in the course of transformations	–	40	40	40
Other net profit or loss from previous years			-8[1]	+ 10[2] – 10
NET ASSETS	–	120	112	120
Deferred Tax	–	–	8	(+10) 10
Payables	70	70	70	70
Liabilities and Equity	**150**	**190**	**190**	**200**

Source: authors' own calculations

[1] Net Assets = 120, Gains and losses from revaluation = 40 (100%), 20% from 40 = 8; according to the Czech regulation it is recorded on the debit side of the account as No. 426-Other profit or loss/ and on the credit side of the Account as No. 481-Deferred Tax.

[2] Net Assets = 120, Gains and losses from revaluation = 40 (80%), (80% from 40) × 20% = 10; according to the Czech regulation it is recorded on the debit side of the account as No. 097-Revaluation difference/and on the credit side of the account as No. 426-Other profit or loss and on the debit side of the account as No. 426-Other profit or loss and on the credit side of the account as No. 481-Deferred Tax.

In practice, there are no rare cases where this accounting practice leads to a revaluation of the value of equity depending on future tax effects, however, the resulting equity value in the opening balance sheet does not correspond to the amount of the expert valuation (120). It is lower (112) than the net value according to the expert report (see Table 1, col. 4). Accounting gives us the possibility to explain this difference (an annex to the financial statements, a commentary on the distribution of the gains and losses from the revaluation in the opening balance sheet on the record day of the merger), nevertheless, the problem may arise when the merger is registered in the Commercial Register. Therefore, it is necessary to find a way to deal with it. The solution is based, in some practical cases, on the following considerations. Considering the used income valuation method, the value of the asset should represent the discounted value of the future cash flow. It is necessary to verify whether the valuation model has in fact taken into account the future tax effect in the cash flow, which is usually confirmed. The observed valuation difference between the Net Value and Equity (in the balance sheet (see Table 1, col. 1)) is therefore considered to be a difference after taxation because it was calculated from two taxed amounts. For this reason, the gain and loss from revaluation [(net assets – equity) = 80%] should be increased to the gross value, i.e. with consideration of tax effects (20%). In terms of accounting, this is an increase in the amount of the valuation difference in assets and liabilities thus calculated, followed by a decrease in equity against deferred tax (see Table 1, col. 5). This will ensure that in the opening balance sheet, as a part of the equity, an amount is recognized which corresponds to the amount evidenced by the expert report and the income tax from the future cash flow is considered as well.

3.2. Expert evaluation with a valuation of individual assets of the acquired company

In this case, in addition to the valuation of the company as a whole, the fair, market valuation of individual assets with the possible creation of goodwill[5] is reflected in the accounts. In this revaluation, experts usually use the assets valuation based on the substitution value. The principle is the valuation of asset items at such a value at which individual assets would be currently acquired considering their actual state (age, deterioration, etc.). This is a valuation based on principles other than the income valuation method. Given that in the case of the individual valuation there are increases, or decreases of valuation, both in comparison with the initial accounting prices and in relation to the unchanged tax base, it is necessary to take into account that the revaluation would affects not only the value of the net assets but also the amount of the deferred tax. It is to be expected that the increased value of the assets will bring higher revenues. This results in an expected tax liability increase in the future, which should be reflected just by the deferred tax.

We cannot agree with the opinions of some valuation experts that this valuation results in permanent differences that do not affect deferred tax. They argue about the uncertainty of future plans with acquired assets, whether the acquirer will continue the same business or if he will use the acquired assets for some other purpose. In addition, they assume that the revalued value represents a value of „reacquisition" and that it does not take into account any tax history. They ignore the fact that the merger is tax-neutral, therefore, from the view of future tax acceptability, the initial tax values taken from the acquired company are relevant, but future revenues will flow from the revalued value of the asset. Therefore, it is necessary to take these tax impacts into account. For example, in the case of land acquired in a merger whose value in this context significantly increased, and this land is going to be sold for this price by the acquiring company, it will generate a relatively high amount of tax. This is because the acquiring company can only claim the entry price of the initial owner in the tax base against the income generated. In the future, therefore, a higher tax burden can be expected.

Nevertheless, valuation experts tend to favour the fact that deferred tax in the case of the substitute valuation should be taken into account. As part of the valuation, it is necessary to consider a deferred tax liability or the deferred tax asset (e.g. due to a transferable and recoverable tax loss, due to liabilities) transferred from the acquired company, and to consider the potential generation of deferred tax in relation to the revalued asset items. If the asset items are revaluated, the deferred tax balance (mainly deferred tax liability) relating to the items of assets before the revaluation should be cancelled, because it is based on a different basis than the difference incurred from the revaluation. If it did not happen, it would, practically speaking, be included in the deferred tax twice. As for the deferred tax asset relating to non-revaluated liabilities, it should be recorded against the deferred tax calculated from the revalued assets. The results of the study by Hanlon, Navissi, and Soepriyanto (2014), which focused on the incremental value of the balance sheet relative to the income statement approach to deferred tax accounting, suggest that the increase in the deferred tax balances on the adoption of the balance sheet approach has value relevance, with such value being driven by the deferred tax on certain asset revaluations (property, plant and equipment and equity-equivalent investments).

In these cases, communication with experts is necessary so that they consider the tax impacts in the part of the expert report which summarize the revaluation result. The expert has the possibility to express these impacts using so-called latent tax liabilities that are based on the difference between the tax value of the asset in the case of the current owner and the new value that the asset will have in the case of the new owner. The company's valuation should be adapted with regard to the tax effects at the substantial net asset value level (i.e. the equity valuation should be reduced by the current value of the tax savings from depreciation that the new owner will not be able to apply (Mařík et al., 2011, p. 422)). In practice, it is a newly provided deferred tax, mostly in the form of a deferred tax liability. If a deferred tax asset is reported in the entity's assets which may represent potential tax savings for the acquiring company, it should be taken into account when determining the final amount of the deferred tax (liability), within an increase in the company's substitute value.

The valuation of the company with the substitute value represents mostly an upward revaluation of the company's assets with projections into the value of net assets and the creation of goodwill. The amount of net assets should also be corrected for future tax liabilities expressed by an expert through latent tax liabilities that should appear in the opening balance sheet in the deferred tax liability item. This recognition corresponds to most cases where the fair value is higher than the tax value of the merged assets. Therefore, the fair value of the equity must be reduced by the expected tax consequences due to the precautionary principle. Otherwise (quantification of a deferred tax asset e.g. due to the potential tax loss applied in the acquiring company), we must be assured that the current increase of equity will be reflected in the future in taxable benefits.

Conclusion

This article deals with the problem of two related and challenging parts of the merger process, by accounting deferred tax in relation to valuation. In relation to the obligation to value assets and liabilities of the acquired company at the fair value required by the Act on Transformation of Companies and Co-operatives, with accounting regulated by the Accounting Act, close co-operation and mutual awareness among accountants, auditors and experts is necessary. The obligation of valuation gives experts who valuate companies quite a large influence on the determination of the amount of the net assets transferred to the acquiring company. This amount, in the form of recognition of the assets in the opening balance sheet, together with the application of the revaluation or non-revaluation of individual assets, is reflected in the acquiring company's accounting, and it affects its explanatory power. As indicated in the text, despite the various views on the application and recognition of deferred tax from the point of view of the revaluation obligation for the purposes of the merger, the temporary differences arise from the revaluation of assets to fair value. Notwithstanding the fact that there are no time differences, then differences from the change in the accounting value of the asset to the real value, without affecting the initial tax base of the valued asset. The resulting differences need to be analysed and taken into account in terms of their impact on the actual amount of equity, which results from the expert report. Due to this revaluation, there is indeed a difference between the initial tax value of equity and the revaluation value, i.e. the expert value of the asset, regardless of whether it is an individual asset revaluation or not. The acquiring company has the possibility to take into account only the initial tax values (before the revaluation), but there also has to be consideration of the potential tax consequences of the revalued, usually increased value of the asset. These future tax liabilities need to be excluded from the value of equity established for the merger because otherwise it is distorted, i.e. a higher value of equity is reported than when the deferred tax liability is taken into account. This can also be one of the reasons why accounting for deferred tax in connection with a revaluation in the case of mergers or other forms of transformation is avoided by many entities and why they are looking for reasons not to apply it.

From the above-mentioned arguments, it follows that deferred tax is necessary to be included in the opening balance sheet. If the deferred tax is not part of a company's valuation, it has to be accounted through goodwill or valuation difference. Non-disclosure of the deferred tax could have a negative impact on the economic decision-making of the acquiring company.

References

Bauman M.P., Shaw K.W. (2016), *Balance Sheet Classification and the Valuation of Deferred Taxes*, „Research in Accounting Regulation", 28 (2), pp. 77–85.

Botek R. (2014), *Přecenění majetku v rámci přeměn – specialita českého výkaznictví*, „Auditor", 21 (6), pp. 27–31 (The Chamber of Auditors of the Czech Republic).

Hakalová J., Pšenková Y., Losová, M. (2014), *First-time Adoption of International Financial Reporting Standards for Business Corporations Based in EU Member State that Are Issuers of Securities Admitted to Trading on Regulated Market*, [in:] *Proceedings of the 2nd International Conference on European Integration 2014 – ICEI 2014, Ostrava, Czech Republic*, VŠB – Technical University of Ostrava, Ostrava, pp. 192–201.

Hanlon D., Naviss F., Soepriyanto G. (2014), *The value relevance of deferred tax attributed to asset revaluations*, „Journal of Contemporary Accounting & Economics", 10 (2), pp. 87–99. DOI: https://doi.org/10.1016/j.jcae.2014.03.001.

Krajňák M. (2015), *Implementation of Analytic Hierarchy Process Method in Decision-Making on the Choice of Accounting between National Accounting Standards and International Financial Reporting Standards*, „Journal of Applied Economic Sciences", 10 (7), pp. 1060–1075.

Mařík M. et al. (2011), *Metody oceňování podniku (proces ocenění – základní metody a postupy)*, Ekopress, Praha.

Murdoch B., Krause P., Guy P. (2015), *An analysis of Using Time-Series Current and Deferred Income Tax Expense to Forecast Income Taxes Paid*, „Journal of Applied Business Research", 31 (3), pp. 1015 –1022.

Musgrave R., Musgrave P. (1989), *Public Finance in Theory and Practice*, McGraw-Hill, New York.

Purina M. (2016), *Deferred Tax under IAS 12 in the chosen Czech and Russian companies*, „Procedia – Social and Behavioral Science", 220, pp. 382–390.

Skálová J., Čouková P. (2010), *Účetní a daňové dopady transakcí v kapitálové společnosti*, Wolters Kluwer, Praha.

Skálová J. (2012), *Odložená daň při přeměnách*, „Český finanční a účetní časopis", 7 (3), pp. 1–14.

Skálová J. (2012), *Účetní a daňové souvislosti přeměn obchodních společností*, Wolters Kluwer ČR, Praha.

Šebestíková V. (2011), *Účetní operace kapitálových společností (daňové a právní souvislosti)*, Grada Publishing, Praha.

Šebestíková V. (2011), *Odložená daň a fúze*, [in:] L. Mejzlík (ed.), *Regulační prostředí pro akvizice a fúze*, Oeconomica, Praha.

Šrámková A., Janoušková M. (2008), *Mezinárodní standardy účetního výkaznictví – praktická aplikace*, Institut Svazu účetních, Praha.

Vácha P. (2012). *Teoretický koncept odložené daně*, „Auditor", 19 (4), pp. 8–10.

Vomáčková H. (2009), *Účetnictví akvizicí, fúzí a jiných vlastnických transakcí (vyšší účetnictví)*, Bova Polygon, Praha.

Žárová M. (2010), *Impact of IAS 12 on Deffered Taxes Regulation in the Czech Republic*, „European Financial and Accounting Journal", 5 (1), pp. 6–28.

Žárová M. (2016), *Disclosure of deferred taxes in annual reports of listed companies at the Prague Stock Exchange*, [in:] *Proceedings of the 21th International Conference Theoretical and Practical Aspects of Public Finance 2016*, University of Economics, Prague, pp. 125–130.

Internet sources

Ministry of the Interior of the Czech Republic, *Accounting Act,* No. 563/1991 Coll., as amended (1991), 31 December 1991, http://aplikace.mvcr.cz/sbirka-zakonu/SearchResult.aspx?q=563/1991&typeLaw=zakon&what=Cislo_zakona_smlouvy (access 30.06.2017).

International Accounting Standard Board, „IAS 12 – Income Taxes" (2009), London https://www.iasplus.com/en/standards/ias/ias12 (access 30.06.2017).

Acknowledgement

This paper was created with support from the Student Grant Competition Faculty of Economics, VSB – Technical University Ostrava within the project SP2017/118 „Application of selected quantitative methods for assessment of domestic and international aspects of taxation and insolvency".