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## Deferred tax for tax planning in the Czech agricultural companies

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**Abstract:** The paper is aimed at the materiality of deferred tax in agricultural holdings and the development of a proposal for simplification of deferred tax reporting in agriculture. The analysis of materiality and the structure of deferred tax in agricultural holdings which are obliged to report deferred tax is researched. The dataset covers the financial statements of the agricultural holdings (joint stock companies) obliged to report deferred tax during the period 2011–2015. The dataset covers hand-collected 1 110 firm-years. Based on the results of the study, the category deferred tax was identified as a material category and has to be reported. We found that the most common title for deferred tax reporting is the difference between the tax base and the carrying amount of long-term assets. The comparison of return on assets and adjusted return on assets reflecting the elimination of the deferred taxes effect reveals that the effect of deferred tax reporting is not so high in the large agricultural holdings in the Czech Republic.

**Keywords:** agricultural holding; carrying amount; deferred tax; materiality; tax base

Agriculture covers a large scale of activities which join labour, land, animals, plants, and solar energy to provide essential food and raw materials. Agricultural activity is, in comparison with other activities of business subjects, dependent on natural and environmental conditions. The specialisation of agriculture is closely connected with the geographical position; it is dependent on weather conditions and other factors that can be influenced by the action of the human factor only to a limited extent.

Despite a low proportion of agriculture in the gross domestic product in the EU [according to IndexMundi (2018) 1.6% in 2015] and value added in the agricultural sector as percent of Gross Domestic Product (GDP) 2.52% in 2015, agriculture is not the only source of production of raw materials and food self-sufficiency but it provides jobs and it significantly influences

the formation of landscape, its functionality and aesthetic value. Utilised agricultural area accounted for two-fifths (40%) of the total land area of the EU-28 in 2013, with a further 9% of the land belonging to agricultural holdings, either in the form of forests (7%) or other land not used for agriculture (2.3%).

According to Farm Structure Statistics EU (Eurostat 2013), the structure of agriculture in the Member States of the European Union (EU) varies as a function of differences in geology, topography, climate and natural resources, as well as the diversity of regional activities, infrastructure and social customs.

In 2013, there were 10.8 million agricultural holdings within the EU-28. An analysis by economic size shows that among these there were 6.5 million (or 59.8%) that had a standard output in excess of 2 000 EUR. The utilised agricultural area (UAA) in the EU-28

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was almost 175 million ha (some 40% of the total land area), giving an average size of 16.1 ha per agricultural holding.

The Agricultural Land Fund represented, as of December 31, 2014, a total of 4 215.6 thousand ha according to the Cadaster of Real Estate, i.e. 53.5% of the state. According to the Agricultural Census (Eurostat 2013), the utilised agricultural area (UAA) of the Czech Republic was almost 3.5 million ha in 2010, which corresponds to 44% of the area of the whole country. In the Czech Republic, a relatively small number of farms accounted for a huge majority of the Czech agricultural area: while only 19% of the holdings had an UAA of 100 ha or more, these holdings accounted for 89% of the total Czech UAA (Table 1, Figure 1).

The smallest is a group of large farms (7.3%). The lowest share belongs to size class XIV, which includes 248 largest enterprises representing only 1% of all classified agricultural entities in the Czech Republic. It should be noted that the core of the Czech agricultural production is concentrated within the group of large agricultural enterprises (economic size class X–XIV), which accounts for almost 65% of the

agricultural land of the Czech Republic (Czech Statistical Office 2011). The legal forms of the majority of these farms are Limited Companies (LTD) and joint-stock companies and they present financial information by financial statements in the full form.

Despite the fact that farms are involved in agriculture with the specifics of biological character of transformation which should be also reflected by the methodology for reporting agricultural enterprises' activities, the agricultural companies use the standard methods for reporting their business activities and respect the basic principles for financial reporting in the Czech Republic (Sedláček 2010; Kouřilová and Sedláček 2014). These companies prepare their financial statements according to the Accounting Act (563/1991 Coll.), Implementing Decree No. 500/2002 Coll. and the Czech Accounting Standards. All agricultural enterprises which are accounting entities according to the Accounting Act should respect all treatments regardless of considering costs and benefits.

One of the most costly and time demanding treatments in financial reporting in the Czech Accounting Legisla-

Table 1. Structure of holdings by their economic size

Economic size class	Agricultural holdings					
	total		holdings of natural persons		holdings of legal persons	
	number	(%)	number	(%)	number	(%)
Total	22 739	100.0	19 672	100.0	3 067	100.0
Small (I–V)	13 806	60.7	13 356	67.9	450	14.7
I	1 345	5.9	1 300	6.6	45	1.5
II	2 456	10.8	2 388	12.1	68	2.2
III	4 109	18.1	4 002	20.3	107	3.5
IV	3 504	15.4	3 398	17.3	106	3.5
V	2 392	10.5	2 268	11.5	124	4.0
Medium (VI–IX)	7 262	31.9	6 121	31.1	1 141	37.2
VI	2 804	12.3	2 649	13.5	155	5.1
VII	2 028	8.9	1 819	9.2	209	6.8
VIII	1 673	7.4	1 291	6.6	382	12.5
IX	757	3.3	362	1.8	395	12.9
Large (X–XIV)	1 671	7.3	195	1.0	1 476	48.1
X	382	1.7	107	0.5	275	9.0
XI	267	1.2	46	0.2	221	7.2
XII	384	1.5	27	0.1	321	10.5
XIII	426	1.9	13	0.1	413	13.5
XIV	248	1.1	2	0.0	246	8.0

Source: Czech Statistical Office (2014)

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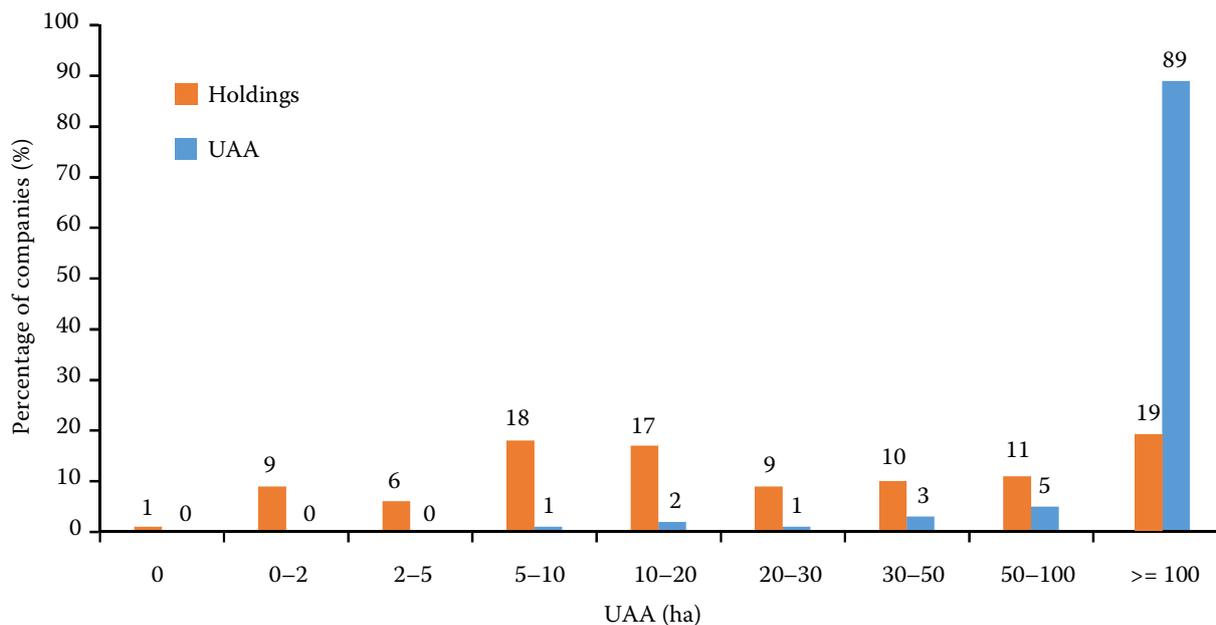


Figure 1. Number of holdings and utilised agriculture area (UAA) in the Czech Republic

Source: Eurostat (2017)

tion is reporting of deferred tax, while the benefit of this information is questionable, especially for agricultural enterprises. In accord with the Act No. 563/1991 Coll., companies are obliged to recognise and report the item deferred corporate income tax when they form the consolidated group and the entities that compile the financial statements in the full form<sup>1</sup>. Other entities determine whether they will recognise and report the deferred income tax or not.

The deferred income tax is an accounting category which is primarily concerned to present the business entity in the true and fair view, and to respect the prudence principle. This category is connected with a relation between financial reporting and corporate income taxation. The objectives of financial reporting and taxation are different and both are dependent on local circumstances. While the aim of financial reporting is concentrated on the fair reporting to external users, it means the financial results must not be overestimated, the aim of taxation is to fill the state budget. From the perspective of business entities, there are efforts to minimise the income tax base. Due to these facts, the reported profit or loss could differ from the income tax base in a majority of states. The level of the difference is dependent on the relationship between the tax system and the financial reporting system in a particular country. The differ-

ences between the tax base amount and the reported profit or loss can be characterised as permanent or temporary. Temporary differences give rise to an accounting category called deferred tax. According to the current methodology of deferred income tax calculation, temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. The tax base of an asset or a liability is the amount attributed to that asset or liability income tax purposes.

Based on the relation between the temporary differences between the tax base and the carrying amount of assets and liabilities, the deferred tax is reported as a deferred tax liability (DTL) and a deferred tax asset (DTA), respectively. The reporting of deferred tax represents an instrument for distributable profit or loss regulation in the form of an accrual or a deferral, when in a period of lower payable income tax, the company postpones part of the reported profit in the form of a deferred tax liability. In a period of higher payable income tax, the company increases the reported profit by the creation of a deferred tax asset or by the use of a deferred tax liability.

Reporting of the deferred income tax and its impacts are subjects of challenge in several areas of research. The majority of studies deal with the relationship of tax and accounting rules for income measurement.

<sup>1</sup>Accounting Act – Act No. 563/1991 Coll. on Accountancy, as amended. Section 18, paragraph 3.

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Many empirical studies (Phillips et al. 2003; Crabtree and Maher 2009; Donohoe and McGill 2011; Haskins and Simko 2011; Laux 2013; Noga and Schnader 2013; Jackson 2015) were conducted in order to realise the size and the sources of differences between profit or loss reported and taxable income and to research impacts of deferred tax reporting on different areas. These could be future tax payments, earning persistence, firm valuation, shares price or financial distress.

The extent to which deferred taxes appear in financial statements determines how important they are for the evaluation of companies' performances. Poterba et al. (2007) and Poterba et al. (2011) investigated the materiality and structure of deferred tax in a sample of large U.S. corporations (FORTUNE 50). Haskins and Simko (2011) analysed the size of net DTA and net DTL (as share of total assets) on 2010 corporate balance sheets for all publicly traded companies and separately for S&P 500 companies. The study of Phillips et al. (2003) approved the relation between book and tax reporting and firms' incentives to engage in earnings management activities. The dataset covers the period 1994–2000. The conclusions of the study suggest that deferred tax expense reporting can supplement accrual measures in detecting earnings management to avoid earnings decline and to avoid a loss in future periods.

Crabtree and Maher (2009) stress the effect of difference between taxable income and income reported in financial statements on bond ratings, they look at new bond issues and find that firms with both deferred (temporary) book-tax differences (BTDs) and total BTDs deviating from the industry average receive lower bond rating. Ayers et al. (2010) examine whether credit analysts utilise the information contained in the difference between book and taxable income in analysing a firm's credit risk (i.e. credit rating). The results show that large positive or negative changes in BTDs signalise decreased earnings quality and/or increased off-balance sheet financing. Noga and Schnader (2013) researched the association between BTDs and bankruptcy. They proposed the use of tax disclosures for predicting of bankruptcy. Laux (2013) considers as important to examine whether deferred tax assets and liabilities actually provide incremental information about future tax payments. The results presented in his study indicate that there is an asymmetrical association between deferred tax assets and liabilities and future tax payments.

The recent study of Jackson (2015) concerns BTDs and future earnings changes. The author revealed evidence consistent with a negative association between

temporary differences (identified with deferred taxes) and future changes in pre-tax earnings, and a positive association between permanent differences and future changes in tax expense. Dhaliwal et al. (2008) investigated the extent to which BTDs explain differences in cost of equity capital across firms. The results indicate that variability in BTDs estimated over five or six years is positively and significantly related to cost of equity capital (estimated in various ways), whereas other BTD variables generally are not. If only a relatively short time-series of data is available, the absolute value of BTDs is positive and significantly related to cost of capital.

The most recent study of Blackburne and Blouin (2016) concluded that the previously documented empirical findings regarding BTDs arise even when BTDs themselves provide no information regarding future book income and there is no manipulation of either book or taxable income. The model suggests that large book-tax differences are particularly informative when there is greater noise in the measurement of book and/or taxable income.

As can be clearly seen from the review of current literature, the research aimed at European companies is very limited. Moreover, the majority of studies cover the period beginning in 1994 and concern firms incorporated in the U.S.. The year 1994 is the first year when the change of deferred tax can be computed due to effectiveness of Statement of Financial Accounting Standards (SFAS) 109, respectively Accounting Standards Codification (ASC) 740. It means that the conclusions of all above-mentioned studies are based on a similar dataset and the research is concerned with publicly traded companies.

Currently, there are only a few studies aimed at companies acting in Europe. The first study carried out by Vučković Milutinović and Lukić (2013) covers the 20 largest non-financial companies and 20 banks in Serbia in the period 2009–2010. The research examines the materiality of DTA and DTL. It covers only a limited sample of companies situated in Serbia, during the limited time span. Due to this fact, the conclusions of the study are limited. Moreover, it deals only with the materiality of this category for Serbian companies.

The conclusions of the studies carried out by Bohušová and Svoboda (2005), Habanec and Bohušová (2017a), Bohušová et al. (2018) have shown the materiality of the deferred tax category reporting by large companies in the Czech Republic. The first one revealed the median of deferred tax/total income tax ratio 15.21 and 7.4%, respectively in the researched samples.

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The further studies proved the materiality of deferred tax in the Czech companies.

There is a lack of information concerning the materiality and the quantification of the impact of the deferred tax reporting in the EU. The deferred tax category can be considered as material and must satisfy the elementary quality characteristics and principles of financial reporting (accrual principle, the principle of prudence, faithful representation). Based on the previous survey, sufficient attention is not paid to it either in agriculture or in the Czech Republic.

## MATERIAL AND METHODS

The paper is aimed at the materiality of deferred tax in agricultural holdings involved in primary agricultural production analysis (NACE 01) and the development of a draft for simplification of deferred tax reporting in agriculture. In the first stage, the analysis of the materiality and structure of deferred tax in agricultural holdings which are obliged to report deferred tax is researched. In the second stage, the results of analysis are used for the development of a draft for deferred tax simplification in agricultural holdings.

The dataset covers the financial statements of the agricultural holdings (joint stock companies) obliged to report DT during the period 2011–2015. The length of the researched period enables to obtain a more complex view on the deferred tax category (similar researches carried out in Europe cover shorter periods – Bohušová and Svoboda (2005), Vučković Milutinović and Lutić (2013). The system of the Czech Ministry of Finance (ARES) is used for the identification of agricultural holdings preparing financial statements in the full form. The total number of companies identified is 185. The companies which did not fulfil the requirements for presentation are excluded. The dataset covers hand-collected 1 110 firm-years.

The methodology similar to that used by Habanec and Bohušová (2017a,b) is utilised for the calculation of the DT materiality. The percentage of total assets is used as a basis for calculation. Due to the fact that neither International Standard on Auditing (ISA) 320 nor International Financial Reporting Standards (IFRS) set any quantitative criteria for materiality calculation, the study of McKee and Eilifsen (2000) granted by the Norwegian Research Council is used for setting quantitative criteria of materiality. According to this study, there are four possible approaches to materiality quantification (single rules,

variable of size rules, blend of averaging methods and formula methods). We use single rules and variable of size rules.

According to McKee and Eilifsen (2000) the single rules are defined as “rules of thumb”, use a single financial variable for computing of materiality. The criteria of possible common single rules are:

- 5% of pre-tax income;
- 0.5% of total assets;
- 1% of equity;
- 0.5% of total revenues.

The materiality level for the Profit/Loss (P/L) statement items is computed as a percentage of pre-tax income. For balance sheet items, materiality level is computed by a single rule:

$$\text{Materiality level} = \text{total assets} \times 0.005 \quad (1)$$

$$\text{Materiality level} = \text{pre-tax income} \times 0.05 \quad (2)$$

The structure of the deferred tax asset or liability in the Czech agricultural holdings is analysed according to the relative proportions of individual items in the total sum of individual items regardless of their character (positive or negative value).

$$\text{Share of } DT_i = \frac{\text{ABS}(DT_i)}{\sum \text{ABS}(DT_i)} \quad (3)$$

where:  $DT$  – individual title for DT reporting;  $i$  – year of observation.

The most frequent titles giving rise to the deferred tax are as follows:

- The difference between the carrying amount and the tax base of fixed assets (different rates of accounting and tax depreciation, different moment of depreciation initiation, salvage value for accounting depreciation, component depreciation);
- Accounting for assets impairment;
- Accounting for provisions;
- Unpaid contractual penalties and default interest, which are tax deductible only after the payment;
- Unused tax loss of previous years – assuming you have the expected positive tax base against which it can be applied over the next five years;
- Unpaid health and social insurance charged as an expense, deducted by the employer and paid by the employee (tax deductible at the time of instalment);
- Unpaid tax liabilities (tax items that are accounted for as expenses and become tax deductible only after their payment);

Table 2. Share of deferred tax expense (DT) in pre-tax profit (PTP) (using a single rule)

Share of DT/PTP	2011	2012	2013	2014	2015
Average (%)	15.67	11.83	15.62	8.4	11.24
Median (%)	3.52	6.55	3.14	3.94	5.28

Source: own calculation

– Revaluation of assets at fair value on the balance sheet date (especially for banks, it is marginal from agricultural holdings' point of view).

The impact of deferred tax expense (income) on the company's performance is analysed. We identify the range in which the firm's performance is affected by deferred tax reporting, we compare return on assets (*ROA*) and adjusted *ROA* reflecting the elimination of deferred taxes effect.

$$ROA(DT\ eliminated) = \frac{EAT \pm \text{deferred tax expense}}{\text{total assets}} \quad (4)$$

$$ROA = \frac{EAT}{\text{total assets}} \quad (5)$$

where *ROA* – return on assets; *EAT* – earnings after taxation.

## RESULTS

As was mentioned above, currently there are only a few studies aimed at deferred tax analysis in European companies. The conclusions of the study published by Bohušová and Svoboda (2005) showed the materiality of the deferred tax category in the Czech Republic – median of deferred tax/total income tax ratio was 15.21 and 7.4%, respectively in the researched samples. The study of Habanec and Bohušová (2017a) revealed the lower materiality of deferred tax category in the researched sample of companies operating in the chemical industry and reporting according to the Czech accounting legislation (2% on average).

Table 2 describes the results of deferred tax materiality quantification in the researched sample of agricultural holdings during the period 2011–2015. The materiality calculation is based on a percentage of DT expense of pre-tax profit. A percentage over 5% is considered as material.

As seen from Table 2, the share of deferred tax in pre-tax income is in a range between 8.4 and 15.67% in average, the median value is in the range of 3.14 to 6.55%. The average values of the share are significantly influenced by extremes in particular years: 2011 – Frýdlantská zemědělská, a.s., 1 010.87% (due to a decrease in profit); 2012 – Zemědělství Blatná, a.s., 271.24% (due to the significant volatility in both profit and a deferred tax item); 2013 – LUHA zemědělská, a.s., 1 195.56% (due to the significant volatility in both profit and a deferred tax item); 2014 – Zemědělský podnik Malše, a.s., 127.69% (due to the volatility in profit); and 2015 – Agro Tuřany, a.s., 364.59% (due to the volatility in profit during the researched period).

As seen from Table 3, the majority of agricultural holdings reported the deferred tax item in the income statement in the range under 5% of pre-tax profit, according to the materiality rules it is an insignificant item. Only a marginal part of the researched file (in the range of 3.24–9.19%) reported deferred tax over 30% of pre-tax profit.

As far as the materiality of DTA/DTL in the balance sheet is concerned, the average share of DT is in the range of 8.44–15.67% in the researched period (Table 4). If the extremes are excluded, the median describes the materiality of DT in the range

Table 3. Number and share of farms with deferred tax (DT) materiality in a given range

Share of DT/pre-tax profit	2011		2012		2013		2014		2015	
	number	(%)								
Under 5%	105	56.76	82	44.32	99	53.51	106	57.30	84	45.41
5–30%	61	32.97	82	44.32	75	40.54	70	37.84	77	41.62
Over 30%	12	6.49	17	9.19	9	4.86	6	3.24	10	5.41
Not available	7	3.78	4	2.16	2	1.08	3	1.62	14	7.57

Source: own calculation

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Table 4. Share of deferred tax asset (DTA) of deferred tax liability (DTL) in balance sheet total (BS total) (using a single rule)

Share of DT/BS	2011	2012	2013	2014	2015
Average (%)	15.67	11.83	15.62	8.44	11.24
Median (%)	5.28	3.95	4.15	6.55	3.52

Source: own calculation

of 3.52–6.55%. Considering all conditions, the threshold is exceeded very slightly.

The analysis of the deferred tax asset or liability and its share in the balance sheet total revealed that the deferred tax category was insignificant for 62.57% (116 farms) in the researched sample in 2011. As seen from the Table 4 and Figure 2 the situation is very similar throughout the whole researched period.

In business entities, the individual titles for deferred tax reporting arise in different share in the total deferred tax item, but their identification, analysis and quantification are, irrespective of their subsequent amount, associated with considerable time and costs. For this reason, the structure of the deferred tax item was subject to analysis with the intention to determine the significance of individual titles.

Within the agricultural holdings (Table 5), the difference between the accounting and the tax base of fixed assets is unambiguously the most significant item (approximately 95%). The impairment can be considered as another relatively significant title in the range 2–3%. Other titles can be considered insignificant for most business entities. With regard to the unused tax loss,

there is a question if this item should be taken into account in the case of farms. Only three agricultural holdings in the researched sample have reported this item. There is a higher risk of possibility of using it with the aim of decreasing taxable income.

Also, the previous study carried out by Bohušová and Svoboda (2005) concluded that the difference between the book value in accounting and the tax base of the fixed assets is the most significant title for deferred tax reporting. The average share of this item in the overall structure is 69.86% in 2002 and 67.75% in 2003. The other titles such as impairment and provisions were identified. The average share of impairment in the deferred tax structure amounted to 6.46% in 2002 and 11.47% in 2003 and provisions were 6.10% in 2002 and 10.5% in 2003.

The fact that long-term assets are the main source of temporary differences was confirmed also by the study conducted by Vučković Milutinović and Lukić (2013), which analysed the size and sources of the deferred tax in a sample of twenty companies for the banking and non-banking sectors for 2009 and 2010. According to these authors, the next common titles

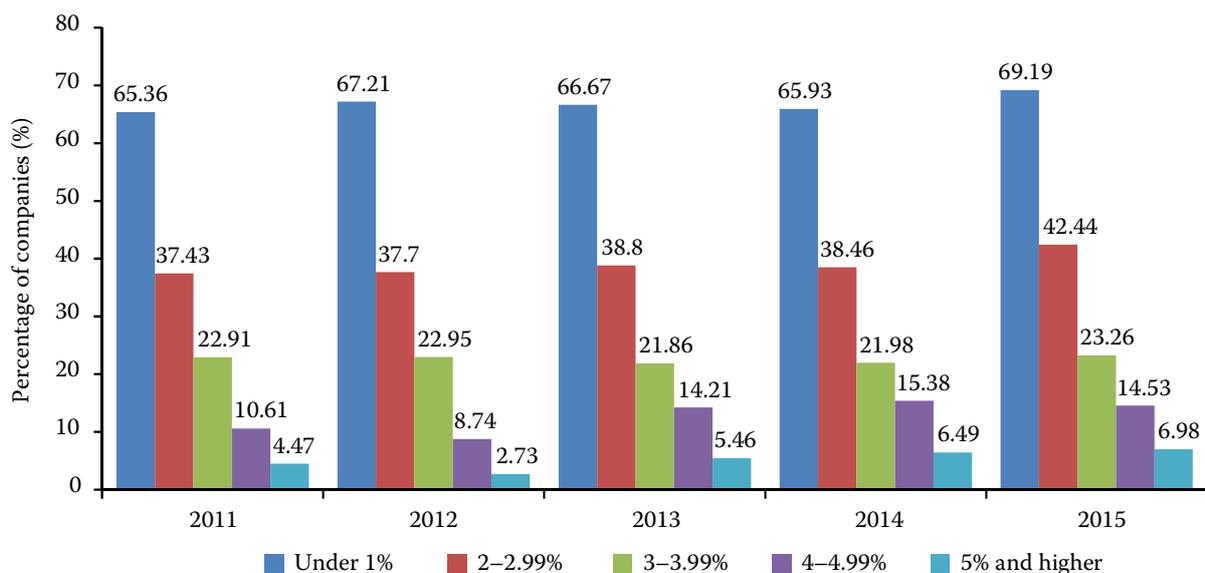


Figure 2. Share of farms with deferred tax materiality higher than the given percentage

Source: own calculation

Table 5. Structure of deferred tax items

Year	Deferred tax items (%)								A + D
	A	B	C	D	E	F	G	H	
2011	95.59	0.00	1.71	2.05	0.04	0.34	0.25	0.02	98.09
2012	95.10	0.00	0.92	2.52	0.37	0.12	0.96	0.00	97.62
2013	94.23	0.00	0.67	3.02	0.51	0.05	1.43	0.08	97.43
2014	95.46	0.00	0.29	3.05	0.34	0.04	0.81	0.00	98.96
2015	93.87	0.85	1.62	1.81	0.54	0.04	1.26	0.00	95.68

A – book value (carrying amount) versus tax base of long term assets; B – revaluation of assets; C – tax loss from previous years; D – impairment; E – unpaid liabilities after the due date; F – accrued items; G – provision; H – others

Source: own calculation

of the deferred tax category are income tax deduction and the difference between the book value and the tax base of financial assets held for sale (only in the bank sector). The other sources of deferred taxes appear nonsignificant.

Table 6 shows that although the *ROA* differences in the case of reporting and non-reporting of the deferred tax are in tenths of percentage points, the differences are in the range of 10–25% on average, excluding the extreme values, the differences are in the range of 3.93–7.18%.

The comparison of *ROA* with adjusted *ROA* in the study carried out by Bohušová et al. (2017) reflecting the elimination of the deferred taxes effect reveals that the effect of deferred tax reporting is not so

high. The impact of deferred tax reporting was in the range of 0–8.29 for companies reporting according to the Czech Accounting Legislation and from 0.02–1.17 for companies reporting according to IFRS. Also, an earlier study of Bohušová and Svoboda (2005), which was focused on the effect of deferred tax on return on equity (ROE), showed that the deferred income tax is recognised as a decline in return on equity, averaging from 12.53–11.75%, this represents about three quarters of a percent.

Table 7 shows that for the majority of farms, the deferred tax impact on *ROA* is less than 5%. Based on the results of the study by Novotná and Svoboda (2014), the average *ROA* calculated from *EAT* is in the range of 2–5% in 2004–2010 (in a sample

Table 6. Impact of deferred tax recording on return on assets (*ROA*) using comparison to return on assets deferred tax excluded ( $ROA_{D\text{Excluded}}$ ) in agricultural holdings

Item		2011	2012	2013	2014	2015
Average	<i>ROA</i>	4.52	3.24	3.18	4.58	3.17
	$ROA_{D\text{Excluded}}$	4.66	3.34	3.34	4.76	3.24
Median	<i>ROA</i>	3.61	2.55	3.07	4.4	2.56
	$ROA_{D\text{Excluded}}$	3.63	2.73	3.39	4.58	2.62
Difference (%)	average	13.69	13.87	9.64	24.82	13.39
	median	3.93	7.18	4.50	4.64	5.92

Source: own calculation

Table 7. Number of farms according to the impact of deferred tax (DT) on return on assets (*ROA*)

Share of DT/total assets	2011	2012	2013	2014	2015
Under 5%	100	75	94	97	80
5–10 %	24	33	33	30	33
Over 10%	54	73	56	55	58
Not available	7	4	2	3	14

Source: own calculation

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of 830 firm-years). For public limited companies, this indicator ranged between 1.16–5.4%. According to the authors' calculations, based on 1 110 firm-years in 2011–2015, where *ROA* with DT reporting show approximately similar values (average 3.17–4.52%, median 2.55–4.4%). For these businesses, the difference would be around 0.1–0.25%, which should not significantly affect the decision-making process of external users of the financial statements.

### Possible proposal for deferred tax reporting simplification

The deferred tax category is an accounting category which is not fully connected with the description of performance and financial situation of the company. It is only the instrument for application of the prudence principle and true and fair view. Based on the results of the research, the deferred tax could be considered significant only for a limited number of agricultural holdings, the impact of the DT reporting on financial analysis ratios is also limited. According to the conclusions of the majority of studies on DT, the precise DT information is significant especially for financial decision making of external users of publicly traded companies. There is not any publicly traded company operating in agriculture in the Czech Republic.

It is evident from Table 5 that there are only two significant titles for deferred tax reporting in the Czech agricultural holdings (difference between the carrying amount and the tax base of long-term assets and impairment of assets). These two titles represent more than 95% of the total amount of the deferred tax category. The other titles are less than 5% in total, it means they are insignificant, while the cost of obtaining information about their value could be higher than the effect for the users of this information. Due to the above-mentioned facts:

- The deferred tax is material category, it has to be reported;
- There are only two material titles for its reporting.

**Proposal:** Using only two material titles for deferred tax calculation, i.e. the difference between the carrying amount and the tax base of long-term assets and impairment of assets as a source of deferred tax data using the current methodical approach of reporting.

## CONCLUSION

We researched the materiality, structure and impact of deferred tax according to the Czech Accounting

Legislation. The hand-collected data in the form of financial statements of large agricultural holdings were processed. First, the materiality of deferred tax category was researched. The deferred tax category was identified as a material category and it has to be reported, this category is higher than 5% for less than 60% of large agricultural holdings, considering the share of DT expense in the pre-tax profit. As far as the materiality of DTA/DTL on the balance sheet is concerned, the average share of DT is in the range of 8.44–15.67% in the researched period, excluding the extremes, the median describes the materiality of DT in the range of 3.52–6.55%.

Based on the results of the DT structure analysis, we found out that the most common title for DTA or DTL reporting is the difference between the tax base and the carrying amount of long-term assets (property, plant and equipment and intangible assets) followed by the second title (impairment of assets) in agricultural holdings in the Czech Republic. The first title represents over 90% of all titles for deferred tax reporting, and together with the second title represent over 95% of total volume of the deferred tax item.

The comparison of *ROA* and adjusted *ROA* reflecting the elimination of the deferred taxes effect reveals that the effect of deferred tax reporting is not so high in the large agricultural holdings in the Czech Republic.

Due to the fact that agricultural sector significantly differs from other sectors in economy and the reporting rules differ from common rules intended for all other sectors, the application of simplified rules for deferred tax reporting in agriculture is justifiable. According to results of our research the most significant title for deferred tax reporting is the difference between the tax base and book value of long-term assets. There are not many other situations which could lead to the difference between the tax base and book value of assets in comparison to other sectors as mining, manufacture of machinery and equipment, chemical industry, power industry. The simplification for agriculture could reduce administrative burden and costs while the risk of acceptance of misleading financial decision made based on distorted financial statements is very low due to immaterial impact of other titles for deferred tax reporting.

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