Analysis of Deferred Taxes in the Business Environment in Serbia

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ABSTRACT
Flow-through model of income tax reporting in general purpose financial statements had a long history of use in Serbia. It was only in 2004 (and 2003 for banks), when the implementation of deferred taxes model started. It was inevitable, because IAS/IFRS became mandatory basis for preparing financial statements. In this paper we examine quality of deferred taxes disclosures in the financial statements of companies in Serbia. We also documented the most common temporary differences that arise in measuring accounting and taxable income and in that way we identified the major sources of deferred tax. We analyzed the materiality of deferred taxes and their effect on company´s performance in Serbia.

KEYWORDS: *book-tax differences, deferred taxes, disclosures, performance evaluation, Serbia.*

JEL CLASSIFICATION: *H21, H25, M41.*

INTRODUCTION

Tax deferral is one of the most attractive tax management strategies, but amounts of deferred taxes (as well as tax deferred savings) could not be perceived from the financial statements for a long period of time. Income tax accounting was previously based on the so-called flow-through model. This model means that only current taxes that are explicitly determined in a tax return should be incorporated into financial statements. In this way, deferred taxes are not the subject to reporting.

Deferred taxes result from different rules for measuring income for financial reporting purposes and for purposes of determining income tax. The degree of interaction between financial accounting and tax rules distinguishes from country to country. Somewhere the tax reporting is significantly based on the financial (although there is a reverse effect), while elsewhere the reporting systems are more independent. However, the differences are more or less everywhere present. Some of these differences can be characterized as permanent, because their effect (in the form of reduction or increase of taxable income comparing with accounting income) is definitive. Others are temporary differences.

Only those differences that are the temporary give rise to deferred taxes. Temporary differences usually appear as a result of: (1) earlier recognition of expenses or later

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recognition of revenues in determining taxable income in relation to accounting, which essentially leads to the postponement of tax payments for the reporting entity or (2) later recognition of expenses or earlier revenue recognition in determining taxable income in relation to accounting, which means that the reporting entity expect tax savings in some future period, i.e. tax savings are here subject of delay.

In the general purpose financial statements a dilemma regarding the reporting on the future effects of temporary differences appeared, i.e. on deferred taxes (tax savings). Various approaches are possible - from ignoring deferred taxes through their partial recognition to full expression. Each of these approaches has a different effect on the financial statements and consequently provides a different information base for decision making of many users of these statements.

Non-recognition of deferred taxes, which is promoted by flow-through reporting model, has many shortcomings. It reduces the potential for a correct estimation of future tax payments, because it does not provide insight into the deferred taxes (tax savings) that increase (decrease) these payments. In addition, the tax consequences of business transactions are recognized in that period when they are recognized by tax authorities, which may be before or after the period when the event itself is recognized in the financial statements. It violates the relationship between accounting income and income tax expense in the income statement and leads to distortions in net profit after tax.

Deferred taxes reporting model has just been developed to overcome the disadvantages of flow-through model. Expression of deferred taxes improves the assessment of future cash flows, and given the fact that income tax expense is recorded in an income statement through accrual principle and not through cash-flows one, a proper periodisation of income is achieved. However, application of this model is not without variations, but nowadays the dominant approach means complete expression of deferred taxes (interperiod comprehensive tax allocation) and orientation towards balance sheet rather than to income statement (asset/liability method). This approach is required by IAS/IFRS and also by GAAP.

Reporting in accordance with deferred taxes model is not panacea and is subject to challenge on several grounds. For analytical purposes, certain adjustments of information, that produces this model, are evident. As a rule, probability and time of realization of deferred tax assets (DTA) and deferred tax liabilities (DTL) are estimated. Then, it is determined on this basis whether and to what extent these positions should be treated as assets and liabilities. Some countries, like Great Britain, despite the proclaimed full application of deferred taxes, tend to implement only a partial interperiod tax allocation. Conceptual validity of this model is also troublesome. Another problem is a complexity in implementation and in interpretation of the information provided.

Therefore, accounting for income taxes is still subject to controversy. Undoubtedly, there is a space for further improvement in this area of reporting. Even in the developed economies it has been shown that there is an insufficient level of understanding of deferred taxes. It is interesting to see how the deferred taxes model is applied in a transitional economy of Serbia and to what extent its analytical capacity is exploited.

1. LITERATURE REVIEW

The phenomenon of deferred taxes was studied in the literature from various aspects. Their origins and perspectives can be seen in many papers, which deal with the relationship of tax and accounting rules for income measurement (Freedman, 2004; Freedman & Macdonald, 2007). The differences in the objectives of financial and tax reporting are a key cause for a different way of income measurement, and some of the most common areas of divergence (such as depreciation, the recognition of unrealized gains and losses for accounting purposes versus realized for tax purposes) result in deferred taxes. Particularly interesting is the current initiative in the European Union on defining a common consolidated corporate tax base (CCCTB). A method chosen for determining the tax base could be a kind of benchmark to which the national tax systems converge. Although it is undeniable that the IAS/IFRS constitute input in defining the tax rules for measuring the CCCTB, the basic orientation is in favor of the independence of tax (from financial) reporting. This further supports the occurrence of deferred taxes (European Commission, 2011).

Many empirical studies (Desai, 2003 or 2005; Lukić, 2011; Manzon & Plesko, 2002; Plesko, 2004) were conducted in order to realize the size and sources of differences between accounting and taxable income. This is particularly the case in countries with independent systems of financial and tax reporting, such as the U.S., where significant differences between two measures of income get great attention to fiscus and investors. It is also considered to what extent the increase gap between accounting and taxable income is the result of avoiding tax and /or reduced quality of accounting income.

A certain number of authors are concentrated only on temporary differences between accounting and taxable income and they especially focused on analysis of deferred taxes. In accounting literature advantages and disadvantages of different models of income tax reporting are still compared (Schroeder et al., 2005). There are some that even suggest returning of flow-through model (Colley et al., 2012). Therefore, empirical research of the relevance of deferred taxes to firm valuation becomes of greater importance. However, the results of empirical studies are opposite. Some of them confirm the relevance of deferred taxes (Amir et al., 1997; 2001), while other go against it (Lew & Nissim, 2004). The measurement of deferred taxes includes some significant estimates. This was the reason for research on the opportunistically usage of deferred taxes to manage leverage or earnings (Gordon & Joos, 2004; Dhaliwal et al., 2004). On the other hand, deferred taxes can also be used for discovering practices of earnings management (Dunbar et al., 2004).

The extent to which deferred taxes appear in financial statements determines how important they are for evaluation of companies` performances. Poterba, Rao and Seidman (2007) investigated materiality and structure of deferred tax for a sample of large (FORTUNE 50) U.S. corporations. According to this study, e.g. in 2004 (the last year of their analysis) 35.7% firms reported a net deferred tax position valued at more than five percent of total corporate assets. Haskins and Simko (2011) analyzed the size of net DTA and net DTL (as share of total assets) on 2010 corporate balanse sheets for all publicly traded companies and separately for S&P 500 companies. They showed that the mean size of the net DTL was 5.11% for all companies and 5.82% for the S&P. The mean size of the net DTA was 3.92% and 3.64%, respectively.

2. DEFINING HYPOTHESIS

In Serbia, only with the introduction of IAS/IFRS did deferred tax model become a base for income tax reporting in general purpose financial statements. That meant the end of up-to-then practice of using flow-through model. Although deferred taxes model was a great novelty at the time when it was introduced, its implementation has lasted for almost a decade. Therefore, it may be expected that the necessary knowledge has been adopted and that the requirements relating reporting deferred taxes are consistently met. After all, the use of deferred taxes model is not voluntary choice, but legal duty. When it comes to financial statements, that are subject of auditing, incorporating deferred tax model would be necessary. On the other hand, the use of this model may not always go smoothly, e.g. due to its conspicuous complexity or some other factors. Therefore, in this paper we explored what were current practices in accounting for deferred taxes in Serbia.

The correctness of tax position calculation may not be evaluated based on published financial statements without a detailed insight into accounting and tax records. Therefore, we examined compliance with the requirements of accounting for deferred taxes (according to IAS 12) on the basis of comparison of provided with required disclosures. Disclosures are also of a crucial importance for any more detailed analysis of tax positions carried out by the users of financial statements. That is why their presence and quality are of a great importance. In our research we set as the first hypothesis (H1) that disclosures were provided in the way as it is prescribed IAS 12.

Taking into a consideration that statutory income tax rate in Serbia is low and only 10% and that determination of taxable income relies heavily on the measurement of accounting income, our next, second hypothesis (H2) is that amounts of deferred taxes are most frequently not material items in balance sheet of companies in Serbia. The third hypothesis (H3) is that analysis of deferred tax is very rarely carried out with the purpose of better evaluation of companies' performances.

The second and third hypotheses are confirmed in this paper according to their character, what is not the case with the first hypothesis.

3. RESEARCH METHODOLOGY AND DATA COLLECTION

In order to assess the quality of income tax disclosures, we examined 2010 and 2009 financial statements for a sample of the largest companies. The sample included the 20 largest real sector companies according to the amounts of operating revenues in 2010 and 20 top banks according to size of assets in 2010. Serbian Business Registers Agency (2011) published the list of the largest non-financial companies. Sectoral distribution of these companies is given in Table 1. There can be seen that the energy sector is the most predominant; 55% of the sample are companies from this sector. Some companies from the sample belong to the private sector (55%), while the rest belong to public sector (45%). The list of top banks is taken from the edition of Ekonom: east media group (2011). Financial statements of stated companies for 2010 and 2009 were taken from the website Serbian Business Registers Agency (2011). In total, eighty statements were subject of the analysis. The most significant sources of information were notes to financial statements in section "income taxes".

Table 1. Sectoral Distribution of the 20 Largest Non-financial Companies in Serbia in 2010

Sector	Number of companies
Energy	11
Retail	3
Telecommunicatons	2
Construction	1
Chemistry	1
Metal industry	1
Agriculture	1
Total	20

Source: Serbian Business Registers Agency (2011)

Reporting of these entities is in the focus of the research, because they are entities of public interest, either for its size or way of its operations (financial institutions). Therefore, providing information in their financial statements is of the greatest importance. It is here where the highest expectations are, in terms of quality of the presented information, and mandatory auditing of these statements contributes to it. If irregularities in terms of implementation of deferred taxes model were discovered here, that would be a clear sign that there were even more serious irregularities in statements of other entities that attract less attention.

The number of income tax disclosures is not small, but some of them are necessary only in certain situations. Three disclosures that can be considered as basic ones and that are expected to be present in statements of all companies are as follows: (1) separately disclosed current and deferred component of tax expense (income), (2) an explanation of the relationship between tax expense (income) and accounting profit and (3) composition of DTA and DTL.

What we tested on observed sample of statements was actually whether these three disclosures were provided and whether or not they were provided in required format. To the extent to which these dates are provided, we used them in further analysis in order to get better understanding of deferred taxes in context of Serbia. We identified origination of deferred taxes, that is to say what are the major causes of their creation.

In the second part of the research we explore balance sheets of the same companies, in order to determine materiality of DTA and DTL. As a rule, DTA and DTL are not included in a balance sheet in gross amounts because the offsetting of these amounts is required when certain conditions are fulfilled. In short, these conditions are: (1) the entity has a legally enforceable right to set off current tax assets against current tax liabilities and (2) the DTA and the DTL relate to income taxes levied by same taxation authority (International Accounting Standards Board, 2012).

Given the fact that these conditions are mostly fulfilled with analyzed companies in Serbia, consequently only net DTA or net DTL appear in balance sheet. In the analysis, we classified companies firstly considering the character of their net position in deferred taxes, then we determined their share in total company`s assets. The situation in real sector is separately shown in comparison with the financial sector, because deferred taxes are usually more common with non-financial companies. There are a few cases where DTA and DTL exist simultaneously in balance sheet. The reason for this phenomenon lies in the fact that deferred taxes that are related to ordinary income and loss cannot be offset against those that are related to capital gains and losses. Nevertheless, even in cases like these we did the offset of these amounts, for the purposes of our analysis. With this, the percentage of the net position of deferred taxes almost does not change at all, because deferred taxes related to capital gains and losses are very low.

If the hypothesis that deferred taxes are not appeared in material amounts in balance sheet were to be confirmed, that could prove that deferred taxes do not play some important role in evaluation of financial position of companies in Serbia. The sample of companies that we analyze substantially covers the banking sector (20 out of 32 banks on the market were analyzed – 62.5% of banks), what is not the case with non-financial sector. Our findings on the significance of deferred taxes for non-financial firms are limited by the modest size of a sample. That is why we carry out another empirical research.

Given the fact that the banks on the Serbian market appear as one of the most frequent users of companies` financial statements and that detailed analysis is carried out with the purpose of granting of loans, we conducted a questionnaire survey in the banking sector. The purpose was to consider the importance that is given to deferred taxes in evaluating performances of companies that apply for their products.

The survey was directed to banks with a suggestion to be filled out by the employees who actually carry out financial analysis. The respondents were expected to answer what was the treatment of DTA and DTL in certain segments of financial analysis - in the analysis of solvency, liquidity and profitability. They were also expected to point out to circumstances in which they carry out detailed analysis of these positions. Two questions were related to current practices with regard to assessing the likelihood of realization of DTA. One of the questions also was to what extent income tax notes were actually a subject of the analysis. At the end there was offered a possibility for respondents to express themselves if they did not carry out detailed analysis of deferred taxes, what were the reasons for that practice.

The number of responses received was 14, so the response rate was 43.75%. Attention should be paid to the fact that among respondents were six banks with largest given credits and deposits, which together had market share more than 50%. The total market share of all respondents was 69% (data refer to the 2010) (Ekonom:east media group, 2011).

4. SUMMARY FINDINGS

4.1 Income tax disclosures

By checking income tax disclosures we got results that are represented in Table 2. In terms of disclosure of components of tax expense, the situation is satisfactory. All companies provided this disclosure (apart from two companies where tax expense equals zero) in the way of separating current from deferred taxes. The reporting of this data is actually ensured by a prescribed form of income statement, which requires a separate presentation of current and deferred tax expense (or income). A majority of companies repeat this data also in income tax note.

Table 2. Income tax disclosures in 2009 and 2010 financial statements

Diclosures	Yes – in requested form		Yes, but not in requested form		No	
	2009.	2010.	2009.	2010.	2009.	2010.
Components of tax expense (income)*	38	38	-	-	-	-
An explanation of the relationship between tax expense (income) and accounting profit	7	6	25	28	8	6
Composition of DTA and DTL**	25	22	4	8	7	6

Source: authors

* Two non-financial companies were not considered because there is no tax expense (income).

** The four non-financial companies are not involved, because they have no recognized DTA or DTL.

An explanation of the relationship between tax expense (income) and accounting profit appears as disclosure with the highest number of omissions. The biggest surprise was the fact that there were companies that missed any explanation of deviation tax expenses from expected amount. With this, informational potential of income tax disclosures was seriously damaged. In 2010, 15% of companies (in 2009, 20% of companies) did not provide this disclosure.

The rest of the companies make this disclosure, but rarely is it provided in required form. Only 15% of companies in 2010 (17.5% in 2009) adopted a methodology of IAS 12. Omissions in presentation make it difficult or even disable examination of the causes of deviation effective from statutory income tax rate. The most common aspects of inadequate form of this disclosure are as: (1) the presentation of a complete tax return; (2) a numerical reconciliation between *current* tax expense and the product of accounting profit multiplied by the statutory tax rate and (3) the same as the previous one, but at the end deferred taxes are added to current tax expense in order to reach a total tax income in income statement.

In the first case there exists even more information than it is required, but it is not rightly systematized. In the second case combining the effects of permanent and temporary differences is a critical problem. For example, within item ``expenses that are not recognized in tax return`` expenses that will never be recognized are included (and therefore they increase effective tax rate) as well as excess of accounting over tax depreciation. This is temporary difference, and they should not at all appear in this disclosure (except when they do not lead to the recognition of DTA and DTL). In the second given form there are some cases where relationship between current (instead of total) tax expenses and accounting profit is presented as effective tax rate. This can be very serious misleading. In one case, the effective tax rate is shown at a level of only 6%, instead of the fair 16.38%.

A situation like this shows that there is not enough understanding of the purpose of this required disclosure, and also that ``an easier`` way of its presentation is often used bearing in mind already available information concerning the preparation of tax return, instead of systematizing data in the way to highlight effective tax burden.

Regarding the third disclosure of composition of DTA and DTL, omissions are also present. There is no information given in 15% of companies in 2010 (17.5% in 2009). Apart from that, inadequate forms of disclosure are present: (1) only descriptive explanation of the composition, without the quantification of the effect of certain temporary differences and (2) explanation of changes in DTA and DTL that occurred during the reporting period, instead of explaining cumulative amounts of DTA and DTL.

In both cases key information for the purposes of financial analysis is missing. Estimate of likelihood and timing of realization of deferred taxes is disabled. Even the separation of DTA and DTL into current and non-current positions is not feasible.

Omissions in disclosures are significant and characteristic for both banks and non-financial sector. The hypothesis that disclosures are compatible with requirements of IAS 12 is denied with this. Deffered taxes issue is not adequatly treated. That also raises an important question of correct calculation of the recorded amounts in income statement and balance sheet.

4. 2 Sources of deferred taxes

With previously mentioned limitations, disclosure of composition of DTA and DTL served for an identification of major sources of deferred taxes. Their number is not large and their occurrence is presented in Table 3 and Table 4, for banks and non-financial companies separately.

Table 3. Major Sources of DTA and DTL for Banks

DTA	Number of banks		DTL	Number of banks	
	2009	2010		2009	2010
Property, plant and equipment	11	10	Property, plant and equipment	8	8
Financial assets available for sale	-	2	Financial assets available for sale	8	6
Provisions (severance, pensions, lawsuits)	2	7	Revaluations of properties	1	1
Asset impairment	-	1			
Derivatives	-	2			
Accrued, but not yet payed taxes	-	2			
Tax credits	10	8			

Source: authors

Table 4. Major Sources of DTA and DTL for Non-financial Companies

DTA	Number of companies		DTL	Number of companies	
	2009	2010		2009	2010
Property, plant and equipment	3	3	Property, plant and equipment	8	8
Provisions	-	2			
Accrued, but not yet payed taxes	-	1			
Tax credits	2	2			

Source: authors

The results of analysis show that taxable, as well as deductible temporary differences most frequently appear in both financial and non-financial sector relating the position of property, plant and equipment. The reasons for this are the differences between accounting and tax depreciation. However, accounting depreciation with banks is in most cases faster than tax one, while with non-financial sector the situation is opposite.

As the source of DTA, tax credits are in the second place by their frequency in both sectors. Banks have higher tendency to recognize DTA on this basis, whereas non-financial companies have more unrecognized than recognized DTA on tax credits. Concerning large non-financial companies, their investment in fixed assets are intensive, while taxable income is insufficient (with specified limitations) for absorbing all of the potential savings. There is a time limit for the transfer of unused credits, as well as the requirement that tax credits can be utilized to reduce current tax liability for up to 50%. Not recognizing DTA on the basis of incurred tax losses is practice in both sectors.

More frequently DTA appear in respect of provisions in banking sector, while non-financial firms still very rarely practice recognizing DTA on this basis. Temporary differences on the financial assets available for sale are typical only for banking sector and, for now, they have dominant taxable character (therefore they lead to the appearance of DTL). Other sources of deferred taxes appear less frequently and are of less importance.

4. 3 Materiality of DTA and DTL

Classifying companies according to whether they are in a position of net DTA or net DTL is shown in Table 5 and separately for non-financial firms and banks. The net DTL are more common amongst non-financial firms than banks. That is in accordance with the expectations, given the fact that with financial institutions higher DTL based on depreciation are omitted. Four non-financial companies have neither DTA nor DTL. These companies operate with losses and are in a position to have unrecognized DTA. Out of remaining 16 non-financial companies 69% is in a position of net DTL in 2009 as well as in 2010 compared with 30% for banks in 2010 and 40% in 2009.

Table 5. Net Position of Deferred Taxes

	Net DTA position		**Net DTL position**	
	2009	**2010**	**2009**	**2010**
Number of non-financial companies*	5	5	11	11
Number of banks	12	14	8	6

Source: authors

* Four non-financial companies have no deferred taxes on the balance sheet.

The analysis of the share of net DTA and DTL in total assets showed that these positions are rarely material. However, more significant percentage of these positions may be seen with non-financial firms than with banks. All banks in 2010 and 2009 have a net deferred taxes position less than one per cent of total assets. Extreme maximum value of share is 0.7% in 2010 (0.5% in 2009).

Table 6. Net DTA or DTL as the Share of Total Assets for Non-financial Companies*

	Net DTA		**Net DTL**			
	0-1%	**1-3%**	**0-1%**	**1-3%**	**3-5%**	**more than 5%**
2009	5	-	4	3	3	1
2010	4	1	5	2	4	

Source: authors

* The four non-financial companies are not involved, because they have no recognized DTA or DTL.

In Table 6 share of net DTA and net DTL in total assets for non-financial firms is presented. In 2010 and in 2009, 35% of companies from our sample of 20, have this share over 1%, while for 20% of companies net DTL are over 3% of balance amount. Not a single company did have share over 5% in 2010, while in 2009 only one had it. The results also show that not only is the frequency of appearance of DTL higher in comparison with net DTA, but also is their share.

One of the main reasons for relatively small amount of deferred taxes is low tax rate of 10%. The other reason is small amounts of temporary differences, considering significant compatibility of tax and financial reporting. For example, with 20 non-financial firms it was shown that taxable temporary differences arise only on the basis of depreciation.

For a majority of companies in our sample, DTA and DTL do not affect significantly financial position. Key financial ratios would not have changed even if the flow-through model had been used instead of deferred taxes model.

4. 4 Treatment of deferred taxes in financial analysis

The results of the survey in banks are given in Table 7 and show that in the most cases detailed analysis of DTA and DTL is not carried out. Here analytical problems that are characteristic for developed economies are not conspicuous. During the evaluation of solvency, 64% of banks automatically treat DTL as liabilities, while, as a rule, DTA (86%) are not considered in this part of analysis. The question relating possible corrections of equity on the basis of DTA and DTL during calculating return on equity only 4 banks (29%) answered affirmatively.

Table 7. Survey Results on the Analysis of DTA and DTL

1. What is the treatment of DTL in the analysis of solvency?	As liability.	As equity.	They could be (partially) excluded from liability, but are not included in equity.	They could be (partially) excluded from liability and included in equity.
	9 (64%)	0	2 (14%)	3 (22%)
2. How do you treat DTA in the analysis of solvency?	They are irrelevant.		They could be treated as a reduction of equity.	
	12 (86%)		2 (14%)	
3. Could DTL (DTA) be treated as equity (as a deduction of equity) in your computation of return on equity?	No, never.		Yes, when:___.	
	4 (29%)		10 (71%)	
4. Are DTL treated as current liabilities in the analysis of liquidity?	Yes.	No.	They are divided into current and non-current liabilities.	
	7 (50%)	5 (36%)	2 (14%)	
5. Are DTA treated as current assets in the analysis of liquidity?	Yes.	No.	They are divided into current and non-current assets.	
	5 (36%)	8 (57%)	1 (7%)	
6 Are you assesing the likelihood of realization of recognized DTA?	Always.	Sometimes, when:	Never.	
	0	6 (43%)	8 (57%)	
7. Are you considering also unrecognized DTA?	Always.	Sometimes, when:	Never.	
	0	2 (14%)	12 (86%)	
8. Are you considering income tax note for a purpose of financial analysis?	Always.	Sometimes, when:	Never.	
	5 (36%)	3 (21%)	6 (43%)	

Source: authors

In the analysis of liquidity, the decomposition of DTL in the current and non-current component is characteristic only for two banks, while for DTA it is only one bank. A dominant approach means that detailed analysis of the positions` maturity is not carried out. There is a difference of opinion about whether these positions represent current or non-current liabilities (assets). With DTA, a greater number of banks are of an opinion that they are non-current assets, while with DTL there are a greater number of banks that treat them as current liabilities. This treatment of deferred taxes could be a surprise. The reason for this treatment probably lies in the prudence principle. As analysis of maturity is not carried out, prudence requires treating liabilities as current.

With two questions it is analyzed to what extent a risk of inadequate evaluation of deferred tax assets is considered. Less than a half of respondents (43%) sometimes evaluate a real potential of DTA, primary in the circumstances where their amounts are considerable. A greater number of respondents neither evaluate a likelihood of the realization of recognized DTA (57% of respondents), nor do they deal with unrecognized DTA in any way (86%). It is only with two banks that the unrecognized assets are considered, but only when their amount is considerable and under the condition that the given data is disclosed.

Income tax note is not at all considered with 43% banks, while 21% do that sometimes. Only 36% of banks analyze regularly this part of financial statements.

Based on the answers to all previous questions, it can be concluded that the positions of deferred taxes usually are not considered as important for the evaluation of companies` performances. Therefore, they are not a subject of more detailed analysis, what was the expected outcome of survey conducted. If they do not carry out detailed analysis of deferred taxes positions, respondents are asked in the last question to name the main reasons for such a treatment. Given answers point out to three main reasons: (1) The most common reason is that these positions do not appear in material amounts, frequently they are even virtually ``neglected``; (2) The second stated reason is that there do not exist adequate disclosure in companies` financial statements, which would enable quality analysis and (3) The third reason lies in the complexity of such analysis.

CONCLUSIONS

With the research many problems concerning income tax reporting were identified. These problems should be overcome so that quality analysis of deferred taxes could be carried out at all. The responsibility for that not have only those who prepare statements, but, maybe even more, auditors who should notice present omissions in reporting.

Although companies in Serbia most usually do not have material amounts of DTA and DTL, not even those situations, where that is not the case should be overlooked. In circumstances like these, the correct evaluation of companies' performances requires information and competences for analyzing deferred taxes. The recent announcements about the increase of income tax rate should be also considered. The increase of tax rate would lead to immediate increase of deferred taxes balances, by which the number of companies with material amounts of DTA and DTL would be extended. Therefore, it can be expected that the issue of deferred taxes becomes more significant in the context of business environment of Serbia.

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