

The Effect Of Differed Taxes On Corporate Net Earnings.

Ngu Kanti Hedris, Atanga Desmond Funwie

Kesmonds International University, School of Business & Management Sciences, Department of Economics & Finance

Email address:

ngukanti@kesmondsuniversity.org, atanga@kesmondsuniversity.org

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Abstract

This article focuses on advance income tax for corporations.

Income tax is an area in financial modeling where people often struggle. One of the problems is that companies will only show one line for total tax on their income statement. If we look at most income statements towards the bottom, the problem is that we often only see total tax on the income statement. While it may be acceptable for companies to only show total tax on their reported financials, we're going to need to break out the current tax and the deferred tax. The significance of the model was to illustrate why governments in many jurisdictions allow for loss carry forwards and some sort of tax depreciation

1. Introduction

Income tax expense includes both current and different components under IFRS and US GAAP; we will need to break out the current taxes. In particular, since these are cash outflows. Let's take a look at an illustration with some definitions. If we're thinking about current tax expenses, that is the amount of tax that is due to the tax authorities in the current period. These are often referred to as cash taxes. Let's now add in an illustration for deferred tax expenses. This is the amount of tax that is due to tax authorities in the future And these are often referred to as non-cash taxes. If we were to combine the current tax expense and the deferred tax expense, we would get the total tax expense. This is the total amount shown on the income statement for the period. We can think of these as total taxes.

In order to understand what causes current and deferred taxes, we need to understand the differences between accounting income and taxable income. It's these differences that lead to deferred taxes for companies. let's bring in: Financial modeling and valuation analysis, 2020. Operational modeling (Corporate Finance Institute Canada) An illustration to discuss accounting income, the profit or loss for a period before deducting tax expense. We can also think of it as earnings before tax or EBT, which is on the income statement for the period. Let's contrast the accounting income now with taxable income, the profit or loss for a period, determined in accordance with rules established by taxation authorities. These amounts are going to show up on a company's tax returns. You may be wondering why accounting income and taxable income would be different at all. We need to discuss special concessions.

The purpose of the study was to establish the effects of differed taxes on corporate net earnings.

1.2 Significance of the Study

The significance of the study was to illustrate why governments in many jurisdictions allow for loss carryforward and some sort of Tax depreciation.

2. Literature Review

Governments in many jurisdictions offer special concessions to companies. These concessions will help the companies by deferring their taxes to a later date. In many cases, governments offer a large

number of special concessions. However, many of these concessions. Are not material and they may not warrant inclusion in our financial models. Let's move forward and think about accounting income versus taxable income Again. Given that there are many differences between accounting and taxable income that are coming from the concessions, what we need to do is focus on two considerable differences that occur in many jurisdictions. The first considerable difference between accounting income and taxable income Is accelerated depreciation. Many tax jurisdictions allow some form of accelerated depreciation. The other considerable difference between accounting and taxable income are loss carry forwards and in fact Many tax jurisdictions will allow some mechanism for companies to carry forward their losses into the future. So accelerated depreciation and loss carry forwards are two considerable differences. Let's start by talking about accelerated depreciation.

2.1 Accelerated Depreciation

Accounting rules determine that the depreciation method will be based on usage and its usefulness life. But then governments and many jurisdictions, will allow some form of accelerated depreciation for tax purposes. This concession often leads to higher depreciation expenses early in the asset life and this lowers taxable income. Let's now think about our second considerable difference.

2.3 Loss carry forward

Accounting rules typically do not allow companies to carry a loss forward into the future as a credit, but governments in many jurisdictions will allow this, and they'll allow companies some mechanism to carry losses forward. What can happen is that these losses can accumulate over time, and they act like credits to lower taxable income for the company in the future.

Let's move forward now and think about our tax schedule and the calculations we're going to be performing. Our calculation of taxable income is going to be handled in two parts, assentially because we have two very large concessions that the governments are offering. Remember, the first large concession that governments are offering is accelerated depreciation. So we're going to make an adjustment for depreciation. We'll start at the top with the accounting income, or EBT. We're going to add the accounting depreciation and then subtract the tax

depreciation, so in a way that what we are doing is switching or swapping the accounting depreciation and the tax depreciation. After we've made this first adjustment, we're going to be left with EBT, or earnings before tax. After the adjustment, this will flow into the next section within our schedule, and we're going to start to think about the adjustment for tax losses now. So the adjustment that we're going to make is to account for the fact that governments usually offer companies the ability to carry losses forward into the future. What we're going to do now in this section of the schedule is subtract the use of tax losses. Effectively, if a company has gathered up a pool of tax losses, we are going to allow them to use those losses now as credits. This is going to get us the taxable income. So what we have really done on this tax schedule is start with accounting income right here, or EBT. We've done the first adjustment, then the second adjustment, and that's left us with taxable income. Now that we have made these two adjustments, we can move forward and start thinking about the accounting treatment of income taxes. In fact, we can now determine all our tax expense figures that are required for financial analysis. Let's bring in some illustrations to discuss how we are going to calculate. These taxes start with the total tax expense. This will appear in the income statement, and we can calculate it by taking the tax rate and multiplying it by accounting income. We can also calculate our current tax expense. Remember, this will be due to the government in the current period. The way that we're going to calculate this is take the tax rate and multiply that by taxable income. Now that we have the total tax expense and the current tax expense, we can calculate the total tax expense. Subtract the current tax expense, and that's going to leave us with the deferred tax expense. So, as indicated, we can calculate the deferred tax expense from the other tax amounts. Essentially, total tax expense minus current tax expense gives us the deferred tax expense.

let's think about our tax schedule and how it's going to be structured. As you would remember, all of our schedules are broken into three main parts. First, we have the part where we are going to enter information. What we are going to need here is earnings before tax accounting, depreciation, tax depreciation, as well as the tax loss pool that the company has gathered up over the past few periods. We will then move into a central section where we're doing our calculations. And here we're going to begin with accounting income for BT. We are going to modify it to become taxable income, as we have

discussed before. This will take us into the bottom section of our schedule where we are preparing figures that will be removed from the schedule. In particular, we're going to need all of our tax expenses for the income statement and also for the cash flow statement. The current taxes are going to come in particularly handy because we will need those to calculate free cash flow if we're doing a DCF valuation. So we've gone through a pretty detailed discussion on taxes now, but we needed to do this because this is an area where a lot of people often go wrong with their financial models. Usually, their models are too simplistic from a tax perspective or too complex. We want to find the right level of detail for our financial models. Let's take a quick look at the tax schedule now so we can get started on the building process.

3.Methodology

3.1 Advance tax modeling

One of the first things that we'd like to highlight are these footnotes that are at the bottom. Let's take a close look. Let's zoom in on these footnotes a little bit so we can read them more clearly. In many jurisdictions, governments will allow companies to carry losses forward into the future for a finite period of time. In some circumstances, it is allowed for a company to take losses backward and restate the previous period. What we're doing in this model in order to simplify it a little bit, we are assuming that tax losses can be carried forward indefinitely into the future, which is quite common in financial modeling. We're also assuming that losses cannot be carried back to restate previous periods and reduce taxable income. As we noted earlier, it's a great idea to include clear footnotes at the bottom of the pages on a financial model, just to communicate all the necessary information to those using the model. As you would remember, we always have a section at the top of our schedules where we are entering information as you can see. There are a few different pieces of information that we're going to need. We are also going to need to enter or bring in accounting depreciation. And with the tax depreciation as well as the company's pool of tax losses from prior periods, the bulk of the work that we're going to do in this schedule is going to be right in the central section here, where all the calculations are going to be performed. There are a few formulas in here. Finally, we're going to wrap things up at the bottom section here, where we are preparing figures that we're going

to need to exit the schedule. And in particular, remember that we need the current and deferred income taxes in order to complete financial statements like the income statement and the cash flow statement. One of the other things that you can think about with this model is this line right here of added new losses, which is currently zeroed out because the Company is not adding any new losses

just to test if your model is working correctly. You could go into the first period here and have Justice put a minus sign in front of EBIT, in that way, going to be able to check in this row if the model is correctly adding new losses. The other modification that you could do if you like, is something that can test this little alert stated losses remaining in the last period.

Table 1

Income Tax Schedule

All figures in USD thousands unless stated

	2021A	2022F	2023F	2024F	2025F	2026F
Earnings Before Tax (EBT)		13,062	12,773	12,460	12,061	11,329
Profitable Before Taxes?		Yes	Yes	Yes	Yes	Yes

Tax Rate	25.0%
Losses Remaining at End of 2026?	-

Tax Rate	25.0%
Losses Remaining at End of 2026?	Yes

We want to see if there are any losses remaining. At the end of the last period, what we could do is go into this loss pool and just put an = in front of it and then multiply it by 10 to increase it tenfold. That will show us that there are some losses remaining at the end of the year. These two modifications that we've just shown you are not absolutely necessary to complete the schedule, but we thought we'd share them with you just in case you're looking for some extra challenges while you're building this income tax schedule. If you find these last two concepts that we've mentioned tricky, like the idea of adding new losses or having a pool of losses that does not quite finish up by the end of the forecast period, don't worry. We are going to go through these in detail and show you how all the formulas work.

3.2 Adjustments for Earnings before taxes

Remember, if you struggled a little bit building up this schedule, don't feel badly about that. There are some tricky schedules in here. We're going to walk through them together so that you can be clear on exactly how they work. Let's start off right down here at this line EBT after adjustment. What we've done is we've brought in earnings before tax and right here we're doing our first adjustment. So we're effectively swapping accounting depreciation. Less tax depreciation. All we need at the bottom here is the sum function. Let's use the Alt-Equals shortcut to put that in place. Hit enter and we can copy across using Control Shift R.

Figure 1

Adjustment for Depreciation

EBT	13,062	12,773	12,460	12,061	11,329
Add: Accounting Depreciation	4,177	4,408	4,647	4,893	5,147
Less: Tax Depreciation	(6,223)	(5,983)	(5,802)	(5,670)	(5,579)
EBT After Adjustment	11,016	11,198	11,306	11,284	10,896

The next line down here is pretty simple. As you can see it has the same label, so we're just connecting straight up to the cell that we already calculated. Let's hit enter. Copy across using Control Shift R. Our natural instinct is going to be to go to the next line and start building this part of the schedule. Less use of tax losses. However, we can see that there's also a label down here for the use of tax losses, and in fact, it's going to be much easier if we build up the section of the schedule of tax losses first. In fact, you may recognize this structure right here. It's a corkscrew; remember, it's easy to spot a corkscrew because you typically have a little ending balance sticking out to the side like this that forms the starting point for the corkscrew. As you probably remember, the easiest part to start with when you're building a corkscrew is to go here and link up to the ending balance from the previous. We'll need to think a little bit about what we're going to do in this cell of 2022 new tax losses.

3.3 New tax loss modeling

For example, right now the company has earnings before tax, so there are no losses to add to the financial model. However, if we were to change the earnings before tax to negative, that would show a loss, and then that would allow us to configure the model to add those losses in. Let's give that a try. What we're going to do now is follow our advice from earlier and make this number negative. Let's pop into the cell 2021 earnings before tax with an F2, go to the beginning, drop a - in there, and hit enter. Now the company is showing the loss, and we can see this

down here on this line for BT as well. So what we want the model to do is pull this \$13 million loss down into here. But if this were positive, we wouldn't want it to pull a loss down there at all, and we would want this cell of "add new losses" to be zero. So we need to figure out how to do that. The model. This is the spot where most people would instinctively think of using an if statement. Let's investigate what that could look like. We could say that if this cell right here the 2022 EBT was less than 0, what we would do is take the negative of this amount. Otherwise, we would put a zero into the cell and we could close the bracket and hit enter. If you've built a formula like this into your model, then congratulations! You were able to figure out the logic that was required in this particular cell. However, let's see if we can improve on this formula a bit making it a little bit more simple. A tip to remember is that min and Max functions often do the same thing as if statements, but they can be much simpler sometimes. In this case, we can use the min function, which is going to be much simpler than the if statement. Let's give it a go. Let's pop into this cell to add new losses and say it equals MIN and open a bracket, and say we're going to take the minimum between EBIT and zero. Then what we're going to do is know that we need this number to appear in a positive sense in this particular part of the schedule. So we'll tap the F2 key and then move over to the beginning, put a negative sign in front of the min function and hit enter. Let's just test this out to make sure that it's working. Right now, the company is recording the loss, and we're adding those losses to our corkscrew for tax losses.

Figure 2

	2021A	2022F	2023F	2024F	2025F	2026F
Adjustment for Depreciation						
EBT		(13,062)	12,773	12,460	12,061	11,329
Add: Accounting Depreciation		4,177	4,408	4,647	4,893	5,147
Less: Tax Depreciation		(6,223)	(5,983)	(5,802)	(5,670)	(5,579)
EBT After Adjustment		(15,107)	11,198	11,306	11,284	10,896
Adjustment for Tax Losses						
EBT After Adjustment		(15,107)	11,198	11,306	11,284	10,896
Less: Use of Tax Losses		-	(11,198)	(11,306)	(11,284)	(10,896)
Taxable Income		-	-	-	-	-
Tax Losses						
Beginning		241,280	254,342	243,143	231,838	220,554
Add: New Losses		13,062	-	-	-	-

Let's go back up here and change this back now to positive number by deleting the = What we can see now is there's positive profit and we're not adding any new losses. So it appears to be working really well

Figure 3

	2021A	2022F	2023F	2024F	2025F	2026F
Adjustment for Depreciation						
EBT		13,062	12,773	12,460	12,061	11,329
Add: Accounting Depreciation		4,177	4,408	4,647	4,893	5,147
Less: Tax Depreciation		(6,223)	(5,983)	(5,802)	(5,670)	(5,579)
EBT After Adjustment		11,016	11,198	11,306	11,284	10,896
Adjustment for Tax Losses						
EBT After Adjustment		11,016	11,198	11,306	11,284	10,896
Less: Use of Tax Losses		(11,016)	(11,198)	(11,306)	(11,284)	(10,896)
Taxable Income		-	-	-	-	-
Tax Losses						
Beginning		241,280	230,264	219,066	207,761	196,477
Add: New Losses		-	-	-	-	-

3.3 Model use of Tax losses

Now we want to think very carefully about this next row in the schedule where we're using tax losses. We need to think about the quantity we use. We have 24 million in the pool that could be used. But we actually only have earnings before tax of 11 million. So we only want to use 11 million of our tax losses. But what we wanted to do when we were looking at these two numbers is take the minimum of the two. Let's investigate a slightly different situation where the company was really profitable. Let's put in here \$50 million in earnings before tax. It would be great if we had \$50 million in tax losses available, but we don't. So what we want the model to do in this case again is take the minimum of these two numbers. So we used up all \$24 million in tax losses. What we're going to do

now is hit the undo key so we can move this back to its original value, and we can go down here and start to think about putting that minimum function in place. So let's put them in function in place equals min [take the minimum of the EBT after adjustment and the beginning balance of tax losses, and then close the bracket

and hit enter. We're supposed to be subtracting or lessening the use of tax losses, so what we need to do is pop in here using f2 and put a negative sign into the formula in front of that min function just like that. Let's test things out just to make sure that they're working correctly here. As demonstrated above, we have earnings before tax of 11 million and we're using exactly 11 million and tax losses; that's working well. We also looked at this example. Where the company had, say, \$50 million in earnings before tax.

Figure 4

Adjustment for Tax Losses

EBT After Adjustment	50,000	11,198	11,306	11,284	10,896
Less: Use of Tax Losses	(24,128)	-	-	-	-
Taxable Income	25,872	11,198	11,306	11,284	10,896

Tax Losses

Beginning	24,128	-	-	-	-
Add: New Losses	-	-	-	-	-
Less: Use of Tax Losses	(24,128)	-	-	-	-

What we're seeing is that the model is correctly just using what's available in the pool that is the minimum of 50million and \$24,128. Things appear to be working correctly so far.

3.4 Testing model profitability before tax

However, we could also check a situation where the earnings before tax appear to be negative. Let's pop into this cell, put a negative sign just in front, and check out what's happening down below right here. In fact, this section of the model of tax use of tax losses does not appear to be working correctly, as shown below.

Figure 5

Adjustment for Tax Losses

	2021A	2022F	2023F	2024F	2025F	2026F
EBT After Adjustment		(15,107)	11,198	11,306	11,284	10,896
Less: Use of Tax Losses						
Taxable Income		-	11,198	11,306	11,284	10,896

Tax Losses

Beginning	24,128	22,082	10,884	-	-
Add: New Losses	13,062	-	-	-	-
Less: Use of Tax Losses	(15,107)	(11,198)	(10,884)	-	-

If the companies recorded losses here on EBT after adjustment, we would expect it to add to its pool of losses, but this line of less use of tax losses should be showing up as a zero right now. This is the last little Piece of this schedule that we're going to need to iron out and what we're going to do is we're going to make use. Of this line up here, If the companies

recorded losses here on EBT after adjustment, we would expect them to add to their pool of losses, but this line of less use of tax losses should be showing up as a zero right now. This is the last little piece of this schedule that we're going to need to iron out, and what we're going to do is make use of it. Of this line up here.

Figure 6

All figures in USD thousands unless stated

	2021A	2022F	2023F	2024F	2025F	2026F
Earnings Before Tax (EBT)		(13,062)	12,773	12,460	12,061	11,329
Profitable Before Taxes?		No	Yes	Yes	Yes	Yes

As you can see, it's saying is the company profitable before taxes? no or yes and it's coming up as an O right here. So effectively, this is a zero, and these are all ones; we've just formatted them to show up as no. And yes, let's remember this from an earlier part of the course. We could highlight these cells here on "profitable before taxes" and we could either use the mouse and right click and go down to Format cells, or alternatively, we could hit control one on the keyboard and pop into this Format Cells dialog box right here. You're going to see the format that. These are referred to in modeling AS10 switches and they can be a really powerful tool in situations like this.

Let's illustrate exactly how we're going to use them. So what we're going to do is take our formula of use of tax losses and multiply it by this 0 which in the cell is a 'No', which will completely zero it out in these next few years. We're going to multiply 3 by 1, which will mean there's no change at all to the formula. Let's make this modification. This is actually going to be a quick change to make. We could go into this cell of use of losses where we have the formula, but what we're going to do now is multiply our min formula in use of tax losses by that switch on profitable before taxes, which is yes or no. It looks like the switch is working really well. We have a zero in here, and that is due to the fact that this is showing a "NO".

Figure 7

Adjustment for Tax Losses

EBT After Adjustment	(15,107)
Less: Use of Tax Losses	-
Taxable Income	-

Tax Losses

Beginning	24,128
Add: New Losses	13,062
Less: Use of Tax Losses	-

There's a zero in the switch position. We could pop into this cell EBT for 2022 and switch this back to a positive value by eliminating the - Now we have a yes,

which is a one and that's getting multiplied through by this formula and we're using 11 million tax losses.

Figure 8

Adjustment for Tax Losses

	2022F
EBT After Adjustment	11,016
Less: Use of Tax Losses	(11,016)
Taxable Income	-

Tax Losses

Beginning	24,128
Add: New Losses	-
Less: Use of Tax Losses	(11,016)
Ending	24,128

4.Data Analysis and Results

4.1 Taxable Income modeling

We could move down to the ending balance of tax losses and sum everything up since cells are shown in their respective positive and negative numbers. Sum everything up using ALT equals and fill right with control R.

Now we could subtract the use of our tax losses on adjustments for tax losses by linking tax losses from the tax loss schedule. In order to get our taxable income here, a good starting point would be to hit Alt equals and put in a little sum function.

However, let's just do one more check. Let's just make this number negative again in Earnings before taxes, showing the company is recording a loss. Put a - in front of it and hit enter. We could see that in 2022 the company is showing taxable income as a negative, which is incorrect; we have no such thing as negative taxable income. Either the taxable income is zero or positive. It shouldn't be dropping below zero, so we need to limit that.

Figure 9

	2021A	2022F
Adjustment for Depreciation		
EBT		(13,062)
Add: Accounting Depreciation		4,177
Less: Tax Depreciation		(6,223)
EBT After Adjustment		(15,107)
Adjustment for Tax Losses		2022F
EBT After Adjustment		(15,107)
Less: Use of Tax Losses		-
Taxable Income		(15,107)

About using an if statement, it would work, but remember that min and Max functions are often a lot more simple and in this case, a Max function is going to work really well. So let's pop into this cell of taxable

income, hit F2, scoot over to the beginning, and we're just going to type it in now. Max open the bracket. Go to the end and type in 0. Just like that. So we're going to take the Max of either this sum or zero. Let's hit enter.

Figure 10

	2021A	2022F	2023F	2024F	2025F	2026F
Adjustment for Depreciation						
EBT		13,062	12,773	12,460	12,061	11,329
Add: Accounting Depreciation		4,177	4,408	4,647	4,893	5,147
Less: Tax Depreciation		(6,223)	(5,983)	(5,802)	(5,670)	(5,579)
EBT After Adjustment		11,016	11,198	11,306	11,284	10,896
Adjustment for Tax Losses						
EBT After Adjustment		11,016	11,198	11,306	11,284	10,896
Less: Use of Tax Losses		(11,016)	(11,198)	(1,914)	-	-
Taxable Income		-	-	9,391	11,284	10,896
Tax Losses						
Beginning		24,128	13,112	1,914	-	-
Add: New Losses		-	-	-	-	-
Less: Use of Tax Losses		(11,016)	(11,198)	(1,914)	-	-
Ending		24,128	13,112	1,914	-	-

4.2 Current and Deferred Taxes Analysis

We are going to be able to calculate those by selecting the tax rate, in this case 25% just to lock that cell in place and then we multiply through by the taxable income right here, which is currently showing a zero. Let's hit enter. Now we can calculate the total taxes, which are going to be similar. We're going to go and multiply the tax rate 25%, tap the F4 key to lock it, and multiply that through by the earnings before tax or EBT and we can hit enter. Now that we have our total taxes and our current taxes, we can just back

solve for the deferred taxes. So we're going to say here that deferred taxes are equal to the total taxes minus the current taxes.

4.3 Sanity check

There's one last little check and modification for us to do. Again, let's change this to a negative number that is Earnings before taxes. Just by putting a - in front and investigate what's happening down here on current, deferred and total taxes. In this situation, where the company is recording an earnings before tax Loss here we should have a zero for total taxes.

Taxes

Current Taxes
Deferred Taxes
Total Taxes

2022F	2023F	2024F	2025F	2026F
-	-	-	-	1,873
(3,265)	3,193	3,115	3,015	959
(3,265)	3,193	3,115	3,015	2,832

4.4 Adjustments to total taxes

As you might have guessed, we're going to use the Max function here to do that for us. Let's pop into the

cell total taxes, and make that change. We'll just put in Max at the beginning of the open brackets, and we're going to take the Max of this calculation, zero, and close brackets. And hit enter. Only one step left. Let's highlight these cells and quickly do a fast fill.

Taxes

Current Taxes
Deferred Taxes
Total Taxes

-	-	-	-	1,873
-	3,193	3,115	3,015	959
-	3,193	3,115	3,015	2,832

Now that we've built this tax schedule, we can look through it and really learn a lot about what's going on. This company has roughly \$13 million in earnings before tax, but it's not going to pay tax on that amount. In fact, after we've done the modification for depreciation, the company is only going to pay tax. On \$11 million. But then what happens is we have a pool of losses. We're going to use up \$11 million out of that pool of tax losses so that in the end, the company will actually have taxable income of 0. What this leads to is that it leads to current taxes, which are cash taxes. Of 0 for the company for that. We have a similar thing happening in the second period. The company has

almost \$13 million in earnings before tax after the adjustment for depreciation was only \$11 million to pay tax on. But again, they've used up another \$11 million out of the pool of tax losses to result in taxable income of 0. And again, current taxes or cash taxes of zero over the government.

The next period 2024F is where things are going to get a little interesting. Here there's earnings before tax, a

little over \$12 million after the adjustment for depreciation the company would have to pay tax on 11.3 million. But what we see here is that they're using up the remaining tax losses available in the pool. So

they used up about \$1.9 million in tax losses, and that means they now have taxable income of 9.3 or 9.4 million. This is going to result in in current tax to the tune of \$2.3 million. So if we look at this tax schedule, we can see that it actually tells us a little bit of a story. We have a pool of tax losses here at the beginning. So what we know is that the company was likely unprofitable. In some prior periods and has built up that pool of tax losses. Now what we see is that these

tax losses are slowly getting used up over time, and the pool of losses depletes down to 0. We can also see just how valuable these tax losses are because the company's taxable income is actually zero for the first couple of periods, and we can see this down here. So we'll have zero cash outflows to the government in these first two periods, and then we'll start to gradually pay some tax over to the government officials.



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Beginning	24,128	13,112	1,914	-	-
Add: New					
Losses	-	-	-	-	-
Less: Use of Tax Losses	(11,016)	(11,198)	(1,914)	-	-
Ending	24,128	13,112	1,914	-	-

Taxes

Current Taxes	-	-	2,348	2,821	2,724
Deferred Taxes	3,265	3,193	767	194	108
Total Taxes	3,265	3,193	3,115	3,015	2,832

Model assumes that tax losses can be carried forward indefinitely into the future. ⁽¹⁾

Model assumes losses do not carry back to previous periods to reduce taxable income. ⁽²⁾

5. Conclusion and Recommendation

The other thing that we'll want to remember is that governments in most jurisdictions offer a lot of different concessions to companies to help them defer their taxes to some point in the future. However, what we've done here is focus on a couple of really large concessions, the first of which is accelerated depreciation. Which governments usually allow for tax purposes and the ability for companies to carry losses forward into the future. These are two very common and large concessions that are usually offered by governments in most jurisdictions. We want to keep in mind that when we're building tax schedules, we should be aware of all the concessions that are offered by the governments in various jurisdictions. In some areas and in some industries, there may be concessions that are large enough that they would warrant inclusion in a financial model. But for now, these are definitely the most common and largest concessions that are offered in most jurisdictions.

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